GRANT SAMUEL

LEVEL 31
VERO CENTRE
48 SHORTLAND STREET AUCKLAND
PO BOX 4306 AUCKLAND
T: +64 9 912 7777 / F: +64 9 912 7788
www.grantsamuel.co.nz

29 May 2009

The Directors
ING (NZ) Administration Pty Limited
as Trustee for the ING Australian Unit Trusts
PO Box 7149
Wellesley St
AUCKLAND

Summary of the Independent Expert's Report
on the proposal by ING NZ to acquire units in the
ING Diversified Yield Fund and the ING Regular Income Fund

Dear Directors

1. Introduction

ING (NZ) Administration Pty Limited (the **Trustee**) is the Australian trustee of the ING Diversified Yield Fund (**DYF**) and the ING Regular Income Fund (**RIF**). Both funds are unit trusts formed under Australian law and are collectively referred to in this report as the **Funds**. The role of trustee of the Funds is set out in a Master Trust Deed Poll and Supplemental Deeds (the **Trust Deed**). The Trustee has delegated the management of the Funds to a related party, ING (NZ) Limited (**ING NZ**).

ING NZ has arranged for an offer to be made to acquire all the units on issue in the Funds held by New Zealand resident investors only (the **Offer**) at a price of 60 cents per DYF unit and 62 units per RIF unit (the **Offer price**). The Trustee has appointed Grant Samuel & Associates Limited (**Grant Samuel**) to prepare an independent expert's report on merits of the Offer to ensure that such information is available for unit holders and the Trustee to make an informed decision. This letter provides a summary of the assessment of the merits of the Offer contained within Grant Samuel's independent expert's report, which is available to unit holders upon request to ING NZ.

The Trustee also engaged Dynamic Credit Partners, LLC (**DCP**) to provide:

- an independent assessment, as at 31 December 2008, of the market value by individual security for 119 of the 138 unique CDOs held by the Funds on a mark-to-market basis (the **DCP marks**) for the purposes of comparison against current Dealer marks;
- projections of the future principal and interest cash flows to maturity for 84 individual CDOs held by the Funds based two sets of assumptions under a Base Case and a Stress Case. DCP did not prepare any cash flow projections for 40 CDOs (mainly asset backed CDOs) where actual default experience meant that it was highly unlikely any future distributions (capital or income) would be made to holders of those particular securities; and
- terminal values in five and ten years time as an estimate for the realisation value for each security at that point in time for the purposes of calculating holding period returns.

The Trustee has provided Grant Samuel with a copy of DCP's report that sets out a discussion and explanation of the analysis along with a summary of its findings and the assumptions used under the Base Case and Stress Case. Grant Samuel relied upon the work done by DCP for the purposes of its analysis and has not undertaken a detailed review or verification of DCP's findings for each CDO.

DCP is a U.S. investment management firm based in New York, USA that specialises in structured finance. It has approximately US$5 billion under management (as measured by the outstanding principal or notional amount of the assets) across various investment vehicles and is an active participant in secondary markets where CDOs are traded. Since its formation in 2003, DCP has completed approximately 50 advisory projects, analyzing approximately US$300 billion of structured credit investments for a variety of clients.

2. Background to the Offer

The Funds were established to invest primarily in structured credit instruments known as collateralised debt obligations (**CDOs**) and, to a lesser extent credit opportunity funds (**COFs**). ING NZ marketed the Funds with a risk profile of low to moderate for the RIF and moderate for the DYF as an investment alternative to a growing array of fixed interest debentures and bonds being promoted by New Zealand finance companies.

Deteriorating conditions in global credit markets have had a severe impact on the liquidity (i.e. the ability of investors to sell or trade a security) and value of CDOs. At the same time as credit market conditions were deteriorating unit holders in the Funds were responding by requesting redemptions of their units. The combination of these conditions made it increasingly difficult for ING NZ to sell investment assets held by the Funds to realise cash to meet the level of redemptions requested by unit holders.

The lack of liquidity, challenges in finding buyers and the growing number of forced sellers accepting fire-sale prices was making it very difficult for ING NZ to reliably place a value on CDO investments held by the Funds on a "mark-to-market" basis[1] in order to set redemption prices for DYF and RIF units. With effect on 13 March 2008, the Trustee decided to suspend any further redemption of DYF and RIF units. The unit prices on the day prior to the suspension were 81 cents per DYF unit and 71 cents per RIF unit.

The suspension, which remains in place, means that existing investors are unable to make withdrawals and no applications to purchase new units are being accepted. Investors have continued to receive periodic distributions from the Funds and the expectation was that the suspension of the Funds would be lifted when market conditions improved. However market conditions continued to deteriorate and, in the absence of any prospect of an immediate recovery, ING NZ announced in December 2008 its intention to ask the Trustee to consider a proposal (to be put to unit holders) to terminate the Funds and amend the Trust Deed to allow a managed wind-up in an orderly manner over an extended period of time with assets being liquidated once market conditions stabilised and market prices for CDOs moved closer to their underlying values.

Under the Trust Deed the Trustee may terminate the Funds by giving no less than 30 days written notice to unit holders of the date of termination. Otherwise, the early termination of the Funds can only be undertaken by way of an extraordinary resolution of unit holders. Feedback from unit holders and financial advisers indicated that the proposal to wind up of the Funds in an orderly manner was not well received. In response ING NZ has decided to arrange for the Offer to be made.

