

# Diversified Property Fund

## Fund Update - 31 March 2012



The Fund was established in May 2006 and is Australian Unity's flagship diversified property fund.

As at 31 March 2012, the Fund holds 12 properties in New South Wales, Victoria, Queensland and Western Australia.

It borrows to invest and to fund capital expenditure.

The Fund aims to deliver income returns with the potential for capital growth.

### Investor Quarterly Distributions

**1.11 cents per security (CPS)**

for the March 2012 quarter.  
(1.1 CPS for the December 2011 quarter)

### Gearing Ratio

**41.67%**

(50.06% at 31 December 2011)  
Gearing is a measure of the Fund's borrowings

### Gross Asset Value

**\$307.19m**

(\$369.19m at 31 December 2011)

### Security price

**\$0.8085**

(\$0.8290 at 31 December 2011)

### Portfolio occupancy

**95.20%**

by area, with a weighted average lease expiry by base rental income of 7.59 years

This document is dated 4 May 2012. The financial information in this Fund Update is extracted from the Fund's accounting and property management records at 31 March 2012 and 31 December 2011 and is based upon unaudited financial records unless stated otherwise. Past performance is not a reliable indicator of future performance.

# Australian Unity Diversified Property Fund

## Investment performance as at 31 March 2012

|  | 3 mths %      | 1 year %    | 3 years % p.a. | 5 years % p.a. | Since Inception % p.a. <sup>1</sup> |
|--|---------------|-------------|----------------|----------------|-------------------------------------|
| Distribution return                        | 1.36          | 5.49        | 6.92           | 7.06           | 6.67                                |
| Growth return                              | (2.52)        | 0.19        | (0.62)         | (3.75)         | (3.43)                              |
| <b>Total return</b>                        | <b>(1.16)</b> | <b>5.68</b> | <b>6.30</b>    | <b>3.31</b>    | <b>3.24</b>                         |
| Benchmark distribution return <sup>2</sup> | 1.58          | 6.63        | 6.68           | 6.72           | 6.71                                |
| Benchmark total return <sup>3</sup>        | 2.25          | 9.25        | 4.27           | 5.19           | 6.69                                |

Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

1. Inception date for performance calculations is 22 August 2006.

2. 1% p.a. above the average Commonwealth Government 10-year bond yield on a rolling basis over the previous five-year period.

3. Mercer/IPD Australian Pooled Property Index.

### How the Fund performed

Income distributions to investors for the March quarter were marginally higher than the December 2011 quarter at 1.11 cents per security. Our expectation is that this level of distribution will remain broadly consistent for the remainder of the 2011–12 financial year.

During the past quarter the Fund's growth return was negatively impacted as a result of the revaluation of the Dog Swamp Shopping Centre and the sale of a 50% interest of the Canning Vale property.

### Property revaluations and sale of a 50% interest of Canning Vale

Two of the Fund's properties were revalued in March 2012. The Dog Swamp Shopping Centre was independently valued at \$25.0m. While the property's capitalisation rate remained steady at 8.25%, the valuation resulted in a modest decrease of \$141,612 (-0.57%) from its previous book value.

We successfully sold a 50% interest in the Fund's property at 218 Bannister Road, Canning Vale, Western Australia for \$61.5m. We will continue to pursue the sale of the remaining 50% of the property, which was revalued by the Responsible Entity at \$63.50 million. This value incorporates a forthcoming rent increase for the property.

### Improving diversification through active management

The sale of a 50% interest of the Canning Vale property, which was previously the Fund's largest asset, is a deliberate and strategic action to assist us to improve the geographical, sector and tenant diversification of the Fund.

The Canning Vale property has a long-term lease to blue-chip tenant, Metcash. This tenant also occupies a number of the Fund's other properties and represented approximately 55% of Fund's total rental income. Added to this, around 60% of the Fund's property holdings were located in Western Australia and the Fund had an exposure to the industrial sector of more than 60%.

