

Continuous Disclosure Notice - 9 December 2011

Understanding the Trusts

The Australian Securities and Investments Commission (ASIC) has issued a set of benchmarks to help you understand and assess unlisted mortgage schemes, such as the **Australian Unity High Yield Mortgage Trust** ('AUI High Yield Mortgage Trust') ARSN 113 151 705 and the **Australian Unity Wholesale High Yield Mortgage Trust** ('AUI Wholesale High Yield Mortgage Trust') ARSN 113 151 947, collectively referred to as the Trusts. The benchmarks, including how the Trusts measure against them, are set out below. This information is current as at 31 October 2011 and has been provided to keep you informed and to assist you in better understanding the nature of this investment.

Benchmark 1: Liquidity

This benchmark requires responsible entities to 'have cash flow estimates for the next three months', 'ensure that at all times they have cash or cash equivalents sufficient to meet projected cash needs over the next three months' and to 'disclose our policy on balancing the maturity of assets and maturity of liabilities.'

We meet the benchmark as we prepare estimates of cash flows three months ahead and ensure that at all times we hold cash or cash equivalents sufficient to meet projected cash needs over the next three months.

After careful consideration, Australian Unity Funds Management, as Responsible Entity for the Trusts, determined to terminate and wind up the Trusts, effective 9 December 2011. Cash flows will be managed with the aim of returning capital to investors.

Benchmark 2: Scheme borrowing

This benchmark requires responsible entities who have borrowed funds to disclose the current nature of their mortgage scheme's borrowed funds.

We meet this benchmark. The Responsible Entity is permitted to borrow for the purposes of the Trusts and to grant security over the Trusts' assets. Presently, we have no borrowings and have no intention to borrow.

Benchmark 3: Portfolio diversification

This benchmark requires responsible entities to disclose the current nature of their mortgage scheme's loan portfolio.

We meet this benchmark and understand the importance of a transparent loan portfolio. To ensure consistent performance across a range of market conditions, the Trusts are diversified at a number of levels.

Please note that the AUI Wholesale High Yield Mortgage Trust invests in its retail equivalent, the AUI Australian Unity High Yield Mortgage Trust and therefore has similar portfolio diversification.

How are the loans classified by activity?

Asset class	No. of accounts	Value (\$m)
Non-Specialised / Non-Construction		
Retail	17	33.91
Industrial	35	39.88
Office	14	30.07
Residential Investment	10	14.79
Vacant land	5	14.16
Specialised		
Clubs	9	28.85
Service Stations	3	9.96
Car Parks	3	6.87
Schools	0	0.00
Storage Units	1	0.36
Child Minding Centres	1	0.91
Hotels	1	0.80
Construction and Development		
Residential Investment	0	0.00
Clubs	0	0.00
Service Stations	0	0.00
Total	99	180.56

What are the loans by geographic region?

State	No. of accounts	Value (\$m)
NSW / ACT	55	101.64
VIC / TAS	23	28.04
QLD / NT	18	41.80
WA	3	9.08
Total	99	180.56

How many of the loans are in default or arrears? What is their value?

Days in arrears	No. of accounts	Value (\$m)*
31-60	1	3.12
61 -90	0	0.00
> 90 days	3	12.15

* Includes principal and interest.

There are 13 loans in default totalling \$27.65m. A loan is considered in default when we become the mortgagee in possession.

In the event that a borrower goes into default there is a process to manage the default as quickly as possible. In cases where the borrower is unable to remedy the default the Trusts generally take action to take possession of the security in order to recover the loan amount outstanding. Third party service providers may also assist in the recovery process.

What is the nature of the security for loan portfolio?

All loans in the High Yield Mortgage Trust portfolio have been secured by a registered first mortgage.

What proportion of the total loan monies have been lent to our largest borrower? And 10 largest borrowers?

