

# Retail Property Fund

## Fund Fact Sheet – 11 October 2010



Snapshot	Retail Securities	Wholesale Securities	Class A Securities
APIR Code	YOC0007AU	YOC0008AU	YOC0009AU
Inception date	28 February 2009	5 August 2010	5 August 2010
Minimum initial investment	\$1,000	\$25,000	Not Applicable*
Minimum additional investment	\$500	\$5,000	Not Applicable*
Minimum regular savings plan	\$100 per month	\$500 per month	Not Applicable*
Entry/Contribution fee	Up to 4.10%	Nil	Nil
Minimum Withdrawal Amount	\$1,000	\$5,000	Not Applicable*
Exit/Withdrawal fee	Nil	Nil	Nil
Withdrawals	Quarterly	Quarterly	Monthly
Management costs	0.93% p.a. of the gross asset value relating to Retail Securities of the Fund.	0.75 % p.a. of the gross asset value relating to Wholesale Securities of the Fund.	0.75 % p.a. of the gross asset value relating to Class A Securities of the Fund.
	A Performance Fee equal to 12.50% of the Fund's performance in excess of the stated benchmark performance relating to Retail Securities of the Fund	A Performance Fee equal to 12.50% of the Fund's performance in excess of the stated benchmark performance relating to Wholesale Securities of the Fund.	A Performance Fee equal to 12.50% of the Fund's performance in excess of the stated benchmark performance relating to Class A Securities of the Fund.
Buy Spread	Nil	Nil	Nil
Sell Spread	0.50%	0.50%	0.40%
Income distributions	Quarterly	Quarterly	Quarterly

\* Class A units are only available via masterfunds and investor directed portfolio services. Please refer to the operator of the masterfund or investor directed portfolio service for details on their minimum investment requirements.

### Overview of changes since last update

This Fund Fact Sheet was updated as at 11 October 2010 (from its previous issue on 26 March 2010) to reflect changes in the Fund's underlying property valuations and borrowings position.

### About the Fund

The Retail Property Fund (Fund) is an open unlisted property fund with a primary focus on retail related property investments. It was formed on 28 February 2009. The Fund has a diversified tenant base that includes many of Australia's most successful and best known brands on long-term leases, covering a broad range of retailing

including supermarkets, department stores, specialty shops, homemaker outlets, hardware and service stations.

The Fund's diversification aims to provide stability of income through periods of change in the economic environment and in any individual property. It enables us to actively manage the portfolio including the debt and liquidity of the Fund.

We aim to deliver a total return<sup>1</sup> (Income and capital growth) above the Property Council/IPD Australian Retail property index, while providing a steady level of income. We also seek to deliver an attractive level of tax advantaged components within the income.

1 The return that we aim to deliver to investors is a statement of intent, and we cannot guarantee that the Fund will achieve this return.

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The Fund offers four classes of securities:

- Retail Securities
- Wholesale Securities
- Class A Securities
- Funding Securities.

Class A Securities provide enhanced withdrawal opportunities to investors. This is achieved through a separate reserving of cash or similar investments (typically around 20%) from Class A Security applications received.

## How the Fund operates

The Fund is a stapled investment comprising three property trusts (the Stapled Trusts). An interest in the Fund is provided through the issue of a stapled security ("Security" or "Securities") and represents a holding in each of the following Stapled Trusts:

- Australian Unity Retail Property Trust
- Australian Unity Property Syndicate - East West Retail, and
- Australian Unity Gillies Street Trust.

Investor applications are pooled with borrowings from lenders to purchase retail property and related assets for the Fund.

Rent from the Fund's properties and income earned on the Fund's other assets generate income for the Fund. This income is used to meet the interest expenses on the Fund's borrowings, management fees, property-related expenses and ongoing Fund expenses. We may also retain some income as a provision for future expenses or capital works. Once these costs and provisions are met, the remaining income is distributed to investors.

The capital growth (or loss) on your investment is largely attributed to revaluations of the Fund's properties, changes in value of other assets and the level of borrowings in the Fund.

