

MFL Mutual Fund

Annual Report 09

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MFL Mutual Fund

MFL Mutual Fund (the "Fund") is a registered superannuation fund, regulated by the Superannuation Schemes Act 1989 and administered in accordance with the terms of the MFL Mutual Fund Trust Deed. The Fund was established in 1969 to provide New Zealanders with an opportunity to plan and save for retirement. Members own the Fund's net assets and share in the net profits earned.

The Fund's Trustee is MFL Mutual Fund Limited (the "Trustee"). The appointed Manager, ING (NZ) Limited (the "Manager"), is responsible for investment management, administration, marketing and client services.



Message from the Chairman



Looking back over the last year or so, we were faced with one of the most volatile and uncertain periods in the world economy since the 1930s. After many years of strong growth and positive performance, last year we reported MFL's first negative annual return since the Fund launched in 1969.

However, we are very pleased to see encouraging signs in the markets and improved fund performance. With New Zealand officially out of recession at the end of June, investors are becoming increasingly confident that the unprecedented actions taken by world governments and central banks have had the required and positive impact on global markets.

The credit crisis, which we talked about in the annual report last year, reached its peak in the second half of 2008, when confidence in financial markets collapsed and market volatility sharply increased. However, it is fair to say that it was a year of two halves with markets falling sharply in the first half of the Fund's financial year, followed by a strong upswing from March onwards. In fact, at the end of the 12-month period, the Fund had recovered most of the losses incurred in the first half of the year.

The global property sector was significantly affected by the credit crisis during 2008, which impacted the Fund's investments. As Manager, ING invests in listed property trusts or companies with physical properties which are well located, have quality long-term leases and provide long-term rents, with growth potential. Despite the volatile market conditions experienced in recent years, the Fund's assets, which are fully owned by you, remain very strong investments. The Board holds a positive long-term outlook for MFL.

While I know it is natural to become concerned when your investment drops in value, particularly when it has experienced such strong performance in the past, I can only encourage you to remember that market downturns are usually followed by a return to growth. Those who can afford to take a long-term view and stay invested during the downturn may have the opportunity to benefit from improved performance in future.

A long-term focus remains important. Although there is an improved outlook ahead, we expect a sustained recovery in global markets to be of a gradual nature. We are confident that the listed property trusts and companies, in which MFL invests, are well positioned to weather the remainder of the storm.

This year, in line with other similar entities, we have adopted a simpler, more relevant format for the Annual Report. The summary financial statements that follow present the standard detail that the vast majority of members will require. However, a copy of the full financial statements is also available on request from ING Client Services.

As you may be aware, in September, ANZ announced it would acquire full ownership of ING New Zealand and ING Australia. ANZ is one of only 11 banks in the world with an S&P AA or better credit rating and its acquisition of ING, a leading fund manager, has the potential to be a very positive step for New Zealand's wealth management sector and for you.

As trustee for MFL, it is our role to assess and ensure the effects of the change of ownership are constructive for the Fund and in the best interest of members. We are currently obtaining confirmation of this.

As always, we remain committed to the ongoing success of MFL Mutual Fund and to helping you meet your savings goals. Thank you for your continued support.

A handwritten signature in black ink, appearing to read 'Philip Burdon'. The signature is fluid and cursive, with a large initial 'P' and 'B'.

The Hon Philip Burdon
Chairman

Board of Directors



The independent Trustee of MFL Mutual Fund is MFL Mutual Fund Limited, which is represented by a Board of Directors. The Trustee oversees the administration and management of the Fund and ensures members' investments are managed in accordance with the MFL Mutual Fund Trust Deed.

The Board of Directors meets regularly throughout the year and maintains close contact with the Manager. During the period under review, there were no appointments to the Board.

All correspondence from Members to the Trustee should be sent to The Secretary, MFL Mutual Fund Limited, PO Box 7149, Wellesley Street, Auckland 1141.

Left to right:

Helen Troup, Secretary

Chief Executive Officer of ING (NZ) Limited, former Executive Director of Life Risk, ING Australia, former committee member for the Australian Industry Association for Financial Services (IFSA). Appointed July 2008.

