

Australian Property Fund

Setting a new agenda

Building on solid foundations



Fund update
February 2012

Australian Property Fund
Rolling one year returns
to 31 Dec 2011

As you're aware, APF is now liquid. We believe we can continue to build on the Fund's strong foundations, which have delivered a return of 5.82% per annum for investors since the Fund's inception in 2001¹.

Plus the income return for the Fund for the year to 31 December 2011 was 5.34%.

APF is now well positioned to take advantage of the improved outlook for the Australian commercial property market.

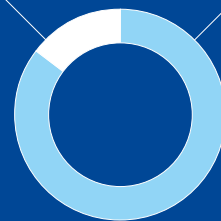
¹ Net of fees, as at 31 December 2011. Past performance is not necessarily indicative of future performance.

Australian Property Fund
(Net of fees)



Fund snapshot
31 December 2011

Cash and other assets
14.7%
\$112.1m



Direct property
85.3%
\$647.58m

Fund total **\$759.68m**



Setting a new agenda /

We're setting a new agenda for the Wholesale Australian Property Fund (WAPF or the Fund). We're offering a refreshed, new and improved structure for the Fund that is more closely aligned with current market conditions and, importantly, aims to address the liquidity needs of investors.

While there will be some changes, the Fund's philosophy will stay the same: the Fund will retain a strong income focus and low-risk orientation; it will continue to invest in quality direct property assets and, as always, diversification remains key. Taking a longer-term perspective, we see value in the Australian commercial property market and we believe it will benefit those who are ready. We are.

With the foundation stones for the Fund's future substantially laid, the guidance of AMP Capital and with the revised strategy in place, we're optimistic the Fund is well placed to deliver strong, risk-adjusted returns.





In good hands with AMP Capital

AMP Capital was appointed as the new investment manager for the Fund in November 2011. With a 50-year track record, over A\$22 billion¹ in property funds under management and a core strength in property investment, AMP Capital is an expert when it comes to direct property management.

Their property team is widely regarded as a leader in the investment community, with a proven investment approach backed by a well-resourced team of investment professionals.

In today's unstable and uncertain times, it pays to know that unit holders are putting their trust with one of the most recognised property managers in Australasia.

Now more than ever, unit holders can have every confidence that the Fund's future is in good hands.

AMP Capital has a 50-year track record and over A\$22 billion¹ in property funds under management

Since the Fund's withdrawal facilities were suspended in 2008, our top priority has been to explore various capital management initiatives to restore liquidity in the Fund. After assessing numerous options, we're pleased to announce that we have now finalised our solution – a solution that we believe delivers an equitable and practical outcome for all investors.

We're re-launching the Fund with a revised strategy that combines key elements of the current Fund with improvements to the product's design, investment profile and capital management strategy. We believe the changes also allow us to capitalise on the Fund's strengths, improve the Fund's ongoing liquidity management and provide a robust platform for future growth. These changes, including the associated risks and costs are explained in detail in the Disclosure Document. Further information on the changes can also be found later in this update.

1 As at 31 December 2011.



Fund update

With assets of \$760 million², WAPF is one of the largest unlisted retail direct property funds in Australia. The Fund's property portfolio accounts for 85 per cent of assets and is comprised of 16 properties diversified geographically across Australia, plus one New Zealand property. The Fund is also well diversified across the major commercial property sectors including retail, office and industrial. The Fund currently has no exposure to listed property, however we will look to build a portfolio of Australian REITs (AREITs) once the Fund opens for applications.

The Fund continues to meet its objectives – to provide unit holders access to a regular, stable income stream together with long-term capital growth. The Fund is delivering strong income distributions to unit holders, and did so throughout the global financial crisis, demonstrating the quality and strength of the direct property portfolio. The most recent valuations saw a modest increase in the value of the overall portfolio despite a slowdown and tightening in the Australian economy. The Fund has secure and growing income streams, and the properties held in the portfolio are expertly managed and strongly tenanted, leaving the Fund well placed to continue to deliver reliable income and capital growth.

We will continue to actively manage the Fund and its assets to maximise long-term returns and drive income and value, by focussing on our key sectors.

We will also stay alert to opportunities that may arise, and be poised to seize them, where clear value and improved liquidity can be demonstrated.