3. Details of the Offer

In June 2009 ING NZ AUT Investments Limited (the **Offeror**) will make an offer to acquire 100% of the units on issue in the Funds held by New Zealand resident investors at the Offer price of 60 cents per DYF unit and 62 units per RIF unit. The Offer is subject to, among other things, the following conditions:

- unit holders who accept the Offer must do so for 100% of the units that they hold in the relevant fund. The Offer is not conditional on a minimum level of acceptances by all unit holders;

1 This was previously done daily based on actual market trade data provided by pricing providers. Pricing providers are normally wholly owned entities of the investment bank that underwrote the CDO issuance.

- unit holders who accept the Offer are required to give a release whereby all claims, known and unknown, in connection with the Funds against, amongst others, ING NZ, the Trustee and financial advisers are surrendered, settled and released (the **Release**); and
- approval from the New Zealand Overseas Investment Office and under Australia's foreign investment regime (or confirmation that approval is required).

Unit holders can accept the Offer by choosing either the:

- **Cash Out Option**, where the proceeds from the sale of units in the Funds at the Offer price will be paid to unit holders in cash; or
- **Five Year Option**, where the proceeds from the sale of units in the Funds at the Offer price will be paid into a cash deposit account with ANZ Bank in New Zealand[2] (the **ANZ Cash Account**) in the unit holder's name.

Unit holders will be given a period of around 38 days from the date that the Offer is made in June 2009 to decide whether or not to accept the Offer. Unit holders that do not accept the Offer will remain investors in the Funds.

The Offeror is a wholly owned subsidiary of ING NZ. ANZ National Bank Limited (**ANZ**) and ING Insurance International BV jointly own ING NZ and will provide the Offeror with funding of up to NZ$400 million to enable the Offeror to acquire all units offered for sale by unit holders in the Funds. Units acquired by the Offeror from investors who were originally introduced to the Funds by ANZ are expected to be transferred to another special vehicle (the **ANZ SPV**) that is wholly owned by ANZ. The Offeror expects to make payment by 28 August 2009, unless the payment date is extended.

4. Details of the ANZ Cash Account

Unit holders that choose the Five Year Option will have all of the proceeds from the sale of units in the Funds deposited in the ANZ Cash Account. The ANZ Cash Account has the attributes of a traditional call account insofar as:

- the full amount of the proceeds of the sale of units will be paid into the ANZ Cash Account by 28 August 2009 (or later if the payment date is extended) and from that point on unit holders will have access to withdraw in part or in full any money held on deposit in the ANZ Cash Account;
- no minimum term will apply (i.e. unit holders can withdraw money from the account immediately);
- no minimum balance will apply (i.e. unit holders do not have to maintain a minimum balance to retain the interest rate of 8.3% pa);
- interest will be calculated daily and credited to the ANZ Cash Account monthly (effectively compounding monthly); and
- withholding tax will be deducted from all interest credited to the ANZ Cash Account at the investor's marginal tax rate.

The ANZ Cash Account also has the attributes of a traditional term deposit insofar as:

- once the initial amount is deposited in the ANZ Cash Account unit holders will not be able to make further deposits other than the monthly net interest income, which will be automatically credited to ANZ Cash Account. This means that while unit holders can make withdrawals from the ANZ Cash Account at any time they can not redeposit the money once it has been withdrawn; and
- the interest rate is fixed for a defined term of five years. At end of the five year term, interest payable on the ANZ Cash Account will revert to ANZ's standard on-call deposit rates (i.e. the interest rate will be reset to the floating rate applicable at that time).

---

2 The ANZ Bank in New Zealand is part of ANZ National Bank Limited. ANZ National Bank Limited holds a 49% equity interest in ING NZ.

5. Valuation of the Funds

Forming judgments on the value of CDOs is challenging in the current climate of heightened uncertainty over the impact of a global recession on default and recovery rates combined with the fall out from excessive use of leverage in recent years. The hard facts are that there is only very limited reliable information on which form judgements as to the full value of units in the Funds at the present time:

- the timing of the Offer was driven by unit holders' desire for some liquidity from units in the Funds. Unfortunately, it also means unit holders are selling securities at a cyclical low. The events that led to the Funds being suspended and market conditions that prevail today mean that it is very difficult to interpret from market evidence how much of the decline in value of the Funds is attributable to concerns over future defaults and the intrinsic value of the security being traded, versus how much is attributable to distressed market conditions, absence of buyers and general lack of liquidity;
- ING NZ continues to hold concerns as to the reliability of Carrying Values determined on a mark-to-market basis;
- the DCP marks are almost five months out of date and DCP has advised that Bid & Ask prices at 31 March 2009 would likely be materially lower than they were at 31 December 2008;
- DCP did not calculate present values at 31 December 2008 using the projected cash flows it prepared for the 84 CDOs under either its Base Case or Stress Case scenarios. Accordingly no comparison was made between its Bid & Ask prices and the present value of these cash flow projections;
- DCP provided its Base Case and Stress Case scenarios but there was no ability to flex or test the sensitivity of the cash flow projections to changes to the key underlying assumptions and the earlier projections prepared by DCP based on more optimistic assumptions were, in DCP's opinion no longer reliable or accurate; and
- there are no cash flow projections for 54 CDOs (albeit 40 of these were identified by DCP as being of largely worthless and having no future cash flows) or the COFs (the largest of which by value is gated and can not be readily redeemed at present).

Notwithstanding these limitations, having considered all the information available at this time Grant Samuel has concluded that the Net Asset Values based on the DCP marks at 31 December 2008 provides unit holders with the best reference as to the full value of the units of the Funds from which to assess the Offer price. Grant Samuel calculated Net Assets Values of 24 cents per DYF unit and 21 cents per RIF unit using the DCP marks for 119 CDOs. These Net Asset Values are substantially lower than the Offer price of 60 cents per DYF unit and 62 cents per RIF unit.

