



KordaMentha

INDEPENDENT ADVISER'S REPORT

AMP NZ OFFICE TRUST

SEPTEMBER 2010

INDEPENDENT NEW ZEALAND PRACTICE INTERNATIONALLY AFFILIATED WITH THE KORDAMENTHA GROUP

LEVEL 16 TOWER CENTRE, 45 QUEEN STREET, P.O. BOX 982, AUCKLAND 1, NEW ZEALAND

TELEPHONE: +64 9 307 7865 FACSIMILE: +64 9 377 7794

TABLE OF CONTENTS

| | |
|--|----|
| GLOSSARY | 2 |
| 1. INTRODUCTION | 3 |
| 2. EXECUTIVE SUMMARY | 5 |
| 3. NZ LISTED PROPERTY SECTOR | 8 |
| 4. OVERVIEW OF AMP NZ OFFICE TRUST | 13 |
| 5. MANAGEMENT FEE REVIEW | 18 |
| 6. CORPORATISATION PROPOSAL | 23 |
| 7. FAIRNESS OF RESOLUTION TWO (NZX REQUIREMENT) | 26 |
| 8. FAIRNESS OF RESOLUTION FOUR (NZX REQUIREMENT) | 28 |
| 9. MERITS OF RESOLUTION TEN (TAKEOVERS CODE REQUIREMENT) | 35 |
| 10. MERITS OF RESOLUTION ELEVEN (TAKEOVERS CODE REQUIREMENT) | 37 |
| 11. MERITS OF RESOLUTION TWELVE (TAKEOVERS CODE REQUIREMENT) | 39 |
| 12. MERITS OF RESOLUTION THIRTEEN (TAKEOVERS CODE REQUIREMENT) | 42 |
| APPENDIX 1: SOURCES OF INFORMATION | 44 |
| APPENDIX 2: QUALIFICATIONS & DECLARATIONS | 45 |
| APPENDIX 3: NZ LISTED PROPERTY ENTITIES | 46 |
| APPENDIX 4: RATES FOR ADDITIONAL SERVICES | 48 |

GLOSSARY

| | |
|---|--|
| AHML | AMP Haumi Management Limited |
| AMP Life | AMP Life Limited |
| AMPCI | AMP Capital Investors (New Zealand) |
| ANZO | AMP NZ Office Trust |
| ANZOL | AMP NZ Office Limited |
| Benchmark Return | In any quarter is the percentage change over the quarter of the NZX Property Index (calculated including the value of imputation credits of constituent members) excluding the Company |
| Cap | The performance fee in any quarter will be capped at 0.125% x weighted average number of shares on issue x opening VWAP x 10% |
| Company | AMP NZ Office Limited |
| Corporatisation Proposal | ANZO's proposal to change from a trust to a company |
| Employee Share Scheme Acquisitions | Acquisitions of ANZOL shares undertaken by the Company employee share scheme up to a maximum of 1% of the shares in the Company |
| Funds Management Acquisitions | Acquisitions of ANZOL shares undertaken by AMPCI-managed funds as part of its funds management activities up to a maximum of 4.9% of the Company |
| Haumi Development | Haumi Development Auckland Ltd |
| HCL | Haumi Company Limited |
| HDAL | Haumi Development Auckland Ltd |
| HNZLP | Haumi (NZ) Limited Partnership |
| LPEs | Listed Property Entities |
| Management Fee Review | ANZO's proposed changes to the management fee paid to AHML |
| Non-converting Holders | Units that will be redeemed for cash |
| NZSX | The main board of the New Zealand Stock Exchange |
| NZX | NZX Limited |
| PIE | Portfolio Investment Entity |
| Proposed Transactions | The Corporatisation Proposal and the Management Fee Review |
| REIT | Real Estate Investment Trust |
| Residual Units | As part of the Corporatisation Proposal the Manager will issue 100 units in the Trust to the Company |
| Manager | AMP Haumi Management Limited |
| Trust | AMP NZ Office Trust |
| VWAP | Volume Weighted Average Price |
| | |

1. INTRODUCTION

AMP NZ Office Trust (“ANZO” or “the Trust”) is New Zealand’s largest listed commercial office property investment vehicle. ANZO is a unit trust and is listed on the NZSX. As at 31 August 2010, ANZO had a unit price of \$0.72 and a market capitalisation of \$718 million. ANZO has more than 8,000 investors and is managed by AMP Haumi Management Limited (“AHML” or “the Manager”). ANZO operates under a Trust Deed and is supervised by a Trustee. The Trust Deed also governs the relationship between ANZO and the Manager.

In February 2010 ANZO announced its intention to change from a Trust to a company (the “Corporatisation Proposal”). The company will still be managed by AHML but will have a board of directors separate from the Manager, with a majority of independent directors elected by shareholders.

At the same time ANZO also announced proposed changes to the management fee paid to AHML (the “Management Fee Review”). Specifically ANZO is proposing to lower the current base fee and introduce an “at-risk” fee component linked to the performance of ANZO relative to other NZ listed property entities.

1.1 THE PROPOSED TRANSACTIONS

The key aspects of the Corporatisation Proposal are as follows:

- ANZO’s assets, liabilities and business will be transferred to a new company – AMP NZ Office Limited (“the Company”). Nearly all unit holders will exchange their units in the Trust for shares in the Company, whilst retaining essentially the same underlying economic interest in ANZO’s assets¹.
- The Company will be listed on the NZSX and will be subject to the provisions of the Takeovers Code.
- The Company will be managed by AHML – the current Manager of ANZO - pursuant to a Management Services Agreement incorporating a revised fee structure equivalent to that proposed in the Management Fee Review.
- The Company will be controlled by a board of directors. Any shareholder with a stake of more than 15% will be entitled to appoint one director (but will then not be entitled to vote on other director elections). The Manager will be entitled to appoint two directors. If it does so a majority of directors must be independent of the Manager, and will be elected or appointed by shareholders.

¹ Except for a small number of offshore unit holders who will be cashed out

The key aspects of the Management Fee Review are as follows:

- The current management fee of 0.65% of gross assets will be replaced by a tiered base management fee made up of (i) 0.55% of gross assets up to \$1 billion; and (ii) 0.45% of any gross assets above \$1 billion.
- A quarterly performance fee of 10% of the total shareholder return above the benchmark return (an NZX Property Index excluding ANZO), capped at 0.125% of the Company’s opening market capitalisation in the quarter.

1.2 VOTING

Unit holders will have the opportunity to vote on a number of resolutions relating to the Proposed Transactions. Unit holders will have the following options:

1. Approve neither the Corporatisation Proposal nor the Management Fee Review, in which case the status quo remains in force.
2. Approve the Management Fee Proposal but not the Corporatisation Proposal, in which case ANZO continues to operate as a trust but with the revised management fee structure in place and effectively backdated to commence from 1 July 2009.
3. Approve both the Corporatisation Proposal and the Management Fee Review, in which case ANZO converts to a company structure with the revised management fee structure in place and effectively backdated to commence from 1 July 2009.

Whilst it is technically possible for unit holders to approve the Corporatisation Proposal and reject the Management Fee Review, this outcome will still result in the revised management fee structure being implemented (but instead of being backdated it will come into force in the last quarter of 2010). Hence if unit holders do not want the revised management fee they will need to reject both proposals.

1.3 PURPOSE OF THIS REPORT

The Proposed Transactions require an independent adviser’s report under exemptions from the Takeovers Code and an appraisal report under the NZSX Listing Rules.

Management Fee Review – NZX Requirements

According to NZSX Listing Rule 9.2.1 the amendments to the Trust Deed required to implement the Management Fee Review constitute a

material transaction with the Manager, which is a related party of the Trust. The policy behind this rule is to prevent a party with influence over an issuer from exerting that influence to procure the entry by the issuer into a material transaction with a related party and thereby unfairly transferring value from the issuer to the related party. If such a transaction is proposed, the issuer is required to seek approval from shareholders.

ANZO is therefore required to seek unit holder approval for these amendments by means of an ordinary resolution at a meeting of unit holders (Resolution Two in the Notice of Meeting). Rule 9.2.5 of the NZSX Listing Rules requires the notice of meeting be accompanied by a report by an independent adviser opining on the fairness of the transaction to unit holders not associated with the Manager.

Corporatisation Proposal – NZX Requirements

Implementing the Corporatisation Proposal will require the Trust and the Company to enter into certain material transactions with related parties. These include the entry by the Company into the Management Services Agreement with AHML; the entry into the Deed of Indemnity between the Company, the Trustee and AHML; and the exchange of units in the Trust for shares in the Company.

According to NZSX Listing Rule 9.2.1 ANZO is required to seek unit holder approval for these related party transactions by means of an ordinary resolution at a meeting of unit holders (Resolution Four in the Notice of Meeting).

Rule 9.2.5 of the NZSX Listing Rules requires that the notice of meeting be accompanied by a report by an independent adviser opining on the fairness of the transaction to unit holders not associated with the related parties.

Corporatisation Proposal – Takeovers Code Requirements

Haumi (NZ) Limited Partnership (“HNZLP”) and AMP Capital Investors (New Zealand) Limited (“AMPCI”), both associated parties of the Manager, currently own or control stakes in the Trust of 19.9% and 1.35% respectively. If the Corporatisation Proposal is implemented, the Company will become subject to the Takeovers Code and acquisition of the combined stake of HNZLP and AMPCI could breach Rule 6(1) of the Takeovers Code.

Implementation of the Corporatisation Proposal will therefore require certain exemptions from the Takeovers Code. Further exemptions are required to facilitate the ability of AMPCI's funds management operations to invest in the Company, and for the Company to operate an employee share scheme (as the Trust currently does).

The Takeovers Panel has granted the required exemptions subject to a number of conditions, including unit holder approval and the provision of an independent adviser's report.

Approvals

The directors of AHML have appointed KordaMentha to prepare a report that satisfies the requirements of the NZSX Listing Rules and the Takeovers Code exemptions. Our appointment has been approved by NZX and the Takeovers Panel. We identify in this report those sections which are designed to satisfy the NZSX Listing Rules and those which fulfil the requirements of the Takeovers Code.

1.4 OTHER

This report is addressed to the independent directors of AHML. This report is for the benefit of the unit holders of ANZO not associated with AHML, AMPCI or HNZLP.

The sources of information to which we have had access and upon which we have relied, are set out in Appendix 1 of this report. This report should be read in conjunction with the statements and declarations set out in Appendix 2 regarding our independence, qualifications, general disclaimer and indemnity and the restrictions upon the use of this report. References to \$ relate to New Zealand dollars, unless specified otherwise. References to years or financial years mean the financial years ended 30 June.

1.5 NZSX LISTING RULE 1.7.2

NZSX Listing Rule 1.7.2 sets out the required contents of an appraisal report. In particular, Rule 1.7.2 specifies that the report must:

- (i) State whether or not in the opinion of the reporter the consideration and the terms and conditions of the Proposed Transactions are fair to the unit holders not associated with the related party, and the grounds for that opinion.

Our opinion is set out in Sections 7 & 8 of this report.

- (ii) State whether or not in the opinion of the reporter the information to be provided by ANZO to unit holders is sufficient to enable unit holders to understand all relevant factors, and make an informed decision, in respect of the fairness or otherwise of the Proposed Transactions.

We believe that the Information Pack together with our report contains sufficient information to enable unit holders to understand all relevant factors, and make an informed decision, in respect of the fairness or otherwise of the Proposed Transaction.

- (iii) State whether the reporter has obtained all information which the reporter believes desirable for the purposes of preparing the report.

KordaMentha certifies this in Appendix 1.

2. EXECUTIVE SUMMARY

The New Zealand listed property sector is currently undergoing significant change. DNZ Property Fund has recently internalised its external management contract, and National Property Trust has announced its intention to do the same. ANZO, following consultation with its unit holders, is proposing to revise its management fee and to change from a trust to a company, governed by a board of directors, the majority of whom will be elected by shareholders. ANZO will continue to be externally managed by AHML.

2.1 MANAGEMENT FEE REVIEW

ANZO is currently the only New Zealand listed property entity that does not include a performance component in its Manager remuneration. ANZO is proposing to lower its base management fee and implement a performance fee based upon unit holder returns.

The rationale behind the revised management fee is to provide better alignment of the interests of the Manager and those of unit holders. The performance fee is intended to reward the Manager for creating growth in unit holder wealth in excess of that of ANZO's listed property group peers.

Proposed Management Fee

The proposed management fee involves the introduction of a tiered base fee structure which will lower the base fee from the current 0.65% of gross assets per annum to:

- 0.55% of the value of investment property up to \$1.0 billion; and
- 0.45% of the value of investment property above \$1.0 billion.

Proposed Performance Fee

The proposed performance fee will be calculated as 10% of the amount by which unit holders' returns for the quarter exceed the returns of ANZO's listed property group peers. The performance fee in any one quarter will be capped at 0.125% of the opening market capitalisation of ANZO.² No performance fee will be payable if absolute unit holder return for the quarter is negative. The performance fee is measured on a cumulative rolling two year basis and any prior deficit in unit holder returns over the previous two years must be remedied before a performance fee is payable.

² Strictly speaking, the cap is set at 1.25% x weighted average shares on issue x opening VWAP x 10%

Revised Fee Structure Should Benefit Unit Holders

From a unit holder perspective, ANZO currently has one of the most onerous fee structures in the Listed Property Entity ("LPE") sector. The revised fee structure proposed under the Management Fee Review will be an improvement:

- It will better align the incentives of the Manager with those of unit holders, via the reduction in the base fee and the introduction of a performance fee linked to unit holder returns.
- It will reduce the incentives for the Manager to drive fees through asset growth.
- Historical analysis shows the revised fee structure would have resulted in slightly lower overall management fees than the status quo across the property cycle. This suggests that the future overall level of management fees could potentially be slightly lower under the proposed model (depending on ANZO's relative returns).
- If the Management Fee Review is approved the effective management fee payable to AHML for FY10 will be reduced by \$0.7 million.

ANZO's Proposed Base Fee Has Some Way to Go to Match Sector Leaders

Despite a significant reduction in the base fee structure, ANZO's proposed base fee (as a percentage of total assets) will be around 20% higher than the base fee paid by Goodman Property Trust. The cost of managing incremental assets for ANZO under the Management Fee Review is 0.45%. This compares with an incremental cost of 0.40% for Goodman Property Trust and 0.35% for Property For Industry.

However When Additional Fees Are Taken Into Account, ANZO's Proposed Management Fees Are Likely To Be Similar To Those Of Sector Leading Goodman Property Trust

In Section 5.6 we compare the proposed management fee model for ANZO with that of Goodman Property Trust, which is generally regarded by institutional investors and analysts as having the best practice fee structure in the LPE sector. This analysis suggests that had the revised fee structure been in place over the previous four years, AHML would have earned a similar amount from base and additional fees as the manager of Goodman Property Trust. This in turn suggests that the manager of Goodman recovers its lower base fees by charging higher additional fees than AHML.

ANZO's Proposed Performance Fee is Best Practice

ANZO's proposed performance fee is very similar to that of Goodman Property Trust, which is considered by a number of institutional investors to have the best practice performance fee structure in the New Zealand market. ANZO's proposed performance fee will be payable if its unit holder returns exceed those of its listed peers. We believe this structure is preferable to measuring performance relative to an arbitrary absolute return hurdle, which is common across the LPE sector.

2.2 CORPORATISATION PROPOSAL

ANZO is overseen by a trustee and is managed by AHML. The Manager's role under the trust deed is to administer and manage the assets of ANZO for the benefit of unit holders, with full and complete power of management. AHML is responsible for all the investment decisions in relation to ANZO. Unit holders currently have little ability to influence the governance or the strategy of ANZO.

Proposed Structure

Under the Corporatisation Proposal all of ANZO's assets, liabilities and business will be transferred to the new Company. Nearly all unit holders will exchange their units in the Trust for shares in the Company whilst retaining effectively the same underlying economic interest in ANZO's assets³. The Company will be listed on the NZSX and will be subject to the provisions of the Takeovers Code.

Board Composition & Powers

If the Corporatisation Proposal is approved, the Company will be controlled by a board of directors.

Any shareholder with a stake of more than 15% will be entitled to appoint one director to the board of ANZO. The Manager will be entitled to appoint two directors to the board, but if it does so independence requirements will apply to ensure a majority of directors are independent of the Manager. Shareholders will be entitled to elect these independent directors.

The board will be able to oversee the Manager's management of the Company, be entitled to direct the Manager how to act, and to set the Company's strategy. We believe this will be positive for unit holders not associated with AHML.

³ As a result of overseas securities law considerations, the Trust will not exchange units held by investors in certain offshore jurisdictions. Instead the Trust will redeem these units for cash.

Entrenchment of the Manager

Under the trust deed the Manager can be removed through an extraordinary resolution of unit holders. This requires a 75% approval threshold and the Manager and related parties are entitled to vote. This ability to remove the Manager by special resolution will not be available under the Corporatisation Proposal.

Hence under the Corporatisation Proposal it will no longer be possible for shareholders to remove the Manager without cause⁴. We note however that in practice the blocking stake held by HNZLP effectively renders it impossible for unit holders to remove the Manager under the current trust structure.

We therefore believe that this change, whilst theoretically negative, will in practice be largely neutral for unit holders not associated with AHML.

Company Can Prevent A Sale Of The Manager

Under the Corporatisation Proposal the Company will have the ability to terminate the Manager upon a change of control of the Manager. This will prevent a potential bidder who wants control of the Company simply buying the Manager without offering shareholders the ability to exit.

Manager Buyout Mechanism

If a bidder wishes to acquire the Manager it will first have to acquire at least 50% of the shares in the Company, and will then have an option to acquire the Manager at an agreed price or independent valuation. We believe this will be positive for unit holders not associated with AHML, although we would still expect the Manager to receive the majority of any control premium payable.

2.3 NZSX LISTING RULE IMPLICATIONS

The amendments to the Trust Deed required to implement the Management Fee Review constitute a material transaction with the Manager, which is a related party of the Trust. Similarly implementation of the Corporatisation Proposal will require the Trust and the Company to enter into certain material transactions with related parties.

The NZSX Listing Rules requires unit holders be provided with a report by an independent adviser opining on the fairness of these related party transactions to unit holders not associated with the related parties.

In Section 7 we conclude that the Management Fee Review, on which unit holders are being asked to vote in Resolution Two, is fair to unit holders not associated with AHML.

In Section 8 we conclude that the various related party transactions required to implement the Corporatisation Proposal are fair to non-associated unit holders.

⁴ It will remain possible for shareholders to dismiss the Manager due to unremedied material breach of the Management Services Agreement

2.4 TAKEOVERS CODE CONSIDERATIONS

HNZLP and AMPCI, both associated parties of the Manager, currently own or control stakes in the Trust of 19.9% and 1.35% respectively. If the Corporatisation Proposal is implemented, the Company will become subject to the Takeovers Code and the combined stake of HNZLP and AMPCI could breach Rule 6(1) of the Takeovers Code.

