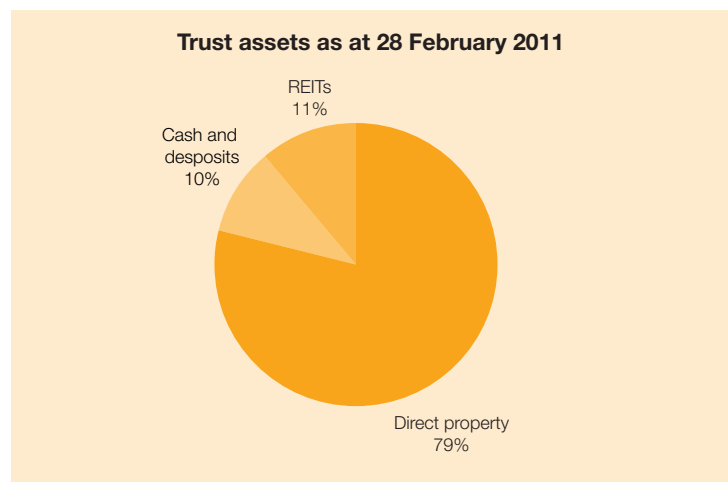


## Property Trust – Significant features and risks

### Trust assets

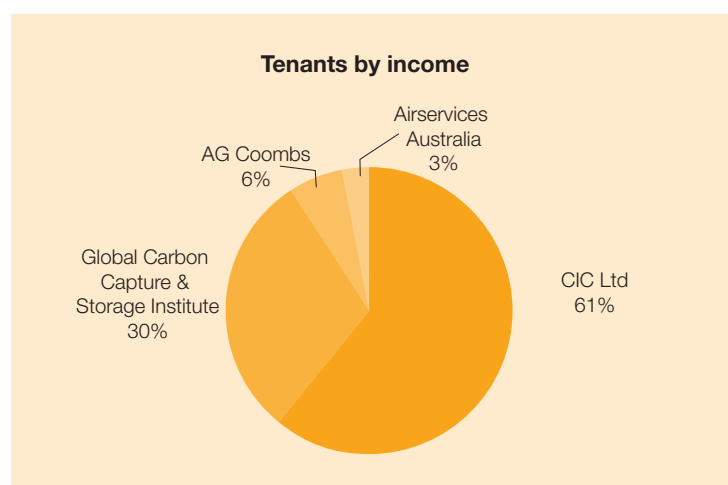
The Trust portfolio at the end of February 2011 consisted of one direct office property plus liquid funds held in listed Real Estate Investment Trusts (REITs), deposits and cash. It is intended that liquid funds will be utilised in future property purchases.



### Direct property

The Trust holds one direct property in Canberra located at 64 Allara Street. This is an A-Grade commercial building completed in November 2008 and has been awarded a 5 Star Green Star Rating – Office Design v2 Certified Rating.

Independently valued on 5 May 2010 at \$19.8 million (capitalisation rate of 7.25%), the property is fully let with a weighted average lease expiry term of 6.4 years, based on income as at 31 December 2010.



### Income payments

Income from the Property Trust will be entirely funded from Adjusted Funds from Operations (AFFO). AFFO represents Funds from Operations (FFO) (e.g. rental income) adjusted for recurring capital expenditure used to maintain the quality of underlying assets. In making an income payment, account vacancies and tenant incentives will be considered which may result in some fluctuations in income payments from period to period.

### Significant risks

As with all investments, an investment in the Property Trust is subject to risks, some of which are outside our control. Significant risks are discussed below. If a risk eventuates, the value of your investment can reduce, your income payments may stop or be reduced from previous levels, and you may be unable to withdraw your investment from the trust. Before investing you should consider your attitude to risk and consider taking professional investment advice.

### Gearing risk

Gearing indicates the extent to which the trust's assets are funded by interest bearing liabilities – in other words the amount of debt held by the trust compared to its gross assets. The use of debt exposes the trust to financing and interest rate risks. For example, if interest rates rise, the interest expense of the trust will increase. If property values decline, refinancing arrangements may not be available and the trust could breach agreements with existing lenders. Gearing magnifies the impact of any upward or downward movements in interest rates and underlying property values. The higher the level of gearing, the greater the upward or downward magnification.

The gearing ratio for the trust as at 31 December 2010 was 32% (on a look through basis). It is determined using the following formula:

$$\text{Gearing ratio} = \frac{\text{Total interest bearing liabilities}}{\text{Total assets}}$$

Under its Constitution, the gearing ratio for the trust cannot exceed 40% (on a look through basis). The long term gearing target for the trust is 30% (on a look through basis). The Property Trust may manage its exposure to changes in interest rates through the use of interest rate derivatives.

### Borrowing risk

Borrowing facilities due to expire within a relatively short timeframe are a significant risk factor, particularly in periods where credit is

## Property Trust – Significant features and risks

more difficult and expensive to obtain. Difficulty in renewing borrowing facilities can adversely affect the value of a trust and its viability.

Amounts owing to lenders and other creditors of the trust rank before an investor's interests in the trust.

Currently the Property Trust has only one borrowing arrangement as follows:

Amount	\$7.4m – fully drawn
Maturity	25 June 2014
Interest rate	Capped at 5% per annum
Interest cover ratio covenant	2
Loan to valuation covenant	50%

### Interest cover and income risk

Interest cover measures the ability of the trust to service interest on debt from the earnings of the trust. It is a critical indicator of financial health and key to analysing the sustainability and risks associated with the trust's level of borrowing. The lower the interest cover, the higher the risk that the trust will not be able to meet its interest payments. A trust with low interest cover only needs a small reduction in earnings (or a small increase in interest rates or other expenses) to be unable to meet its interest payments. Earnings could fall if property held by the trust is unable to be fully let or if tenants default.