As always, we remain committed to our strategy of enhancing the portfolio's overall quality by concentrating on high quality assets in major metropolitan markets, and in particular Sydney, Melbourne and Brisbane. These markets are the deepest in Australia and home to the largest number of tenants. As part of our asset sales programme, we plan to sell non-core properties in under-performing markets, which will help to further enhance the Fund's overall quality and assist to generate liquidity. The asset sales programme will be managed by a specialist property transaction team with the aim of ensuring that properties are sold on the best possible terms and conditions.

Looking ahead, we will continue to maintain and build on our core investment discipline, which has delivered positive returns for investors. At the same time, we'll introduce changes to the Fund's mandate to ensure it continues to offer unit holders a high quality, viable investment opportunity that also meets their liquidity needs. We're optimistic that with the support and proven expertise of our new investment manager AMP Capital, we will continue to deliver the right balance of value, security and performance for unit holders.

² As at 31 December 2011.



Revised Fund strategy 2012 and beyond

Our revised strategy for the Fund incorporates a new, temporary liquidity mechanism that allows unit holders wishing to exit the Fund to do so while preserving the value of the portfolio for those who remain invested in the Fund. Our aim is to re-open the Fund with sufficient liquidity to deal with withdrawal requests. We can only do this by generating enough liquidity through our carefully planned and executed asset sales programme. Additional liquidity will be provided through the introduction of a borrowing facility for the Fund.

The re-launched Fund has been designed to be true to the original investment objectives and risk profile of the Fund. In that sense, it will aim to:

- **continue** to offer a quality commercial property product with a manager investors can trust
- **continue** WAPF's 27-year history as the one of the largest open-ended unlisted retail funds investing in Australian real estate
- **continue** to offer a product with the scale to deliver meaningful diversification benefits by geography, sector and tenant
- **continue** to invest in assets that are generally ignored by the institutions but are beyond the reach of many individual private investors
- **continue** to hold a modest strategic allocation to AREITs
- **continue** its conservative capital management approach
- **continue** as a fund which offers investors liquidity in normal conditions, and
- **continue** to have an income focus.

While continuity is key, we're also making some changes. The Fund currently has no debt and an important change to the Fund is that in the future, a modest amount of borrowings may be used to fund direct property acquisitions, capital expenditure within the direct property portfolio and to pay withdrawals. We believe that a modest debt facility will assist in better managing the Fund's capital and in matching investors needs for liquidity with the longer-term nature of direct property investments.

However, it's important that you're aware there are additional costs and risks involved with borrowings, which you can read more about in our Disclosure Document.

Other changes we address in the Disclosure Document include:

- changes to the Fund's investment strategy
- changes to the way we plan to process withdrawal requests, and
- changes to fees.

Sector review

Office

Office is the most cyclical of the three major commercial property sectors and is currently the preferred sector for investors, accounting for 67 per cent of all commercial property sales value in quarter four 2011. Local investor demand is strong because of favourable rental and value prospects in most major markets, while offshore investors are attracted by the yield Australian real estate offers. While demand is strong, supply is now weak and vacancy rates are generally low. Due to constrained supply conditions, we see undersupply emerging in some markets over the next few years which is expected to drive rental growth.

The construction cycle looks to be moving towards a cyclical low and demand from tenants is stronger than the macro market would indicate. Net absorption was higher than long-term averages in the major office markets and the national vacancy rate tightened in quarter four 2011. Sydney, Perth and Brisbane are currently the markets experiencing the strongest rental growth.

Industrial

The industrial sector continues to tick along at a steady pace with demand subdued, supply constrained and rents flat. Perth and Brisbane are benefiting from activity in the resources sector and leasing activity in these markets is notably stronger than other cities. Construction remains constrained by a lack of available finance forcing tenants to remain in existing stock. New supply activity overall remains steady, as projects that had previously been pre-committed are completed or begin construction.

Retail

Despite a moderate pick-up in retail turnover over recent months, retail property markets remain challenging. Landlords have been able to maintain low vacancy rates but there has been pressure on rents to fall and incentives have increased.

Aside from a general consumer caution that has kept the household savings rate high, the strong Australian dollar has also undermined local retail spending by boosting online retailing through international retailers, dampening inbound international tourism and boosting international outbound tourism. Against this, population growth remains relatively high, which serves to support the sector.

