

Diversified Property Fund



OUR VISION FOR YOUR INVESTMENT

Australian Unity Investments has been responsible for the management of the Diversified Property Fund for only nine short months.

But already the Fund has significantly benefited from many of our strong active management decisions. Our view is that it presents a portfolio of solid property assets that have been an excellent foundation on which to build.

The purpose of this document is to provide insight into our vision for the future of the Fund, and to explain how we plan to add value and grow the Fund for investors.

DIVERSE, DIRECT AND GETTING SET TO DELIVER

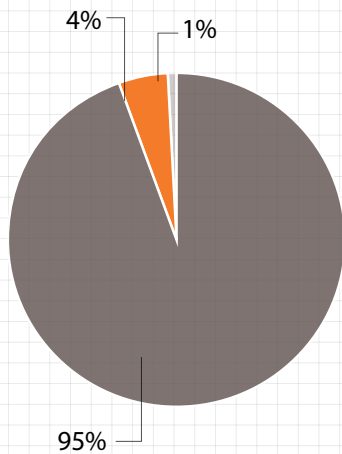


THE FUND AS IT STANDS

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

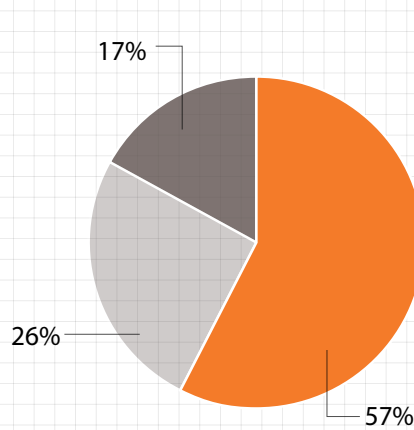
As at 31 May 2011, the Fund holds 13 properties in New South Wales, Victoria, Queensland and Western Australia.

ASSET ALLOCATION



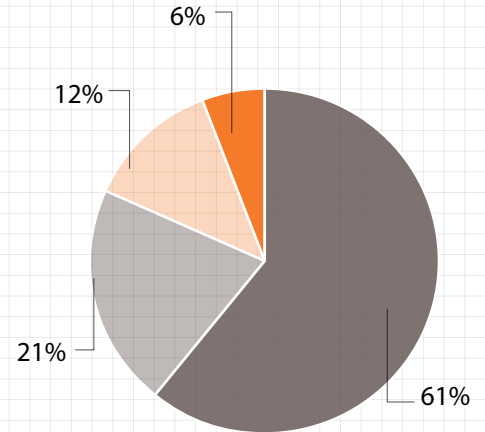
■ Direct ■ Cash ■ Unlisted

PROPERTY SECTOR



■ Industrial ■ Retail ■ Office

STATE ALLOCATION



■ WA ■ NSW ■ QLD ■ VIC

Trust statistics (31 May 2011)	
Fund size (Gross Asset Value)	\$373.6m
Fund size (Net Asset Value)	\$173.6m
Gearing	51.2%
Hedged debt position	79.0%

Leasing statistics (31 May 2011)		
Occupancy rate by area		96.5%
Weighted average leasing expiry by income		7.6 years
Major tenants	Properties leased	% base rental income
Metcash	4	46.2%
Australian Tax Office	1	17.0%
Woolworths	2	4.4%

OUR INVESTMENT OBJECTIVE

We believe that a well diversified property portfolio can achieve stable, tax-advantaged income and solid prospects for capital growth over the long term.

We will actively manage the Diversified Property Fund with the aim of exceeding its benchmarks and increasing value for investors over the long term.



OUR VISION FOR THE FUND'S FUTURE

Currently, we believe the portfolio contains a good mix of property sizes and a healthy combination of lease terms.

Looking to the future, however, it's no surprise that we believe enhancing the Fund's diversification will be the key to delivering on its investment objectives. Despite the Fund's already solid foundations, we are confident of being able to make changes that can further increase investor value.