218 Bannister Road, Canning Vale, WA

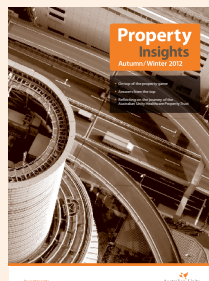


### Outlook

Our outlook for the commercial property sector continues to be generally optimistic due mainly to strong property fundamentals. This is characterised by a well-balanced property supply and demand across all commercial property sectors, amidst a relatively stable Australian economy.

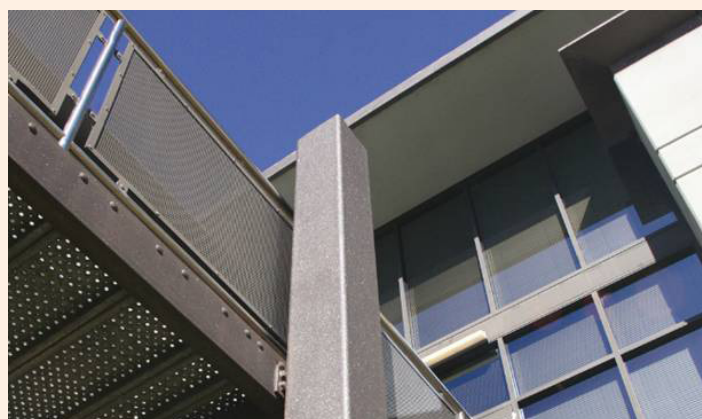
While it is impossible to ignore the sentiment that has affected the retail industry, we maintain that activity in the retail property sector will likely continue to be broadly stable.

This view is based on an expectation of steady and continual growth in the Australian economy, evidenced through recent government statements and reports from the Reserve Bank of Australia.



For more information about our outlook on the Australian commercial property market, please read the latest edition of **Property Insights Autumn/Winter 2012**

Available online now at [australianunityinvestments.com.au](http://australianunityinvestments.com.au)



# Portfolio details as at 31 March 2012

Details of the investment strategy for the Fund are contained in the 'What does the Fund invest in' section of the PDS. The information below provides details on the current diversification of the Fund.