Market evidence, dealer marks and DCP's independent assessment of bid & ask prices all point to such low current values for a significant proportion of the CDO portfolio that cash and cash equivalents now account for more than 50% of the Net Asset Value of units in the Funds (i.e. circa 10 cents per unit at 30 April 2009). DCP's more recent advice is that the Bid & Ask prices as of 31 December 2008 are likely to be high on a CDO by CDO basis compared to Bid & Ask prices if they were calculated as of the date of this letter. On the basis that updated Bid & Ask prices from DCP would result in lower Net Asset Values of the Funds, Grant Samuel is satisfied that it would not alter the conclusion that the Offer price is fair before considering the value of the Release.

Grant Samuel also considered several alternative methodologies for ascribing value to the CDOs held by the Funds including enquiring of DCP (as the independent third party that has an intimate knowledge of the portfolio) what the prospect was for the CDOs recovering to par. DCP's advice was that they believed there was only a remote prospect that some CDOs held by Funds would realise par value over time.

6. Evaluation of the ANZ Cash Account

The ANZ Cash Account will be an open term, unsecured interest bearing debt security denominated in New Zealand dollars with a fixed interest rate for five years of 8.3% per annum. Interest will be calculated daily and deposited monthly into the ANZ Cash Account by ANZ Bank. Withdrawals from the ANZ Cash Account can be made at any time if unit holders wish to receive interest income in cash or generally require access to all or some of the funds on deposit. However, unit holders will not be able to redeposit money into the ANZ Cash Account and, as such will need to be mindful of how they manage cash withdrawals.

If unit holders were to leave 100% of the Offer price and all interest income earned in an ANZ Cash Account for the term of five years the amount on deposit would equate to between 78 cents and 91 cents per DYF unit and between 80 cents and 94 cents per RIF unit depending on each investor's effective tax rate[3].

The crown guarantee under the retail deposit guarantee scheme does apply in respect of the ANZ Cash Account although this scheme is currently due to expire on 12 October 2010. There will be no other guarantees in place in relation to the ANZ Cash Account and as such holders of the ANZ Cash Account will rank equally with all other unsecured creditors of ANZ Bank. ANZ is legally liable to pay returns on the ANZ Cash Account and is part of ANZ Banking Group, which has an S&P credit rating of AA.

The ANZ Cash Account offers better interest rates than any other ready access or on-call accounts available in New Zealand at the present time (refer the table below) and as such presents a very attractive place to hold money until such time as it is put to an alternate use:

Selection of Ready Access or Call Account rates as at 14 May 2009

Trading Banks	Minimum deposit	Interest paid	Annual interest rate
ASB FastSaver	$1	Monthly	3.15%
TSB Bank Online Call	$1	Monthly	3.25%
ANZ Online Call	$2,000	Monthly	3.15%
Kiwibank	$2,000	Monthly	3.25%
BNZ Rapid Save (Bonus)	$5,000	Monthly	3.50%
National Bank Online Call	$5,000	Monthly	2.50%
Westpac Online Bonus saver	$1	Monthly	3.50%

Source: interest.co.nz

Note the rates shown for the bonus savings accounts represent the premium interest rate offered for no withdrawals during the month. The base interest rate for these accounts is in each case less than 1%. The ANZ Cash Account offers the same flexibility as the above accounts but with an interest rate that is approximately 5% pa higher and fixed for five years.

A very compelling aspect of the ANZ Cash Account is there is no minimum term. That is unit holders can withdraw all or part of the money at any time and no early termination fees will apply. The ANZ Cash Account also offers a very attractive interest rate compared to other ready access or call accounts and fixed interest investments with a similar term that are presently available to New Zealand retail investors. What this means is that the unit holders are being offered the best of both worlds – ready access and a high interest rate. If at some point within the next five years interest rates on ready access deposits rise above 8.3% pa then unit holders can withdraw the money and reinvest elsewhere.

---

3 The range of values per unit reflects a different rates being applied for withholding tax ranging from no tax being deducted at the upper end to the current maximum rate for withholding tax in New Zealand of 38% (noting that it is assumed there is no change in withholding tax rates over the five year term). Withholding tax is deducted monthly from the interest earned on the money held on deposit in the ANZ Cash Account at the effective tax rate nominated by the investor. Accordingly the balance held on deposit in the ANZ Cash Account will change from month to month for any withdrawals made by unit holders and interest income credited at 8.3% pa less withholding tax deducted at the investor's effective tax rate.

7. Evaluation of the Offer

In deciding whether or not to accept the Offer unit holders must weigh up the certainty of the financial outcomes available under the Offer with the risks and uncertainty associated with the prospect of realising a better financial outcome from holding units in the Funds and retaining the rights that would otherwise be surrendered and waived under the Release.

7.1 The Offer price is fair and reasonable

The Offer price is substantially higher than the Net Asset Values calculated for the Funds based primarily on independently assessed bid & ask prices at 31 December 2008 for the majority of CDOs held by the Funds and, in Grant Samuel's opinion is fair and reasonable. The analysis does not take into consideration the value of the Release. Unit holders will need to assess for themselves the value of the Release based on their own individual circumstances.