Paul Fyfe, Director

Former Managing Director of ING (NZ) Limited; former Chairman of the Investment Savings and Insurance Association (ISI); former member of the Superannuation 2000 taskforce and the IAFP taskforce; over 38 years' experience in the investment funds industry. Appointed (as Director) in 2006.

Glennis Webber, Director

Consultant; trustee of a charitable trust; former Director of an SOE and a Crown company, and Managing Director of a US multi-national. Appointed 1998.

The Hon Philip Burdon, Chairman

Former Member of Parliament and Cabinet Minister; Chairman and Director of various private and publicly listed companies. Appointed 1997.

Robert Narev MNZM, Director

Consultant to law firm Glaister Ennor; Director and former Chairman of Kiwi Income Property Trust Limited; past President of the Auckland Society of Notaries; Director of various private companies and trustee of charitable trusts. Appointed 1993.

Dr Donald Stammer, Director

Chairman of Praemium Limited; Director of ING Private Equity Access Limited; former Chairman of ING's Australian listed property trusts and of Tribeca Learning Limited; former member of the Australian Government's Superannuation Advisory Council. Appointed 1999.

Lenise Webster, Director

Consultant to and former General Manager of ING (NZ) Limited; more than 30 years' experience in the funds management industry. Appointed 2006.

Rt Hon Sir William Birch, Director

Consultant on Public Policy and Government Services; former Treasurer and Finance Minister, and Member of Parliament for 27 years; a member of the Royal Bank of Scotland Australia Advisory Board; Director of a number of listed and private companies. Appointed 2000.

Manager's Report

MFL Property Fund

Return for the year ending 31 August 2009 ¹	-9.86%
Annualised Return since inception (1 September 1969) ¹	12.81%
Unit price at 31 August 2009 ²	\$1.6187

¹ Returns are calculated after fees and before tax. Past performance is not necessarily an indicator of future performance. The Fund carries no guarantee of return on capital or future performance.

² Unit price at 31 August 2009 is as shown. Historical unit prices are available on the ING (NZ) Limited website: www.ingnz.com.

The MFL Property Fund invests predominantly in a diverse range of New Zealand and international property securities, including listed property trusts and property-related shares, complemented by fixed interest securities and cash.

The Manager generally seeks listed property trusts or companies where the underlying property assets are well located, have quality long-term leases, provide quality cash flows and offer good long-term rent and capital growth potential. Assets typically held by these companies and trusts include a mix of retail, industrial and commercial office property investment in New Zealand and internationally.

Background

The turmoil in credit markets had a profound impact on the listed property sector due to the capital intensive nature of the sector and sensitivity to discount rates, which are used to value property. Uncertain credit markets, weaker global economic growth and rising unemployment also had a significant impact on property occupancy levels in some markets. The increase in white collar unemployment, particularly in financial services, drove vacancy rates up sharply in office markets while retailers suffered as consumers stopped spending on all but essentials. Industrial property fared better but was still impacted as demand for manufactured or stored goods declined forcing companies to consolidate operations or in some cases to shut down.

Higher vacancy rates and the impact of a gloomy economic outlook had a dramatic impact on valuations in some markets. In the UK, for example, commercial property values plummeted 44% off the highs reached in June 2007. In New Zealand, values declined closer to 10% but still had a significant impact on the sector. Two of the largest listed property vehicles, Kiwi Income Property Trust and AMP NZ Office Trust, raised

equity in order to strengthen their balance sheet to create sufficient funding flexibility. However, New Zealand listed property capital raisings were small in comparison to the A\$17.5 billion of new equity raised in Australia during the period.

Equity raisings were a double-edged sword in many cases, with the benefits of fresh capital offset by the bad news of a significant reduction in earnings per share, dividends per share and net tangible asset value (NTA) per share, due to the change in the number of shares on issue. The countries with the greatest equity raising activity saw the most dramatic falls in earnings per share. For this year and next, the change in earnings growth forecasts have overwhelmingly been due to the impact of capital raising. Revisions to occupancy and rent forecasts, which have remained relatively robust in most markets, have had less impact.