The outlook for 2012

The outlook for commercial property in 2012 is positive. Current conditions in the Australian commercial property market reflect a steady and sustained recovery. Across the markets, the balance between demand and supply is now starting to tip in favour of demand, while interest from a range of buyers, most notably from overseas, is driving investment values. Uncertainty regarding the global economy and equity markets is a looming risk, however it hasn't prevented values from steadily climbing over the past 12 months, and traditionally, direct property as an asset class performs well during uncertain economic times. Nevertheless, buyers have become more cautious and finance has tightened. The retail sector will benefit from the strong levels of population growth but the headwinds it currently faces are likely to soften valuation rises. The industrial sector offers investors a yield premium and is likely to receive ongoing support. The office sector has the most favourable prospects over the course of 2012 as the demand conditions defy the macroeconomic environment.

Portfolio metrics

Asset revaluations

As part of our regular revaluations cycle, the Fund's entire portfolio was revalued by independent external valuers in December 2011. This resulted in the following sector movements from the previous valuations communicated in May 2011:

- the value of retail assets increased by \$9.5 million to a total of \$163.9 million
- the value of Australian commercial assets increased by \$1.1 million to \$238.5 million
- the value of Australian industrial assets decreased by \$1.4 million to \$245.2 million, and
- the value of the total direct property portfolio increased by \$9.2 million (1.4%) to \$647.6 million.

Property portfolio

Property	Book value at 31 Dec 2011 (A\$m)
Retail	
Casula Mall, Sydney, NSW	122.4
933-945 North East Road, Modbury, SA	15.3
The Plaza, Whangaparaoa, Auckland, NZ	26.2
	163.9
Commercial	
20 Windmill Street, Walsh Bay, NSW	75.0
124 Walker Street, North Sydney, NSW	67.0
441 St Kilda Road, Melbourne, VIC	53.5
12 Moore Street, Canberra, ACT	43.0
	238.5
Industrial	
105-111 Vanessa Street, Kingsgrove, NSW	50.6
12-18 Distribution Drive, Laverton North, VIC	50.0
121 Evans Road, Salisbury, QLD	25.9
7 and 25 Gauge Circuit, Canning Vale, WA	20.5
2 Pound Road West, Dandenong, VIC	19.7
200 Greens Road, Dandenong, VIC	18.9
1B Unwin Street, Rosehill, NSW	17.3
10 Wesley Court, Burwood East, VIC	14.0
20 Holbeche Road, Arndell Park, NSW	12.0
85 Waterloo Road, Macquarie Park, NSW	16.3
	245.2
Total	647.6



Investors are in the driver's seat

The future of the Fund will ultimately be decided by investors. As you will read in the Disclosure document, now that the Fund has been declared liquid, it can take one of two possible paths.

If the revised strategy for the Fund does not receive investor support and withdrawal requests exceed 50 per cent, it's likely that all of the properties will be sold and investors will have their capital returned periodically over the course of the next two to four years. Alternatively, with investors' support, we expect that the Fund will continue as an open-ended fund, which primarily invests in direct property with the

aim of delivering reliable income and long-term capital growth to investors.

We're confident the Fund has an exciting future should it proceed, however investors need to make the right decision that takes into account their personal circumstances and financial goals. We recommend that investors read the Disclosure document and discuss the Fund's revised strategy and liquidity offer with their financial adviser to determine the most appropriate course of action for them.

Whatever your decision, we're thankful for the support the Fund has had over the past 27 years.



Important information

This information has been prepared to provide you with general information only. It is not intended to take the place of professional advice and you should not take action on specific issues in reliance on this information. In preparing this information, we did not take into account the investment objectives, financial situation or particular needs of any particular person. Before making an investment decision, you need to consider (with or without the assistance of an adviser) whether this information is appropriate to your needs, objectives and circumstances. You should obtain a copy of the relevant Product Disclosure Statement (PDS) before making a decision to invest in any financial product. Detailed information about the product is contained in the PDS. The National Mutual Life Association of Australasia Limited and its associates derive income from issuing interests in the products, full details of which are contained in the PDSs. Unless specifically stated, the repayment of capital or performance of our products is not guaranteed. This information is provided for persons in Australia only and is not provided for the use of any person who is in any other country. Past performance is not necessarily indicative of future performance.

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