- Grant Samuel used the mid point of DCP marks at 31 December 2008 for 119 of the 138 CDOs held by the Funds combined with Carrying Values at that date for the other assets and liabilities of the Funds not valued by DCP to derive Net Asset Values of $0.24 per DYF unit and $0.21 per RIF unit. These Net Asset Values are well below the Offer price of $0.60 per DYF unit and $0.62 per RIF unit. Net Asset Value is considered representative of the full value of the Funds assuming 100% of the units were available to be acquired and therefore includes a premium for control. The value exceeds the price at which Grant Samuel would expect a portfolio interest in the units to trade on the basis that a discount would normally apply for minority interests and for a lack of marketability and liquidity for units in the Funds;
- unit holders need to consider the current challenges in ascribing value to units in the Funds, not least because of the complexities of the underlying investments and extreme market conditions. The Funds have also incurred substantial losses on realisation of investments. Despite these realised losses, the aggregate Face Value of all securities held by the Funds at 28 February 2009 is substantially higher than the Offer price. This is because there has been a permanent impairment in value of the Funds in respect of those investments that have not been sold but are either in default or PIKing[4]. In Grant Samuel's opinion the Face Value or amount in local currencies that the Funds paid for its securities is now in most cases not going to be recovered regardless of when, and to what extent, market conditions may improve. Unit holders are therefore effectively faced with the prospect of recovering considerably less than 100% of the principal amount they invested in the Funds;
- in most cases the Funds have invested in debt instruments (e.g. a BBB rated tranche of debt in a CLO) where the best possible outcome (albeit highly unlikely for some of the debt securities held by the Funds), is a return to par value[5]. In limited cases the Funds hold an equity interest in either a COF or CDO that may, over time, either prove to be worthless (as appears to have been the case with several COFs that have recently gone into liquidation) or possibly return values significantly above current market prices. The presence of leverage means that over a relatively short period of time as market conditions change and the underlying senior secured bank loans perform, some equity positions could significantly increase or decrease in value from the current lows;
- it is reasonable to expect that the unprecedented interventions by Governments and Central Banks will, over time, prove to have reduced the depth of the current recession but the corollary

---

4 **PIKing or payment–in-kind** can occur for several reasons including when the level of defaults on underlying collateral loans have increased to a point where the CDO Issuer has to retain cash inflows from its performing loan assets rather than pass on coupon interest to all of the lower rated CDO tranche holders. The cash retained by the CDO Issuer is either reinvested in new loan assets or used to repay principal outstanding on the higher ranked tranches starting at the AAA level. The intention with PIKing is to try address a breach and prevent an Event of Default and ultimately the liquidation or restructure of the CDO by either increasing the level of collateral held as security for the CDO funding structure or by reducing the level of debt funding.

5 All of the CDOs comprise floating rate loans on which the interest rate is reset every quarter and as a consequence there is no opportunity for capital gain.

may be a slower recovery. As such, the value of the CDOs held by the Funds may remain low because the recession runs for an extended period of time and / or the current widespread negative sentiment for these types of securities does not abate;

- there remains the remote possibility to realise higher value per unit for the portfolio of securities held by the Funds than the Offer price at some time in the future but investors should not ignore the fact that there is a very high degree of uncertainty as to timing (i.e. an investor might have to hold the CDO to maturity to realise par value) and the extent to which future defaults result in further permanent impairment in the value of some CDOs. In making a decision unit holders must weigh up the certainty of the Offer today against the heightened degree of uncertainty as to timing and risks associated with realising a value greater than the Offer price at some point in the future. In the current climate a value higher than the Offer price appears to be an overly optimistic view. Unit holders however should also take into consideration the rights they must give up under the Release in order to accept the Offer;
- the Offer gives unit holders the choice to realise cash from their investment in the Funds, which is expected to be payable in August 2009. Accepting the Offer removes any exposure to further losses on this investment although in many cases there is only limited scope for further reductions in the Carrying Values of the underlying assets of the Funds.

7.2 The relative merits of the options under the Offer

The ANZ Cash Account offers unit holders ready access to the money on deposit and an above market or high interest rate. If at some point within the next five years interest rates on ready access deposits rise above 8.3% pa then unit holders can withdraw their money and reinvest elsewhere. In Grant Samuel's opinion these features make the Five Year Option preferable to the Cash Out Option.

- the current proposal before unit holders is an offer to purchase up to 100% of the units in the Funds held by New Zealand resident investors at the Offer price. Unit holders can elect to accept or reject the Offer. To accept the Offer unit holders must choose either the Cash Out Option or the Five Year Option. If the Cash Out Option is selected, unit holders will receive the Offer price in cash. If the Five Year Option is selected, the Offer price will be deposited in an ANZ Cash Account in the unit holder's name. Only those unit holders that accept the Offer are eligible, by choosing the Five Year Option, to have money invested in an ANZ Cash Account;
- an investor's preference for the Five Year Option will depend on his or her own personal circumstances. The ANZ Cash Account is a highly liquid, low risk debt security. The account basically has all the attributes of any other ready access or on-call savings account offered by trading banks in New Zealand. There are no monthly account fees or transaction charges and for the initial period ending on 12 October 2010 these retail deposits will be covered the Crown guarantee. The differentiating and very positive feature is that the ANZ Cash Account offers a very attractive, above market interest rate, which is fixed for five years. Accordingly, Grant Samuel believes the Five Year Option is preferable to the Cash Out Option;
- unit holders can however accept the Offer by choosing the Five Year Option and hold money on deposit in an ANZ Cash Account earning a fixed interest rate 8.3% pa for a term of up to five years. If a unit holder leaves all money (including accrued interest) on deposit in the ANZ Cash Account for a term of five years they will, at the end of the term, hold a sum equivalent to between 78 and 91 cents per DYF unit and / or 80 and 94 cents per RIF unit depending on the amount of withholding tax payable by the individual investor. DCP's Base Case projections indicate that these potential financial outcomes under the Five Year Option are significantly higher than what unit holders could expect by retaining units in the Funds (before taking into account the value, if any of the Release); and
- the flexibility in relation to the amount that unit holders hold on deposit in the ANZ Cash Account does not extend to the level of acceptance of the Offer. If accepting the Offer, unit holders must do so for 100% of the units held in the Funds by choosing either the Cash Out Option or the Five

Year Option, not a combination of these two options. Should a unit holder that wishes to accept the Offer also have a preference to hold less than 100% of the proceeds from the sale of units in the Funds on deposit in their ANZ Cash Account then they are free to withdraw money from their ANZ Cash Account at any time.