Over the coming two to three years, Australian Unity Investments will look to strengthen four fundamental areas of the Fund. Below is a selection of major highlights of our strategy for the Fund.

SOME INSIGHT INTO OUR PROPERTY STRATEGY

WHY OFFICE? WHY MELBOURNE OR SYDNEY?

The commercial property sector certainly experienced difficult conditions over the past three years as a result of the global financial crisis. However, our view is that a line has now been drawn under this low and, as a result, we are optimistic of a sustained and gradual recovery in the market.

As stated, our longer term strategy for the Fund is to realign its property geography along Australia's eastern seaboard, with the intention of generally only investing in capital cities and major regional centres. This is consistent with Australia's current and future demographic trends.

Our view is the commercial office markets in Australia's eastern states, particularly Melbourne and Sydney, present as the likely standouts for potential new opportunities.

We believe office markets can generally be expected to perform well over the next two to three years — due in particular to sustained employment levels and the low level of construction that occurred over the past three years. We recently observed vacancy decreases across the Australian office market and different regions are now at varying stages of the cycle. Melbourne and Adelaide are currently leading the recovery, with a rental upswing now gradually commencing in Sydney.

We are currently forecasting the Melbourne market to be the strongest performer over the short to medium term as tight supply continues to create favourable leasing conditions. Up to this point, our view is that Sydney has lagged behind due to higher existing levels of office space as a result of recent new building completions. Despite this, sentiment remains positive in Sydney, and we expect to see improvements in the second half of 2011 as vacancy levels trend downwards.

IMPROVE

ASSET ALLOCATION
STRATEGY THROUGH
PORTFOLIO
DIVERSIFICATION

- **Selectively purchase and potentially sell assets** to improve the geographic spread of properties, rectifying both the current concentration in Western Australia and the overweight position to industrial property.
- **Actively broaden the Fund's asset allocation** towards office property, where we see significant opportunity. Our long-term view is that retail property holdings will form the core component of the Fund's assets at around 40 percent of the direct and unlisted property exposure. Under this ideal structure, the Fund will have a slightly lower allocation to both industrial and office components – around 30 percent each – reflecting the greater relative volatility these sectors typically experience over the longer term.

ACTIVELY MANAGE

TENANTS AND PROPERTY
DEVELOPMENT

- **Increase the overall diversification of tenants** through active management of head leases and sub-leases.
- **Invest in 'brown field developments'** (i.e. capital expenditure invested in an existing asset) if an opportunity to increase income, valuation, or the Weighted Average Lease Expiry (WALE) for the property is identified.
- **Maintain the WALE** across the portfolio (by income) so it is greater than four years.

STRENGTHEN

THE FUND'S
FINANCIAL POSITION

- **Lower the Fund's overall level of borrowings** from a gearing ratio of 51.2 percent (at 31 May 2011) to an optimum range between 45 – 50 percent.
- **Manage interest rate risk** through a comprehensive and discretionary hedging program. The primary purpose of interest rate hedging is to provide certainty of future cashflows, which helps manage the Fund's distribution yield and compliance with debt covenants. Derivatives will not be used for gearing or for speculative purposes.

INCREASE

INVESTOR BENEFITS

- **Remove entry fees for additional contributions** to encourage and promote additional investment in the Fund.
- **Continue efforts to improve the Fund's liquidity.** Prior to Christmas 2010 and from June 2011 we conducted limited ad hoc withdrawal offers for investors.

Ultimately, we would look to establish a regular withdrawal facility where 2.50 percent of the Net Asset Value is made available for withdrawals on a quarterly basis. (This facility would be consistent with other Australian Unity property funds.)

WHAT WE'VE ALREADY ACHIEVED

Performance as at 31 May 2011	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	Since inception %* p.a.
Fund distribution return	1.75	3.49	7.14	6.96	6.71
Fund growth return	1.41	0.35	0.39	(12.42)	(3.56)
Fund total return	3.16	3.84	7.53	(5.46)	3.15
Benchmark distribution return ⁽¹⁾	1.65	3.29	6.71	6.74	6.73
Benchmark total return ⁽²⁾	2.24	4.85	9.74	(0.07)	6.30

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 31 August 2006.

