

## GUARDIAN MORTGAGE FUND

# Unit Holder Meeting Information

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## Managing Director's Introduction

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It is less than two months since I took over as Managing Director of Guardian Trust in the midst of unprecedented market conditions and a global financial crisis. I wrote to all Guardian Trust clients at the beginning of this month to assure you of my commitment to bring Guardian Trust and our clients through this financial crisis.

Guardian Trust has a rich heritage and a reputation for prudence. This business has proven resilient for over 125 years and there is great strength in reputation and integrity to build on. My priority is to ensure that your capital invested in the Guardian Mortgage Fund is protected and returned to you as quickly as market conditions permit.

A combination of the impact of the global financial crisis and falling property values create a severe environment for the Fund. Arrears have increased and are slow to clear given the time taken to sell the properties we hold as security. Whilst no losses have been realised, market conditions continue to deteriorate. The conservative lending criteria have helped protect the Fund to date and I am committed to preserving your capital by ensuring that we act quickly and decisively to manage the impact of any potentially bad loans.

To this end, I recently wrote to investors stating that we have increased the amount of money we set aside out of income to cover any losses. This impacts the income levels we are able to pay out but is the most prudent approach under the circumstances. We will continue to manage this very carefully and ensure we act promptly and communicate with you about the steps we are taking.

This booklet includes important information on the Guardian Mortgage Fund and a series of questions and answers relating to the Fund and the Unit Holder meeting scheduled for 4th February 2009. If you have any questions please contact us on 0800 808 545.



Greg Campbell  
Managing Director

# Guardian Mortgage Fund - Key Information (as at 6 January 2009)

## TERM TO MATURITY

Term	No. of Loans	% of Pool	\$ Amount of Loans Total	% of Pool
12 months	98	38.89%	153,590,270	77.70%
2 years	25	9.92%	16,578,426	8.39%
3 years	23	9.13%	9,727,209	4.92%
5 years	30	11.90%	8,079,796	4.09%
10 years	46	18.25%	4,408,998	2.23%
20 years	30	11.90%	5,292,287	2.68%
<b>TOTAL</b>	<b>252</b>	<b>100.00%</b>	<b>\$197,676,986</b>	<b>100.00%</b>

## GEOGRAPHIC DISTRIBUTION

	Inner City	Metro	Non-Metro
Northern Region	5.92%	6.50%	11.71%
Central Region	13.91%	20.31%	15.94%
Southern Region	2.50%	10.88%	13.05%

## LOAN TYPES

Term	No. of Loans	% of Pool	\$ Amount of Loans Total	% of Pool
Rural	101	40.08%	76,662,597.06	38.78%
Commercial	73	28.97%	97,557,687.00	49.35%
Residential	78	30.95%	23,456,700.97	11.87%

## COLLATERAL INFORMATION

<b>Variable Rate</b>	<b>Interest Only</b>		<b>153,228,887</b>
	<b>Principal &amp; Interest</b>		3,817,963
<b>Fixed Rate</b>	<b>Interest Only</b>	<b>Less than 1 year</b>	<b>26,494,172</b>
		1 to 2 years	8,478,941
		2 to 3 years	94,000
	<b>Principal &amp; Interest</b>	Less than 1 year	4,730,559
		1 to 2 years	507,037
		2 to 3 years	325,430

## SUMMARY

<b>Number of loans</b>	<b>252</b>
Current principal	197,676,985
Average loan size	769,779
Maximum loan size	9,715,000
Minimum loan size	1,000

# Questions and Answers

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## 1. Suspension Status (freeze on withdrawals)

### *What is the current status of the Guardian Mortgage Fund?*

The Guardian Mortgage Fund remains suspended. Unit holders in the Guardian Mortgage Fund have been formally notified of a unit holder meeting on 4 February 2009, to consider the future of the Fund. The resolutions being considered include enabling Guardian Trust to wind up the Fund and to make partial capital repayments during the winding up of the Fund.