7.3 Unit holders need to consider the Release

When considering the Offer, unit holders need to assess for themselves the value of the Release and weigh up the certainty in terms of value and timing of the Offer and the value of units held in the Funds and the prospect of an alternative outcome if a unit holder or class of unit holders or a regulator make a successful claim against one or more beneficiaries of the Release.

- unit holders who accept the Offer give the Release and surrender and waive their right to pursue or benefit from legal rights or claims against, amongst others, ING NZ, advisers and the Trustee, in connection with the Funds. The intention is to remove any legal rights against the beneficiaries of the Release and the possibility that unit holders may elect to subsequently exercise those rights. ANZ has separately established an independent reviewer process for ANZ customers in relation to advice they were given by ANZ advisers, which will enable that group of unit holders to accept the Offer and, in certain circumstances, have their entitlement to additional compensation, if any, considered;
- the Trustee has advised that some unit holders have made successful claims against the beneficiaries of the Release and a number of other investors are understood to be pursuing alternative outcomes via other avenues including lodging complaints with the Banking Ombudsman. The Commerce Commission is also investigating ING NZ, ANZ and advisers in relation to the Funds; and
- Grant Samuel is not privy to any confidential knowledge or information in respect of existing or potential claims and has made no assessment of the strengths of unit holders' claims against those beneficiaries, which is beyond the scope of work undertaken by Grant Samuel and outside the area of Grant Samuel's expertise. This requires an assessment of the likelihood of a successful claim, the potential financial award achievable with a successful claim, risks and costs (both financial and non financial) associated with making the claim and the length of time it takes to settle the matter.

7.4 Other alternatives available to unit holders

The earlier proposal for the Funds to be terminated and assets realised over an extended period of time has been superseded by the Offer. ING NZ has advised that the Offeror and ANZ SPV have no plans at present to wind-up the Funds should they collectively acquire a controlling interest in the Funds. In any event Grant Samuel believes that the Offer is currently preferable to liquidation or lifting of the suspension of redemptions (noting that Grant Samuel has not considered whether any value attaches to the Release), which would necessitate asset sales at very low prices.

- unit holders do not have to accept the Offer and can elect to remain investors in the Funds and retain any rights that would otherwise have been surrendered and waived under the Release. Retaining an investment in the Funds will mean a unit holder will also receive the benefit of any recovery in the values of the underlying investment assets and any compensation paid for any breaches but in the interim faces face the prospect of either:
  - the continuation of the status quo; or
  - the Trustee electing at some future point to lift the suspension on redemptions of units in the Funds or terminating of the Funds; or

  - by extraordinary resolution, unit holders voting to lift the suspension, terminate the Funds and / or approve changes to the Trust Deed;

- in Grant Samuel's opinion the continuation of the status quo is the more probable outcome for those unit holders that elect to remain in the Funds. The Funds will remain suspended until such time as an extraordinary resolution of unit holders is passed, lifting the suspension or the Trustee sees fit to lift the suspension. The Trustee has advised that it is continually reassessing whether it should lift the suspension and, as such unit holders should not rule out this possibility but equally, this will largely depend on a significant improvement in liquidity for CDOs and greater reliability in pricing. At present there is widespread de-leveraging taking place and it is expected that it will take significant time for international credit markets and global economies to recover from what started as a financial markets crisis and is now a general economic recession. The consensus view is that the current global recession will prevail through 2009 and into 2010 and there is considerable uncertainty as to when, and to what extent, credit markets will recover. Until such time as financial markets stabilise it will not be possible to realise or sell investment assets held by the Funds at reasonable prices or in sufficient volume to match the likely level of redemption requests;
- the Trust Deed currently provides for the sale and realisation of assets as soon as reasonably practicable after the termination date. At some point the Trustee may reconsider whether it is better to terminate the Funds and liquidate the investment portfolios in an orderly manner over an extended period of time following the Offer. It is likely an extraordinary resolution of unit holders would be needed to approve a managed wind up of the Funds over an extended period of time and this would require approval by 75% of the votes cast; and
- there is no guarantee that the Funds would be able to realise CDOs at current Carrying Values if the decision was made to lift the suspension or terminate the Funds. Both alternatives are expected to necessitate the sale of assets as soon as reasonably practicable. Whereas, under the Offer unit holders are being offered a substantially higher price than Net Asset Value today and the option of investing in a lower risk, highly liquid debt security on favourable terms (noting that Grant Samuel has not considered the value of the Release).

7.5 The likelihood of an alternative offer

There is only a remote possibility that ING NZ would table a better alternative proposal for unit holders that reject the Offer and Grant Samuel does not believe that a third party interested acquiring some or all of the units in the Funds will make a competing offer at a price above the Offer price.