## Fund Investment Portfolio

| Property Details                                  |                               |                      | Tenancy Details            |                       |                   |                                     |  | Valuation Details <sup>1</sup>       |                |                        |                       |                   |
|---|-------------------------------|----------------------|----------------------------|-----------------------|-------------------|-------------------------------------|--|--------------------------------------|----------------|------------------------|-----------------------|-------------------|
| Address   | Lettable area (square metres) | % Ownership interest | Major Tenant(S)            |                       | All Tenants       |                                     |  | Current valuation <sup>3</sup> (\$m) | Valuation date | Independent valuer     | Capitalisation rate % | Book value (\$m)  |
|   |                               |                      | Name                       | % of property by area | Number of tenants | Occupancy rate % (by lettable area) | Weighted average lease expiry (years) <sup>2</sup> |                                      |                |                        |                       |                   |
| <b>Direct</b>                                     |                               |                      |                            |                       |                   |                                     |  |                                      |                |                        |                       |                   |
| 218 Bannister Road, Canning Vale, WA <sup>4</sup> | 105,356.00                    | 50.00                | Metcash                    | 100.00                | 1.00              | 100.00                              | 11.72  | 63.50 <sup>4</sup>                   | Mar. 12        | n/a <sup>4</sup>       | 8.00                  | 63.50             |
| 278 Orchard Road, Richlands, QLD                  | 59,217.00                     | 100.00               | Metcash                    | 100.00                | 1.00              | 100.00                              | 6.34   | 45.50                                | Dec. 11        | Colliers International | 9.00                  | 45.51             |
| 20 Smith Street, Parramatta, NSW                  | 7,539.70                      | 100.00               | ANZ Banking Group Ltd      | 29.82                 | 16.00             | 100.00                              | 2.80   | 33.30                                | Mar. 11        | CBRE                   | 9.00                  | 33.83             |
| Dog Swamp Shopping Centre, WA                     | 6,488.00                      | 100.00               | Woolworths Limited         | 49.63                 | 34.00             | 94.14                               | 4.26   | 25.00                                | Mar. 12        | Savills                | 8.25                  | 25.00             |
| Woodvale Shopping Centre, WA                      | 6,350.40                      | 100.00               | Woolworths Limited         | 55.74                 | 27.00             | 94.20                               | 8.20   | 23.50                                | Dec. 11        | CBRE                   | 8.00                  | 23.52             |
| Busselton Central Shopping Centre, WA             | 7,466.00                      | 100.00               | Metcash                    | 61.39                 | 19.00             | 95.91                               | 5.20   | 23.25                                | Sep. 11        | Jones Lang LaSalle     | 8.00                  | 23.25             |
| 706 Lorimer Street, Port Melbourne, Vic           | 26,434.00                     | 100.00               | Aristoc Press              | 37.41                 | 4.00              | 63.81                               | 2.73   | 21.75                                | Dec. 11        | Colliers International | 9.50                  | 21.84             |
| 395 West Botany Street, Rockdale, NSW             | 3,816.00                      | 100.00               | Fitness First              | 74.21                 | 2.00              | 100.00                              | 11.05  | 14.40                                | May 11         | Colliers International | 8.00                  | 14.40             |
| 10 Clarke Street, O'Connor, WA                    | 10,959.00                     | 100.00               | Metcash                    | 100.00                | 1.00              | 100.00                              | 1.72   | 13.00                                | Sep. 11        | Knight Frank           | 9.25                  | 13.01             |
| Lot 34 & 36 Geddes Street, Balcatta, WA           | 11,786.00                     | 100.00               | Metcash                    | 100.00                | 1.00              | 100.00                              | 1.72   | 9.00                                 | Sep. 11        | Jones Lang LaSalle     | 8.50                  | 9.00              |
| Busselton Target, WA                              | 1,859.50                      | 100.00               | Target (Australia) Pty Ltd | 100.00                | 1.00              | 100.00                              | 2.05   | 4.00                                 | Sep. 11        | Jones Lang LaSalle     | 8.00                  | 4.00              |
| Busselton Rivers, WA                              | 591.00                        | 100.00               | Rivers (Aust) Pty Ltd      | 100.00                | 1.00              | 100.00                              | 0.00   | 1.25                                 | Sep. 11        | Jones Lang LaSalle     | 7.50                  | 1.25              |
| <b>Unlisted</b>                                   |                               |                      |                            |                       |                   |                                     |  |                                      |                |                        |                       |                   |
| Stockland Direct Office Trust No. 2               |                               |                      |                            |                       |                   |                                     |  |                                      |                |                        |                       | 2.16              |
| Australian Unity Office Property Fund             |                               |                      |                            |                       |                   |                                     |  |                                      |                |                        |                       | 11.89             |
| <b>Cash and other assets</b>                      |                               |                      |                            |                       |                   |                                     |  |                                      |                |                        |                       | <b>15.02</b>      |
| <b>Total (T) / Weighted Average (A)</b>           | <b>247,861.50 (T)</b>         |                      |                            |                       | <b>107 (T)</b>    | <b>95.20 (T)</b>                    | <b>7.59 (A)</b>                                    | <b>277.45 (T)</b>                    |                |                        | <b>8.50 (A)</b>       | <b>307.19 (T)</b> |

### Notes

1. Valuation Policy - Regular valuation of underlying property assets is an important aspect of managing the Fund. Valuations are conducted by qualified independent valuers in accordance with industry standards. We have a policy of generally obtaining independent valuations on Fund direct properties each year. Additionally, as part of our active management approach, we may test asset values on market. At times we may enter arrangements at arm's length with third parties which may impact the value of assets within the portfolio including, but not limited to, put and call options in respect of all or part of an asset within the portfolio. If the value of an asset is impacted in this way, the value may replace the last independent valuation obtained.

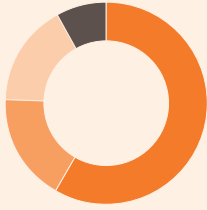
2. Weighted Average Lease Expiry by base rental income.