In order to facilitate implementation of the Corporatisation Proposal, the Takeovers Panel has granted an exemption to the Takeovers Code. Further exemptions have been granted to facilitate the ability of AMPCI's funds management operations to invest in the Company, to secure pre-emptive arrangements between HNZLP and AMPCI, and to enable the Company to operate an employee share scheme.

The Takeovers Panel has granted the required exemptions subject to a number of conditions, including unit holder approval (which is being sought in Resolutions Ten to Thirteen). We consider the merits of these exemptions in Sections 9 to 12. We do not however believe that any of the exemptions will significantly increase the collective ability of AMPCI and HNZLP to exert control over the Company.

We note that AHML has chosen to structure the Corporatisation Proposal so that it will only be implemented if unit holders approve each of Resolutions Ten to Thirteen. This means that the Corporatisation Proposal will only proceed if unit holders also approve (i) the ability of AMPCI's funds management operations to invest in the Company; (ii) ongoing pre-emptive arrangements between HNZLP and AMPCI; and (iii) the potential establishment of an employee share scheme.

Consequently we believe the key merit that investors will wish to consider in this regard is that the Corporatisation Proposal, which we believe will be positive for investors, will not proceed if unit holders do not approve each of Resolutions Ten to Thirteen.

2.5 CONCLUSIONS

The revised fee structure proposed under the Management Fee Review will be an improvement on the current fee structure. It will better align the incentives of the Manager with those of unit holders, via the reduction in the base fee and the introduction of a performance fee linked to unit holder returns. Furthermore it will reduce the incentives for the Manager to drive increased fees through asset growth. Nevertheless ANZO's revised base fee remains significantly higher than the market leading fee models.

We believe the Corporatisation Proposal will, on balance, also be positive for unit holders. Currently unit holders have very little ability to influence the strategy or management of ANZO. Under the Corporatisation Proposal shareholders will be able to elect /appoint a majority of directors who are independent of the Manager⁵.

The board will be able to oversee the Manager's management of the Company, to direct the Manager how to act, and to set the Company's strategy. Whilst the board's ability to implement change will be constrained by the Management Services Agreement, the proposed structure nevertheless significantly increases the ability of shareholders to influence the governance and strategy of the Company.

Whilst the changes proposed by ANZO will better align the incentives of shareholders and Manager, and will increase the ability of shareholders to influence the governance of the Company, they do not address the issue that an increasing number of investors see as a fundamental issue with the local LPE sector in general – that of external management. Many investors believe that internalising the management of the LPEs would unlock value for investors that is currently accruing to the external managers. Consequently whilst the proposed changes are a positive step for investors, they fall some way short of achieving the full alignment of incentives that would be achieved under an internally managed model.

We understand that the shareholders in AHML did not wish to consider internalisation of management as part of this review. Nor would we expect that the shareholders in AHML would consider relinquishing their management rights without receiving value. The reality for unit holders is that internalisation of management is likely to be costly, and could potentially result in a significant loss of human capital. We note however that the Company's balance sheet currently has ample capacity to contemplate an acquisition of the external management rights.

⁵ Provided of course that the Manager does not own a controlling stake in the Company

3. NZ LISTED PROPERTY SECTOR

3.1 OVERVIEW

The New Zealand listed property sector is summarised in Table 3.1. All the entities set out in the table are listed on the NZX. The key players are described in more detail in Appendix 3. The listed property sector is currently undergoing significant change, with three of the entities in Table 3.1 undertaking or recently implementing major restructuring. The recent Budget also contained considerable changes to depreciation rules, which will have a significant impact on the sector.

Table 3.1: New Zealand Listed Property Entities

| | Structure | Sector | Market Cap | Gross Assets |
|----------------------------|-----------|------------------------------|------------|--------------|
| AMP Office Trust | Trust | Commercial Office | 738 | 1,357 |
| Goodman Property Trust | Trust | Industrial Commercial | 824 | 1,474 |
| ING Medical Properties | Trust | Health | 182 | 286 |
| ING Property | Trust | Retail Industrial Commercial | 379 | 926 |
| Kiwi Income Property Trust | Trust | Retail Commercial | 943 | 1,849 |
| Kermadec | Company | Retail Industrial Commercial | 40 | 98 |
| National Property Trust | Trust | Retail Industrial Commercial | 107 | 191 |
| Property for Industry | Company | Industrial | 249 | 363 |
| DNZ Property Fund | Company | Retail Industrial Commercial | 264 | 704 |

Source: Annual and Interim Reports, NZX website, Unlisted website. Market Cap data current as at 17 Sep 2010.

Of the nine key LPEs, six are structured as trusts and three are structured as limited liability companies. However AMP Office Trust and National Property Trust are currently in the process of converting from trusts to companies.

3.2 MANAGEMENT STRUCTURES

There are two main management models for LPEs - internal management and external management. Internally managed LPEs have day-to-day responsibility for managing their own properties. Externally managed LPEs outsource the management of the portfolio and the LPE pays a management fee. Currently all the LPEs in Table 3.1 are externally managed with the exception of DNZ.

External managers generally have a significant degree of control over the LPEs. In the case of trusts, the external managers are effectively in complete control of their respective entities, with the trustee performing an oversight role and no board of directors representing unit holders.

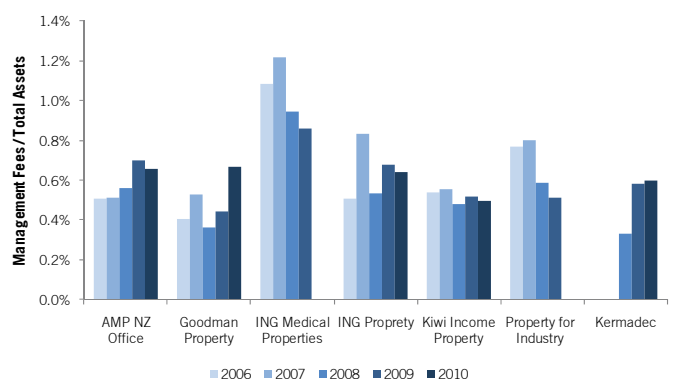
The appropriate management structures for LPEs is currently a topical subject in the New Zealand investment community. A number of commentators and investors are expressing strong preferences for internally managed property entities. DNZ has recently internalised its management and National Property Trust has announced plans to do the same. This shift towards internally managed LPEs is consistent with the same trend which has occurred in the USA and Australia over the past decade. We discuss this further in Section 3.5.

3.3 EXTERNAL MANAGEMENT FEES

The fees payable to external managers of New Zealand LPEs vary significantly. The key components of the current fee structures are set out in Table 3.2 overleaf, together with ANZO's proposed fee structure. ANZO is currently the only LPE that does not link a portion of its manager's remuneration to performance.

Figure 3.1 illustrates LPE external manager fees⁶ over the period 2006 to 2010 (as a percentage of total LPE assets). Over this period the average external management fee was 0.63% of total assets. ING Medical Properties paid the highest management fees, averaging 1.0% of total assets over the period. Goodman Property Trust paid the lowest management fees over the period, averaging 0.43% of total assets.

Figure 3.1: LPE Management Fees as a % of Total Assets



Source: Annual Reports.

⁶ Base and performance fees only

Table 3.2: Management Fee Structures for Externally Managed LPEs

| | ANZO Current | ANZO Proposed | Goodman Property Trust | ING Medical Properties Trust | ING Property Trust | Kiwi Income Property Trust | Property for Industry | Kermadec |
|--|-----------------------|--|---|---|---|---|---|---|
| Base Fee | | | | | | | | |
| Rate | 0.65% | 0.55% up to \$1,000m 0.45% thereafter | 0.5% up to \$500m, 0.4% thereafter | 0.75% | 0.60% | 0.55% | 0.7% up to \$175M, 0.35% thereafter | 0.55% |
| Based on | Investment Properties | Investment Properties | Average Total Assets, less cash & debtors | Average Total Assets | Average Total Assets | Average Total Assets | Average Total Assets | Total Assets (Pro-rata) |
| Performance Fee | | | | | | | | |
| Amount | No performance fee | 10% of shareholder holder return over threshold. Return must be positive | 10% of unit holder return over threshold. Return must be positive | 10% of average annual increase in TA over prior 3 years, excluding new equity | 10% of unit holder return over threshold. | 10% of unit holder return over threshold. | 10% of shareholder return over threshold. | 10% of shareholder return over threshold. |
| Threshold | | Quarterly gross return from XNZPTY (excl ANZO) | 5 year average gross return from XNZPTY (Excl GMT) | N/A | TSR of 10% | TSR of 10% | TSR of 10% | TSR of 10% |
| Capped at | | 5% of annualised outperformance | 5% of annualised outperformance | 1% of TA | 5% of annualised outperformance | 0.15% of TA | 5% of annualised outperformance | 5% of annualised outperformance |
| Carried forward | | Max 2 years | Yes | Yes | Max 2 years | Max 2 years | Max 2 years | Max 3 years |
| Paid As | | Cash | Units | Units | Cash | Units | Cash | Cash or shares if elected |
| Price used for calculation | | 5 day VWAP | 5 day VWAP | N/A | 7 day VWAP | 5 day VWAP | 5 day VWAP | 5 day VWAP |
| Additional Fees | | | | | | | | |
| Additional Fees as % of Base + Performance Fee (Avg FY08-10) | 28% | 28% | 92% | 18% | 32% | 114% | 0% | 39% |

Source: Annual Reports, Trust Deeds, Macquarie Research

Base Fees

Annual base management fees for the LPEs range from 0.50% to 0.75% of average total assets. Goodman Property Trust and Property for Industry lead the market with stepped base fees that reduce to 0.4% and 0.35% after the first \$500 million and \$175 million of assets respectively.

The criticisms levied against high base fees include (i) high base fees simply incentivise the manager to grow the asset base, with no regard for asset quality or shareholder returns; and (ii) high base fees do not provide investors with operational leverage (i.e. all the benefits of growth accrue to the manager rather than to share holders).

ANZO's Management Fee Review proposes a reduction in the base management fee from 0.65% to 0.55% on the first \$1 billion of assets, with 0.45% payable on all assets above \$1 billion. ANZO's revised base fee will be lower than all the LPEs except Goodman Property Trust and Property for Industry.

Performance Fees

Over time most of the LPEs have amended their manager fee structures to move toward performance based remuneration. The key components of manager performance fees include: (i) benchmark; (ii) manager share; (iii) performance cap; and (iv) carry forward.

Benchmark

Performance can be benchmarked on a relative or absolute basis. The managers of ING Property Trust, Kiwi Income Property Trust and Property for Industry earn a performance fee of 10% of any Total Shareholder Return above 10%. Goodman Property Trust's performance is benchmarked relative to the NZX Property Index (excluding Goodman). ANZO is also proposing to link its performance fee to the NZX Property Index (excluding ANZO).

Manager Share

ING Medical Property Trust pays a performance fee of 10% of the average increase in total assets over the prior three years. All the other LPEs pay the manager a performance fee of 10% of any return above the benchmark.

Cap

Kiwi Income Property Trust has a performance fee cap of 0.15% of total assets and ING Medical Properties caps its total fee at 1.75% of total assets. The majority of the LPEs cap their performance fees at 5% of annualised outperformance. ANZO is proposing a cap of 1.25% on quarterly outperformance⁷, which is equivalent to a 5% cap on annualised outperformance.

Carry Forward

Goodman Property Trust and ING Medical Properties Trust require that out or under performance be carried forward indefinitely. Hence if one of these vehicles has a very bad year, the manager may have to spend several years clawing back the underperformance before qualifying again for a performance fee. The other LPEs enable out or under performance to be carried forward for a period of two years only.

Theoretically an indefinite carry forward should incentivise the manager to focus on long term performance. However it can also be argued that in the event of significant one-off underperformance, an indefinite carry forward can reduce the effectiveness of the performance fee structure by rendering a performance fee unobtainable, and possibly incentivising the manager to pursue asset growth to maximise base fee revenue.

Goodman Performance Fee Model Represents Best Practice

The Goodman Property Trust performance fee, which is contingent on outperforming a peer group index, is considered by a number of institutional investors to be the best practice performance fee model in the LPE sector. ANZO’s proposed performance fee is very similar to that of Goodman. The key difference is ANZO has a two year carry forward whilst the Goodman Property Trust has an indefinite carry forward.

Additional Fees

In addition to base and performance fees, the external managers of New Zealand LPEs are also entitled to receive additional fees for a range of services – typically property management and development management services, but also for acquisition, sales and leasing commissions. These fees, which can make up a significant proportion of manager remuneration, are generally not well-disclosed, either in terms of services provided or unit costs. This is an area of concern for a number of investors who believe that the managers are already remunerated for these services through the base and performance fees.

As shown in Table 3.2, the managers of Goodman Property Trust and Kiwi Income Property Trust generate a significant proportion of their total fee income from additional fees. Table 3.3 sets out the average additional fees charged by the managers of these LPEs over the past three years compared to the average additional fees charged by AHML.

Table 3.3: Additional Fees Charged by Selected LPE Managers (Average over FY08 – FY10)

| (\$m) | Goodman Property Trust | Kiwi Income Property Trust | ANZO |
|------------------------------|------------------------|----------------------------|------------|
| Gross Property Management | 4.4 | 11.3 | |
| Oncharged to Tenants (1) | not disclosed | (4.6) | |
| Net Property Management | not disclosed | 6.7 | |
| Development Management | 2.2 | 0.0 | 0.4 |
| Leasing Fees | | | 1.8 |
| Acquisition/Divestment Fees | | | 0.3 |
| Total Additional Fees | 6.6 | 11.3 | 2.4 |

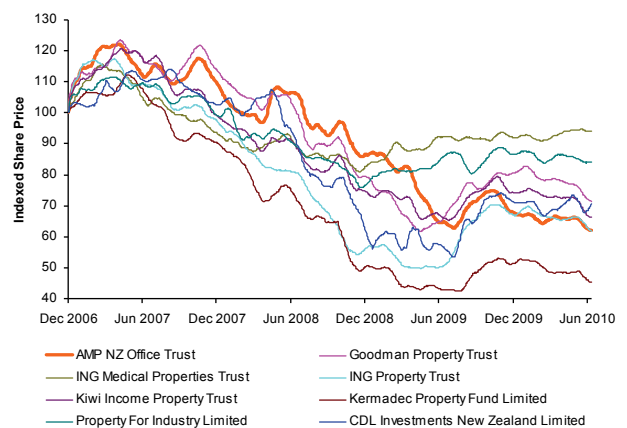
(1) The Goodman Property Trust Annual Report notes that a “significant portion” of these fees are recovered from tenants.

It is very difficult to compare the level of additional fee income generated by various LPE managers due to the range of fee structures and services provided. It is for example not appropriate to compare the total quantum of additional fees charged using Table 3.3 because the managers of Goodman Property Trust and Kiwi Income Property Trust provide property management services whilst the manager of ANZO does not.

3.4 RELATIVE PERFORMANCE

Figure 3.2 and Table 3.5 compare the performance of the New Zealand listed property sector over the past five years. The entire sector has declined significantly since peaking around June 2007. ANZO outperformed its peers through to around December 2008, however since this time its performance has suffered. Over the three and a half year period shown in Figure 3.2, ANZO was outperformed by all LPEs except Kermadec.

Figure 3.2: LPE Relative Performance



⁷ The extent to which ANZO’s shareholder return exceeds the Benchmark

Table 3.4 compares the total shareholder return generated by each LPE over the last four years. The table shows that ING Medical Properties was the best performer over this period, followed by Property For Industry. ANZO significantly outperformed its peers in 2006 but significantly underperformed in 2009.

Table 3.4: LPE Total Shareholder Return (calendar year)

| | 2006 | 2007 | 2008 | 2009 | Total |
|-----------------------|------------|-------------|--------------|------------|-------------|
| AMP NZ Office Trust | 42% | (3%) | (8%) | (17%) | 10% |
| Goodman | 23% | 8% | (28%) | 23% | 17% |
| ING Medical | 30% | (12%) | 1% | 18% | 33% |
| ING Property | 15% | (11%) | (28%) | 36% | (2%) |
| Kiwi Income | 29% | (7%) | (18%) | 12% | 11% |
| Property for Industry | 30% | 6% | (18%) | 16% | 31% |
| Average | 28% | (3%) | (16%) | 15% | 17% |

Source: Reuters Knowledge, Annual Reports, Company/Trust Announcements

3.5 THE EXTERNAL MANAGER DEBATE

The appropriate management structures for LPEs is currently a topical subject in the New Zealand investment community, with DNZ recently completing the internalisation of its management function and National Property Trust announcing plans to do the same.

This shift towards internally managed LPEs in New Zealand mirrors the same trend which has occurred in the USA and Australia over the past decade. The majority of LPEs in these markets are internally managed (although external management remains popular for unlisted property entities).

Benefits of External Management

Moody's Investors Services⁸ has suggested the potential benefits of external management include:

- An external manager may have larger scale than the individual LPE, so it can provide services at a more economical cost than managing the LPE internally.
- With regards to management succession, externally managed LPEs have a broader set of employees from which to select senior executives, thereby broadening the skills and experiences available to the LPE.
- When external manager service agreements are specific and outline strict performance criteria, boards of LPEs are better placed to oversee the manager's performance.

Criticisms of the Externally Managed Model

There are a number of criticisms of the external management model, including the following:

- External managers tend to be compensated based on metrics other than shareholder wealth. Fees based on a percentage of assets are common. These create the potential for conflict of interest in which decisions that maximize income of the manager negatively impact the profitability and value of the LPE.
- Fees paid to external managers are often greater than the expenses of handling property management internally.
- Management contracts tend to entrench external managers to a significant degree. It can be very difficult for investors to remove the manager, even in the case of significant underperformance.
- Externally managed LPEs do not have their own staff. This creates a significant disincentive to change the manager, as this would result in an instantaneous loss of all key management.

Is There Any Evidence to Suggest Internally Managed LPEs Outperform?

There have been a number of studies undertaken, primarily in the USA, comparing the performance of externally and internally managed REITs ("Real Estate Investment Trusts").

A number of studies found evidence that internally managed vehicles outperformed externally managed vehicles in the 70s, 80s and early 90s. Howe and Shilling (1990) showed that, during the 1973 to 1987 period, the performance of externally advised REITs was worse than the overall stock market after adjusting for risk. Cannon and Vogt (1995) found that internally advised REITs outperformed externally advised REITs between 1987 and 1992. Capozza and Seguin (2000) reach a similar conclusion using results from 1985-1992.

More recently however Brockman, French and Tamm have analysed the performance of externally and internally managed REITs over the period 1985 to 2007. They concluded that the underperformance identified by previous studies for the period 1985 to 1992 does not persist in 1993 and later years. They hypothesize that subsequent to the documentation of the underperformance of externally advised REITs, institutional investors have acted in ways that mitigated this underperformance.

⁸ "Corporate Governance of Externally Managed REITs Presents Credit Risks", Moody's Investors Service, November 2007

Changes to the Externally Managed Model

Perhaps the major criticism of externally managed LPEs relates to the fact that the incentives of the manager and investors are often not well aligned. In an attempt to address this issue the New Zealand LPE sector has been moving to introduce a performance fee component to manager remuneration, in order to increase the alignment between investors and managers. ANZO is the last New Zealand LPE to introduce a performance fee component to its manager remuneration.