- this transaction does not have the characteristics of a typical corporate takeover. While there is a very remote possibility that unit holders collectively may be able to persuade ING NZ to table a better alternative proposal, there is no guarantee that any new higher offer will be forthcoming. The circumstances of the Offer are quite different to when unit holders voiced dissatisfaction at the initial proposal to undertake of a managed wind-up of the Funds. Under the Trust Deed the Trustee or unit holders collectively, by way of an extraordinary resolution, have the discretion to terminate the Funds early. When it became evident that this earlier proposal would not gain unit holder approval it was abandoned;
- consultation with advisers and feedback from unit holders has ultimately led to an enhanced proposal by ING NZ and, once the Offer is made, it will be capable of acceptance. Grant Samuel believes that, as there is no requirement for a minimum number of acceptances, the most probable outcome is that the Offer will close with some level of acceptance by unit holders. If this eventuates then, in Grant Samuel's opinion it would be unlikely that Offeror will make another offer at a higher price unless it is forced to as a result of a successful claim against one or more the beneficiaries of the Release. A successful claim against the beneficiaries of the Release could possibly lead to a new higher offer being made to all remaining unit holders but this is by no

means certain. For example, once the Offer is made there is nothing to stop the beneficiaries of the Release dealing with any remaining unit holders on a case by case basis; and

- the circumstances surrounding the Offer are unique. That is not to say the impact of the financial crisis has been limited to the Funds. Many other New Zealand investment funds have also experienced a dramatic decline in value including several other credit funds. To date fund managers have predominantly sought to wind up these other funds and investors, who are no longer receiving distributions, have been made to wait for principal to be repaid as loan portfolios mature and / or are realised. Furthermore, for these investors the amount and timing of the principal to be repaid is by no means assured. In this context the Offer compares very favourably (without considering the Release) to the moratoriums and other capital restructure proposals put to New Zealand retail investors over last eighteen months.

7.6 Other merits of the Offer

Grant Samuel believes it is likely the Offer will result in the Offeror and ANZ SPV collectively holding a majority of the units in the Funds. If that eventuates then ING NZ will be the manager of the Funds and may, indirectly through the Offeror and ANZ SPV, be able to influence the outcome of unit holder resolutions.

- the Funds are not being wound up. In the unlikely event that no unit holder accepts the Offer then there will be no change in the ownership of the Funds. If this occurs the Trustee would need to consider what alternative action to take that is in the best interest of unit holders. The alternatives under the Trust Deed (as discussed in section 7.4 above) include continuing to operate the Funds on a suspended basis (i.e. a continuation of the status quo), lifting the suspension or winding up the Funds;
- Grant Samuel believes it is more likely that a significant number of unit holders will accept the Offer and, as a consequence, the majority ownership of the Funds may transfer to the Offeror and ANZ SPV. At that point ING NZ will be the manager of the Funds and may, indirectly through the Offeror and ANZ SPV, be able to influence the outcome of unit holder resolutions;
- if as a result of the Offer the Offeror and / or the ANZ SPV acquire significant holdings of units in the Funds then they may want greater flexibility in respect of how the Funds' assets are managed going forward in order to maximise value. There is therefore the possibility that the Offeror and / or the ANZ SPV will request the Trustee amends the investment guidelines at some stage and this may give rise to concern for any remaining unit holders who do not share the same appetite for risk;
- the Offeror and its shareholders are accepting significant risk in making the Offer that if market conditions don't over time result in significant appreciation in the Net Asset Values of the Funds then they will incur multi-million dollar losses. Alternatively, the Offeror may profit to the extent that future Net Asset Value recovers above the Offer price. This however will require a substantial turnaround in credit markets, which at present appears to be only a remote possibility;
- it is possible that over the longer term, Net Asset Values will increase as market conditions improve and CDO prices rise. However, it is also conceivable that at some point the Offeror and ANZ SPV may consider the risks outweigh the rewards of continuing to hold the portfolio of CDOs. The Offeror and ANZ SPV are acquiring units at the Offer price and may therefore be willing to accept a lesser outcome than other remaining unit holders in the Funds who paid a higher price for their units in the Funds. The Offeror and ANZ SPV may therefore jointly wish to terminate the Fund going forward. If they collectively hold sufficient units to carry the vote on an extraordinary resolution then any other investors remaining in the Funds will have no option but to accept this outcome;
- furthermore the Offeror and ANZ SPV may form the view at some future point that the best and simplest option is to liquidate the portfolio regardless of whether or not an improvement in market conditions and / or CDO prices eventuates. The interests of all unit holders remaining in the Funds are to some extent aligned insofar as the desire to maximise value but ING NZ

shareholders have already taken a significant write off against earnings in the current year having made the decision to proceed with the Offer[6] and may be willing to exit from the Funds at a Net Asset Values below the Offer price going forward. There is therefore no certainty that the Funds will continue for a prolonged period of time;

- provided that the underlying investment assets continue to pay dividends and interest income, the Funds should continue to generate positive cash earnings. Against this, there is a global recession and considerable uncertainty as to what extent rising loan defaults will impact on the income earned by the Funds going forward; and
- the Funds will continue to retain sufficient cash and cash equivalent assets to satisfy liquidity requirements (in particular to meet any foreign exchange contract obligations as they fall due) and ING NZ will continue to manage currency risk with the overriding goal to minimise the impact of currency movements by hedging 100% of foreign currency exposure at any point in time back into NZ dollars. To the extent the Funds generate and retain net income going forward, this will result in an increase in the Net Asset Values and ultimately what is paid out to unit holders that remain in the Funds.

7.7 Changes to the Funds

If implemented, the changes that are being considered relating to the composition of the Trustee's board and where Trustee decisions are made will change the tax residency of the Funds from Australia to New Zealand.