### *What has happened since the suspension of the Fund?*

We continue to carefully manage the mortgage portfolio. We have continued to pay income distributions (interest payments to investors). More recently, we have increased the amount of money we set aside (provisions) for potentially bad loans.

## 2. Cash available in the Fund

### *How do you intend to manage the cash available in the Fund?*

Thus far we have significantly improved the cash available in the Fund but recognise that under current market conditions this is taking time. With a deteriorating property market, the ability to realise the full amount lent under any loan through a mortgagee sale is increasingly difficult. Preservation of investors' capital is our top priority and we will manage each loan to achieve the best outcome for investors.

### *How much cash does the Fund hold?*

The Fund currently holds approximately \$50 million in cash.

## 3. Capital Repayments (repaying your original investment)

### *What timeframe are you working on for capital repayments?*

Subject to the decision of unit holders to proceed with the winding up of the Fund, the repayment timeframe will depend on the size and term of the loans held in the Guardian Mortgage Fund. If the resolutions are passed, we currently anticipate that the first capital repayment would be available shortly afterwards – within a few months.

Ongoing capital repayments depend on the maturity profile of loans. Due to the severity of the national economic downturn and global financial crisis, the refinancing or sale of property is taking much longer than initially expected. We anticipate that the winding up process may take between 2 – 3 years, but this assumes that loans of over three years can be disposed of during the winding up process.

### *Can I eventually expect to receive 100 per cent of my investment back?*

This is our goal. There are no losses to date and Guardian Trust is working hard to protect investors' capital in the face of difficult market conditions. This includes where necessary reducing interest payments (income distributions) to cover any potentially bad loans.

We continue to manage the Guardian Mortgage Fund carefully and the capital repayment of investments will depend largely on prevailing market conditions. With continued market volatility, an

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estimate of the extent of capital redemptions would be difficult.

#### *How safe is my money?*

The Fund only allowed first mortgages where advances were restricted to a maximum of 60% of valuations across the commercial, industrial, farming and residential sectors. We cannot guarantee full repayment of capital but are working very hard to achieve this.

#### *Do you expect any decrease in the capital value of the Guardian Mortgage Fund?*

We are working hard to prevent this. Preserving your capital is our top priority. This is why we have recently increased the money set aside (provisions) to cover any potential capital losses. This is also why we are seeking the ability to extend loan maturities during the proposed winding up process, where advantageous.

### **4. Income Distributions (interest returns)**

#### *Will I still be receiving income from my funds?*

This will depend upon the amount of interest the Fund receives from borrowers and the amount it is prudent to set aside for potentially bad loans. We plan to continue to pay income distributions (interest payments) throughout the winding up process to the extent that the Fund has sufficient income to do so. However, mortgage interest rates have fallen and to be prudent we have steadily increased the amount we set aside to ensure that we have an appropriate cushion to protect the Fund in the event of any capital losses. It is possible that mortgage rates will fall further and that we may need to increase the amount we set aside. Our priority is to protect your capital.

#### *What is the current return on the Guardian Mortgage Fund?*

The final return for 2008 was 6% p.a. but for the majority of the year the return was over 8% p.a. Following the reduction in interest received from borrowers and the increase in money set aside for potential capital losses, the expected return for the first quarter of 2009 is a little below 3%.

#### *Why such a big change in what you pay out?*

In response to reductions in the Official Cash Rate (OCR) we reduced our lending rates with effect from the beginning of this year. We are not receiving interest on some loans in default and as market conditions have weakened we felt it prudent to increase the amount of money set aside to ensure we can meet any potential capital losses.

#### *What returns do you expect going forward?*

Future returns will depend on market conditions, specifically:

- the Official Cash Rate (OCR) as determined by the Reserve Bank and the impact this has on mortgage rates
- the extent to which loans default or go into arrears
- the level of provisioning required to preserve capital.