4. OVERVIEW OF AMP NZ OFFICE TRUST

4.1 HISTORY

ANZO is New Zealand's largest listed office property investment vehicle with a portfolio of 15 buildings in Auckland and Wellington. The property portfolio is currently valued at over \$1.3 billion.

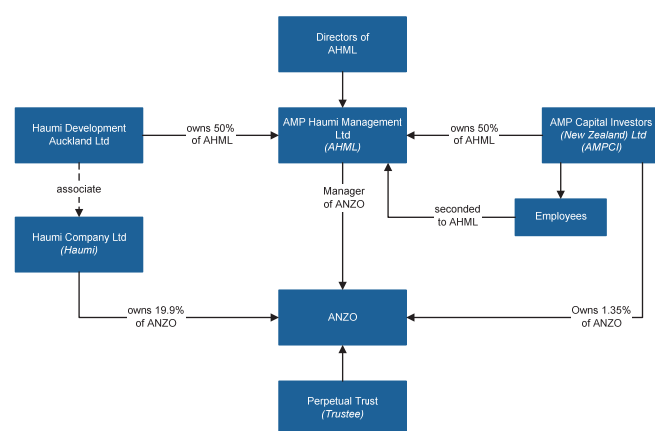
ANZO is a unit trust that was listed on the New Zealand stock exchange in 1997. ANZO has more than 8,000 investors and is currently managed by AHML, which has been the manager of ANZO since 2004.

ANZO received rental income of \$138 million in FY10, an increase of 3.3% over the FY09 result. Distributable profit was \$60.7 million, equivalent to a distribution of 6.1 cents per unit.

4.2 STRUCTURE

ANZO is structured as a unit trust. ANZO is overseen by a trustee and managed by AHML. The operations of the unit trust and the powers and functions of the trustee and manager are governed by the trust deed. There is currently no separate Management Services Agreement between ANZO and AHML. The current structure of the Trust is shown in Figure 4.1.

Figure 4.1: ANZO Company Structure



AHML is 50/50 owned by AMPCI and Haumi Development Auckland Ltd ("Haumi Development"). Haumi Company Limited ("HCL"), in its capacity as the general partner of HNZLP, is the largest unit holder in ANZO with a 19.9% unit holding, and an associated company of Haumi Development. AMPCI's funds management operations currently control a stake in the Trust of approximately 1.35%.

4.3 SUMMARY OF TRUST DEED

ANZO is constituted by a trust deed dated 13 November 1997 between the Manager and the Trustee, Perpetual Trust. The trust deed governs the powers and functions of the manager, trustee and the operations of the unit trust.

Trustee Role and Powers

The Trustee covenants to use all reasonable endeavours to keep ANZO's assets safe and hold them as trustee for the benefit of unit holders as per the terms outlined in the trust deed.

Trustee functions under the trust deed include the following:

- to hold ANZO's assets on behalf of unit holders;
- to monitor the manager's compliance with the requirements of the trust deed and, if it considers it necessary, have the Manager removed;
- to borrow or raise money for the purposes of ANZO up to 50% of the value of the assets of ANZO;
- to settle and complete transactions in respect of ANZO;
- to bring legal proceedings on behalf of ANZO; and
- to waive any breach or default by the Manager under the trust deed, provided it is satisfied that the interests of unit holders will not be materially prejudiced as a result.

The Trustee can also be removed from office by the High Court on application by the Manager or the Minister responsible for the Unit Trusts Act 1960. The power to appoint a new Trustee is vested in the Manager, subject to the approval of an Extraordinary Resolution of unit holders.

Manager Role and Functions

The trust deed requires the Manager to administer and manage ANZO for the benefit of unit holders generally, with full and complete power of management. The Manager's role as set out in the trust deed includes the following key functions:

- make all investment decisions in relation to the Trust;
- manage the assets of the Trust on a day to day basis;
- acquire and sell assets in accordance with the investment policies determined under the trust deed;

- borrow money as required in accordance with the terms and conditions of the trust deed;
- use reasonable endeavours to ensure ANZO operates in a proper and efficient manner;
- pay all trust money it receives into ANZO's bank account;
- make available to the trustee any books, records and information that the Trustee reasonably requires;
- convene unit holder meetings when required by the Trustee or when requisitioned by 10% in value or by number of units;
- not commit ANZO to any transaction involving, or valued at, more than 5% of ANZO's assets without the Trustee's written approval; and
- provide the Trustee with any reports, records and certificates that are agreed upon in writing between the Trustee and the Manager.

The Manager will cease to hold office if:

- it retires; or
- removed from office by the High Court on the application of the Trustee, unit holder or the Minister responsible for the Unit Trusts Act 1960; or
- a liquidator or receiver is appointed; or
- voted out at a meeting of unit holders. At least 75% of the units voted must be in favour of removal of the Manager, and the units voted in favour must represent at least 25% of the total units of issue; or
- the Manager commits a material breach of the Trust which is, or is likely to, prejudice unit holders and in the Trustee's opinion has not been rectified or otherwise addressed satisfactorily within 30 business days of the Trustee giving notice to the Manager.

Unit Holders Restrictions and Powers

Under the trust deed unit holders are not able to interfere with or challenge the Trustee or Manager in their dealings with the Trust or assets of the Trust (unless there is a breach of duty). Neither are unit holders entitled generally to vote or attend meetings that concern any action for any property or company in which the Trust holds an interest, purely by virtue of their unit holdings.

The Manager must however convene a meeting of unit holders (i) if requested to do so by the Trustee; or (ii) if directed to do so by either 10% of unit holders or unit holders holding 10% of the units. At the meeting unit holders have limited powers but can, by extraordinary resolution, do the following:

- sanction alterations to the trust deed or the rights of unit holders;
- sanction any breach or default by the Manager or Trustee;
- remove the auditor; and
- remove the Manager (as outlined above).

In addition the NZSX Listing Rules (incorporated by reference into the trust deed) give unit holders the right to approve (or otherwise) various Proposed Transactions such as material related party transactions and certain equity issues, in much the same way as for listed companies generally.

4.4 MANAGER

The current manager of ANZO is AHML. AHML's functions and responsibilities are set out in the trust deed. Essentially AHML is responsible for all the investment decisions in relation to ANZO, and for the management of its property portfolio.

AHML does not employ any of its own staff. Instead AHML has seconded seven employees from AMPCI who work full time on behalf of ANZO. The seven roles comprise a CEO, CFO, portfolio manager, two asset managers, a national investment manager and an accountant. AHML outsources some functions, such as facilities management, to external providers.

Management Fee

AHML is paid an annual management fee by ANZO of 0.65% + GST of the value of ANZO's investment property assets. The fee is paid quarterly in arrears.

Additional Fees

AHML is also entitled under the trust deed to receive a range of additional fees for services required to manage ANZO and its assets. These include:

- costs relating to acquisition, development, registration, custody, ownership, leasing, tenancies, disposal of or dealing with an asset of the Trust;
- reasonable costs of an auditor or any other professional advisor;
- reasonable property development fees and expenses; and
- reasonable acquisition, sales and leasing commissions.

Fee Review

The Manager's fee is reviewed by the Trustee and the Manager every two years to assess the market rate for services undertaken by AHML. If the Trustee and the Manager cannot agree to a change in the fee then the Manager's fee shall be fixed by arbitration.

Financial Performance of AHML

The financial performance of AHML over the past four years is summarised in Table 4.1.

Table 4.1: AHML Financial Performance

| (\$m) | FY06 | FY07 | FY08 | FY09 |
|----------------------|------------|------------|-------------|-------------|
| Base Management Fees | 5.2 | 7.3 | 9.2 | 9.8 |
| Additional Fees | 1.5 | 1.8 | 2.2 | 1.8 |
| Total Revenue | 6.8 | 9.1 | 11.4 | 11.7 |
| EBIT | 4.8 | 5.5 | 8.8 | 8.8 |
| NPBT | 3.2 | 5.2 | 7.2 | 7.4 |
| NPAT | 2.1 | 3.5 | 4.8 | 5.2 |

Source: Companies Office

In FY09, AHML received \$9.8 million in management fees and \$1.8 million in additional fees. The additional fees included \$1.2 million for the negotiating of leases and \$675k in development manager fees. No acquisition or divestment fees were paid in FY09.

4.5 PROPERTY PORTFOLIO

ANZO currently has a property portfolio of 15 buildings in Auckland and Wellington. Portfolio occupancy was 90.4% at 30 June 2010 with a weighted average lease term of 4.5 years. The property portfolio is summarised in Table 4.2.

ANZO's properties were revalued as at 30 June 2010. Total property portfolio value at 30 June 2010 was \$1,277 million, compared to \$1,394 million at 30 June 2009, a decrease in value of \$117 million or (8.4%).

21 Queen Street was completed in September 2009. This development has suffered from low occupancy, currently at 10.8%, as it came to the market during the height of the global recession at a time when the number of new tenants wanting new premises was low.

Table 4.2: ANZO Property Portfolio as at 30 June 2010

| | Market Value (\$ million) | Occupancy (%) | Weighted Average Lease Term (years) | Market Yield (%) | Total Net Lettable Area (sqm) |
|---|---------------------------|---------------|-------------------------------------|------------------|-------------------------------|
| Auckland | | | | | |
| PWC Tower | 212 | 93.8 | 3.4 | 7.8 | 31,311 |
| ANZ Centre | 170 | 95.9 | 3.3 | 8.3 | 32,793 |
| 151 Queen Street | 67 | 61.4 | 2.7 | 8.9 | 17,651 |
| AMP Centre | 91 | 95.7 | 5.1 | 8.5 | 25,136 |
| 21 Queen Street | 65 | 10.8 | 7.3 | 8.1 | 14,422 |
| Wellington | | | | | |
| HP Tower | 69 | 100 | 4.3 | 8.0 | 11,293 |
| 125 The Terrace | 62 | 100 | 2.4 | 8.3 | 12,021 |
| State Insurance | 121 | 98.5 | 3.9 | 8.0 | 26,800 |
| Vodafone on Quay | 97 | 97.1 | 3.4 | 7.8 | 16,751 |
| Pastoral House | 61 | 100 | 5.8 | 8.3 | 15,564 |
| No.1 The Terrace | 86 | 100 | 7.0 | 7.8 | 18,852 |
| Mayfair House | 35 | 100 | 5.2 | 8.8 | 11,688 |
| AXA Centre | 34 | 97.2 | 2.6 | 9.3 | 10,566 |
| Deloitte House | 51 | 98.0 | 4.0 | 8.3 | 12,977 |
| 3 The Terrace (1) | 10 | n/a | 48.2 | n/a | n/a |
| 29 Willis Street | 48 | 99.4 | 9.4 | 7.9 | 8,439 |
| Portfolio Total / Weighted Average | 1,277 | 90.4 | 4.5 (3) | 8.14 (2) | 266,264 |

(1) No 3 The Terrace relates to the freehold title in respect of ANZO's leasehold interest

(2) Weighted by market value

(3) Weighted by income

4.6 FINANCIAL PERFORMANCE

The financial performance of ANZO from 1 July 2006 to 30 June 2010 is summarised in Table 4.3.

Table 4.3: ANZO Financial Performance

| (\$m) | FY07 | FY08 | FY09 | FY10 |
|-----------------------------|--------------|--------------|----------------|----------------|
| Revenue | 107.7 | 120.7 | 133.7 | 138.1 |
| Operating Profit | 79.7 | 88.7 | 100.0 | 100.8 |
| Interest | (30.1) | (20.9) | (26.0) | (21.1) |
| Management Fees | (7.3) | (9.2) | (9.8) | (8.5) |
| Other Indirect expenses | (1.3) | (1.2) | (1.1) | (1.1) |
| Operating Profit before Tax | 41.0 | 57.4 | 63.1 | 70.1 |
| Property Revaluations | 250 | 113 | (248) | (115.3) |
| NPBT | 301.3 | 162.9 | (249.2) | (49.8) |
| NPAT | 225.7 | 118.9 | (192.8) | (152.1) |
| Distributable Profit | 41.0 | 52.2 | 59.2 | 60.7 |

For the year ended 30 June 2010:

- ANZO experienced a solid trading result with rent revenue at \$137.9 million, an increase of 3.3% over FY09.
- Management fees were lower on the back of reduced property values, and the management fee for 21 Queen Street was reduced by 50%.
- ANZO experienced a net loss after tax of \$152.1 million, including a revaluation loss of \$115.3 million.

For the year ended 30 June 2009:

- ANZO received rent income of \$133.4 million, an increase of 10.9% over FY08.
- Interest expense was higher due to higher prevailing interest rates. Management fees were \$9.8 million (6.5% higher than FY08). All other expenses were in line with previous periods after the consideration of inflationary pressures.
- Two portfolio revaluations resulted in an unrealised loss of \$248.3 million. This resulted in a net loss of \$192.8 million.

4.7 FINANCIAL POSITION

The financial position of ANZO over the period 30 June 2007 to 30 June 2010 is summarised in Table 4.4.

Table 4.4: ANZO Financial Position

| (\$m) | FY07 | FY08 | FY09 | FY10 |
|------------------------------|----------------|----------------|----------------|----------------|
| Cash | 1.4 | 0.5 | 1.5 | 2.7 |
| Other | 17.3 | 3.0 | 6.3 | 6.9 |
| Current Assets | 18.7 | 3.5 | 7.8 | 9.6 |
| Properties | 1,373.1 | 1,628.2 | 1,392.3 | 1,276.8 |
| Other | 37.2 | 7.9 | 8.3 | 13.0 |
| Total Assets | 1,429.0 | 1,639.6 | 1,408.4 | 1,299.3 |
| Current Liabilities | 11.8 | 13.9 | 8.2 | 13.4 |
| Term debt | 301.5 | 404.0 | 266.0 | 262.0 |
| Deferred tax | 161.0 | 198.0 | 142.3 | 236.9 |
| Other | | | 14.6 | 20.0 |
| Total Liabilities | 474.3 | 615.9 | 431.0 | 532.3 |
| Equity | 954.7 | 1,023.7 | 977.4 | 767.1 |
| Adjusted NTA per unit | 1.49 | 1.63 | 1.02 | 0.92 |

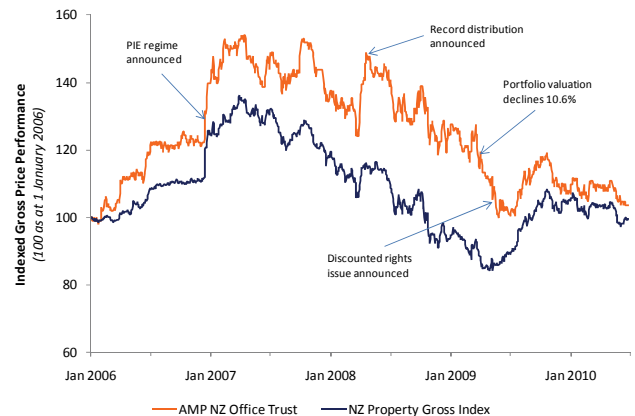
Key points to note include:

- As at 30 June 2009 ANZO's total assets were \$1,408 million, down 14.1% on the previous year driven primarily by portfolio revaluations. ANZO's ratio of debt to total assets as at 30 June 2009 was 20.5%, well below covenant threshold of 40%. Total debt was below historical levels as ANZO raised \$201.3 million through a discounted rights issue during FY09.
- Trading for FY10 saw a continuation of the trends evidenced in FY09 financial statements. Total assets declined by a 7.7% relative to 30 June 2009.
- As at 30 June 2010 ANZO remains lowly geared with total debt of \$262 million, and debt to total assets of 20.2%.
- Adjusted NTA per unit (after reversing deferred tax on revaluation gains, which ANZO is not required to pay under current New Zealand tax law) was \$0.92 at 30 June 2010, \$0.10 lower than at 30 June 2009.

4.8 UNIT PRICE PERFORMANCE

Figure 4.2 shows the performance of ANZO relative to the NZX Property Index (Gross) over the period January 2006 to June 2010. The sharp increase in prices across the sector during December 2006 was due to the introduction of the PIE tax rules.

Figure 4.2: ANZO Relative to NZX Property Index (Gross)



4.9 UNIT HOLDERS

The top 10 unit holders in ANZO at 31 August 2010 are shown in Table 4.5.

Table 4.5: Top 10 Registered Holders as at 31 August 2010

| | Number of Shares | Percentage Holding |
|---|--------------------|--------------------|
| Haumi Company Limited | 198,524,814 | 19.90% |
| Accident Compensation Corporation | 87,714,427 | 8.79% |
| HSBC Nominees (New Zealand) Ltd | 49,233,056 | 4.93% |
| Premier Nominees Ltd Armstrong Jones Property Securities Fund | 37,417,034 | 3.75% |
| Investment Custodial Services Ltd | 36,474,669 | 3.66% |
| FNZ Custodians Ltd | 32,496,081 | 3.26% |
| Custodial Services Ltd | 31,536,459 | 3.16% |
| HSBC Nominees (New Zealand) Ltd | 30,741,520 | 3.08% |
| BT NZ Unit Trust Nominees Ltd | 25,377,157 | 2.54% |
| Private Nominees Ltd | 21,968,100 | 2.20% |
| Top 10 Unit holders | 551,483,317 | 55.27% |
| Other | 446,235,161 | 44.73% |
| Total Shares | 997,718,478 | 100.00% |

4.10 PIE STATUS

ANZO is classified as a Portfolio Investment Entity (“PIE”) for tax purposes. This type of fund has special tax rules in comparison to other investment vehicles. The most important rule is that the maximum tax rate for an individual invested in a PIE is 30%. Figure 4.2 shows that the introduction of the PIE regime in December 2006 had a significant positive impact on the unit prices of the New Zealand LPE sector.

There are certain criteria that ANZO must meet in order to retain PIE status:

- ANZO must be a tax resident.
- No one unit holder may own more than 20%.
- Only one class of units are on issue.
- 90% of the unit trusts assets are used, or are available to be used in deriving income from interest in land, financial arrangements and excepted financial arrangements.
- 90% of ANZO’s consolidated income is derived from the assets as described above.
- All subsidiaries of ANZO are within ANZO tax consolidating group.

If any of the above conditions are breached at the end of any quarter, ANZO has one quarter to remedy the breach. Otherwise failure to remedy the breach by the end of the following quarter will result in ANZO losing its PIE status for 5 years.

4.11 DEPRECIATION

As part of the 2010 Budget the Government announced that depreciation would be removed from all buildings with a useful life of 50 years or more, effective from 1 April 2011. ANZO estimates that these taxation changes will not impact its distributable profit until the financial year commencing 1 July 2011. From that point on the proposed depreciation changes are expected to reduce the annual after tax distributable profit by approximately 7-9%.

5. MANAGEMENT FEE REVIEW

5.1 OVERVIEW

AHML is proposing to amend the ANZO trust deed to implement a new management fee structure. If unit holders approve the new fee structure it will be effectively backdated to apply 1 July 2009. If the Corporatisation Proposal is approved and implemented, the revised management structure will apply to the Company from 1 September 2010 onwards.

