

Geared Property Income Fund

Fund Update - 31 December 2011

The Australian Unity Geared Property Income Fund (the Fund) is a diversified, income-producing property investment.

Performance as at 31 December 2011	3 mths %	1 year % p.a.	3 years % p.a.	5 years % p.a.	Since inception* %p.a.
Retail units					
Retail distribution return	1.19	2.98	3.83	5.38	6.42
Retail growth return	1.92	(5.08)	(6.51)	(11.87)	(7.14)
Total retail return	3.11	(2.10)	(2.68)	(6.49)	(0.72)
Wholesale units					
Wholesale distribution return	1.59	4.66	5.48	6.93	7.97
Wholesale growth return	1.84	(5.59)	(6.83)	(12.05)	(7.25)
Total wholesale return	3.43	(0.93)	(1.35)	(5.12)	0.72
Benchmark total return⁽¹⁾	2.28	4.75	2.77	(1.54)	3.65

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

* The inception date for performance calculations is 30 April 2005.

(1) Composite index comprising: 60% Mercer Direct Property Before Tax to 30/9/09, Mercer/IPD Australian Pooled Property Fund Index thereafter, 35% S&P/ASX 200 Property Trust Index, 5% UBSA Bank Bill Index

Market update

Since the beginning of the current financial year, global financial markets have continued to experience ongoing upheavals and price volatility. Locally, the S&P/ASX 200 Index closed at 31 December 2011 down 9.71% for the half-year.¹

Things got increasingly unnerving in August 2011, as global investment markets appeared to teeter on the verge of a significant plunge. The sovereign debt crisis in Europe threatened to create a second wave of the global financial crisis. And, while talks have continued every other week between European leaders and markets have rallied intermittently, a genuine financial solution still seems a long way off. Economically, China and the US have both held steady over recent months, but neither has shown the kind of strong growth required to restore market confidence.

Listed property sectors were caught up in the volatility, with the local A-REIT market into which the Underlying Fund invests the listed part of its portfolio, closing the down 4.64% for the six months to 31 December 2011.²

For direct and unlisted commercial property, over the last two years we have continued to observe a steady and gradual recovery. And, while there was some moderation of the momentum we saw

earlier in 2011, we believe that property fundamentals remain strong and continue to be spurred on by a resilient Australian economy and a lack of new supply out of the global financial crisis.

Underlying Fund update

The Fund invests in a well-diversified property portfolio through its underlying fund – the Australian Unity Property Income Fund (Underlying Fund) – and uses borrowings to increase its investments and capital growth potential.

As a geared investment, the Fund's performance will magnify decreases and increases in the Underlying Fund's returns. This reflects the use of borrowed funds as part of its investment strategy, as well as the costs incurred on its borrowings.

As at 31 December 2011, the Underlying Fund continues to be significantly overweight in its holdings of direct and unlisted property sectors. This allocation persists following the modest net outflows and sharp falls in the A-REIT market that resulted during the global financial crisis in 2008 and 2009.

¹ S&P/ASX 200 Accumulation Index

² S&P/ASX 300 A-REIT Accumulation Index



"In particular, our view is that the significant declines in the A-REIT sector now present compelling buying opportunities."

Alex Fisher
Portfolio Manager, Geared Property Income Fund

At 31 December the Underlying Fund had an exposure of 22% to highly-liquid Cash and A-REITs, with the remaining 78% of assets in direct and unlisted property securities. In the last three months of 2011, the Underlying Fund has sought to increase its holdings of A-REITs following receipt of termination proceeds from the AU Property Syndicate 2. As well, it was able to re-allocate funds received by withdrawing from some of its unlisted property investments and investing into the A-REIT sector.

In October, the Underlying Fund also benefited from its investment in the Australian Unity Office Property Fund (formerly Investa Diversified Office Fund).

Some of the significant initiatives underway in the Underlying Fund's direct property portfolio include:

- **98 Ingleston Road Wakerley, QLD**
A development application for a proposed 6,680m² warehouse was approved, as well as a one year lease extension agreed with the tenant. We have appointed consultants to prepare a scope of works and to assist with a renewed leasing campaign.
- **7-9 Siddons Way, Hallam, VIC**
We have a new lease for the premises for a period of 10 years, with fixed 4% annual rent increases.