3. Current valuations are based on the Fund's ownership interest in the property.

4. The Responsible Entity valued the remaining 50% of the property at \$63.50 million.

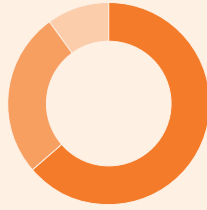
## Key Portfolio Statistics

### Geographic Allocation by Number and Value



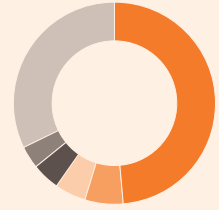
|     |          |        |
|-----|----------|--------|
| WA  | 8 Assets | 58.44% |
| NSW | 2 Assets | 17.34% |
| VIC | 1 Asset  | 16.37% |
| QLD | 1 Asset  | 7.85%  |

### Property Sector Diversity by Number and Value



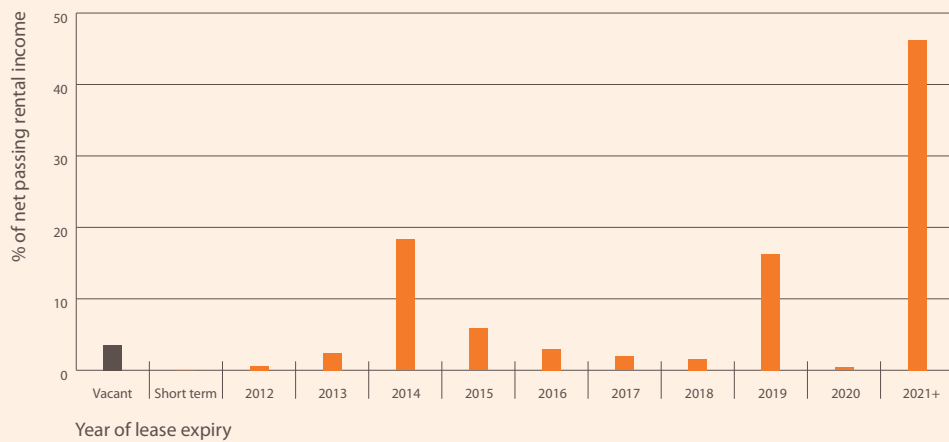
|            |          |        |
|------------|----------|--------|
| Industrial | 5 Assets | 54.96% |
| Retail     | 6 Assets | 32.88% |
| Office     | 1 Asset  | 12.16% |

### Top 5 Tenants by Income



|               |        |
|---------------|--------|
| Metcash       | 48.71% |
| Woolworths    | 6.04%  |
| ANZ           | 5.02%  |
| Fitness First | 4.59%  |
| Aristoc Press | 3.68%  |
| Other         | 31.96% |

### Lease Expiry Profile by Income



Dog Swamp Shopping Centre, WA



Woodvale Shopping Centre, WA



## Property Development summary

There were no development projects in the Fund as at 31 March 2012.

## Fund borrowings as at 31 March 2012

|                                   |              |
|-----------------------------------|--------------|
| Gearing Ratio <sup>1</sup>        | 41.67%       |
| Interest Cover Ratio <sup>2</sup> | 1.51 times   |
| Borrowing facility drawn amount   | \$126.69m    |
| Borrowing facility limit          | \$169.75m    |
| Borrowing facility maturity       | October 2013 |
| % of borrowings hedged            | 104.98%      |
| Weighted hedge expiry             | 2.2 years    |

1. The gearing ratio of the Fund is calculated as total interest bearing liabilities divided by total assets as at 31 March 2012 (50.96% as at 31 December 2011 based on the Fund's most recent financial statement). It shows the extent to which the Fund's total assets are funded by interest bearing liabilities and gives an indication of the potential risks investors face in terms of external liabilities that rank ahead of them.

Gearing magnifies the effect of gains and losses on an investment. A higher gearing ratio means greater magnification of gains and losses and generally greater volatility compared to a lower gearing ratio.