## 5. Loans, Arrears, Provisions and Losses

### *How are you managing the mortgage loans?*

We are working hard to protect investors' capital. Repayments are being managed diligently and we are actively pursuing all defaulting loans, utilising the skill and experience of our parent bank, Suncorp. We are responsibly extending loan maturities where this assists full repayment of loans.

### *What is the maturity profile of the loans?*

Most of the loans in the Fund are repayable at maturity rather than regularly over a period of years. To enable this kind of repayment, opportunities for refinancing a loan or sale of a property must be available. In current market conditions, this is very difficult and the Fund has been hit hard over the past six months with borrowers being unable to refinance or sell quickly, or at all. Whilst a large proportion of the loans therefore mature within 12 months, our recent experience is that the refinancing process is taking much longer. For around 10% of loans, the maturity date of such loans extend beyond three years and, in a small number of loans, the maturity date of such loans extends up to 20 years.

<b>Maturity Period</b>	<b>Maturity %</b>
0-12 months	77%
12-36 months	13%
> 36 months	10%

### *What have been the criteria for lending in the Guardian Mortgage Fund?*

The Fund only invested in first mortgages where advances were restricted to a maximum 60% of valuations across the commercial, retail, industrial, farming and residential sectors. (see Key Information sheet (page 4) for a breakdown of the loans).

### *Has the Fund lent in excess of 60% of valuation at the time the loan was made?*

No, the lending criteria prohibited loans in excess of 60% at the time the loan was made.

### *In the current market climate do you expect to recover the full loan amounts on these properties?*

In a continually declining market an answer to this question would be speculative.

## **Arrears**

### *What are you doing to manage the arrears?*

For loans where interest is not being paid in accordance with normal terms we operate in accordance with the Property Law Act ("PLA") requirements. These are quite detailed but in summary we issue a PLA notice. On expiry of the PLA notice if the loan hasn't been repaid the secured property is taken to market. This process is lengthy and in many cases it is taking in excess of 90 days.

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### *What is the effect of arrears on the returns to investors?*

The effect is twofold. Firstly, if the Fund is not receiving interest it reduces the income distribution (interest payments) payable. Secondly, where the loan may result in losses the prudent step is to set aside money from interest received by the Fund to protect capital and cover potential capital losses. Setting aside money for potential capital losses also reduces the income distribution (interest payments) available.

## **Losses**

### *Have there been any losses in the Fund?*

No. We haven't realised any losses to date but market conditions continue to deteriorate. This is under constant review as we manage the mortgage portfolio.

## **Provisions**

### *Are you setting money aside for losses?*

Yes, we consider this a prudent management practice, particularly in the current market environment. In order to smooth the potential impact on capital and interest of any future loan impairments, we commenced setting money aside (provisioning) against the income received by the Fund during the second half of 2008. This is a precautionary measure as no losses have been incurred to date. We have increased the money set aside (provisioning) significantly this quarter in the face of continuing deterioration in market conditions. In the event that the money set aside is unutilised it will be returned to investors as a distribution of income.

### *How much have you provided for thus far?*

We hold provisions of approximately \$2 million as at 31 December 2008 to cover any potential capital losses.

## **6. Defaulting Loan Management Process**

### *Do you have a process for dealing with loans which are in default?*

We have adopted a process that is used successfully by our parent Suncorp in its banking operations. This approach ensures that due process is followed and the best interests of our investors are protected.

### *At what point do you take action on a loan in default?*

Under our process, a loan is officially in default if a payment has not been made within 14 days of the due payment date. At that point, we will make every effort to contact the mortgagor to encourage payment of the outstanding amount and if this is unsuccessful, a formal legal process is initiated with our solicitors.

### *What action do you take when a loan is in default?*

A formal legal process is undertaken whereby notice is served on the mortgagor. If the default is not remedied by the mortgagor, we exercise our right as mortgagee to sell the security asset.

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### *How do you go about selling an asset?*

There are various methods for selling the property available to us but ultimately the method of sale is decided on a case-by-case basis to ensure that the best possible outcome is achieved to protect investors' interests.