	Proportion (%) of Trust size	Value (\$m)
Largest borrower	8.78	15.86
10 largest borrowers*	43.61	78.74

* Includes the largest borrower.

How many loans have been approved but have funds yet to be advanced? What are the funding arrangements in place for any of these undrawn loan commitments?

The portfolio has no approved loans where funds are yet to be advanced.

What is the maturity profile of all loans?

The loan terms can range between 1 and 5 years. Loans for 5 years are reviewed at the 3-year mark. The following provides an overview of the current maturity profile of all loans.

Maturity	Actual	Value (\$m)
< 6 months	30	56.32
6 months to 0.99 yrs	37	56.48
1.00 to 1.99 yrs	30	61.19
2.00 to 2.99 yrs	2	6.57
3.00 to 3.99 yrs	0	0.00
4.00 to 4.99 yrs	0	0.00
5 years +	0	0.00
TOTAL	99	180.56

What are the loan-to-value ratios for loans?

Maturity	Actual	Value (\$m)
0-50	7	8.92
50.01 - 60	7	21.68
60.01 - 65	9	17.40
65.01 - 70	10	25.03
70.01 - 75	10	28.31
75.01 - 80	17	10.79
80.01 - 85	37	48.51
85+	2	19.91
TOTAL	99	180.56

What are the interest rates on loans?

Interest rates (%)	Actual	Value (\$m)
Less than 6.50	19	71.47
6.50 - 6.99	1	1.70
7.00 - 7.49	15	15.59
7.50 - 7.99	13	20.17
8.00 - 8.49	5	14.73
8.50 - 8.99	21	25.69
9.00 - 9.49	25	31.21
9.50 - 9.99	0	0.00
10.00 +	0	0.00
TOTAL	99	180.56

How many loans are in the portfolio where interest has been capitalised? What is their value?

There is currently one loan in the portfolio of the Trust, representing \$2.78m, where interest has been capitalised.

Are derivatives used?

It is not our current policy to use derivatives for gearing purposes or for speculative activities for these Trusts. However, we may use derivatives for implementation of interest rate risk strategies and management of the Trusts' interest rate exposures.

Describe any non-loan assets of the scheme and their value.

The current non-loan assets of the Trust includes cash and similar investments to the value of \$37.97m.

What is the maximum loan amount for any one borrower?

The maximum loan amount for any one borrower at the time the loan is taken out is the greater of:

- 7.5% of funds under management; or
- \$15m.

What is the method of assessing borrowers' capacity to service loans?

The capacity to service the debt is assessed on financial information provided by the borrower and/or guarantor for at least two financial periods. Borrowers are generally required to meet a minimum interest coverage ratio of 1.25 times.

What is the policy on revaluing security properties when a loan is rolled over?

A formal rollover of an existing loan facility requires full financial analysis and revaluation of the security property.

What is the approach to taking security on lending by the scheme?

All loans in the Trusts' portfolio have been secured by a registered first mortgage.

Benchmark 4: Related party transactions

This benchmark requires responsible entities to disclose their approach to related party transactions, and any policy regarding related party lending including any details of such transactions.

We meet this benchmark. All transactions we enter into in relation to the Trusts, including those with related parties, are on arm's length commercial terms. Entities within the Australian Unity group may provide registry, accounting and tax services to the Trusts for fees charged at a commercial rate.

Policies and guidelines are in place to manage the risk of any actual or perceived conflict of interest as a result of a related party transaction. Related party transactions with Australian Unity group entities are reviewed and approved by senior management with clearly identified governance policies and guidelines. All decisions in relation to conflicts of interest and all related party transactions are documented. Policies and guidelines are generally reviewed annually.

Details of material related party transactions are reported yearly as part of the Trusts' audited annual accounts.