Property revaluations

Two of the Underlying Fund's directly held properties were independently valued during December 2011:

- **98 Ingleston Road, Wakerley, QLD**
The asset's value increased by \$450,000, primarily as a result of an increase in comparative market rent.
- **Salisbury Cinema Complex, Salisbury, SA**
This asset experienced a fall in value of \$250,000. This reflects a reduction in market rent, a lower capitalisation rate of 10% and higher letting up and capital expenditure allowances.

Outlook

As a result of the generally strong baseline fundamentals in the Australian economy, we continue to maintain our positive outlook for the Fund in 2012. Over the past two years we observed a steady but gradual recovery in the Australian commercial property market.

This recovery has been evidenced by increased sale transactions and the gradual stabilisation of capitalisation rates and property values across the commercial property sector.

In 2012 we will continue to focus on active leasing and tenant management for the Underlying Fund's direct property portfolio. Pleasingly, we are increasingly seeing revaluations driven by property fundamentals, rather than the macro global nervousness as a result of the GFC. A good example for the Underlying Fund was the August 2011 revaluation for the Allara Street, Canberra property, where a successful lease campaign led to a significant increase in valuation.

In particular, our view is that the significant declines in the A-REIT sector now present compelling buying opportunities. Declines in this market, we believe, reflect magnified concerns over a general economic slowdown and the current soft retail trading conditions in Australia. On the contrary, our view is that the listed property sector's earnings profile remains relatively solid and we expect attractive distribution yields from the sector. As a result, during 2012, we will look to increase the level of the Underlying Fund's A-REIT investment allocation.

Gearing level

	Range %	Target %	Actual %
Gearing level as a percentage of fund value	30 - 60	45	40.15

Asset allocation (Underlying Fund)

Asset class	Range %	Actual %
Direct property and unlisted property securities	40 - 70	77.71
A-REITs	20 - 50	21.13
Cash	0 - 30	1.16
Total		100.00

Sector allocation – direct and unlisted (Underlying Fund)

Type	Portfolio weighting %
Office	36.43
Industrial	29.71
Retail	32.03
Childcare	1.83
Total	100.00

Geographic allocation – direct and unlisted (Underlying Fund)

State	Portfolio weighting %
VIC/TAS	35.23
NSW/ACT	35.12
QLD	20.18
SA/NT	7.55
WA	1.45
Overseas	0.47
Total	100.00

Portfolio holdings# (Underlying Fund)

Portfolio holdings	Sector	Book Value \$ m
98 Ingleston Rd Wakerley, QLD	Direct Prop Industrial	7.75
15 Telford Place Arundel, QLD	Direct Prop Industrial	5.55
11 Dansu Court Hallam, VIC	Direct Prop Industrial	5.00
65 Beverage Drive Tullamarine, VIC	Direct Prop Industrial	4.90
7-9 Siddons Way Hallam, VIC	Direct Prop Industrial	2.90
40 Allara Street Canberra, ACT	Direct Prop Office	20.06
Salisbury Cinema Complex Salisbury, SA	Direct Prop Retail	6.62
Orchard Childcare Property Trust	Unlisted Prop Childcare	1.90
MAB Diversified Property Trust	Unlisted Prop Diversified	1.77
360 Capital Industrial Fund	Unlisted Prop Industrial	1.88
AU Industrial Property Trust	Unlisted Prop Industrial	1.62
Australian Unity Second Industrial Trust	Unlisted Prop Industrial	1.21
AU Office Property Trust	Unlisted Prop Office	6.76
CorVal Industry House Trust	Unlisted Prop Office	1.19
AU Retail Property Fund - Retail	Unlisted Prop Retail	25.23
AU Office Property Fund	Unlisted Prop Retail	9.29
360 Capital Retail Fund	Unlisted Prop Retail	0.33
AU Retail Property Fund - Class A	Unlisted Prop Retail	0.01
AU Retail Property Fund - Wholesale	Unlisted Prop Retail	0.01
AU Property Securities Fund - Growth Units	A-REITs	10.23
AU Property Securities Fund - Ordinary Units	A-REITs	8.74
AU Property Securities Fund - Income Units	A-REITs	8.14
AU A-REIT Fund	A-REITs	1.17
Total		132.26

Excludes Cash

Fund snapshot

	Retail	Wholesale
APIR Code	YOC0002AU	YOC0003AU
Inception date	April 2005	April 2005
Fund size (gross asset value)	\$4.14 million	\$95.51 million
Minimum initial investment	\$1,000	\$5,000

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