The revised management fee, if approved, will result in:

- a lower base fee; and
- the introduction of a performance fee based upon unit holder returns.

The rationale behind the revised management fee is to provide better alignment of AHML's interests with those of unit holders. The performance fee is intended to reward AHML for creating growth in unitholder wealth in excess of that of ANZO's listed property group peers.

5.2 CURRENT MANAGEMENT FEES

AHML is currently paid an annual management fee of 0.65% (plus GST) of the value of the property assets of the Trust. The fee is paid quarterly in arrears. The trust deed does not explicitly detail the services the Manager is expected to provide in return for the annual management fee.

In addition to the management fee, AHML is also entitled to be reimbursed for the costs of engaging external parties to assist with the following services: engineering; repairs and maintenance; leasing; sales and acquisitions; property development; property management; project management; building design; and registry management. The Manager may also choose to provide these services itself, in which case it is entitled to receive "reasonable" fees for the services from ANZO.

5.3 PROPOSED MANAGEMENT FEE

Base Fee

The proposed management fee involves the introduction of a tiered base fee structure which will lower the base fee from the current 0.65% of gross assets per annum to:

- 0.55% of the value of investment property up to \$1.0 billion; and
- 0.45% of the value of investment property above \$1.0 billion.

Investment property means the total value of all real property assets owned or leased by ANZO, as determined in accordance with GAAP. Development properties (those under construction or fully vacant and undergoing renovations) are excluded from the definition of investment property.

If unit holders approve the Management Fee Review, the new base fee will effectively apply from 1 July 2009. The base management fee is to be paid monthly in arrears.

Performance Fee

If the Management Fee Review is approved, AHML will also be entitled to a performance fee linked to ANZO's returns relative to its peers in the listed property sector.

The performance fee will be calculated as 10% of the amount by which unit holders' returns for the quarter exceed the returns of ANZO's listed property group peers (the "Benchmark Return"). The performance fee in any quarter will be capped at 0.125% of the opening market capitalisation of ANZO (the "Cap")⁹. No performance fee will be payable if absolute unit holder return for the quarter is negative.

Any unit holder returns in excess of the Cap will be carried forward for a period of two years for the purposes of the performance fee calculation. Likewise any deficit arising from underperformance relative to the Benchmark Return will also be carried forward for two years. Accordingly the performance fee is measured on a cumulative rolling two year basis and any prior deficit in unit holder returns over the previous two years must be remedied before a performance fee is payable to AHML.

The Benchmark Return will be calculated by reference to a gross NZX Property Index excluding ANZO. Unit holder returns for each quarter are defined as gross distributions per unit plus or minus the change in the price of the units over the quarter (based on the VWAP over the five trading days preceding the start and end of the quarter) and adjusted for any excess or deficit carried forward from prior periods.

For examples of how the performance fee will be calculated under various scenarios, see Part 3 of the Information Pack.

⁹ Strictly speaking, the Cap is set at 1.25% x weighted average shares on issue x opening VWAP x 10%

Additional Fees

The Management Fee Review applies only to the base fee and performance fee to be paid to the Manager. The Manager will remain entitled to claim additional fees as described in Section 5.2.

5.4 HOW DOES THE PROPOSED BASE MANAGEMENT FEE COMPARE TO NZ LISTED PEERS?

The fee structures for externally managed New Zealand LPEs are set out in Table 3.2. The table shows that ANZO's proposed base fee will be lower than the base fees charged by the managers of ING Medical Properties Trust, ING Property Trust, Kiwi Income Property Trust and Kermadec.

Figure 5.1: ANZO Proposed Base Fee compared to Goodman & PFI

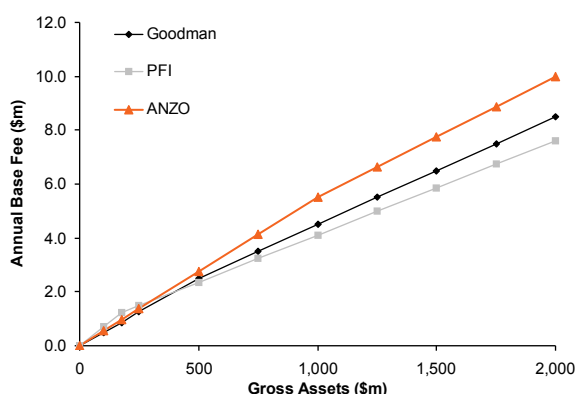


Figure 5.1 compares ANZO's proposed base fee with the base fees charged by the managers of Goodman Property Trust and Property for Industry. The figure demonstrates that ANZO's proposed base fee remains significantly higher than that of both Goodman Property Trust and Property for Industry. If ANZO was being managed under the Goodman Property Trust fee model, its annual base management fee would be \$1.2 million or 16% per annum lower. If ANZO was being managed under the Property For Industry fee model, its annual base management fee would be \$1.8 million or 24% per annum lower.

The cost of managing incremental asset growth is of key concern to investors when comparing LPE base fees. The higher the cost of managing incremental assets, the lower the operational leverage achieved by investors – i.e. the higher the fee that the LPE manager charges for incremental asset growth, the less investors will benefit from that growth.

The cost of managing incremental assets for ANZO under the Management Fee Review is 0.45%. This compares to an incremental cost of 0.40% for Goodman Property Trust and 0.35% for Property For Industry. Hence the cost of managing incremental ANZO assets is 12.5% higher than the cost of managing incremental Goodman Property Trust assets. The cost of managing incremental ANZO assets is 29% higher than the cost of managing incremental Property For Industry assets.

5.5 HOW DOES THE PROPOSED PERFORMANCE FEE COMPARE TO NZ LISTED PEERS?

The fee structures for externally managed New Zealand LPEs are set out in Table 3.2. The table shows that ANZO's proposed performance fee, and those charged by the managers of Goodman, ING Property Trust, Kiwi Income Property Trust and Property for Industry, are all equal to 10% of the unit holder returns over a certain benchmark.

In the case of ING Property Trust, Kiwi Income Property Trust and Property for Industry, the relevant benchmark is simply an absolute unit holder return of 10%. In the case of Goodman Property Trust and ANZO, the relevant benchmark is a NZX Property Index (in each case excluding the respective company).

ANZO's proposed performance fee is the closest to the Goodman Property Trust model, which is considered by a number of institutional investors to be the best practice fee structure in the New Zealand market.

One of the key differences between the ANZO and Goodman Property Trust performance fees is that Goodman Property Trust's benchmark is the average rolling 5 year gross return from the NZX Property Index. ANZO simply uses the quarterly gross return from the NZX Property Index. The use of a trailing five-year average index return reduces the likelihood of having a negative index return hurdle. In effect, Goodman's returns are benchmarked against a proxy for the long-run return on listed property assets.

The other key difference between the ANZO and Goodman Property Trust performance fee models is that Goodman Property Trust carries forward out/under performance indefinitely for the calculation of the performance fee. ANZO only carries forward out/under performance for a period of two years. The relative merits of the carry forward are discussed in Section 3.3.

5.6 COMPARISON OF THE FEE MODELS FOR THE MANAGERS OF ANZO AND GOODMAN PROPERTY TRUST

We note that whilst the manager of Goodman Property Trust charges a lower base fee than that proposed by AHML, the manager of Goodman Property Trust generates the majority of its revenue from additional services (see Tables 3.2 and 3.3). It is very difficult to compare the additional fees levied by property managers due to the range of fee structures and services provided. We have therefore compared the underlying profitability of the managers of ANZO and Goodman Property Trust by analysing the financial accounts the managers are required to file with the Companies Office.

Table 5.1 shows that the manager of the Goodman Property Trust generated EBITDA (excluding distributions from Goodman units) of \$26.1 million over the period FY2006 to FY2009. After removing performance fees, EBITDA over the period FY2006 to FY2009 was \$23.1 million, an average of \$5.8 million per annum.

AHML generated EBITDA of \$29.0 million over the same period off a similar sized asset base. Under the revised fee structure, AHML EBITDA (excluding performance fees) over the period FY2006 to FY2009 would have also been \$23.1 million, an average of \$5.8 million per annum.

This analysis suggests that AHML under the revised fee structure would have earned a similar amount from base and additional fees as the manager of Goodman Property Trust. This in turn suggests that the manager of Goodman recovers its lower base fees by charging higher additional fees than AHML.

5.7 WHAT PERFORMANCE FEES WOULD HAVE BEEN PAYABLE TO AHML BASED UPON HISTORICAL PERFORMANCE?

Table 5.2 illustrates the calculation of performance fees using historical data. The table shows that had the revised fee structure been in place historically AHML would only have been entitled to a performance fee in two of the past nine quarters. We note the following:

- For the quarter ending June 2008 ANZO outperformed the benchmark by 7%, generating a performance fee entitlement of \$5.5 million. The fee payable of \$0.98 million was limited by the performance fee cap, whilst the remaining \$4.5 million would have been carried forward to the next period.
- For the four quarters ending 30 September 2008, 31 December 2008, 31 March 2009 and 30 June 2009, AHML would not have been entitled to a performance fee because the total unit holder return in each period was negative
- For the quarter ending 30 September 2009, ANZO outperformed the index by 8%, generating a performance fee entitlement of \$5.6 million. However before the fee was payable the carry forward underperformance of \$4.8 million would have had to have been clawed back, leaving a performance fee of \$0.78 million.
- ANZO underperformed the index by 13.0% in the quarter ending 31 December 2009. This would have generated a large negative carrying amount of \$11.0 million – AHML would not have been entitled to any performance fee over the next two years until it had clawed back this underperformance.

Table 5.1: Comparison of Financial Performance of the Managers of ANZO and Goodman Property Trust

| (\$'000) | FY09 | FY08 | FY07 | FY06 | Average FY06-09 | Total FY06-09 |
|--|--------------|---------------|--------------|--------------|-----------------|---------------|
| Goodman Manager EBITDA | | | | | | |
| Goodman Property Services | 8,091 | 13,099 | 6,537 | 4,429 | | |
| Goodman (NZ) Limited | 3,454 | 2,759 | 3,303 | 2,146 | | |
| Deduct Distributions | -5,179 | -4,859 | -4,112 | -3,610 | | |
| Total Manager EBITDA | 6,366 | 10,999 | 5,728 | 2,965 | 6,515 | 26,058 |
| Deduct Performance Fees | | | -1,884 | -1,047 | | |
| EBITDA excl. Performance | 6,366 | 10,999 | 3,844 | 1,918 | 5,782 | 23,127 |
| | | | | | | |
| AHML EBITDA | 8,749 | 8,714 | 6,648 | 4,928 | 7,260 | 29,039 |
| Proposed Base Fee Reduction | -1,700 | -2,000 | -1,700 | -500 | | |
| EBITDA under Revised Fee Structure (excl Performance) | 7,049 | 6,714 | 4,948 | 4,428 | 5,785 | 23,139 |

5.8 COMPARISON OF TOTAL FEES USING HISTORICAL DATA

AHML has calculated the fees which would have been payable had the revised management fee been in place from FY1999. This analysis is summarised in Table 5.3.

The table shows that over the 12 year period, the actual base fees paid to the Manager totalled \$64.5 million. If the revised management fee had been in place over this period, the Manager would have been entitled to fees of \$59.6 million - \$4.9 million less than the actual fees paid under the current fee structure.

Table 5.3 shows that, had the revised fee structure been in place, a performance fee would have been payable in seven of the past twelve years. The table also shows that the fee payable under the revised fee structure would have exceeded the actual fee payable in three of the past twelve years.

5.9 FY10 MANAGEMENT FEES

If unit holders approve the Management Fee Review, the new fee structure will effectively be backdated to apply for the entire FY10 financial year. Table 5.4 illustrates the calculation of the performance fee that will be payable to AHML for FY10 if the Management Fee Review is approved. Table 5.5 compares the total management fee for FY10 that would be payable under the current fee structure with the fee that will be payable if unit holders approve the Management Fee Review.

Table 5.3: Comparison of Total Fees Using Historical Data

| \$m | Proposed Base Fee | Proposed Performance Fee | Total Proposed Fee | Actual Fee | Difference |
|--------------|-------------------|--------------------------|--------------------|--------------------|--------------|
| FY99 | 2.7 | 0.9 | 3.6 | 3.8 ⁽¹⁾ | (0.2) |
| FY00 | 2.7 | 0.3 | 2.9 | 3.1 | (0.1) |
| FY01 | 2.3 | 0.5 | 2.8 | 2.9 | (0.1) |
| FY02 | 2.2 | - | 2.2 | 2.6 | (0.5) |
| FY03 | 3.0 | - | 3.0 | 3.7 | (0.6) |
| FY04 | 3.2 | - | 3.2 | 3.8 | (0.7) |
| FY05 | 4.1 | - | 4.1 | 4.6 | (0.5) |
| FY06 | 4.7 | 1.2 | 5.9 | 5.2 | 0.7 |
| FY07 | 5.6 | 1.8 | 7.4 | 7.3 | 0.1 |
| FY08 | 7.2 | 2.1 | 9.3 | 9.2 | 0.1 |
| FY09 | 8.1 | - | 8.1 | 9.8 | (1.8) |
| FY10 | 6.9 | 0.2 | 7.1 | 8.5 | (1.4) |
| Total | 52.6 | 7.0 | 59.6 | 64.5 | (4.9) |

(1) FY99 Actual Fee is normalised to allow for 50% of the management fees being waived in FY98 and FY99 as part of the IPO.

Table 5.4 shows that if unit holders approve the Management Fee Review, AHML will receive a performance fee for FY10 of \$873,004. ANZO outperformed the benchmark in all quarters except the quarter ending 31 December 2009. ANZO underperformed significantly in this quarter, generating a large negative carrying amount of \$11.9 million.

Table 5.2: Illustration of Performance Fee Calculation Using Historical Data

| (\$'000) | Jun-08 | Sep-08 | Dec-08 | Mar-09 | Jun-09 | Sep-09 | Dec-09 | Mar-10 | Jun-10 |
|------------------------------------|------------|----------|----------|----------|----------|------------|----------|----------|----------|
| Opening VWAP | 1.10 | 1.20 | 1.11 | 1.00 | 0.88 | 0.70 | 0.85 | 0.75 | 0.76 |
| Gross Dividends (cents per share) | 2.18 | 2.18 | 2.10 | 2.10 | 1.36 | 1.36 | 1.76 | 1.76 | 1.76 |
| Average Shares on Issue (million) | 688 | 688 | 688 | 688 | 753 | 998 | 998 | 998 | 998 |
| Unit holder Return for Quarter | 4.47% | -3.28% | -8.27% | -8.18% | -16.43% | 23.22% | -9.35% | 3.20% | -4.07% |
| Benchmark Return | -2.53% | -4.42% | -9.59% | -6.07% | 5.98% | 15.50% | 4.76% | -1.26% | -4.39% |
| Outperformance | 6.99% | 1.14% | 1.32% | -2.11% | -22.41% | 7.72% | -14.11% | 4.45% | 0.31% |
| Max Return Cap (%) | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% | 1.25% |
| Max Return Cap (\$) | 945 | 1,030 | 954 | 859 | 831 | 873 | 1,058 | 939 | 946 |
| Initial Amount / (Deficit) | 5,287 | 936 | 1,009 | (1,449) | (14,894) | 5,394 | (11,944) | 3,345 | 235 |
| Opening Carrying Amount | 4,835 | 9,177 | 10,113 | 11,122 | 9,673 | (5,220) | - | (11,944) | (8,599) |
| Performance Fee for Quarter | 945 | - | - | - | - | 174 | - | - | - |
| Closing Carrying Amount | 9,177 | 10,113 | 11,122 | 9,673 | (5,220) | - | (11,944) | (8,599) | (8,364) |

Table 5.4: Calculation of FY10 Performance Fee payable to AHML if the Management Fee Review is Approved

| (\$'000) | 30-Sep-09 | 31-Dec-09 | 31-Mar-10 | 30-Jun-10 |
|-------------------------------------|------------|-----------|-----------|-----------|
| Opening 5 day VWAP | 0.70 | 0.85 | 0.75 | 0.76 |
| Average Shares on Issue (million) | 998 | 998 | 998 | 998 |
| Unit holder Return for Quarter | 23.22% | -9.35% | 3.20% | -4.07% |
| Benchmark Return | 15.50% | 4.76 | -1.26% | -4.39% |
| Outperformance | 7.72% | -14.11% | 4.45% | 0.31% |
| Max Return Cap (%) | 1.25% | 1.25% | 1.25% | 1.25% |
| Max Return Cap (\$) | 873 | 1,058 | 939 | 946 |
| Initial Amount/(Deficit) | 5,394 | (11,944) | 3,345 | 235 |
| Opening Carrying Amount | - | 4,521 | (7,422) | (4,078) |
| Performance Fee¹⁰ | 873 | - | - | - |
| Closing Carrying Amount | 4,521 | (7,422) | (4,078) | (3,842) |

ANZO was not entitled to a performance fee in either of the following quarters because it had not yet clawed back this deficit. By 30 June 2010 the closing carrying amount had reduced to a negative balance of \$3.8 million. ANZO will have to claw this amount back before AHML will be entitled to any performance fee in FY11.

Table 5.5: FY10 Management Fee payable to AHML if the Management Fee Review is Approved

| (\$m) | Current Fee Structure | Revised Fee Structure | Difference |
|-----------------|-----------------------|-----------------------|------------|
| Base Fee | 8.5 | 6.9 | 1.6 |
| Performance Fee | - | 0.9 | (0.9) |
| Total | 8.5 | 7.8 | 0.7 |

Table 5.5 shows that if unit holders approve the Management Fee Review, the effective management fee payable to AHML for FY10 will be \$7.8 million versus \$8.5 million payable under the current fee structure. Hence if the Management Fee Review is approved the Trust will receive a refund of \$0.7 million from AHML in respect of FY10 management fees.

¹⁰ Note that for the calculation of the actual performance fee payable to AHML in Q1 FY10, the opening carrying amount as at 1 July 2009 is set to zero. This is the reason that the actual performance fee shown in Table 5.4 differs from the hypothetical performance fee for Q1 FY10 shown in Table 5.2.

6. CORPORATISATION PROPOSAL

6.1 OVERVIEW

In February 2010 ANZO announced its intention to change from a Trust to a company. The Company will still be managed by AHML but will have a board of directors separate from the Manager, with a majority of independent directors elected by shareholders.

6.2 CURRENT GOVERNANCE STRUCTURE

ANZO is overseen by a trustee and is managed by AHML. The operations of the unit trust and the powers and functions of the Trustee and Manager are governed by the trust deed, NZSX Listing Rules and the Units Trust Act.

The Trustee covenants to use all reasonable endeavours to keep ANZO's assets safe and hold them as trustee for the benefit of unit holders. Refer to Section 4.3 for further details of the Trustee's role.

The Manager's role under the trust deed is to administer and manage the assets of ANZO for the benefit of unit holders, with full and complete power of management. AHML is responsible for all the investment decisions in relation to ANZO, and for management of the properties. The Manager's role is further described in Section 4.3.