2. The Fund's interest cover is for the 12 months to 31 March 2012, (1.76 times for the 6 months to 31 December 2011 based on the Fund's most recent financial statement), and has been calculated in accordance with ASIC's disclosure guidelines.

Interest cover indicates the ability of the Fund to meet interest payments from operating cash. It is an indicator of the Fund's financial health and is a key to assessing the sustainability of, and risks associated with, the Fund's level of borrowing. If the Fund's interest cover decreases then the risk of the Fund not being able to meet interest payments will increase.

To the best of Australian Unity Property Funds Management Limited's (AUPFML) knowledge, there have been no breaches of loan covenants as at the date of this document.

All amounts owed to lenders and other creditors will rank before each investor's interest in the Fund. The Fund's ability to repay principal and interest and meet all loan covenants under its debt facilities is material to its performance and ongoing viability.

## Related Party Transactions

AUPFML is the Responsible Entity of the Fund.

AUPFML has appointed Australian Unity Property Management Pty Ltd ABN 76 073 590 600 (AUPM) (a related party) to provide some property management services to the Fund.

Investor approval for the agreement was obtained in August 2006.

AUPFML is a wholly owned subsidiary of Australian Unity Property Limited ABN 58 079 538 499 (AUPL). AUPL and AUPM are wholly owned subsidiaries of Australian Unity Limited ABN 23 087 648 888 and are members of the Australian Unity Group.

## Australian Unity Property Management

AUPM is a property management business that may, under a written arrangement, provide some of the following services to the Fund as nominated from time to time. Services may include strategic advice on property acquisitions and sales or arranging the sale or acquisition of property assets; management of premises; debt arranging, debt structure advice, debt facility negotiation and debt management; valuation services; leasing services; and property management and project supervision.

The appointment of AUPM for these services is not exclusive and AUPFML may engage external service providers to undertake these functions.

From 1 July 2011 up to 31 March 2012 asset management and leasing services to the value of \$860,496 have been provided by AUPM.

## Investments

AUL and its subsidiaries (related parties) may invest in the Fund and the Fund may invest in related parties from time to time. Details of related party investments are included in the Fund's Annual Report.

As at 31 March 2012, related parties of AUPFML held interests in the Fund of \$17.34 million (10.34%) based on net assets.

## Other related party service providers

AUPFML may appoint other related parties from time to time. Please refer to our website [australianunityinvestments.com.au](http://australianunityinvestments.com.au) for updates.

## Monitoring of related party transaction and conflicts management

Related party transactions carry a risk that they could be assessed and reviewed less rigorously than transactions with other parties.

Australian Unity has policies and guidelines 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. Decisions in relation to conflict of interest and related party transactions are documented.

## Updates to related party transactions and further information

As appropriate, we will provide ongoing updates of material service engagements and financial benefits that are paid to related parties through updates to this Fund Update.

The value of related party payments are reported yearly as part of the Fund's Annual Report. The latest Fund Update and Annual Report can be found on our website [australianunityinvestments.com.au](http://australianunityinvestments.com.au). Alternatively we can send you a copy free of charge by calling us on 13 29 39.

## Distribution practices

Distributions are paid quarterly and are generally sourced from net income and net realised capital gains only. The distribution policy will be aligned to the ongoing earning capacity of the Fund.

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

## Withdrawal arrangements

The Fund is illiquid and investors may only withdraw in response to an ad-hoc withdrawal offer made by AUPFML.

Australian Unity is exploring options to reintroduce a measure of liquidity for investors. We will notify investors when this occurs.

# Learn more about your investment

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## Visit our website

Log onto [australianunityinvestments.com.au](http://australianunityinvestments.com.au) for the latest information about your investment, including security prices, announcements and regular updates on Fund activity and performance.



## Call us

Contact a member of our Investor Services team on **13 29 39** if you have any questions about your investment.

Any questions about your security holding, distribution and tax statements, or any change of details should be directed to Link Market Services. Please call **1300 739 091**.

## Important Information

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