(1) 1% p.a. above the average Commonwealth Government 10-year bond yield on a rolling basis over the previous 5-year period

(2) Mercer/IPD Australian Pooled Property Index

ENTHUSIASM, GROWTH AND AMBITION DEFINE OUR APPROACH

You don't have to look far to see the enthusiasm and ambition we've already applied to the management of the Fund. Some of the highlights since taking over the management of the Fund in October 2010 include:

- Negotiating a new five-year lease for the ATO in the Penrith property after they had initially indicated they were likely to vacate. As well, we are now seeking 'expressions of interest' from the market for the property to test its potential sale value.
- Agreeing and documenting new terms for the Fund's \$230.1 million debt facility and moving to re-hedge the portfolio's borrowings.
- Re-starting the Fund's dividend reinvestment plan so investors can reinvest distribution income in additional Fund securities with no brokerage, commission or stamp duty costs ('buy spread'). Even better, and until further notice, investors can reinvest at a 2.5% discount to the Net Asset Value (NAV) security price upon reinvestment.
- Starting minor capital works on the Port Melbourne property and decisively managing its tenants to better secure income from the property.

- Construction of 2,500m of the Canning Vale property to include a meat cold storage facility.
- Advancing discussion with tenants about additional development and/or expansion of the Balcatta property.
- Undertaking master planning and a feasibility study to expand and amalgamate the three adjoining Busselton properties to leverage scale, and to improve costs and leasing conditions.
- Actively re-negotiating the lease arrangement for the Richlands property with a view to increasing the value of the property and broadening the Fund's overall tenant profile.
- Managing the tenant and leasing profile to diversify and extend the leases for both the Parramatta and Dog Swamp properties.

As well we've taken steps to reduce the Fund's level of borrowings and to provide investors with a measure of liquidity. And there is much more on the horizon.

STRENGTH THROUGH DIVERSITY

Our vision for the future for the Diversified Property Fund is focused on providing stable income, the potential for capital growth and suitable liquidity.

THE AUSTRALIAN UNITY INVESTMENTS PROPERTY TEAM

Australian Unity Investments has more than 30 years of funds management experience and more than 10 years experience in property asset management.

Our property portfolio is currently valued at more than \$1.5 billion (31 May 2011) and comprises assets in industrial, retail, healthcare and office sectors.



David joined Australian Unity Investments in 2004 and is responsible for all the investment management activities across our financial and property assets. David has more than 25 years experience in investment and financial services.

David Bryant
Chief Executive Officer



Peter joined Australian Unity Investments in 2001 and has more than 35 years of experience in portfolio and property management. He is highly regarded for his knowledge in the retail, industrial and office property sectors and manages our property funds in these sectors.

Peter Lambden
Head of Diversified Property Funds



Mark joined Australian Unity Investments in 2004. He is responsible for the commercial management and growth of our in-house property and mortgages asset management businesses.

Mark Pratt
General Manager – Property, Mortgages & Capital Markets



Nikki joined Australian Unity Investments in 2005 and is responsible for forecasting distributions and performance analysis of the Diversified Property Fund. As well, she is involved in portfolio management, asset management, and acquisitions and disposals.

Nikki Panagopoulos
Property Portfolio Manager



Martin joined Australian Unity Investments in 2001 and is head of our property team. He commands a wealth of property experience spanning more than 30 years in portfolio management, commercial and land developments and real estate agency management.

Martin Hession
Head of Property

CONTACT US

For further information about your investment, you can call the Diversified Property Fund Investor Infoline on 1300 739 091 (for calls within Australia) or +61 2 8280 7587 (for calls outside Australia) or email australianunity@inkmarketservices.com.au.

Alternatively, you can email us at investments@australianunity.com.au.



Important information

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Decisions relating to a financial investment should only be based upon a consideration of your overall objectives, current and anticipated situation or needs, and should not be influenced by historical data such as past performance.