At present these include the following related party transactions:

- The AUI High Yield Mortgage Trust has contributed approximately 23.90% (\$15.86 million) of a total loan amount advanced to a single borrower. The balance of the loan was funded by the Australian Unity Mortgage Income Trust ARSN 090 082 803, and the joint advance is covered by a pari-passu arrangement between the Trusts to ensure equal ranking for repayment.
- The Trusts have invested 17.37% of total funds under management into the Australian Unity Wholesale Cash Fund (Wholesale Cash Fund) ARSN 111 933 361, which is a registered managed investment scheme operated by Australian Unity Funds Management Limited. This fund acts as a centralised cash management vehicle for a number of Australian Unity's investment products. The Wholesale Cash Fund invests in cash and cash equivalents primarily and may also invest in fixed interest securities. It aims to provide regular income with capital security over the short term.

The Trusts do not make and have no intention to make, guarantee or secure, directly or indirectly, any loans to related parties.

Benchmark 5: Valuation policy

This benchmark for property valuations requires responsible entities to establish a panel of valuers, and to ensure that no one valuer conducts more than a third of the valuation work.

We do not meet this benchmark. Our Credit Lending Guidelines stipulate that no valuer can undertake two consecutive valuations on a specific property. This requirement ensures that valuation work is rotated within the Trusts' over a period of time, however presently we do not ensure that no one valuer conducts more than a third of the valuation work.

We are able to confirm that all valuations are conducted by qualified professional valuers in accordance with industry standards. Valuations for new loans have a three month currency from the date of the report and settlement of the loan must occur within this time frame. These requirements are no different for a loan, where the security property exceeds 7.5% of funds under management.

Security properties are valued on the following basis:

- 'as is' basis and 'as if complete' basis for property development loans; and
- 'as is' basis for all other property loans (e.g. established buildings).

What are the property valuations for loans that are 5% or more of the loan book?

Loan Balance (\$m)	% of loan book	Property Valuation (\$m)
15.86	8.78	17.95
9.85	5.45	12.11

Benchmark 6: Lending principles - loan-to-value ratios

This benchmark for loan-to-valuation ratios requires, where loans relate to property development, that responsible entities maintain a 70% ratio on the basis of the latest 'as if complete' valuation. In all other cases, 80% should be maintained on the basis of the latest market valuation.

We do not meet this benchmark in respect of the High Yield Mortgage Trust. Consistent with the Trusts' strategy, and previous disclosure to investors, our Credit Lending Guidelines permit us to advance loans up to a maximum of:

- 70% of loan-to-value ratio on the basis of 'as if complete' valuations for property development loans; and
- 85% of loan-to-value ratio on the basis of 'as is' valuations for all other property loans (e.g. established buildings).

There are two loans with a loan to value ratio over 85%. The loan-to-value ratios are based on the valuation amounts as advised by a range of professional valuers.

Benchmark 7: Distribution practices

This benchmark requires responsible entities that make or forecast to make distributions to disclose the source of the distribution or any forecast distributions.

We meet this benchmark as all distributions, including forecast distributions, are sourced from income.

Benchmark 8: Withdrawal arrangements

This benchmark requires responsible entities to disclose the maximum withdrawal period, any significant limitations, approach and funding arrangements allowed under the Trusts' constitution for investor withdrawals.

We meet this benchmark. After careful consideration the Board of Australian Unity Funds Management Limited, the Responsible Entity for the Trusts, resolved to terminate the Trusts. From 8 December 2011 the Trusts will no longer accept applications, reinvestments or switches into, or withdrawals from the Trusts.

Since May 2011, the opportunity has been available to either make a one-off withdrawal request each month or set up regular monthly withdrawals. The Trusts will make available 3% of Net Asset Value for withdrawal by investors each month.

Further information regarding withdrawals is available at australianunityinvestments.com.au or please contact Client Services on 13 29 39.

Contact us

Address	114 Albert Road South Melbourne, VIC 3205
Investor Services	13 29 39
Adviser Services	1800 649 033
Website	australianunityinvestments.com.au
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Important information

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