- ING NZ has advised that the change in tax residency will mean that the net income of the Funds will be subject to New Zealand income tax at the corporate rate, which is currently 30%, from the date on which the Funds becomes a New Zealand tax resident;
- New Zealand resident investors whose offshore portfolio at the beginning of each tax year cost more than NZ$50,000 (**non-de minimis investors**) must include any unrealised gains and losses on their offshore investments in the calculation of assessable income for income tax purposes. Prior to the change the Funds were domiciled in Australia and as such, an investment in units in the Funds formed part of the offshore portfolio non-de minimis investors in New Zealand. Grant Samuel understands that following the change in tax residency of units held in the Funds would no longer form part of the offshore portfolio for non-de minimis investors and there may be a resultant tax benefit for some unit holders. Equally, depending on an investor's marginal tax rate, the consequences of the change in tax jurisdiction may adversely impact that unit holder. This a complex section of New Zealand's income tax legislation and non-de minimis investors should seek appropriate expert advice on this matter; and
- the offshore ownership of the DYF assets was for Australian tax purposes and once the Funds become New Zealand domiciled it is no longer necessary.

7.8 Acceptance or Rejection of the Offer

Unit holders need to consider the merits of the Offer in the context of their individual circumstances and, if appropriate, should consult their own professional adviser. Acceptance or rejection of the Offer is a matter for the individual unit holder based on their own views on value, future market conditions, risk profile, liquidity preference, portfolio strategy, tax position (which can vary widely across investors) and other factors, including the value of the Release and the complexity and challenging environment in which to assess value of these structured debt instruments held by the Funds.

---

[6] Accounting standards require the reporting entity to carry investments on a mark-to-market basis, and accordingly ANZ Banking Group has recognised in its financial statements for the half year ended 31 March 2009 that a proposal to acquire units in the Funds may cost the bank an estimated NZ$167 million.

8. Other Matters

8.1 Qualifications

The Grant Samuel group of companies provides corporate advisory services (in relation to mergers and acquisitions, capital raisings, corporate restructuring and financial matters generally), property advisory services and manages private equity and property development funds. One of the primary activities of Grant Samuel is the preparation of corporate and business valuations and the provision of independent advice and expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 400 public expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Michael Lorimer BCA, and Peter Jackson, BCom, CA. Each has a significant number of years of experience in relevant corporate advisory matters.

8.2 Limitations and Reliance on Information

Grant Samuel's opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time. The report is based upon financial and other information provided by the directors, management and advisers of the Trustee and ING NZ. Grant Samuel has considered and relied upon this information. Grant Samuel believes that the information provided was reliable, complete and not misleading and has no reason to believe that any material facts have been withheld.

Grant Samuel has made all the inquiries, which Grant Samuel believes are desirable and appropriate and that no matters of significance, which it regards as relevant have, to Grant Samuel's knowledge, been withheld from the report. The information provided has been evaluated through analysis, enquiry, and review for the purposes of forming an opinion on the merits of the Offer. However Grant Samuel does not warrant that these inquiries have identified or verified all of the matters which an audit, extensive examination or "due diligence" investigation might disclose. In this respect Grant Samuel has not duplicated or sought to verify the work undertaken by DCP and has not reviewed any documentation and / or detailed information provided to DCP in relation to the 124 CDOs held by the Funds.

An analysis of the merits of a proposal is in the nature of an overall opinion rather than an audit or detailed investigation. Grant Samuel has not undertaken a due diligence investigation of the Funds. In addition, preparation of this report does not imply that Grant Samuel has audited in any way the management accounts or other records of the Funds. It is understood that, where appropriate, the accounting information provided to Grant Samuel was prepared in accordance with generally accepted accounting practice and in a manner consistent with methods of accounting used in previous years.

An important part of the information base used in forming an opinion of the kind expressed in this report is the opinions and judgement of the management of and advisers to the relevant enterprise. That information was also evaluated through analysis, enquiry and review to the extent practicable. However, it must be recognised that such information is not always capable of external verification or validation.

The information provided to Grant Samuel included projections of future cash flows for 84 of the 138 CDOs held by the Funds prepared by DCP in March 2009. Grant Samuel has used and relied on DCP's projections for the purposes of its analysis in the absence of any other financial projections and under the assumption that the projections prepared by DCP were prepared accurately, fairly and honestly based on information available to DCP and ING NZ at the time and within the practical constraints and limitations of such projections. In addition, unit holders should also take into account the disclaimer set out in Exhibit A of DCP's report, which is available from ING NZ upon request.

Grant Samuel has not reviewed in detail the assessment of future cash flows for each CDO prepared by DCP. Grant Samuel was provided with access to the cash flow projections prepared by DCP in the form of hard coded data in spreadsheets but it was not possible for Grant Samuel to test the cash flow projections by changing the key assumptions. It is assumed that the projections do not reflect any material bias, either positive or negative. Grant Samuel has no reason to believe otherwise. However, Grant Samuel in no way guarantees or otherwise warrants the achievability of the projections of future profits and cash flows for the Funds. Projections are inherently uncertain. Projections are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of management. The actual future results may be significantly more or less favourable.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue. In forming its opinion, Grant Samuel has assumed, except as specifically advised to it, that:

- the title to all such assets, properties, or business interests purportedly owned by the Funds is good and marketable in all material respects, and there are no material adverse interests, encumbrances, engineering, environmental, zoning, planning or related issues associated with these interests, and that the subject assets, properties, or business interests are free and clear of any and all material liens, encumbrances or encroachments;
- there is compliance in all material respects with all applicable national and local regulations and laws, as well as the policies of all applicable regulators other than as publicly disclosed, and that all required licences, rights, consents, or legislative or administrative authorities from any government, private entity, regulatory agency or organisation have been or can be obtained or renewed for the operation of the business of the Funds, other than as publicly disclosed;
- various contracts in place and their respective contractual terms will continue and will not be materially and adversely influenced by potential changes in control; and
- there are no material legal proceedings regarding the business, assets or affairs of the Funds, other than as publicly disclosed (including as disclosed in the Offer documents).