Under the trust deed unit holders have little ability to influence the governance or the strategy of ANZO.

6.3 PROPOSED GOVERNANCE STRUCTURE

Under the Corporatisation Proposal all ANZO's assets, liabilities and business will be transferred to the new Company. Unitholders will exchange their units in the Trust for shares in the Company (except for units held by Non-Converting Holders, which will be redeemed for cash) whilst retaining effectively the same underlying economic interest in ANZO's assets. The Company will be listed on the NZSX and will be subject to the provisions of the Takeovers Code.

The Company will be controlled by a Board of Directors and managed by AHML pursuant to a Management Services Agreement and a revised fee structure. The Management Services Agreement sets out that the Manager will operate under the direction and supervision of the Board and the Board retains complete discretion to oversee the Manager's management of the Company, and to direct the Manager to act in relation to the Company as the Board believes is reasonably necessary.

The Management Services Agreement further sets out that the Board will determine what it considers the appropriate strategy and business plan for the Company and the Manager will be responsible for the implementation of that strategy.

Any shareholder with a stake of 15% or more will be entitled to appoint one director to the board of ANZOL (but will then not be entitled to vote on other director elections). The Manager will be entitled to appoint two directors to the Board of ANZOL.

If at any time the Manager has exercised its right to appoint any directors the following independence requirements will apply:

- A majority of directors must be "Independent of the Manager"¹¹.
- Shareholders will generally be entitled to elect these independent directors.
- If for some reason the composition of the board changes so that the majority of directors are no longer Independent of the Manager, the Board must appoint additional independent directors.
- The chair of every board meeting must be Independent of the Manager and will have a casting vote.

In addition, the usual NZX requirements for a minimum number of independent directors will apply.

We examine below some potential scenarios around board composition:

- On the basis of current shareholdings, it is probable that AHML (as the Manager) will appoint two directors to the Board of ANZOL and HNZLP (being the only shareholder with more than 15%) will appoint one director. Shareholders will be entitled to elect four independent directors, so that the majority of directors will be Independent of the Manager.
- Under a scenario in which the Manager owned 51% of the Company and there was no shareholder with a stake of 15% or more, the Manager would be unlikely to exercise its right to appoint two directors. Instead the Manager would nominate and elect a majority of its own directors to the Board as a controlling shareholder. NZSX Listing Rules require that a third of the directors are independent of the controlling shareholder.

¹¹ "Independent of the Manager" means not an Associated Person (as defined by the NZSX Listing Rules) of the Manager or any shareholder (or related company of a shareholder) in the Manager

6.4 MANAGEMENT SERVICES AGREEMENT

Under the Corporatisation Proposal AHML will continue to manage ANZO's business. The relationship between the Manager and the Company will be governed by the Management Services Agreement.

Fees

The Manager's fee under the Management Services Agreement comprises:

- Base Fee (for the Base Management Services).
- Performance Fee (calculated by reference to ANZO's performance linked to the Company's returns relative to its peers in the listed property sector).
- Additional Fees (any Additional Services provided will be charged at rates agreed annually between the Company and the Manager)

The trust deed does not explicitly define which services provided by the Manager are considered to be Base Management Services and which are Additional Services. The Management Services Agreement specifies these activities in detail, together with the rates the Manager can charge for a range of Additional Services.

The Manager has warranted that the Base Management Services and Additional Services as defined in the Management Services Agreement are essentially the same services as those it currently provides under the trust deed.

Base Management Services

The Base Management Services will include:

- corporate and fund management services.
- portfolio and asset management services.

Additional Services

Under the Management Services Agreement, the Manager will be entitled to fees in respect of the following Additional Services:

- property and facilities management.
- leasing of vacant space.
- development management.
- project management and delivery.
- property purchases and sales.

The Management Services Agreement sets out that Additional Services can be undertaken by the Manager directly or can be contracted out to an external party. In either case the costs of these Additional Services are in addition to the Base Fee and Performance Fee.

Rates for Additional Services

The rates for Additional Services are to be agreed annually between the Company and the Manager. The Manager will be required to provide a report to the Board on Additional Services and all fees and disbursements paid or payable to the Manager or any related company of the Manager for Additional Services. The current rates are set out in Appendix 4.

Staff

The Company will not employ any staff. The Manager will provide all staff necessary to perform its obligations, including senior executives. The Manager will consult with the Board regarding the appointment, removal and remuneration of the CEO and the CFO.

The Manager has (or will have) arrangements in place with AMPCI under which AMPCI will provide a portfolio manager; a national investment manager, two asset managers, an accountant and other persons as agreed under a Service Level Agreement. The CEO and the CFO will be employees of the Manager.

The Manager is responsible for ensuring it has the resources and expertise to meet its obligations under the Management Service Agreement. Under the Agreement the Manager is also responsible for ensuring that all employees and secondees involved have sufficient and appropriate expertise and experience so as to enable the Manager to efficiently carry out its duties.

Review of Manager

At least annually two directors of the Company and two directors of the Manager will carry out a joint review of the Manager's performance of its obligations under the agreement.

Termination

The Manager may cancel the Management Services Agreement at any time by giving the Company six months' notice. Either the Manager or Company may terminate the Management Services Agreement if the other party:

- appoints a receiver, receiver and manager, administrator or statutory manager;
- is unable to pay its debts as they become due, or enters into any arrangement or composition with its creditors generally; or
- commits a material breach of a material provision of the Management Service Agreement. This includes (in respect of the Manager) a change in control of the Manager of 75% or more of the voting securities of the Manager without the consent of the Company.

The Company may only exercise the right of termination if the termination has been approved by special resolution of shareholders of the Company (with the Manager and its associated persons excluded from voting).

If the Management Services Agreement is terminated, no fees are payable by the Company to the Manager other than any accrued and unpaid fees and costs up to the termination date.

Takeover

Under the Management Services Agreement if a person acquires a stake of 50% or more in the Company, that person has a six week option to purchase the Manager's interests in the Management Service Agreement at a price to be agreed or to be set by independent valuation.

6.5 OTHER KEY AGREEMENTS

Specified Rights Deed

Under the Specified Rights Deed AMPCI will have pre-emptive rights which grant to AMPCI the first right to acquire any shares in the Company that HNZLP wishes to sell. HNZLP will also have pre-emptive rights which grant to HNZLP the first right to acquire any shares in the Company held by AMPCI in its personal capacity (but not in its capacity as a fund manager) that AMPCI wishes to sell.

Joint Venture Agreement

AHML will be jointly owned by AMPCI and Haumi Development Auckland Ltd ("HDAL") under the Joint Venture Agreement. Under this agreement the Joint Venture parties will ensure that AHML does not undertake any business other than the management of the new Company.

AHML's board will consist of four directors, two AMPCI Directors and two HDAL Directors. The Board will have full responsibility and control of the Company and will use reasonable endeavours to ensure the Company complies with its obligations under the Management Services Agreement.

The Management Services Agreement provides that the Manager may appoint two Directors to the Board. Under the Joint Venture Agreement, AMPCI and HDAL may nominate one Director each.

The Joint Venture Agreement sets out that the CEO and CFO of ANZO will be employees of AHML. The appointment of these roles must be unanimously approved by all Directors of AHML.

Service Level Agreement

The Service Level Agreement is between AHML and AMPCI. Under this agreement AMPCI will provide Dedicated Employees consisting of a portfolio manager; a national investment manager, two asset managers, an accountant and other persons as agreed between AHML and AMPCI.

AMPCI will use reasonable endeavours to ensure the employees:

- are exclusively engaged in providing services to ANZO or AHML;
- have the necessary experience and expertise or support;
- act in the best interest of ANZO and its subsidiaries; and
- comply with, observe and perform the obligations under the Management Services Agreement;

All remuneration costs will be paid by AMPCI and reimbursed by AHML. All employees will remain employees of AMPCI. AMPCI will also provide the resources reasonably required to allow AHML to perform the base management services under the Management Services Agreements, except those reasonably expected to be performed by the CEO, CFO and Dedicated Employees.

Trademark Licence

AMP Life Limited ("AMP Life") has granted the Company a licence to use the word "AMP" in the Company's name and logo. The licence is non-exclusive, royalty-free and revocable. The entry into the Trademark Licence by the Company is a related party transaction because AMP Life is an associated party of the Company.

The Trademark Licence terminates automatically if AMP Life ceases to be involved in the management of the Company, whether it be due to the termination of either the Management Services Agreement or the Joint Venture Agreement (see Section 6.5), or because AMPCI ceases to be a shareholder in the Manager. The licence also terminates automatically if the Corporatisation Proposal is not completed by 30 November 2010. AMP Life may also terminate the Trademark Licence for any reason by giving the Company 60 days notice.

7. FAIRNESS OF RESOLUTION TWO (NZX REQUIREMENT)

In Resolution Two unit holders are being asked to approve, for the purposes of NZSX Listing Rule 9.2.1, the amendments to the Trust Deed required to implement the Management Fee Review.

7.1 WHAT IS THE MANAGEMENT FEE REVIEW?

ANZO is proposing to change its management fee structure as follows:

- The current management fee of 0.65% of gross assets will be replaced by a tiered base management fee made up of (i) 0.55% of gross assets up to \$1 billion; and (ii) 0.45% of any gross assets above \$1 billion.
- A performance fee of 10% of the total shareholder return above the benchmark return (an NZX property Index excluding ANZO), capped at 0.125% of the Company's opening market capitalisation in any one quarter.

7.2 WHY IS A REPORT REQUIRED?

The amendments to the Trust Deed required to implement the Management Fee Review constitute a material transaction with the Manager, which is a related party to the Trust.

NZSX Listing Rule 9.2.1 dictates that material transactions with related parties must be approved by unit holders not associated with the related parties. ANZO is therefore required to seek unit holder approval for these amendments by means of an ordinary resolution at a meeting of unit holders (Resolution Two in the Notice of Meeting).

NZSX Listing Rule 9.2.5 requires that the notice of meeting be accompanied by a report by an independent adviser opining on the fairness of the transaction to unit holders not associated with the related parties.

The purpose of this section of the report is to satisfy the requirements of the NZSX Listing Rules. NZSX Listing Rule 1.7.2 requires an appraisal report to consider whether the consideration and the terms and conditions of the transaction proposed in Resolution Two (the Management Fee Review) are fair to unit holders in ANZO not associated with the Manager.

7.3 KEY CONSIDERATIONS

In order to determine whether or not the Management Fee Review will be fair to the unit holders of ANZO not associated with AHML, we have considered a number of factors, including the rationale for the Management Fee Review, its benefits and disadvantages, and how the proposed fee compares to other New Zealand LPEs.

Rationale

ANZO's stated rationale for the Management Fee Review is to more closely align the incentives of the Manager with those of unit holders.

Currently the Manager's fee is linked directly to the gross value of ANZO's assets. On this basis the current fee structure creates an incentive for the Manager to increase the asset base of the Trust, even though this may not be in the best interests of unit holders.

Under the Management Fee Review, the Manager will receive a lower base fee and a new performance fee linked to total return for unit holders.

Consequently under the Management Fee Review the incentives of the Manager and the unit holders will be more closely aligned than they are currently.

Benefits of the Management Fee Review (relative to Status Quo)

The lower base fee plus performance fee better aligns the Manager with unit holders and reduces the incentive for the Manager to drive fees through acquisition of assets.

The proposed performance fee is calculated relative to the performance of other New Zealand LPEs and no performance fee is payable if total shareholder return is negative. Hence the Manager will only earn performance fees by out performing the market, even if the market rises significantly from its current position in the cycle.

Disadvantages of the Management Fee Review (relative to Status Quo)

The total management fee payable to AHML in any given year could be higher under the revised fee structure than it is currently (although this will require ANZO to outperform its peers).

How Will the Absolute Level of Management Fees Change?

It is difficult to estimate the level of future management fees, because they will depend on a range of factors, including the performance of ANZO relative to its peers.

In Sections 5.7 and 5.8 we analyse the level of fees that would have been payable had the Management Fee Proposal been in effect historically. This analysis shows that the revised fee structure would have resulted in lower absolute fees in 9 of the last 12 years. Across this period, the total fee payable to AHML under the revised fee proposal would have averaged 0.58% of total assets, compared to the current fee of 0.65% of total assets.

Hence historical analysis suggests that the revised fee structure may result in a small reduction in future overall fee levels.

How does the Management Fee Review compare to fees paid to managers of other listed property entities?

ANZO is currently the only New Zealand LPE that does not incorporate an element of performance pay into its Manager remuneration. The Management Fee Review, if implemented, will more closely align ANZO's fee structure with those of its peers. In Sections 5.4 and 5.5 we compare the management fee proposed under the Management Fee Review with those of other New Zealand LPEs.

Goodman Property Trust is considered by a number of institutional investors to have the best practice external fee model in the New Zealand market. The Management Fee Review will see ANZO's fee structure mirror that of Goodman Property Trust in many respects.

ANZO's proposed base fee will be lower than the base fees charged by the managers of ING Medical Properties Trust, ING Property Trust, and Kiwi Income Property Trust. ANZO's base fee will however remain significantly higher than Goodman Property Trust. If ANZO was being managed under the Goodman Property Trust fee model, its annual base management fee would be \$1.2 million or 16% per annum lower. If ANZO was being managed under the Property For Industry fee model, its annual base management fee would be \$1.8 million or 24% per annum lower.

The cost of managing incremental asset growth is of key concern to investors when comparing LPE base fees. The higher the cost of managing incremental assets, the lower the operational leverage achieved by investors – i.e. the higher the fee that the LPE manager charges for incremental asset growth, the less investors will benefit from that growth.

The cost of managing incremental assets for ANZO under the Management Fee Review is 0.45%. This compares to an incremental cost of 0.40% for Goodman Property Trust and 0.35% for Property For Industry. Hence the cost of managing incremental ANZO assets is 12.5% higher than the cost of managing incremental Goodman Property Trust assets. The cost of managing incremental ANZO assets is 29% higher than the cost of managing incremental Property For Industry assets.

Performance fees across the LPE sector are 10% of return over a specified threshold. The performance fees for ANZO and Goodman Property Trust are the only ones where the threshold is based upon performance relative to peer group. We believe that relative performance, rather than some arbitrary absolute return, is the best way to measure the value added by the Manager.

7.4 FAIRNESS OF THE MANAGEMENT FEE REVIEW TO NON-RELATED UNIT HOLDERS

From a unit holder perspective, ANZO currently has one of the worst fee structures in the LPE sector. The revised fee structure proposed under the Management Fee Review will be an improvement, in that it will better align the incentives of the Manager with those of unit holders, via the reduction in the base fee and the introduction of a performance fee.

Historical analysis shows the revised fee structure would have resulted in slightly lower management fees than the status quo across the property cycle. This does not of course mean fees will necessarily continue to be lower in the future.

On this basis we believe that the Management Fee Review, on which unit holders are being asked to vote in Resolution Two, is fair to unit holders not associated with AHML.

The Management Fee Review moves the fee structure of ANZO toward that of Goodman Property Trust, which is considered by a number of institutional investors to be the best practice fee structure in the New Zealand market.

ANZO still has some way to go if it wishes to match the Goodman Property fee structure, with ANZO's overall base fee (as a percentage of total assets) around 20% higher than Goodman Property Trust.

We note however that the revenue generation models for the managers of ANZO and Goodman Property Trust are quite different - the manager of Goodman Property Trust generates the majority of its revenue from additional services (property management and development fees) whereas AHML generates by far the majority of its revenue through its base management fee.

8. FAIRNESS OF RESOLUTION FOUR (NZX REQUIREMENT)

In Resolution Four unit holders are being asked to approve, for the purposes of NZSX Listing Rule 9.2.1, a number of related-party transactions required to implement the Corporatisation Proposal.

8.1 WHY IS A REPORT REQUIRED?

NZSX Listing Rule 9.2.1 stipulates that an issuer shall not enter into a material transaction¹² (or to one of a related series of transactions of which the material transaction forms part) with a related party without first obtaining approval of the transaction by way of an ordinary resolution from unit holders not associated with the related party.

Several of the Proposed Transactions requiring approval under Resolution Four are likely to constitute material transactions with related parties, including the:

- i. Corporatisation Redemption
- ii. Management Services Agreement
- iii. Deed of Indemnity

The other proposed related party transactions requiring approval under Resolution Four are not likely to constitute material transactions but arguably form part of a related series of transactions of which the material transactions form part. These include the:

- iv. Trademark Licence
- v. Issue of Residual Units in the Trust to the Company.

Rule 9.2.5 of the NZSX Listing Rules requires that the unit holders receive a report by an independent adviser opining on the fairness of the related party transactions to unit holders not associated with the related parties.

8.2 BASIS OF EVALUATION

NZSX Listing Rule 1.7.2 requires an appraisal report to consider whether the consideration and the terms and conditions of the Proposed Transactions are fair to unit holders not associated with the related party.

¹² For the purposes of the NZSX Listing Rules, a material transaction means a transaction in which a company: (i) purchases or disposes of assets, or incurs an obligation with a value in excess of 5% of the average market capitalisation of the company; or (ii) provides or obtains any services in respect of which the actual cost to the company in any year is likely to exceed 0.5% of the average market capitalisation of the company.

Given Resolution Four covers three distinct potential material transactions with various related parties, we have separately considered the fairness of the component transactions numbered (i) to (iii) in Section 8.1 above. We have also considered the fairness of the related party transactions numbered (iv) and (v) in Section 8.1.

8.3 CORPORATISATION REDEMPTION

In Resolution Four unit holders are being asked to approve, for the purposes of NZSX Listing Rule 9.2.1, the entry into the Corporatisation Redemption by the Company.

What is it?

The Corporatisation Redemption is a key part of the Corporatisation Proposal, by means of which nearly all unit holders receive shares in the Company in exchange for their units in the Trust.

As a result of overseas securities law considerations, the Trust will not apply the Corporatisation Redemption to unit holders based in a number of offshore jurisdictions (“Non-converting Holders”). Instead the Trust will redeem the units of Non-converting Holders for cash.

This may result in HNZLP’s shareholding in the Company exceeding 20% - this would breach Rule 6 of the Takeovers Code and would also result in the Company losing its status as a Portfolio Investment Entity (“PIE”) under the Tax Act. In this event the Trust will redeem for cash sufficient units such that HNZLP’s holding in the Company does not exceed 20%.

Why does the Corporatisation Redemption constitute a material transaction with a related party?

HNZLP will be a party to the Corporatisation Redemption, which is a material transaction for the Trust. HNZLP is a related party to the Trust. Consequently the Corporatisation Redemption is a material transaction with a related party.

Key Considerations for Non-Related Unit Holders

In order to determine whether or not the Corporatisation Redemption is fair to the unit holders of ANZO not associated with HNZLP, we have considered the following factors:

Rationale

ANZO is currently a listed unit trust governed by its Trust Deed, NZSX Listing Rules and the Unit Trusts Act. The Trust is run by the Manager, and there is currently little ability for unit holders to influence the governance of ANZO.