## What does the Fund invest in?

The Fund predominantly comprises Australian direct retail property assets. Unlisted retail property trusts may also be used where appropriate to achieve the target level of exposure to suitable properties. Retail sector listed Australian-REITs may be used to enhance geographic and sectoral diversification; and in conjunction with cash, to support ongoing liquidity and cash flow management.

The Fund typically holds 70-95% of its assets in direct property and may also hold up to 20% in unlisted direct property investments. The listed Australian-REIT exposure will typically be small and may range between 0% - 20% of the Fund's assets. The balance of the Fund's assets is held in cash and similar investments.

## Derivatives

It is not the Fund's policy to use derivatives for gearing purposes or for speculative activities. The investment manager may use derivatives for asset allocation purposes, implementation of interest rate risk strategies and management of the Fund's interest rate exposures. Currently, interest rate swaps are used to manage the interest rate exposure on lending facilities.

## What is the Fund's investment process?

The Fund's direct property assets comprise quality retail assets including shopping centres, bulky goods centres and specialised retailing assets. Many properties are anchored by supermarkets, which have a lesser reliance on discretionary consumer spending. This is particularly important in times of economic difficulty.

Diversification of properties is applied in order to provide the portfolio with a consistent source of income across the economic cycle and through times of upgrading and developing certain properties.

Diversification occurs at different levels including by property type, geographic location, tenancy mix, lease terms and size of properties. The focus is predominantly on the Australian eastern seaboard, which is consistent with Australia's population dispersion and demographics.

To further reduce the risk of localised economic shocks, assets are generally located where the catchment area population is not heavily reliant on a particular industry or economic segment and where a diverse local economy exists. This means that properties are predominantly situated in capital cities and major regional centres, although the Fund may invest outside these areas if appropriate.

New property developments may be considered, with a view to retaining ownership in the medium term. Speculative development is not part of the Fund's strategy, and exposure to new development commitments is limited to 15% of the Fund's total asset value.

We will look to sell assets where we believe it is appropriate for the Fund and investors. When doing so, we consider a range of factors including but not limited to:

- the potential for future capital appreciation of existing properties relative to other properties available on the market
- the impact of new competition, changes in local economic conditions and demographic changes
- the overall portfolio composition and any requirements to rebalance the portfolio, and
- the Fund's overall liquidity and debt positions.

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### Valuation of properties

Regular valuation of underlying property assets is an important aspect of managing the Fund in the best interests of all investors. The valuations for direct property are conducted by independent valuers in accordance with industry standards.

We have a policy of generally obtaining independent valuation on our direct properties annually.

The latest valuation for the properties is shown on page 7.

### Borrowings

The Fund borrows to finance new and existing assets, to develop and maintain those assets, and to provide liquidity for operating purposes and managing the capital position.

It generally operates within a gearing ratio<sup>(1)</sup> range of 40% - 60% but may operate outside of this range if we believe it is in the interest of the Fund to do so.

Under the Fund's constitution and law, the Fund has the power to:

- borrow and raise money for the purposes of the Fund and to grant security over the Fund's assets, and
- to incur all types of obligations and liabilities.

Generally, interest costs relating to the borrowings will be met from the gross income of the Fund prior to the payment of income to investors.

The lenders' rights to recover the total due under the loans, and then the rights of any creditors of the Fund, will rank ahead of all investors. The lenders to the Fund do not have any recourse to investors.

### Portfolio details

The figures shown in the tables below are taken from the values recorded as at 30 June 2010 and are not based upon audited financial records.

The Fund's composition and diversity will change over time as properties are acquired or disposed and tenancies are re-let.

Asset allocation at 30 June 2010	
Direct property*	94.93%
Unlisted property investments <sup>#</sup>	3.83%
Australian REITs	0.00%
Cash & cash equivalents	1.24%

\* Includes wholly-owned unlisted property investments.

<sup>#</sup> Excludes wholly-owned unlisted property investments.