The MFL portfolio has included a component of listed property securities (LPS) since 1994, with the Fund investing "predominantly" in LPS since December 2003. This strategy was adopted on the basis that listed property provides greater liquidity and diversification for the MFL investor base, compared with investing directly in actual buildings.

Market review

The New Zealand Listed Property Index return was flat (+0.1%) for the year to the end of August 2009, having recovered 19% off the lows reached in April. The sector was affected by events in global markets and then dragged lower by capital raisings before recovering on improved equity market sentiment and a less pessimistic outlook for property valuations and rental growth. Throughout the year, property sector fundamentals remained relatively resilient despite the economy being in recession for most of the year. Occupancy in the listed property sector stayed near record highs, maintaining earnings, while most property vehicles continued to generate good rental growth from under-rented portfolios despite the softening outlook for market rents. Across the listed sector operational earnings continued to grow which was testament to the quality of the property, tenants and lease structures in place.

However what was disappointing was the decision by a couple of the trusts to raise significant amounts of new equity at large discounts to the trust's NTA. This had a dampening effect on the sector returns as investors raised cash from existing sector holdings. This \$266 million of new issued shares happened at a time when the equity market was at its most vulnerable. If this capital raising had not been so large we believe the sector would have performed better than it did for the year.

Manager's Report (cont.)

The Australian listed property sector (S&P/ASX Property Accumulation Index) tumbled 34.5% in the year to the end of August. This was despite a 66% rebound off 10-year lows, after having been sold off heavily on investor concerns about borrowing levels and falling asset values. The Australian listed property sector needed to raise a staggering A\$17.5 billion of new equity during the year to strengthen balance sheets and create funding flexibility. Banks had the upper hand for most of the year and property vehicles raised equity, cut dividend payout levels and sold assets in order to reduce borrowing.

International listed property markets were also very weak, falling -26.2% (UBS Investors Index – local currency). The weakest markets globally were the US and Canada (down -32.8%), followed by the UK (-32.2%). Continental Europe (-10.9%), Japan (-16.4%) and Singapore (-11.9%) performed better but still underperformed the NZ market.

Fund review

While it was disappointing to end the year down nearly 10%, it was encouraging to see the Fund recover most of the losses incurred in the first half of the year when stock markets around the world went into freefall. Globally, listed property was one of the sectors most directly affected by the global financial crisis. However, it also experienced a very strong recovery as the financial system stabilised and investors recognised the underlying value of assets in the sector, the resilience of the cash flows and the attractive dividend yields relative to alternatives.

The largest negative influence on performance again was the Australian listed property sector, which fell sharply ahead of the significant amount of new equity that had to be raised at discounted levels. While the sector recovered 66% off its March lows, at one point during the year the sector was down a staggering 75% from the highs reached in 2007.

During the second half of the year, the Manager reduced Australia's under-weight position in the Fund following its recapitalisation. However, Australia's poor performance, along with the weak performance from other International markets accounted for a significant portion of the Fund's negative return for the year.

One of the best performing investments, accounting for nearly 30% of the entire Fund value, was the ING Property Trust (ING) holding. ING gained 17.0% during the period as the market gained confidence following the trust's success in selling assets to reduce gearing.

Outlook

Although the remainder of 2009 is likely to be challenging for global growth, we expect to see a gradual recovery in 2010. Already there are signs that some economies are moving out of recession due to the large monetary and fiscal stimulus provided by central banks and governments.

Globally, the listed property sector has rebounded strongly as fears over the relatively high levels of debt within the sector have abated. Investor attention is now focussed back on the underlying fundamentals of the sector and the impact of the current economic conditions. In some markets, rental levels are likely to soften, although the impact on listed property securities will be limited due to the nature of the leases which often include clauses limiting the downside in rents. By retaining a bias towards quality, well-located properties, the sector should be able to deliver relatively stable returns. In New Zealand, the weak economic environment is likely to limit rental growth, although we do not expect occupancy levels to deteriorate significantly from current levels due to the lack of significant new supply.