Under a company structure ANZO would have a board of directors separate from the Manager. For so long as the Manager has appointed any director, a majority of directors (including the Chair) must be Independent of the Manager. Shareholders will be entitled to elect the directors (other than those appointed by the Manager and any 15%+ shareholder). This new board would have control of, and accountability for, the governance and performance of ANZO.

ANZO's stated rationale for the Corporatisation Proposal is that it better separates the governance of ANZO's business from the governance of the Manager, and introduces a Board that is largely elected by, and accountable to, investors.

The Corporatisation Redemption is an integral part of the Corporatisation Proposal, and is the mechanism by which holders will exchange units in ANZO for shares in the Company. Under the Corporatisation Redemption, all unit holders are treated equally with the following exceptions:

- Non-converting Holders (unit holders registered in certain offshore jurisdictions) who will receive cash in consideration for their units.
- HNZLP which will receive cash in consideration for units to the extent required to ensure that, following the Corporatisation Redemption, HNZLP's shareholding in the Company does not exceed 20%.

The rationale for the differential treatment of HNZLP is to ensure that HNZLP's holding in the Company does not exceed 20%, thereby causing the Company to lose its PIE tax status, which would have negative implications for investor returns.

Benefits of the Corporatisation Redemption

We see two key benefits of the Corporatisation Redemption for unit holders not associated with HNZLP:

- The Corporatisation Redemption allows the implementation of the Corporatisation Proposal, which we believe will be, on balance, positive for investors.
- The Corporatisation Redemption prevents HNZLP from exceeding a 20% stake in the Company, thereby ensuring the Company's PIE tax status is preserved.

Disadvantages of the Corporatisation Redemption

We see two key disadvantages of the Corporatisation Redemption for unit holders not associated with HNZLP:

- Some units are redeemed for cash whilst others are redeemed for shares. – it would be preferable if all unit holders were treated equally.
- Redeeming units for cash obviously has a corresponding cash cost for the Company

To ensure that the unit holders voting to approve the Corporatisation Proposal are substantially the same as the shareholders of the Company on completion of the Corporatisation Transfer, the Trust has placed a 1.0% cap on the number of units that can be redeemed for cash. This limits the cash redemption cost to around \$7.4 million (based upon current unit price).

What Consideration will be paid for units redeemed for cash?

Under the Corporatisation Proposal, the cash amount paid to Non-converting Holders will be calculated based on the volume weighted average price of Trust Units on the NZSX over the five trading days commencing on 18 October 2010 (which corresponds to the five trading days after the proposed record date for the Q1 Distribution).

Fairness of the Corporatisation Redemption to non-related unit holders

The Corporatisation Redemption allows the implementation of the Corporatisation Proposal, which we believe will, on balance, be positive for investors. Furthermore the Corporatisation Redemption is important because it prevents HNZLP from exceeding a 20% stake in the Company, thereby ensuring the Company's PIE tax status is preserved.

The differential treatment of Non-Converting holders is a largely unavoidable disadvantage of the Corporatisation Proposal. The only alternative would have been for the Trust to commit significant expenditure towards legal advice in multiple offshore jurisdictions for the sake of a very small number of foreign shareholders.

The fact that cash consideration for Non-converting Holders is set at volume weighted average price should prevent any transfer of value between Non-converting Holders and Converting Holders. The 1.0% limit on units which can be redeemed for cash will prevent an unexpected cash drain on the Company's funds.

On this basis we believe that the Corporatisation Redemption, on which unit holders are being asked to vote in Resolution Four, is fair to unit holders not associated with HNZLP.

8.4 MANAGEMENT SERVICES AGREEMENT

In Resolution Four unit holders are being asked to approve, for the purposes of NZSX Listing Rule 9.2.1, the entry into the Management Services Agreement by the Company.

What is it?

Currently the relationship between the Manager and the Trust is governed by the Trust Deed. If unit holders approve the Corporatisation Proposal, the relationship between the Manager and the Company will be governed by the Management Services Agreement between the two parties.

Why does the Management Services Agreement constitute a material transaction with a related party?

The Manager is a related party of the Trust and the Company. The Management Services Agreement is likely to constitute a material transaction for the Company because its annual value is likely to exceed 1% of the Trust's and the Company's average market capitalisation.

Key Considerations for Non-Related Unit Holders

In order to determine whether or not the Corporatisation Redemption is fair to the unit holders of ANZO not associated with AHML, we have considered a range of factors, set out below.

Rationale

ANZO is currently a listed unit trust governed by its trust deed. The Trust is externally managed by AHML. ANZO is proposing to change from a trust to a company structure. It is important to note however that under the proposal ANZO will remain externally managed by AHML.

The relationship between the Trust and AHML is governed by a series of clauses in the trust deed. If the Corporatisation Proposal is approved, the trust deed will no longer apply. Instead the relationship between AHML and the Company will be governed by the Management Services Agreement.

Key Changes Relative to the Management Provisions in the Trust Deed

There are several key differences between the management arrangements set out in the trust deed and those proposed in the Management Services Agreement.

Governance

The trust deed grants to the Manager full and complete power of management over ANZO. According to the trust deed the Manager's role includes: making all investment decisions in relation to the Trust; managing the assets of the Trust on a day to day basis; and acquiring and selling assets as required.

If the Corporatisation Proposal is approved, the Board will assume responsibility for setting the strategy and business plan for the Company, with the Manager being responsible for the implementation of the strategy.

Additional Services

Under the trust deed, in addition to the base fee of 0.65% of the value of property assets, AHML is entitled to receive additional fees from ANZO in relation to a range of services, including property management, property development and leasing. AHML is entitled to undertake these activities itself or to subcontract to external providers.

The trust deed is not explicit as to the services covered by the base fee and those covered by the additional fees. Neither does the trust deed set out the rates that the Manager could charge for additional services. The Management Services Agreement however defines these additional services explicitly and also sets out exactly what fees the Manager is permitted to charge for these additional services.

Termination of the Manager

Under the trust deed the Manager can be removed by one of four means: (i) by the High Court; (ii) by a receiver or liquidator; (iii) by an extraordinary resolution of unit holders (75% required, Manager and associated parties can vote); or (iv) unremedied material breach of the Trust Deed.

Under the Management Services Agreement the Manager can be removed as follows: (i) insolvency; (ii) unremedied material breach; (iii) if a third party acquires a stake of 75% or more in the Manager without the consent of the Company. Termination however in each of the scenarios requires an extraordinary resolution of shareholders (at which the Manager and related parties cannot vote).

Under the Management Services Agreement, if any party acquires a stake of 50% or more in the Company, that party will have a six week option to purchase the Manager's interest in the Management Services Agreement at independent valuation.

Board Appointment Rights

The Management Services Agreement sets out that AHML, as Manager, is entitled to appoint up to two directors to the Board of the Company. However if it does so, the majority of directors are required to be Independent of the Manager and will generally be elected by shareholders.

Fee Structure

Currently the Manager is entitled to an annual base management fee equivalent to 0.65% of the gross value of the assets of the Trust. Under the Management Services Agreement the Manager will be entitled to a lower base fee and a performance fee linked to the total shareholder return of the Company relative to its peers. The advantages and disadvantages of the revised management fee structure have already been canvassed in Section 7 of this report, in which we concluded that the revised management fee is fair to unit holders not associated with AHML.

Benefits of the Management Services Agreement

We believe the key benefits of the Management Services Agreement (relative to the current management arrangements in the Trust Deed) are as follows:

Board will be accountable to shareholders, with majority of directors generally elected by shareholders

Currently the strategy of ANZO is determined and implemented by the Manager, with no ability for unit holders to influence decision making.

So long as the Manager owns less than 50% of the Company, shareholders will elect the majority of directors to the board of ANZOL, and independence, quorum and casting vote requirements will ensure that directors associated with the Manager do not have control of the board.

The Management Services Agreement sets out that the board will have complete discretion to oversee the Manager's management of the Company, to direct the Manager how to act, and to set the Company's strategy.

The result is that the board is likely to provide a more "muscular" and accountable governance role than the current trustee-supervised model.

Scope and Fees for Additional Services are explicitly defined

The Management Services Agreement clearly sets out all the duties of Manager and specifies which of these duties are remunerated by the base fee. The Management Services Agreement also clearly specifies the Additional Services for which the Manager is permitted to charge additional fees, together with the associated fees. The trust deed is not as explicit as to the services covered by the base fee and those covered by the additional fees. Neither does the trust deed set out the rates that the Manager could charge for Additional Services.

Company can prevent a sale of the Manager

The Management Services Agreement introduces the ability for the Company to terminate the Manager upon a change of control of the Manager. This is triggered if a third party acquires a stake of 75% or more in the Manager without consent of the Company. We note however that a special resolution from shareholders is required before termination can be effected (and the Manager and its associates cannot vote).

This power of the Company, for which there is no analogous provision under the Trust, is significant because it should prevent a potential bidder who wants control of the Company simply buying the Manager without offering unit holders the ability to exit or share in any control premium. (This is what happened to unit holders in Calan Healthcare Trust – ING made a takeover offer for the units in the Trust but subsequently purchased the manager instead).

Under the Management Services Agreement the shareholders of the Manager will effectively need consent from the Company if they wish to sell, unless the bidder has acquired a stake of 50% or more in the Company, in which case the bidder would have a call option over the Manager's interest in the Management Agreement.

Disadvantages of the Management Services Agreement (relative to the Status Quo)

We summarise below the key disadvantages of the Management Services Agreement for unit holders not associated with AHML.

Manager likely to be more entrenched (in theory if not in practice)

The Trust Deed sets out that the Manager can be removed in the case of insolvency or unremedied material breach. These avenues are still available under the Management Services Agreement, but with the added barrier of a special resolution from shareholders required before termination can be effected (upon which the Manager and related parties will not be entitled to vote).

We note however that the Board of the Company, which will be answerable directly to the shareholders, perhaps could be expected to pursue a material breach by the Manager more aggressively than the Trustee.

Under the Trust Deed the Manager can be removed through an extraordinary resolution of unit holders. This requires a 75% approval threshold and the Manager and related parties are entitled to vote. This ability to remove the Manager by special resolution is not available under the Management Services Agreement.

In theory therefore the threshold for terminating the Manager under the Management Services Agreement is considerably higher than under the Trust Deed, especially in relation to the removal of the ability of unit holders to remove the Manager with a 75% resolution.

In practice however it is not realistically possible under the status quo for unit holders to remove the Manager by special resolution. This is because HNZLP owns a blocking stake of 19.9% of the units in the Trust (and AMPCI has pre-emptive rights over this stake if HNZLP wishes to sell).

The Corporatisation Proposal will be of potential benefit to HNZLP, which will no longer need to retain its 19.9% stake in the Company to entrench AHML as Manager. Due to changes to the pre-emptive rights between HNZLP and AMPCI, HNZLP will also be able to sell its shares in the Company without being required to sell its interest in the Manager.

We note however that AMPCI, as the other shareholder in the Manager, has to date been a logical buyer for HNZLP's units should it wish to sell. If the Corporatisation Proposal is approved AMPCI will no longer have the same motivations because it will no longer require a strategic stake to protect its position as Manager.

As part of this process we questioned HNZLP as to its intentions for its 19.9% stake in the Company, but did not receive a response.

Takeover Considerations

Takeovers are an important mechanism by which shareholders can realise value. New Zealand history however suggests that externally managed listed property companies are effectively takeover resistant.

One reason for the lack of takeovers of externally managed LPEs is because interested acquirors have instead chosen to simply purchase the manager. Another reason is that the managers in a number of the LPEs hold a significant number of units, which typically protects their role as manager and thereby renders takeover by a third party unattractive.

The closest the New Zealand market has come in recent history to a takeover of an externally managed listed property trust was when ING launched a takeover offer for Calan Healthcare Property Trust. ING subsequently acquired the manager and abandoned the takeover offer for the units in the Trust.

We note that listed property trusts are not subject to the Takeovers Code but are instead subject to the "Notice and Pause" provisions of the NZSX Listing Rules. Unlike the Takeovers Code, the "Notice and Pause" provisions do not require transactions over the relevant control threshold to proceed via unit holder approval or via full or pro-rata partial offers to all Unit Holders. Neither do they require the offerors to offer the same offer price to all unit holders. If the Corporatisation Proposal is approved, shareholders will benefit from the protections of the Takeovers Code.

Under the current trust structure, a bidder could obtain control of ANZO in one of two ways: (i) by simply acquiring the Manager; or (ii) by acquiring sufficient units to ensure a unit holder resolution to remove the Manager via a 75% vote, and taking over the role of Manager at no cost. The first way involves paying a control premium to the Manager. The second involves paying a control premium to unit holders.

If the Corporatisation Proposal is implemented it will no longer be possible for a bidder to simply acquire the Manager instead of making an offer to share holders. This is because the Company will be entitled to veto a change of control of the Manager. Consequently the only way in which a bidder will be permitted to acquire the Manager is if that bidder also acquires at least 50% of the shares in the Company, thereby triggering a call option over the shares in the Manager. This change is likely to be beneficial to shareholders, and should prevent a repeat of the aborted takeover of Calan by ING.

If the Corporatisation Proposal is approved shareholders will no longer be able to remove the Manager with a 75% resolution. Hence it will no longer be possible for a bidder to acquire 75% of the shares in the Company and automatically get the Manager for no consideration. Instead under the Management Services Agreement a party acquiring

more than 50% of the Company has an option to acquire the management contract at independent valuation.

Similar management contracts in New Zealand have transacted at between 4.0x and 9.5x EBIT, which suggests the ANZO management contract could be worth somewhere between \$40 to \$80 million. Buying the Manager (instead of getting it for free) would therefore increase the cost of acquiring a 75% stake in the Company (at current market value) by between 8-15%, which would in turn reduce the ability of the bidder to offer a control premium to shareholders.

We note that under the trust structure it would in practice be almost impossible for a bidder to get to the 75% threshold unless HNZLP agreed to sell its 19.9% stake. Clearly HNZLP would not agree to sell its stake unless it could achieve value for the management rights. Hence the reality is that even under the current Trust structure any bidder would need to offer market value for the management rights.

We believe a takeover of the Trust is unlikely under the status quo. Even if a takeover offer eventuated we expect that the Manager would capture the majority of any control premium payable. If the Corporatisation Proposal is approved, a hostile control transaction becomes more realistic because a bidder only needs to acquire 50% to secure the management contract (and it is much more difficult for HNZLP to block a bid than it would be if the threshold was still at 75%). Nevertheless the Manager is still likely to receive the majority of any control premium payable. Consequently we do not see that unit holders not related to AHML will be disadvantaged by the Corporatisation Proposal in relation to their ability to benefit from takeover offers.

Fairness of the Management Services Agreement to non-related unit holders

If the Corporatisation Proposal is approved, the Company will remain externally managed by AHML. Given the Trust Deed will no longer apply to the Company, the relationship between the Manager and the Company will be determined by the Management Services Agreement.

The Management Services Agreement proposes some significant changes relative to the current management arrangements in the Trust Deed. We believe the following are the most relevant for unit holders not associated with AHML to consider:

- The Company will be managed by a board, the majority of whose directors will, in all likelihood, be elected by shareholders. The Board will be able to oversee the Manager's management of the Company, to direct the Manager how to act, and to set the Company's strategy. **We believe this will be positive for unit holders not associated with AHML.**

- Under the Management Services Agreement it will become, in theory, almost impossible for shareholders to remove the Manager. We note however that the blocking stake held by HNZLP effectively renders it impossible for unit holders to remove the Manager under the current trust structure. **We believe that this change will therefore be largely neutral for unit holders not associated with AHML.**
- The Management Services Agreement introduces the ability for the Company to terminate the Manager upon a change of control of the Manager. This prevents a potential bidder who wants control of the Company simply buying the Manager without offering unit holders the ability to exit. If a bidder wishes to acquire the Manager it will first have to acquire at least 50% of the units. **We believe this will be positive for unit holders not associated with AHML, although we would still expect the Manager to receive the majority of any control premium payable.**

On this basis we believe that the Management Services Agreement, on which unit holders are being asked to vote in Resolution Four, is fair to unit holders not associated with AHML.

8.5 DEED OF INDEMNITY

In Resolution Four unit holders are being asked to approve, for the purposes of NZSX Listing Rule 9.2.1, the entry into the Deed of Indemnity between the Company, the Trustee and AHML.

What is it?

The Trustee and Manager are each indemnified out of the Trust against certain losses or expenses occurred in the course of performing their respective duties in relation to the Trust. The Deed of Indemnity will provide the Trustee and the Manager the same protections from the Company as they currently have from the Trust.

Why does the Deed of Indemnity constitute a material transaction with a related party?

Both the Trustee and the Manager are Related Parties of the Company. For the purposes of the NZSX Listing Rules, a transaction is “material” if it involves the issuer incurring an obligation with a value in excess of 5% of the average market capitalisation. Because the amounts indemnified under the deed are not quantified, the Deed of Indemnity could potentially constitute a material transaction with the Trustee and AHML.

Key Considerations for Non-Related Unit Holders

In order to determine whether or not the Deed of Indemnity is fair to the unit holders of ANZO not associated with the Trustee or AHML, we have considered the following factors:

Rationale

The Deed of Indemnity simply provides the Trustee and the Manager the same protections from the Company as they currently have from the Trust.

Benefits of the Deed of Indemnity

The key benefit of the Deed of Indemnity for unit holders not associated with the Trustee or AHML is that it allows the implementation of the Corporatisation Proposal, which we believe will, on balance, be positive for the Company and for unit holders. We understand that neither the Trustee nor the Manager would be likely to proceed with the Corporatisation Proposal in the absence of the indemnity.

Disadvantages of the Deed of Indemnity

Unit holders are not disadvantaged by the Deed of Indemnity as it provides the Trustee and Manager with the same protections they currently enjoy under the Trust Deed.

Fairness of the Deed of Indemnity to non-related unit holders

The Deed of Indemnity provides the Trustee and Manager, post corporatisation, with the same protections they currently enjoy under the Trust Deed. Consequently we do not believe that non-related unit holders are disadvantaged by the Deed of Indemnity.

On this basis we believe that the Deed of Indemnity, on which unit holders are being asked to vote in Resolution Four, is fair to unit holders not associated with the Trustee or AHML.

8.6 TRADEMARK LICENCE

The entry into the Trademark Licence by the Company is a related party transaction because AMP Life is associated related party of the Company. We believe that the Trademark Licence has no net impact on unit holders not associated with AMP Life. This is because (i) the licence simply enables the Company to continue to use the “AMP” moniker in its name, in the same way that the Trust does currently; and (ii) neither side is required to make any payment to the other in respect of the Trademark Licence.

On this basis we believe that the Trademark Licence, on which unit holders are being asked to vote in Resolution Four, is fair to unit holders not associated with AMP Life.

8.7 ISSUE OF RESIDUAL UNITS IN THE TRUST TO THE COMPANY

As part of the Corporatisation Proposal the Manager will issue 100 units in the Trust (the “Residual Units”) to the Company. The effect of the issue will be that the Trust effectively becomes a subsidiary of the Company after the Corporatisation Redemption. This will ensure that the Trust continues to exist after the Corporatisation Redemption has been implemented. This will allow the Trust to be wound up in an orderly fashion.