### Borrowing details as at 30 June 2010

Total Fund size (gross assets)	\$377.45 million	
Gearing ratio <sup>(1)</sup>	54.19%	
Interest cover ratio <sup>(2)</sup>	2.27 times	
% of borrowings hedged	81.00%	
Borrowing facility limit	\$208.00 million	
Borrowing facility drawn amount	\$202.66 million	
Hedge expiry <sup>(3)</sup>	May 2011	\$14.63 million
	May 2012	\$48.48 million
	July 2012	\$36.00 million
	May 2014	\$28.90 million
	July 2014	\$36.00 million

### Breakdown of borrowings<sup>(4)</sup>:

- Syndicated facility of \$135.00 million drawn to \$134.20 million (half expiring April 2012 and the remainder expiring April 2013)
- Facility of \$35.00 million drawn to \$34.21 million (expiring Mar 2011)
- Facility of \$38.00 million drawn to \$34.25 million (expiring Oct 2011)

(1) The gearing ratio is calculated as total interest-bearing liabilities divided by total assets, and indicates the extent to which the Fund's assets are expected to be funded by external liabilities (borrowings). Generally, a higher gearing ratio means that a fund is exposed to a higher level of risk. The gearing ratio based on the last audited annual report at 30 June 2010 was 53.18%.

(2) The interest cover ratio measures the ability of the Fund to service the interest on borrowings from net earnings. This calculation shows that the Fund generates income after fees which is 2.27 times the level of interest payments due. This means that the Fund is expected to service interest payments despite reasonable changes to the interest rate and occupancy rate. The interest cover ratio based on the last audited annual report at 30 June 2010 was 2.05 times.

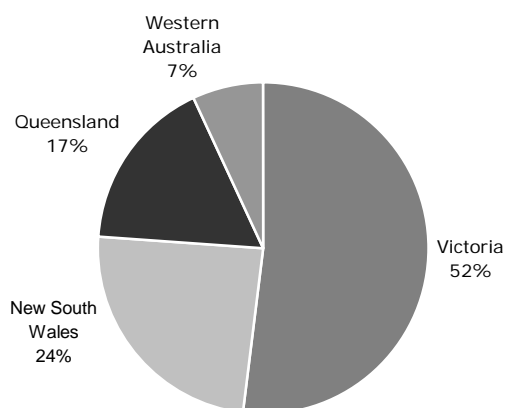
(3) In determining whether to hedge the borrowings, a number of factors are considered including general economic conditions, expected changes to interest rates and the costs of implementing the hedge. Importantly, we aim to implement hedges where we believe that it will be beneficial for the Fund to do so.

(4) We are confident that each of the loan facilities falling due over the periods shown will be able to be refinanced upon reasonable commercial terms prior to maturity.

**Borrowing covenants**

The Fund is within the limits of each of the loan facilities and have no breaches of any loan covenants at the date of this document.

**Direct and unlisted property geographic allocation as at 30 June 2010**



**Direct property occupancy and lease details as at 30 June 2010**

Occupancy rate by area	96.56%	
Weighted average lease expiry by income	5.18 years	
Major tenants and % of base rental income	Caltex	14.32%
	Coles	8.27%
	Woolworths	7.57%

**Direct property lease expiry profile as at 30 June 2010**



**Property development**

We believe the Fund can enhance its existing properties and add further value to investors through selective exposure to property development. In managing the Fund's property portfolio, we may refurbish or redevelop properties from time to time as required. Material property developments will only be undertaken where substantial

pre-commitments to lease are in place and development risk is appropriately mitigated. Currently, the Fund is undertaking the following developments:

**Thornlie Square Shopping Centre, Western Australia**

The Fund is refurbishing the Thornlie Square Shopping Centre. We anticipate that the refurbishment will be completed by end of September 2010.

**Development adjoining Waurm Ponds Shopping Centre, Victoria**

The Fund effectively has a 50% interest in the land adjoining the Waurm Ponds Shopping Centre. The plans for the adjoining land are to develop a further 15,000 square meters of retail space.

**Distributions**

Distributions are currently met from net realised income and net realised capital gains and are paid quarterly.

Although it is not our intention to source future distribution payments from sources other than net realised income and net realised capital gains, we may do so if we consider it to be in the interests of our investors (for example if rental income is suddenly reduced unexpectedly) and where payment from that source is sustainable given the circumstances. We will notify investors if this occurs.