Investors have increased confidence that the listed property trusts should be able to manage their way through this difficult period. With the current low interest rates, domestic investors are again starting to focus on the sector's attractive tax free portfolio investment entity (PIE) yields.

We continue to have a positive view of the New Zealand listed property sector, which represents nearly 50% of the Fund's investments. The MFL portfolio predominantly comprises high-quality companies, which are well positioned to weather this storm and to capitalise on opportunities that may arise.

Audit Report



To the members of the MFL Mutual Fund

We have audited the summary financial statements of the MFL Mutual Fund (the "Fund") for the year ended 31 August 2009 as set out on pages 6 to 7.

Responsibilities of the Trustee, Manager and Auditor

The Trustee and Manager are responsible for the preparation of summary financial statements in accordance with generally accepted accounting practice in New Zealand. It is our responsibility to express to you an independent opinion on the financial statements presented by the Trustee and Manager.

Basis of opinion

Our audit was conducted in accordance with New Zealand Auditing Standards and involved carrying out procedures to ensure the summary financial statements are consistent with the full financial statements on which the summary financial statements are based. We also evaluated the overall adequacy of the presentation of information in the summary financial statements against the requirements of FRS-43 *Summary Financial Statements*.

Partners and employees of our firm may deal with the Fund on normal terms within the ordinary course of the business of the Fund. This has not impaired our independence as auditor of the Fund. The firm has no other relationship with, or interest in, the Fund.

Unqualified opinion

In our opinion:

- the summary financial statements have been correctly extracted from the full financial statements; and
- the information reported in the summary financial statements complies with FRS-43 *Summary Financial Statements* and is consistent in all material respects with the full financial statements from which it is derived and upon which we expressed an unqualified audit opinion in our report to members dated 27 November 2009.

We completed our work for the purposes of this report on 27 November 2009.

A handwritten signature of the KPMG firm, written in black ink on a light-colored background.

Auckland

Summary Financial Statements

Summary Income Statement for the year ended 31 August 2009	2009 \$000	2008 \$000
Net investment loss	(52,053)	(175,891)
Operating expenses	(5,852)	(10,007)
Net loss before taxation	(57,905)	(185,898)
Taxation credit	–	978
Net loss	(57,905)	(184,920)
Loss for the year attributable to:		
Members' funds	(57,751)	(184,761)
Minority interests	(154)	(159)
	(57,905)	(184,920)

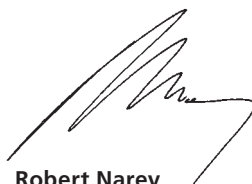
Summary Statement of Changes in Equity for the year ended 31 August 2009	2009 \$000	2008 \$000
Net loss	(57,905)	(184,920)
Members' contributions	28,583	23,896
Members' benefits paid	(56,395)	(104,937)
Net membership activities	(27,812)	(81,041)
Benefits accrued to members' accounts	(85,717)	(265,961)
Members' funds at the beginning of the year	458,219	724,180
Members' funds at the end of the year	372,502	458,219
Attributable to:		
Members' funds	358,966	454,123
Minority interests	13,536	4,096
	372,502	458,219

Summary Balance Sheet as at 31 August 2009	2009 \$000	2008 \$000
Assets		
Cash and cash equivalents	3,393	7,194
Investment assets	383,195	480,867
Other assets	2,248	4,800
Total assets	388,836	492,861
Total liabilities	16,334	34,642
Net assets attributable to members	372,502	458,219
Attributable to:		
Members' funds	358,966	454,123
Minority interests	13,536	4,096
	372,502	458,219

On behalf of MFL Mutual Fund Limited, the Trustee, who authorised the issue of these summary financial statements on 27 November 2009.



The Hon Philip Burdon
Director (Chairman)



Robert Narev
Director

Summary Statement of Cash Flows for the year ended 31 August 2009

	2009 \$000	2008 \$000
Net cash flows from operating activities	24,011	76,434
Net cash flows from financing activities	(27,812)	(81,041)
Net decrease in cash and cash equivalents	(3,801)	(4,607)
Cash and cash equivalents at the beginning of the year	7,194	11,801
Cash and cash equivalents at the end of the year	3,393	7,194

Notes to the Summary Financial Statements for the year ended 31 August 2009

The information contained in the summary financial statements on pages 6 to 7 of this Annual Report has been extracted from the MFL Mutual Fund (the "Fund") full financial statements for the year ended 31 August 2009. The Fund is registered under the Superannuation Schemes Act 1989 under the registration number AS/2282.