### *What steps do you take to ensure that you get the best price for the property?*

In the sale process, we are bound by a duty of care to the mortgagee. To ensure we fulfil this duty, we arrange for updated registered valuations which can include both current market valuation and a forced sale recommendation. Depending on the property being sold, we will develop a sales strategy that will enable us to fulfil our duty of care to the mortgagee and achieve the best possible outcome for the investors.

### *How long does it take to sell a property?*

The time taken to sell a property will vary from case to case. If there are no delays, we can generally expect a sale to take between 90 and 120 days.

## **7. Management of the Fund**

### *Who is the investment manager?*

Guardian Trust.

### *Will you continue to take management fees?*

As the Fund continues to be actively managed for the benefit of all unit holders we will continue to take management fees.

## **8. Winding up the Fund**

### *Why is winding up the Fund in the best interests of unit holders?*

The Fund is currently suspended and, because market conditions have continued to deteriorate, it is not in a position to reopen. Therefore, the carefully managed liquidation of the Fund with partial capital repayments during the winding up process is considered the best option.

### *Why wind up now?*

Since suspension, market conditions have worsened. The environment for mortgage funds generally is very difficult and is likely to continue for the foreseeable future. We believe the best interests of investors are served by the careful liquidation of the mortgages combined with partial capital repayments.

### *What is involved in winding up the Guardian Mortgage Fund?*

It is incumbent upon us to preserve and protect the capital investments of all unit holders and this will be paramount in all our decisions and actions during the winding up process.

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In winding up the Fund, all loans will be carefully managed to maximise the repayment of capital to investors.

## 9. The Unit Holder Meeting

### *Who can attend the unit holder meeting?*

Only registered unit holders of the Guardian Mortgage Fund may attend the meeting.

### *Who can vote on the proposed resolutions?*

Only registered unit holders of the Guardian Mortgage Fund may vote.

### *What will happen at the meeting?*

The extraordinary resolutions relating to the Guardian Mortgage Fund will be presented, and unit holders will be asked to vote by a show of hands unless a poll is demanded. Unit holders not in attendance may appoint a proxy to vote.

### *How long will it take?*

The meeting will address two extraordinary resolutions and therefore require only two votes. As such, we do not expect the meeting to be lengthy, and you need only allow 90 minutes at most for attendance.

### *What do I do if I can't come?*

If you will not be attending, you may appoint a proxy to attend the meeting and vote in your place. A person appointed as proxy need not be a unit holder of the Guardian Mortgage Fund.

Alternatively, the chairman of the meeting is willing to act as proxy for any unit holder. If you wish to appoint the chairman as your proxy, you will need to complete and return the proxy form naming "the chairman of the meeting" as proxy. If you appoint the chairman as your proxy but do not instruct him how to vote, the chairman will use your vote in favour of the resolutions.

Joint holders of units wishing to appoint a proxy must all sign the proxy form.

A proxy form accompanies the notice of meeting sent to you.

### *How do I use the proxy form?*

The proxy form must be filled in and signed by the unit holder or their attorney as authorised in writing by the unit holder. If the proxy form is filled in and signed under power of attorney, the power of attorney (or a copy certified by a Notary Public) must be mailed or delivered to Guardian Trust together with the proxy form, and a certificate of non-revocation of power of attorney must be attached.

If you are unclear about how to fill in the form or which parties may authorise it, please contact us on 0800 808 545 for assistance.

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### *When do I have to return the proxy form?*

You must return it by 10.30am on Monday, 2 February 2009.

### *Is there someone I can call to discuss this with ahead of the meeting?*

Please contact us on 0800 808 545 and our staff will be happy to help with any questions or concerns you have.

### *Where do I go to attend?*

The meeting will be held on Wednesday, 4 February 2009, commencing at 10.30am, at:  
Ellerslie Event Centre  
80 Ascot Avenue  
Ellerslie, Auckland

Parking is available at the Ellerslie Event Centre.

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## Map of Ellerslie Event Centre