**Withdrawals**

**Withdrawals - Retail & Wholesale Security investors**

In normal operating conditions Retail and Wholesale Security withdrawals are paid quarterly. The maximum total amount available for withdrawals each quarter is 2.5% of the total value of the relevant class (although we have the discretion to alter this amount). If this amount is exceeded, withdrawals may be met on a pro-rata basis.

Where a pro-rata payment occurs, investors will need to reapply in a subsequent withdrawal period if they wish to withdraw any further amount.

Withdrawal requests can be made on any day up to 3.00pm on the 28th day of each quarter end date (being 28 October, 28 January, 28 April and 28 July or the next Melbourne business day if the 28<sup>th</sup> is a non-business day) to receive the withdrawal price effective for the 28<sup>th</sup> of that quarter end date. We will endeavour to make withdrawal payments within five days after the quarter end date.

**Withdrawals – Class A Security investors**

In normal operating conditions Class A Security withdrawals are paid monthly. Monthly withdrawals will be met from the cash reserves held specifically for Class A Securities.

A withdrawal request can be made on any day up to 3.00pm on the 28th day of the month to receive the withdrawal price effective for the 28th of that month. We

will endeavour to make withdrawal payments within five days after the end of month.

In abnormal operating/market conditions the demand for withdrawals may exceed the amount of the cash reserves held for Class A Securities. Where this occurs, withdrawals will instead be met on a quarterly basis and will be subject to a quarterly cap of 2.5% of the value attributable to Class A Units (although we have the discretion to alter this amount). If this amount is exceeded, withdrawals may be met on a pro-rata basis. Where a pro-rata payment occurs, investors will need to reapply in a subsequent withdrawal period if they wish to withdraw any further amount. Quarterly withdrawals will be met from the Fund's general cash holding.

#### **Withdrawals – All investors**

Where we are required to sell property assets, it may take longer for you to receive your withdrawal proceeds. In extreme cases it could take 12 months or longer for you to receive your money.

While the Fund is liquid, the Fund's constitution allows up to 365 days to meet withdrawal requests.

#### **Suspension of withdrawals**

If we cannot sell property assets within 365 days to meet withdrawal requests, the Fund will become illiquid and quarterly withdrawals will be suspended. If this occurs, investors can only withdraw when we make a withdrawal offer available in accordance with the Fund's constitution and law.

#### **Who are the people managing your investment?**

Australian Unity Property is the investment manager of the Fund. We are careful, sensible and successful property managers and our property team is one of the most experienced in the market.

We have a track record in managing retail properties and understand the markets and environment they operate in. These key people are responsible for managing the Fund.



**David Bryant**  
Head of Australian Unity Investments

Mr Bryant is the Group Executive - Investments and Chief Investment Officer of Australian Unity Investments, which has more than A\$10.4 billion in funds under management (as at 31 July 2010). Australian Unity Investments manages money on behalf of both institutional and retail investors in the areas of Australian and international

equities, property, fixed interest and cash securities, and mortgages.

Mr Bryant joined Australian Unity Investments in 2004 and is a director of its major operating companies and their investment subsidiaries. He is also a member of their investment committees. He is responsible for the commercial development and profitability of the business, including investment and lending decisions, as well as support services including business development, distribution, product development and treasury.

Mr Bryant is a member of the Financial Services Council Investment Board Committee. He has over 25 years experience in investment and financial services with organisations such as Westpac, State Street Bank, Perpetual and Intech.



**Martin Hession**  
Head of Property  
Australian Unity Investments

Mr Hession joined Australian Unity in 2002 and is responsible for Australian Unity Investments' property portfolio, valued in excess of A\$1.0 billion (as at 31 July 2010). His experience in property includes portfolio management, commercial and land development, and real estate agency management over 30 years.

Prior to joining Australian Unity Investments, Mr Hession was General Manager - Property at AXA Australia. Earlier roles include Managing Director of LJ Hooker (Victoria); Managing Director of Baillieu Knight Frank (SA); and Chief Executive of Hillier Parker (Victoria).