As at 31 December 2010, the Property Trust's interest cover ratio was 2.00, calculated using the following formula:

$$\frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest expense}}$$

Where EBITDA is earnings before interest, tax, depreciation and amortisation.

The interest cover ratio shown above is calculated on the basis of ASIC guidelines and is comfortably within the limits of the loan agreement (which uses a different methodology to calculate interest cover).

### Valuation and property risk

The value of real property assets can be volatile, particularly when access to credit is constrained and more properties are on the market. A significant fall in valuation could mean an increase in gearing ratio and may trigger breaches of loan covenants. The more reliable a valuation, the more likely the asset will return

that amount when it is sold. However, any forced sale may result in a shortfall compared to the valuation.

For the Property Trust, direct properties are independently valued to industry standards on an annual basis. Indirect property investments are valued on a unit price basis where available, or on net tangible assets using audited financial statements, at no less than 12 monthly intervals.

Assets will be valued more frequently if this is necessary. Where possible, professional valuers who are registered or licenced in the relevant state or territory, and who subscribe to a relevant industry code of conduct, are used to undertake valuations.

Property values can be adversely affected by many different circumstances. These include the supply and demand of property in the market, vacancy rates, interest rate changes, environmental contamination and natural disasters.

### Portfolio diversification risk

The quality of the properties held by unlisted property trusts, including the quality of leases entered into over those properties, is a key element in the financial position and performance of the trust. Generally, the more diversified a portfolio, the lower the risk that an adverse event affecting one property or one lease will put the overall portfolio at risk. Details of the current properties held by the Property Trust are set out above.

The Property Trust was formed in May 2009 and in the medium term properties are likely to be concentrated in the Australian Capital Territory. The long term diversification strategy (over the next five years) is:

- no more than 50% of the property assets in any single geographical sub market, inclusive of unlisted property trust investments
- no single asset to represent more than 30% of the gross asset value of the trust
- no single tenant representing more than 30% of the trust's total rental income (except where the lease is to a statutory body)
- weighted average portfolio lease expiry to be not less than 3 years

### Related party transactions

A conflict of interest may arise if a property trusts invests in, makes loans to or provides guarantees for related parties. There are currently no such arrangements for the Property Trust. Were such a situation to arise, it would be managed in accordance with our conflicts of interest policy to ensure that arrangements were conducted on an appropriate arm's length and commercial basis.

## Property Trust – Significant features and risks

### Liquidity risk

Property trusts are by the nature of their assets illiquid. While the Property Trust will maintain a limited withdrawal facility (described below) a withdrawal request may be scaled back or delayed to a later withdrawal date. A withdrawal request may not be met in full for an extended period of time (this could be a year or more).

### Withdrawing from the Property Trust

Withdrawing from the Property Trust is different from our other trusts due to the illiquid nature of the assets held by the Trust. Under the Property Trust's Constitution, we are allowed up to 90 business days in which to meet any withdrawal request if the trust is liquid. Given the nature of the assets of the trust, the trust will normally be illiquid. When the trust is illiquid, there is no right to withdraw from the trust, except in accordance with a withdrawal offer made by us as responsible entity.

We are not obliged to make any withdrawal offer.

However, provided the trust has sufficient available funds to do so, subject to the limitations set out below, we intend to offer a six monthly withdrawal facility on the following terms:

Offer period each year	1 March to 21 March 1 September to 21 September
Assets used to satisfy withdrawal requests	Liquid assets held by the trust at the time of the offer – this may be cash or listed property investments
Amount of money expected to be available	The amount of money available to meet withdrawal requests will be capped at 1% of the net asset value of the trust (although we may decide to increase this amount in our absolute discretion)
Payment of withdrawal monies	Payment of withdrawal monies will be made within 21 days after closure of the offer
Withdrawal price	The unit price for withdrawal will be the unit price next applicable after the offer closes (normally the price determined as at 31 March and 30 September)

What happens if withdrawal requests exceed money available to meet requests?	Requests will be scaled back proportionally
Minimum balance requirement	If a withdrawal request would result in an investor's balance being below the minimum investment amount, we may refuse to satisfy that withdrawal request or decide to redeem the investment in full.

Under the Corporations Act 2001 and the Constitution, we must ensure that investors in the trust are not unfairly treated by any withdrawals that we allow. Because of this, we may vary the conditions of the withdrawal facility at any time. We may postpone or suspend withdrawals.

Circumstances where we might do this include when other investors would be disadvantaged, the potential breach of debt covenants or the inability of the trust to sensibly liquidate necessary assets.

In addition to the withdrawal facility outlined above, we may offer further withdrawal rights to investors from time to time at our discretion, provided any such offer is in accordance with the requirements of the Corporations Act and Constitution.

### Applicability of stamp duties legislation

States and Territories in Australia have stamp duties legislation that applies to land rich entities. Our intention is to obtain necessary registrations and to operate the Property Trust so that investors are not liable to land rich stamp duties on the issue or purchase of units in the trust (other stamp duty may still be applicable). We may reject any application for units or any request to transfer units which could impact on the ability of the trust to achieve and maintain this stamp duty status.

### Keep up-to-date with Property Trust developments

You can keep up-to-date with the trust's unit price and performance through our website. At least every six months we will also provide on our website an update on trust assets, properties and key risk indicators.