The issue of the Residual Units is a related party transaction for NZSX Listing Rule purposes because HNZLP will, as a result of the Corporatisation Redemption, become a substantial security holder of the Company.

The units will be issued at market price. On the basis of the current unit price, the total consideration for the Residual Units will be less than \$100. In the context of the Proposed Transactions this amount is de minimis. **Consequently we believe that the issue of Residual Units, on which unit holders are being asked to vote in Resolution Four, is fair to unit holders not associated with AHML.**

9. MERITS OF RESOLUTION TEN (TAKEOVERS CODE REQUIREMENT)

In Resolution Ten unit holders are being asked to approve the Corporatisation Transfer for the purposes of the Takeovers Code Exemption Notice.

9.1 WHAT IS THE CORPORATISATION TRANSFER?

The Corporatisation Transfer is a key step in the Corporatisation Proposal by which unit holders exchange units in the Trust for shares in the Company. The intent is that the shareholding makeup of the Company immediately after corporatisation will be essentially the same as the unit holding makeup of ANZO immediately prior to corporatisation.

9.2 WHY IS A TAKEOVERS CODE EXEMPTION REQUIRED?

HNZLP and AMPCI are associates under the Takeovers Code and together hold or control approximately 21.25% of the total Trust units on issue. If the Corporatisation Proposal is approved these parties will together hold a similar percentage of the shares in the Company, which could put them in breach of Rule 6(1) of the Takeovers Code.

In order to implement the Corporatisation Transfer in a manner compliant with the Takeovers Code, the Company would be required to seek approval from unit holders in accordance with Rule 7(c) of the Takeovers Code. However the Company will be unable to comply with the specific requirements of Rule 7(c) for two technical reasons:

- i. the unit holders approving the Corporatisation Proposal will not be shareholders in the Code Company at the time of the vote (they will not become shareholders until the Corporatisation Proposal is effected); and
- ii. the exact number of votes that will be held or controlled by HNZLP and AMPCI after the Corporatisation Proposal is implemented cannot be known exactly at the time investor approval is sought (because it will depend on the final number of Non-converting Holders).

Accordingly an application was made to the Takeovers Panel for an exemption for the Corporatisation Transfer from Rule 6(1) of the Takeovers Code.

9.3 TAKEOVERS CODE REQUIREMENTS

The Takeovers Panel has granted an exemption for the Corporatisation Transfer from Rule 6(1) of the Code on the basis of several conditions, including:

- The Corporatisation Transfer is approved by an ordinary resolution of unit holders
- HNZLP and AMPCI are not entitled to vote
- After the Corporatisation Transfer, the maximum allowable stakes in the Company are 20.00% for HNZLP and 1.35% for AMPCI.
- Unit holders are provided with a report from an independent adviser opining on the merits of the Corporatisation Transfer.

9.4 MAXIMUM POTENTIAL SHAREHOLDING OF HNZLP & AMPCI

HNZLP and AMPCI currently hold or control 19.90% and approximately 1.35% respectively of the Trust units on issue, resulting in a combined voting percentage of approximately 21.25%.

If unit holders approve Resolution Ten, they are approving HNZLP and AMPCI to hold or control combined voting rights in the Company immediately post Corporatisation of up to a maximum of 21.35%.

9.5 MERITS OF THE CORPORATISATION TRANSFER

This part of our report is required by the Takeovers Code Exemption Notice to consider the merits of allowing HNZLP and AMPCI to increase their collective control of voting rights in the Company to a maximum of 21.35%.

ANZOL Will Be Subject to Takeovers Code

ANZO, as a trust, is not currently subject to the Takeovers Code. Collectively AMPCI and HNZLP currently hold or control 21.25% of the units in the Trust. If the Corporatisation Proposal is approved, the Company will be subject to the Takeovers Code and the combined stake of AMPCI and HNZLP would breach Rule 6(1) of the Code. The Takeovers Panel has granted an exemption for the Corporatisation Transfer from Rule 6(1) of the Code on the basis of several conditions, including approval by ordinary resolution of unit holders

What Happens if the Corporatisation Transfer is not Approved?

The Corporatisation Transfer is an essential mechanism for the implementation of the Corporatisation Proposal. Without the Corporatisation Transfer, the Corporatisation Proposal cannot proceed. Hence if unit holders do not approve the Corporatisation Transfer for the purposes of Resolution Ten, the Corporatisation Proposal will not proceed.

Approval of Resolution Ten does not materially change control of the Company

Collectively AMPCI and HNZLP currently hold or control 21.25% of the units in the Trust. If the Corporatisation Transfer is approved, the collective voting rights in the Company held by these parties could rise to a maximum of 21.35%, depending on the number of units held by Non-converting Holders that are redeemed for cash. Consequently the approval of the Corporatisation Transfer will not result in any meaningful increase in the degree of voting control in the Company held collectively by AMPCI and HNZLP.

9.6 CONCLUSION

Approval of Resolution Ten will not materially change the voting control of the Company relative to current levels. Consequently we believe the key merit that investors will wish to consider in relation to the Corporatisation Transfer is that the Corporatisation Proposal, which we believe will be positive for investors, will not proceed if unit holders do not approve Resolution Ten.

We note that the Corporatisation Proposal has been structured so that it will only be implemented if unit holders also approve each of Resolutions Eleven to Thirteen. This means that the Corporatisation Proposal will only proceed if unit holders also approve (i) the ability of AMPCI's funds management operations to invest in the Company; (ii) ongoing pre-emptive arrangements between HNZLP and AMPCI; and (iii) the potential establishment of an employee share scheme.

As a result, if investors wish the Corporatisation Proposal to be implemented, they must approve Resolutions Eleven to Thirteen, whether or not they are in favour of the proposals. We note that AHML could have chosen to structure the Corporatisation Proposal so that it was not contingent on unit holders also approving each of Resolutions Eleven to Thirteen.

10. MERITS OF RESOLUTION ELEVEN (TAKEOVERS CODE REQUIREMENT)

In Resolution Eleven unit holders are being asked to approve, for the purposes of the Takeovers Code Exemption Notice, any acquisition of Company shares made by AMPCI in accordance with the Pre-Emptive Arrangements between AMPCI and HNZLP.

10.1 WHAT ARE THE PRE-EMPTIVE ARRANGEMENTS?

AMPCI currently holds pre-emptive rights which grant to AMPCI the first right to acquire any units in ANZO that HNZLP wishes to sell. If the Corporatisation Proposal is approved, the Pre-Emptive Arrangements will give AMPCI similar pre-emptive rights to acquire any shares in the Company that HNZLP wishes to sell.

10.2 WHY IS A TAKEOVERS CODE EXEMPTION REQUIRED?

HNZLP and AMPCI are associates under the Takeovers Code and will together hold or control more than 20% of the voting rights in the Company after the Corporatisation Proposal is effected. Consequently any acquisition of voting securities under the Pre-Emptive Arrangements will breach Rule 6(1) of the Code.

In order to implement the Pre-Emptive Arrangements in a manner compliant with the Takeovers Code, the Company would be required to seek approval from shareholders in accordance with Rule 7(c) of the Takeovers Code. However the Company will be unable to comply with the specific requirements of Rule 7(c) of the Takeovers Code. Accordingly AMPCI has applied to the Takeovers Panel for an exemption for the Pre-Emptive Arrangements from Rule 6(1) of the Takeovers Code.

10.3 TAKEOVERS CODE REQUIREMENTS

The Takeovers Panel has granted an exemption for pre-emptive acquisitions made by AMPCI from Rule 6(1) of the Code on the basis of several conditions, including:

- The Pre-Emptive Arrangements are approved by an ordinary resolution of unit holders.
- HNZLP and AMPCI are not entitled to vote.
- If AMPCI acquire any shares under the Pre-Emptive Arrangements, AMPCI must within six months dispose of sufficient shares such that the combined stake held or controlled by HNZLP, AMPCI and the employee share scheme is no more than 20%.
- Unit holders are provided with a report from an independent adviser opining on the merits of the Pre-Emptive Arrangements.

10.4 MAXIMUM POTENTIAL SHAREHOLDING OF HNZLP & AMPCI

HNZLP and AMPCI currently hold or control 19.90% and 1.35% respectively of the Trust units on issue, resulting in a combined voting percentage of 21.25%. As set out in Section 9.4, depending on the number of units held by Non-converting Holders which are redeemed for cash, the combined stake held or controlled by HNZLP and AMPCI could increase to a maximum of 21.35% immediately following Corporatisation.

If HNZLP subsequently decides to sell some or all of its shares in the Company, AMPCI could only exercise its rights under the Pre-Emptive Arrangements on the condition that it sold sufficient shares within six months such that the combined stake held by HNZLP, AMPCI and the employee share scheme does not exceed 20%. Assuming that HNZLP and the employee share scheme did not retain any shares in the Company, AMPCI could increase its stake to a maximum of 20%.

10.5 MERITS OF THE PRE-EMPTIVE ARRANGEMENTS

This part of our report is required by the Takeovers Code Exemption Notice to consider the merits of allowing AMPCI the option to increase its control of voting rights in the Company via the exercise of the Pre-Emptive Arrangements.

Rationale

Under the Trust Deed the Manager can be dismissed via a special resolution of unit holders, on which the Manager and its associates are entitled to vote. HNZLP's stake of 19.9% of the units in the Trust therefore effectively protects the Manager from dismissal.

AMPCI currently holds pre-emptive rights which grant to AMPCI the first right to acquire any units in ANZO that HNZLP wishes to sell. These pre-emptive rights are clearly of value to AMPCI because they enable it to move to protect AHML's position as Manager should HNZLP decide to sell the units.

If the Corporatisation Proposal is approved, shareholders will no longer be able to remove the Manager by special resolution (except in the case of unremedied material breach by the Manager). Hence the Manager and its associates will no longer be required to hold a strategic stake in the Company to protect its management rights.

In this context we would have expected the Pre-Emptive Arrangements to become less important to AMPCI. Nevertheless AMPCI wishes to retain its current first option to purchase any shares in the Company sold by HNZLP. We understand that AMPCI would not have supported the Corporatisation Proposal unless the existing pre-emptive arrangements were substantially replicated in respect of HNZLP's holding of ANZOL shares.

Impact on Control

If the Corporatisation Proposal is approved, the combined stake in the Company held or controlled by AMPCI and HNZLP will be a maximum of 21.35%. Any acquisition of shares by AMPCI under the Pre-Emptive Arrangements will not increase the degree of control available to AMPCI and HNZLP. However any decrease in voting control of HNZLP will be mirrored by an equivalent increase in the voting control of AMPCI.

If the Pre-Emptive Arrangements are approved and AMPCI acquires any shares under the Pre-Emptive Arrangements, a further condition imposed by the Takeovers Panel will require that AMPCI within six months must dispose of sufficient shares acquired such that the combined stake held or controlled by HNZLP, AMPCI (including its funds management operations) and the employee share scheme is no more than 20%. Hence the exercise of the Pre-Emptive Arrangements will result in a minor reduction in the collective holding of AMPCI and HNZLP, from a maximum of 21.35% to a maximum of 20.0%. In our view however this minor reduction in collective holding would have no real impact on the level of control that AMPCI and HNZLP are able to exert upon the Company.

What Happens if the Pre-Emptive Arrangements are not Approved?

AHML has structured the Corporatisation Proposal so that it is contingent on unit holders approving each of Resolutions Ten to Thirteen. Hence if unit holders do not approve the Pre-Emptive Acquisitions for the purposes of Resolution Eleven, the Corporatisation Proposal will not proceed.

10.6 CONCLUSION

We note that the approval of Resolution Eleven will not materially change the degree of control available to AMPCI and HNZLP. However we note that if the resolution is approved and AMPCI exercises its pre-emptive rights, there will be a change of control from HNZLP to AMPCI.

Consequently we believe the key merit that investors will wish to consider in relation to the Pre-Emptive Arrangements is that the Corporatisation Proposal, which we believe will be positive for investors, will not proceed if unit holders do not approve Resolution Eleven.

11. MERITS OF RESOLUTION TWELVE (TAKEOVERS CODE REQUIREMENT)

In Resolution Twelve unit holders are being asked to approve, for the purposes of the Takeovers Code Exemption Notice, AMPCI's ability to make Funds Management Acquisitions.

11.1 WHAT ARE THE FUNDS MANAGEMENT ACQUISITIONS?

AMPCI is a substantial fund manager, with funds under management in New Zealand of approximately \$11 billion. AMPCI operates a number of investment funds that may wish to trade in the shares of the Company as part of the ordinary course of business.

AHML, HNZLP and AMPCI are associates in terms of the Takeovers Code and will together hold more than 20% of the Company. Consequently AMPCI's fund managers will only be able to acquire new shares in the Company in accordance with the Takeovers Code. AMPCI considers this would significantly hamper its ability to invest in the Company as part of its ordinary funds management business.

AMPCI does not want its fund management business to be precluded from trading in the Company's shares. An exemption from the Takeovers Code has therefore been sought to enable AMPCI's funds management operations to control up to an additional 4.9% of the Company (the "Funds Management Acquisitions"). We note that AMPCI's current stake of approximately 1.35% will count as part of the 4.9% of the Company it will be able to hold or control as a result of the Funds Management Acquisitions exemption.

11.2 WHY IS A TAKEOVERS CODE EXEMPTION REQUIRED?

AHML, HNZLP and AMPCI are associates in terms of the Takeovers Code and will together hold more than 20% of the voting rights in the Company. Consequently any acquisition of voting control by AMPCI (or its subsidiaries) in the course of its funds management activities will breach Rule 6(1) of the Takeovers Code.

In order to implement the Funds Management Acquisitions in a manner compliant with the Takeovers Code, the Company would be required to seek approval from unit holders in accordance with Rule 7(c) of the Takeovers Code. However the Company will be unable to comply with the specific requirements of Rule 7(c) of the Takeovers Code.

Accordingly an application was made to the Takeovers Panel for an exemption for the Funds Management Acquisitions from Rule 6(1) of the Takeovers Code.

11.3 TAKEOVERS CODE REQUIREMENTS

The Takeovers Panel has granted an exemption for the Funds Management Acquisitions from Rule 6(1) of the Takeovers Code on the basis of several conditions, including:

- The Funds Management Acquisitions are approved by an ordinary resolution of unit holders.
- AMPCI and its associates are not entitled to vote.
- Maximum voting rights that can be held or controlled by all AMPCI Parties as a result of Funds Management Acquisitions will be limited to 4.9% of the total shares in the Company.
- The combined voting control of AMPCI and HNZLP is effectively limited to the current level of 21.35%.
- Unit holders are provided with a report from an independent adviser opining on the merits of the Funds Management Acquisitions.

The Funds Management Acquisition exemption is granted on a perpetual basis, to provide maximum certainty for long-term funds management investment activities.

11.4 MAXIMUM SHAREHOLDING & CONTROL PERCENTAGE OF AMPCI & ASSOCIATES

HNZLP and AMPCI currently hold or control 19.90% and 1.35% respectively of the Trust units on issue, resulting in a combined voting percentage of 21.25%.

As set out in Section 9.4, depending on the number of units held by Non-converting Holders which are redeemed for cash, the stake held by HNZLP can increase to a maximum of 20% but AMPCI is not permitted to increase its stake. Hence the combined stake held or controlled by HNZLP and AMPCI could increase to a maximum of 21.35% immediately following Corporatisation.

The exemption granted by the Takeovers Panel restricts the ability of AMPCI to exercise voting rights held on behalf of its funds management operations. In particular, the ability of AMPCI and HNZLP to vote shares in the same way on any resolution is limited to a maximum of 21.35% (the "Specified Percentage")¹³.

Post Corporatisation, AMPCI could acquire up to an additional 3.55% of the Company under the Funds Management exemption. This would increase the combined stake held or controlled by AMPCI and HNZLP to 24.9%. The degree of control that AMPCI and HNZLP could exercise would however be limited to 21.35%, which is the maximum percentage of shares that the parties could vote in the same way on any resolution.

Another feature of the exemption granted by the Takeovers Panel is that the Specified Percentage is subject to a sinking lid. As HNZLP or AMPCI's funds management operations dispose of shares, the Specified Percentage will reduce accordingly, but will not go below 20%. If HNZLP or AMPCI's funds management operations dispose of, in aggregate, 1.35% or more of the Company's shares, the Specified Percentage will be set at 20% and the combined voting control able to be exercised by AMPCI and HNZLP will be back within the parameters of the Takeovers Code.

11.5 MERITS OF THE FUNDS MANAGEMENT ACQUISITIONS

This part of our report is required by the Takeovers Code Exemption Notice to consider the merits of allowing AMPCI and its associates the option to increase their shareholding in the Company via the exercise of the Funds Management Acquisitions to a maximum of 24.9%, with collective voting control limited to a maximum of 21.35%.

Rationale

AMPCI is a large institutional investor and invests across a wide range of New Zealand listed companies as part of its day-to-day business operations. Collectively AMPCI and HNZLP currently hold or control 21.25% of the units in the Trust. If the Corporatisation Proposal is approved, the Company will become subject to the Takeovers Code and AMPCI will effectively be prevented from acquiring further shares in the Company for as long as the collective AMPCI / HNZLP voting stake exceeds 20%. This could significantly impact the ability of AMPCI funds to fully comply with investment mandates.

Benefits of the Funds Management Acquisitions

If unit holders approve Resolution Twelve AMPCI's funds management operations will be able to continue to invest in the Company. This should support liquidity and facilitate the market for trading in the Company's shares.

Impact on Control

If unit holders approve Resolution Twelve, the combined stake in the Company able to be held by HNZLP and AMPCI's funds management operations would increase to a maximum of 24.9%.

We note however that the exemption granted by the Takeovers Panel limits the ability of AMPCI and HNZLP to vote shares in the same way on any resolution to a maximum of 21.35%. Hence the degree of control that AMPCI and HNZLP could exercise over the Company would be limited to 21.35% - this exceeds the 20% limit prescribed in the Takeovers Code but is effectively no different to the status quo.

We note that a shareholder can exert negative control over a company if he or she owns a stake of 25% or more. A stake of this size confers on the holder the ability to block special resolutions, and consequently the ability to prevent major transactions, amalgamations and changes to the constitution.

We do not believe the ability to vote 21.35% of the shares in the Company will confer on AMPCI and its associates any greater ability to control ANZOL than would be possible with a 20% voting stake.

AMPCI has also pointed out that its equities desk is separate from its ANZO-related operations. There are "Chinese Walls" in place. Structurally AMPCI's equities funds are unit trusts or group investment funds with independent trustees. In carrying out its funds management activities AMPCI is responsible to its investors and the trustees – it is not in a position to prefer its own interests to those of its investors.

What Happens if the Funds Management Acquisitions are not Approved?

AHML has structured the Corporatisation Proposal so that it is contingent on unit holders approving each of Resolutions Ten to Thirteen. Hence if unit holders do not approve the Funds Management Acquisitions for the purposes of Resolution Twelve, the Corporatisation Proposal will not proceed.