**Peter Lambden**  
Portfolio Manager – Retail Property Fund  
Australian Unity Investments

Peter Lambden has responsibility for the performance and management of Australian Unity Investments' direct retail property investments within the Retail Property Fund. Peter joined Australian Unity in 2001 and has more than 38 years experience in portfolio and property management gained during his time in senior roles with National Mutual and AXA. In addition Peter has held senior positions with industry bodies, including as President of the Australian Property Institute and as an Executive member of the Property Council of Australia.

### Related party transactions

All transactions we enter into in relation to the Fund, including those with related parties, are on arm's length commercial terms.

Entities within the Australian Unity Group may provide property management, accounting and tax services to the Fund 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.

### Investments in related parties as at 30 June 2010

The Fund currently owns 100% of the units in the following trusts:

- Australian Unity Retail Property Trust – Sunshine Homemaker Centre
- Australian Unity Property Syndicate – Wyong
- Australian Unity Tamworth Trust
- Retail Opportunities Trust

The Retail Opportunities Trust is a strategic holding that has a 50% interest in the retail development adjoining the Waurin Ponds Shopping Centre.

In addition, the Fund currently has a holding in the Australian Unity Wholesale Cash Fund, a registered managed investment scheme operated by us. This investment acts as a centralised cash management vehicle for the Fund. The Wholesale Cash Fund primarily invests in short-term fixed interest securities and aims to provide regular income with capital security.

As at 30 June 2010, the Fund held a 0.11% interest (\$0.92m) in the Australian Unity Wholesale Cash Fund.

Details of material related party transactions are reported yearly as part of the Fund's audited annual accounts. The latest annual audited accounts for the Fund can be found on our website [australianunityinvestments.com.au](http://australianunityinvestments.com.au)

### Contact us

<b>Address</b>	114 Albert Road South Melbourne, VIC 3205
<b>Investor Services</b>	13 29 39
<b>Adviser Services</b>	1800 649 033
<b>Website</b>	<a href="http://australianunityinvestments.com.au">australianunityinvestments.com.au</a>
<b>Email</b>	<a href="mailto:investments@australianunity.com.au">investments@australianunity.com.au</a>

### Important information

*This investment product is for the Australian Unity Retail Property Fund ARSN 133 632 765 and is issued by Australian Unity Property Limited ABN 58 079 538 499, AFS Licence No. 234455 in its capacity as Responsible Entity. This information is intended only to provide a broad summary of this financial product. Investment decisions should not be made upon the basis of its past performance or distribution rate, since future returns will vary. You should refer to the current Product Disclosure Statement if you wish to know more about this product. A copy can be obtained by telephoning 13 29 39, or from our website [www.australianunityinvestments.com.au](http://www.australianunityinvestments.com.au). The information provided here was current at the time of publication only, and we recommend that you access our website for further information.*

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### Direct property portfolio as at 30 June 2010

Property	Independent valuation			Book value
	Date	(\$m)	Cap rate %	(\$m)
Caltex Twin Service Centres Sydney to Newcastle (F3) Freeway, New South Wales*	January 2010	\$46.35	10.00	\$46.35
North Blackburn Square Shopping Centre North Blackburn, Victoria	June 2010	\$34.50	8.50	\$34.50
Sunshine Homemaker Centre Maroochydore, Queensland*	May 2009	\$60.00	7.75	\$60.12
Tamworth City Plaza Tamworth, New South Wales*	March 2010	\$37.50	8.50	\$37.50
Thornlie Square Shopping Centre Thornlie, Western Australia	January 2010	\$24.50	8.50	\$25.80
Waurm Ponds Shopping Centre Geelong, Victoria	March 2010	\$119.00	7.50	\$119.01
Wendouree Homemaker Centre and Telstra Call Centre Ballarat, Victoria	March 2010	\$27.80	9.50	\$27.80

\*These properties are held through wholly-owned unlisted property investments.

### Significant changes since 30 June 2010

Property	Independent valuation		
	Date	(\$m)	Cap rate %
Sunshine Homemaker Centre Maroochydore, Queensland*	June 2010	\$58.20	8.75