8.3 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion on the merits of the Offer to ensure that such information is available as necessary for unit holders and the Trustee to make an informed decision. Grant Samuel expressly disclaims any liability to any party who relies or purports to rely on the report for any other purpose whatsoever.

Grant Samuel has prepared this report with care and diligence and the statements and opinions given by Grant Samuel in this report are given in good faith and in the belief on reasonable grounds that such statements and opinions are correct and not misleading. However, no responsibility is accepted by Grant Samuel or any of its officers or employees for errors or omissions however arising in the preparation of this report, provided that this shall not absolve Grant Samuel from liability arising from an opinion expressed negligently, in wilful misconduct or misleading or deceptively.

Grant Samuel has had no involvement in the preparation of the Offer documents (except for this summary of the full independent expert's report), which is to accompany the Offer documents) issued by the Offeror and has not verified or approved any of the contents of the Offer documents (except for this summary of the full independent expert's report and references to Grant Samuel in the Offer documents). Grant Samuel does not accept any responsibility for the contents of the Offer documents (except for this summary of the full independent expert's report and references to Grant Samuel in the Offer documents).

8.4 Independence

Grant Samuel and its related entities do not have any shareholding in or other relationship or conflict of interest with the Trustee or ING NZ or ANZ National Bank Limited that could affect its ability to provide an unbiased opinion in relation to the Offer. Grant Samuel had no part in the formulation of the Offer. Its only role has been the preparation of this report. Grant Samuel will receive a fee of NZ$150,000 (plus GST) for the preparation of this report. This fee is not contingent on the outcome of the Offer. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel was engaged by the Trustee in October 2008 to prepare an independent expert's report for unit holders on a proposal by ING NZ to acquire units in the Funds. Deteriorating market conditions led to ING NZ withdrawing the proposal to acquire units before Grant Samuel had completed that assignment. Grant Samuel does not believe the earlier work undertaken for the Trustee gives rise to any conflict of interest.

In September 2008 Grant Samuel was engaged to prepare independent reports for two other investment funds under ING NZ management. Grant Samuel prepared these reports in its capacity as an independent advisor to unit holders of those two funds and does not believe that those engagements compromise its independence or create any conflict of interest in undertaking this Assignment.

Grant Samuel has undertaken some work in the past for Armstrong Jones (which was subsequently acquired by ING) providing advice on the acquisition of the SIL and MFL funds in 1992 and some assistance with due diligence on an acquisition target in 2001. We have not undertaken any advisory work for ING NZ for over seven years and have subsequently prepared a number of independent reports for the independent directors of the manager of the ING Property Trust, satisfying both the Takeovers Panel and the NZSX of our independence from ING NZ.

Grant Samuel has not undertaken any work for ANZ Bank.

8.5 Information

Grant Samuel has obtained all the information that it believes is desirable for the purposes of preparing this report, including all relevant information which is or should have been known to any director of ING NZ or the Trustee and made available to these directors. Grant Samuel confirms that in its opinion the information provided by the Trustee and contained within this report is sufficient to enable the Funds unit holders to understand all relevant factors and make an informed decision in respect of the Offer.

This letter is a summary of Grant Samuel's opinion. The full independent expert's report, which is available to unit holders upon request to the Manager, should be read in full and in conjunction with this summary to obtain a full and complete understanding of the analysis of Grant Samuel's opinion.

8.6 Declarations

The Trustee has agreed that it will indemnify Grant Samuel or any of its related bodies corporate, or any director, its employees, officers or consultants of Grant Samuel or any of its related bodies corporate (**Relevant Persons**) in respect of any claim, action or liability made or brought against or paid, suffered or incurred as a result of or in connection with directly or indirectly, this assignment or the preparation of the report including without limitation legal costs on a full indemnity basis. This indemnity will not apply in respect of the proportion of any liability found by a Court to be caused by any conduct caused by negligence, wilful misconduct or deceptive or misleading conduct by Grant Samuel or any of the other Relevant Persons. The Trustee has also agreed to indemnify Grant Samuel and the other Relevant Persons for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by the Trustee are limited to an amount equal to the fees paid (excluding the reimbursement of costs or expenses) to Grant Samuel and other Relevant Persons except where Grant Samuel or the Relevant Persons are held by a court to have been negligent or engaged in wilful misconduct or misleading or deceptive conduct, Grant Samuel or any of the other Relevant Persons shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to executive management and advisers of ING NZ and the Trustee to confirm factual accuracy. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

8.7 Consents

Grant Samuel consents to the issuing of this letter and the full independent expert's report to unit holders of the Funds. Neither the whole nor any part of this letter and / or the full independent expert's report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

Grant Samuel acknowledges that the Trustee may need to tender this letter and the full independent expert's report in court proceedings, in which case an affidavit may be required from the authors of this letter and the full independent expert's report, affirming on oath that at the date of this letter they held the views on the basis of the matters and assumptions set out in this letter and the full independent expert's report.

Yours faithfully
GRANT SAMUEL & ASSOCIATES LIMITED

Grant Samuel + Associates