We understand that this is because AMPCI was not prepared to support the implementation of the Corporatisation Proposal unless AMPCI was able to invest in the Company in the ordinary course of its funds management business, in the same way that AMPCI is currently able to invest in ANZO units.

¹³ AMPCI and HNZLP will remain free to vote their shares differently

11.6 CONCLUSION

If unit holders approve Resolution Twelve, the combined stake in the Company able to be held or controlled by HNZLP and AMPCI's funds management operations would increase to a maximum of 24.9%. However the degree of control that AMPCI and HNZLP could exercise of the Company would be limited to 21.35%. Whilst this exceeds the 20% limit prescribed in the Takeovers Code, it is effectively no different to the status quo. Moreover we do not believe that the additional 1.35% will confer any additional increase in the ability of AMPCO and HNZLP to control the Company relative to a 20% voting stake.

Consequently unit holders will need to weigh the potential disadvantages of this incremental shift in control against the advantage of potentially increased liquidity if AMPCI's funds management operations are able to continue to invest in the Company. Unit holders will also wish to consider the fact that the Corporatisation Proposal, which we believe will be positive for investors, will not proceed if unit holders do not approve Resolution Twelve.

12. MERITS OF RESOLUTION THIRTEEN (TAKEOVERS CODE REQUIREMENT)

In Resolution Thirteen unit holders are being asked to approve, for the purposes of the Takeovers Code Exemption Notice, the Employee Share Scheme Acquisitions.

12.1 WHAT ARE THE EMPLOYEE SHARE SCHEME ACQUISITIONS?

AHML, as manager of ANZO, currently offers certain persons engaged in ANZO's business incentives in the form of ANZO units. If the Corporatisation Proposal is approved, the Manager intends to continue to incentivise key employees using the Company's shares.

However the administrator of the incentive scheme may be considered an associate of HNZLP and/or AMPCI. Consequently any acquisition of the Company's shares by it for the employee share scheme may breach Rule 6(1) of the Takeovers Code if the aggregate voting percentages of the associated parties exceed 20%.

An exemption from the Takeovers Code has therefore been sought to enable the employee share scheme administrator (AMP Haumi LTI Trustee Limited) to hold up to 1% of the shares in the Company (the "Employee Share Scheme Acquisitions").

12.2 WHY IS A TAKEOVERS CODE EXEMPTION REQUIRED?

HNZLP and AMPCI are associates in terms of the Takeovers Code and will together hold or control more than 20% of the voting rights in the Company. It is possible that the administrator of the employee share scheme would also be considered an associate of HNZLP and AMPCI. Consequently any acquisition of voting securities by the employee share scheme administrator will breach Rule 6(1) of the Takeovers Code.

In order to implement the Employee Share Scheme Acquisitions in a manner compliant with the Takeovers Code, the Company would be required to seek approval from unit holders in accordance with Rule 7(c) of the Takeovers Code. However because of the way the Corporatisation Proposal has been structured, the Company will be unable to comply with the specific requirements of Rule 7(c) of the Takeovers Code.

Accordingly an exemption from Rule 6(1) of the Takeovers Code was required to enable the Employee Share Scheme Acquisitions to occur.

12.3 TAKEOVERS CODE REQUIREMENTS

The Takeovers Panel has granted an exemption for the Employee Share Scheme Acquisitions from Rule 6(1) of the Takeovers Code on the basis of several conditions, including:

- The Employee Share Scheme Acquisitions are approved by an ordinary resolution of unit holders
- AHML is not entitled to vote
- Maximum shares that can be held by the administrator of an employee share scheme will be limited to 1% of the total shares in the Company.
- Shares held within the employee share scheme cannot be voted.
- Unit holders are provided with a report from an independent adviser opining on the merits of the Employee Share Scheme Acquisitions.

The Employee Share Scheme Exemption is granted on a perpetual basis, to provide maximum certainty for the Manager to implement long term incentive plans for key personnel.

12.4 MAXIMUM POTENTIAL SHAREHOLDING OF AMPCI & ITS ASSOCIATES

HNZLP and AMPCI currently hold or control 19.90% and 1.35% respectively of the Trust units on issue, resulting in a combined voting percentage of 21.25%. As set out in Section 9.4, depending on the number of units held by Non-converting Holders which are redeemed for cash, the combined stake held or controlled by HNZLP and AMPCI could increase to a maximum of 21.35% immediately following Corporatisation.

As set out in Section 11.4, post Corporatisation AMPCI could acquire up to an additional 3.55% of the Company under the Funds Management exemption. This would increase the combined stake able to be held or controlled by AMPCI and HNZLP to a maximum 24.9%. The degree of control that AMPCI and HNZLP could exercise would however be limited to 21.35%, which is the maximum number of shares that the parties could vote in the same way on any resolution.

If unit holders approve Resolution Thirteen the maximum possible combined stake able to be held or controlled by HNZLP, AMPCI and the employee share scheme would be 25.9%. The exemption granted by the Takeovers Panel sets out that any shares controlled by the employee share scheme cannot be voted. Hence the maximum control that AMPCI and HNZLP could exercise together with the employee share scheme remains at 21.35%.

12.5 MERITS OF THE EMPLOYEE SHARE SCHEME ACQUISITIONS

This part of our report is required by the Takeovers Code to consider the merits of approving the Employee Shares Scheme Acquisitions.

Rationale

AHML, as manager of ANZO, currently offers certain persons engaged in ANZO's business incentives in the form of ANZO units. AHML considers that the current incentive scheme is in the best interests of ANZO unit holders, in that it aligns the interests of unit holders and the key persons engaged in ANZO's business.

AHML considers that replicating the existing scheme following implementation of the Corporatisation Proposal will be in the best interests of ANZO shareholders, by similarly aligning their interests with participants in the new employee share scheme.

Benefits of the Employee Share Scheme Acquisitions

If unit holders approve Resolution Thirteen the Manager will be able to incentivise key staff by offering participation in an employee share scheme. This would both incentivise key staff and better align their interests with those of shareholders.

Disadvantages of the Employee Share Scheme Acquisitions

We do not see any material disadvantages associated with the Employee Share Scheme Acquisitions.

Impact on Control

As discussed in Section 11.4, if unit holders approve Resolution Twelve, the combined stake in the Company able to be held or controlled by HNZLP and AMPCI's funds management operations would increase to a maximum of 24.9%. The degree of control that AMPCI and HNZLP could exercise over the Company would however be limited to a maximum of 21.35%.

Resolution Thirteen will have no incremental impact on the ability of AMPCI and its associates to control the Company because the shares held in the employee share scheme are unable to be voted.

What Happens if the Employee Share Scheme Acquisitions are not Approved?

AHML has structured the Corporatisation Proposal so that it is contingent on unit holders approving each of Resolutions Ten to Thirteen. Hence if unit holders do not approve the Employee Share Scheme Acquisitions for the purposes of Resolution Thirteen, the Corporatisation Proposal will not proceed.

12.6 CONCLUSION

We note that the approval of Resolution Thirteen will have no incremental impact on the control of the Company because the shares cannot be voted.

Consequently we believe the key merit that investors will wish to consider in relation to the Employee Share Scheme Acquisitions is that the Corporatisation Proposal, which we believe will be positive for investors, will not proceed if unit holders do not approve Resolution Thirteen.

APPENDIX 1: SOURCES OF INFORMATION

DOCUMENTS RELIED UPON

Documents relied upon include, but are not limited to, the following:

- Draft Management Services Agreement between Newco Ltd and AHML.
- Draft AMP NZ Office Trust Information Pack: Management Fee Review and Corporatisation Proposal.
- Draft Service Level Agreement between CMPCI and AHML.
- Pre-emptive Agreement
- Specific Rights Deed
- Joint Venture Agreement
- Trademark Agreement
- Deed Amending and Consolidating the AMP NZ Office Trust Deed.
- Annual reports for all companies mentioned in this report.
- Various NZX announcements.
- Various broker research reports
- “Internal vs. External Management of REITs”, David Brown, Deloitte, June 2004
- “Corporate Governance of Externally Managed REITs Presents Credit Risks”, Moodys Investor Services, November 2007
- “REIT Organizational Structure, Institutional Ownership, and Stock Performance”; Brockman, French & Tamm.
- “Debt, Agency, and Management Contracts in REITs: The External Advisor Puzzle”, Capozza & Seguin, Journal of Real Estate Finance and Economics, 20:2, 91-116 (2000).
- “Challenges and opportunities for the A-REIT market through to 2012” August 2009.

We have also had discussion with the directors and management of AHML in relation to the nature of the business operations, and the specific risks and opportunities of the Trust for the foreseeable future. KordaMentha has been provided with all the information believed necessary for the preparation of this report.

RELIANCE UPON INFORMATION

In forming our opinion we have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was available from public sources and all information that was furnished to us by ANZO, its Manager and its advisers. We have no reason to believe any material facts have been withheld.

We have evaluated that information through analysis, enquiry and examination for the purposes of forming our opinion but we have not verified the accuracy or completeness of any such information. We have not carried out any form of due diligence or audited the accounting or other records of ANZO. We do not warrant that our enquiries would reveal any matter that an audit, due diligence review or extensive examination might disclose

APPENDIX 2: QUALIFICATIONS & DECLARATIONS

QUALIFICATIONS

KordaMentha is an independent New Zealand Chartered Accounting practice, internationally affiliated with the KordaMentha group. The firm has established its name nationally through its provision of professional financial consultancy services with a corporate advisory and insolvency emphasis, and because it has no business advisory, audit or tax divisions, avoids any potential conflicts of interest which may otherwise arise. This places the firm in a position to act as an independent adviser and prepare independent reports as required under the Takeovers Code and NZSX Listing Rules.

The persons responsible for preparing and issuing this report are Grant Graham, Daniel Molloy and Rebecca Robinson. All three have significant experience in providing corporate finance advice on mergers, acquisitions and divestments, advising on the value of shares and undertaking financial investigations.

DISCLAIMERS

It is not intended that this report should be used or relied upon for any purpose other than that set out in Section 1.4 of this report. KordaMentha expressly disclaims any liability to any equity security holder that relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose.

This report has been prepared by KordaMentha with care and diligence and the statements and opinions given by KordaMentha 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 KordaMentha or any of its officers or employees for errors or omissions however arising (including as a result of negligence) in the preparation of this report, provided that this shall not absolve KordaMentha from liability arising from an opinion expressed recklessly or in bad faith.

INDEMNITY

ANZO has agreed that, to the extent permitted by law, it will indemnify KordaMentha and its partners, employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of this report. This indemnity does not apply in respect of any negligence, misconduct, wilful deceit or breach of law. ANZO has also agreed to indemnify KordaMentha and its partners, employees and officers for time incurred and any costs in relation to any inquiry or proceeding initiated by any person in connection with the preparation of this report except where KordaMentha or its partners, employees and officers are guilty of negligence, misconduct, wilful deceit or breach of law in which case KordaMentha shall reimburse such costs.

INDEPENDENCE

KordaMentha does not have at the date of this report, and has not had, any shareholding in, or other relationship, or conflict of interest with ANZO that could affect its ability to provide an unbiased opinion in relation to this transaction. KordaMentha considers itself to be independent for the purposes of the Takeovers Code and NZSX Listing Rules. KordaMentha has had no part in the formulation of the offer or any undertaking in relation to this transaction. Its only role has been in the preparation of this report.

KordaMentha will receive a fee for the preparation of this report. This fee is not contingent on the success or implementation of the offer or any transaction complementary to it. KordaMentha has no direct or indirect pecuniary interest or other interest in this transaction.

We note for completeness that a draft of this report was provided to ANZO, its Manager, and its legal advisers, solely for the purpose of verifying the factual matters contained in the report. While minor changes were made to the drafting, no material alteration to any part of the substance of this report, including the methodology or conclusions, were made as a result of issuing the draft.

CONSENT

KordaMentha consents to the issuing of this report, in the form and context in which it is included, in the information to be sent to ANZO unit holders. Neither the whole nor any part of this report, nor any reference thereto may be included in any other document without the prior written consent of KordaMentha as to the form and context in which it appears.

APPENDIX 3: NZ LISTED PROPERTY ENTITIES

GOODMAN PROPERTIES

Goodman Property Trust (“Goodman”) is one of New Zealand’s largest listed property trusts. It was listed on the NZX in June 1999. Goodman owns industrial and commercial properties, including development land (12.3%), business park (22.3%), industrial estate (30.1%) and office park (35.3%).

Goodman is managed by Goodman (NZ) Limited. The manager is paid a base fee of 0.5% of total assets up to \$500 million and 0.4% thereafter. It is also entitled to a performance fee based on total returns to investors and relative performance compared to the other listed property vehicles.

ING MEDICAL

ING Medical Properties Trust (“ING Medical”) listed on the NZX in September 1999. ING Medical is an investment fund that invests in health and medical-related properties, and is managed by ING Medical Properties Limited, which is owned by ING Property Trust Management Limited.

The manager is paid a base fee of 0.75% of total assets of the trust. It is also entitled to an incentive fee of 10% of the three year rolling average change in the Trust’s revaluation reserve. The fee shall not exceed 1.75% of the gross value of the Trust.

ING Medical announced on 20 August that it would change its name to Vital Healthcare Property Trust as part of ING group’s rebranding process. The name change will take effect from 1 October.

ING PROPERTY

ING Property Trust (“ING Property”) listed on the NZX in December 2002. The majority of the Trusts investments are in the greater Auckland region, with a significant amount also in Wellington, and the remainder is spread throughout New Zealand.

ING Property is managed by ING Property Trust Management Limited. The manager is paid a base fee of 0.6% per annum of the average gross value of the assets of the Trust. There is also an incentive fee based on returns in excess of a 10% threshold.

ING Property announced on 20 August that it would change its name to Argosy Property Trust as part of ING group’s rebranding process. The name change will take effect from 1 October.

KIWI INCOME PROPERTY TRUST

Kiwi Income Property Trust is New Zealand’s largest property trust. The trust was first listed on the NZX in December 2003 and has property investments located throughout New Zealand.

The Trust is managed by Kiwi Income Properties Limited, which is ultimately owned by Commonwealth Bank of Australia. The Manager is entitled to receive a management fee comprising a base fee of 0.55% per annum of the average gross value of the Trust fund, and a performance fee calculated on Unit Holder returns above 10% per annum. The total management fee payable, including both the base and performance fees, is capped at 0.70% per annum of the average gross value of the Trust fund.

Kiwi has entered an agreement with ASB to develop and lease a new head office building located in Wynyard Quarter on the Auckland waterfront. This agreement is currently conditional on a number of procedural matters and securing resource consent. Current expectations are for a lease commencement date in July 2013.

KERMADEC

Kermadec Property Fund Limited (“Kermadec”) listed on the NZX in December 2006. Kermadec owns five retail and commercial properties situated throughout the greater Auckland region and a distribution warehouse in Palmerston North.

Kermadec is managed by Augusta Funds Management Limited. The manager is paid a base fee of 0.55% of total assets. It is also entitled to a performance fee based on the total shareholder return to investors in excess of a hurdle rate of 10%.

NATIONAL PROPERTY TRUST

The National Property Trust (“NPT”) was originally listed on the NZX in December 1996. The majority of its properties are located in Christchurch, with other properties located in Auckland, Wellington, Hastings and New Plymouth.

The manager of NPT is owned by St Laurence Limited (in Receivership). There had been discontent among the unit holders of NPT around the external management contract, this has intensified since St Laurence went into receivership. The trust is now in the process of internalising its management contract.

It was announced on 23 June 2010 that the manager was developing a proposal under which its management rights would be relinquished for \$2.5 million.

On 30 July 2010 unit holders approved the manager's proposal to develop a detailed plan to convert the Trust to a company and internalise the management contract. It is expected that unit holders will vote on a full proposal in late November. If this proceeds then the units held by the manager will be repurchased, and a new Company will be formed with unit holders replacing their units in NPT for shares in the Company.

PROPERTY FOR INDUSTRY

Property for Industry Limited ("PFI") was listed on the NZX in December 1994. The PFI portfolio consists of 55 industrial properties; the majority of these are spread throughout the greater Auckland region, with the remaining four in Wellington and two in Christchurch.

PFI is managed by AMP Capital Investors (New Zealand) Ltd, who also own 50% of AHML. PFI pays a base fee calculated at 0.70% up to \$175 million of assets and thereafter at 0.35%. There is also an incentive fee is calculated as 10% of the change in shareholder wealth above 10% and under 15%. The current management fee structure was introduced in April 1999.

DNZ

DNZ Property Fund Limited ("DNZ") was listed on the NZX in August 2010. It has a portfolio which includes commercial, industrial, and retail properties throughout New Zealand. The company was established in September 2008 through the amalgamation of four separate property funds. Its shares were previously traded on the Unlisted exchange.

DNZ originally started a process whereby it would raise \$130 million via an IPO and list the company on the NZSX. Using the funds raised, \$43 million would have been used to buy out the management contract. This was halted due investors rallying to block the proposal.

On 4 June 2010 DNZ confirmed a conditional agreement has been made to internalise the management contract. This agreement has since been executed and provided for fees of \$35 million to be paid to the managers for the release of the management contracts. The \$35 million was funded via a capital raising of \$45 million directed primarily at existing shareholders. Since then DNZ's shares have commenced trading on the NZX.

APPENDIX 4: RATES FOR ADDITIONAL SERVICES

The rates the Manager is entitled to charge for Additional Services are to be agreed annually between the Company and the Manager. The current rates are set out in the Management Services Agreement and summarised below:

Leasing

- A minimum fee of \$2,500 per lease.
- For leases with a minimum annual rental of less than \$100,000, a fee equivalent to two months rental.
- For leases with a term of less than three years, 12% of the annual rental.
- For leases with a three year term, 13% of the annual rental.
- For leases with a term exceed three years, 13% of the annual rental plus 1% for each year or part thereof over three years, up to a maximum of 20% of the annual rental.
- Incentive fees ranging from 150% to 300% of the standard scale referred to above, with 200% being the standard outcome. Incentive fees will only be payable where it is clear that competing market leasing opportunities include incentive fees.

Lease Renewals

- A fee of 50% to 100% of the leasing fee for new leases.

Rent Reviews

- Where the rent does not increase because of a ratchet clause, an administration fee of \$1,000 will only be payable at Board discretion.
- Open market (unratcheted) reviews: 3% of the annual gross rental or 10% of the rental increase achieved.

Lease Surrenders

- 10% of the surrender payments.

Acquisition and Sale of Properties

- A fee of 1% of the purchase price or other consideration to be provided by the purchaser.
- A reasonable cost recovery fee on unsuccessful acquisitions based on "time in attendance" using a reasonable hourly rate and capped at \$40,000 per acquisition.

Development Management

- A fee of 2.5% of the total development cost excluding land cost, incentives, marketing, and finance costs.

Project Management

- A fee between 1.75% and 6.0% of project costs (excluding project costs not controlled or managed by the project manager) depending on the scale of the project.

Property and Facilities Management

- A fixed fee negotiated between the Company and the Manager on arms length.

Other Services

Fees for other services are to be negotiated at the time between the Company and the Manager with supporting market evidence to be provided.