The information has been prepared in accordance with FRS-43 *Summary Financial Statements*. They comprise the summary consolidated results and position of the following funds:

- MFL Property Fund
- MFL Wholesale International Property Securities Fund

The MFL Property Fund owns a controlling interest in MFL Wholesale International Property Securities Fund. The interest of minority members is disclosed in the equity section of the Balance Sheet.

The summary financial statements are presented for the financial year to 31 August 2009, with comparative figures presented for the financial year from 1 September 2007 to 31 August 2008. The presentational currency for the summary financial statements is New Zealand dollars, and has been rounded to thousands of dollars (\$000).

The full financial statements for the year ended 31 August 2009 were authorised for issue on 27 November 2009 and an unqualified audit report was issued at this date.

Because of their summary nature, these financial statements cannot provide a full understanding of the Income Statement, Statement in Changes in Equity, Balance Sheet and Statement of Cash Flows. This understanding can only be obtained by reference to the full financial statements of the Funds.

The full financial statements have been prepared by the Manager in accordance with the Trust Deed, the Financial Reporting Act 1993, the Superannuation Schemes Act 1989 and New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for profit-oriented entities. The financial statements also comply with International Financial Reporting Standards ("IFRS").

A copy of the Fund's full financial statements and the audit report can be obtained at no cost by contacting ING (NZ) Limited on 09 356 4000 or 0800 737 575.

Statutory Information

Trustee's Declaration

In accordance with the reporting provisions of the Superannuation Schemes Act 1989, the Trustee of MFL Mutual Fund, Trustee's Declaration MFL Mutual Fund Limited declares the following with respect to the Fund:

The Trustee certifies that:

- All contributions required to be made to the Fund in accordance with the terms of the trust deed have been made.
- All benefits required to be paid from the Fund have been paid in accordance with the terms of the trust deed.
- The market value of assets of the Fund at the close of the financial year is equal to the total value of value of benefits that would have been payable had all members of the Fund ceased to be members at that date.
- The most recent prospectus of the Fund was registered with the Companies Office on the 29 May 2009.



The Hon Philip Burdon
Chairman
MFL Mutual Fund Limited
27 November 2009



Robert Narev
Director
MFL Mutual Fund Limited
27 November 2009

Statement of Numerical Changes in Membership

The membership movements for the year ended 31 August 2009 are below.

	Number of Members	\$000
Members at 1 September 2008	29,943	
New members	20	
Full withdrawals		
– Withdrawal	(213)	(2,462)
– Retirement	(1,461)	(29,409)
– Transfers to other schemes	(1)	(12,057)
– Death	(161)	(3,228)
Total full withdrawals	(1,836)	(47,156)
Members at 31 August 2009	28,127	

Directory

Trustee

MFL Mutual Fund Limited

Level 27, ASB Bank Centre
135 Albert Street
PO Box 7149, Wellesley Street
Auckland 1141

Board of Directors

The Hon Philip Burdon (Chairman)
The Rt Hon Sir William Birch
Paul Fyfe
Robert Narev
Dr Donald Stammer
Glennis Webber
Lenise Webster
Paul Butler (alternate for Lenise Webster)
David Atkins (alternate for Dr Donald Stammer)

Secretary

Helen Troup

Correspondence

Requests from members for additional information from the Trustee should be directed to:

The Secretary

MFL Mutual Fund Limited

Level 27, ASB Bank Centre
135 Albert Street
PO Box 7149, Wellesley Street
Auckland 1141

Administration Manager & Investment Manager

ING (NZ) Limited

Level 27, ASB Bank Centre
135 Albert Street
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PO Box 7149, Wellesley Street
Auckland 1141

Tel: 09 356 4000 or
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Auditor

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Bell Gully

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