

WHOLESALE FUND RETURN AS AT 31 DECEMBER 2009¹

	3 months (%)	6 months (%)	1 year (%)	3 years (% p.a.)	5 years (% p.a.)	7 years (% p.a.)
Growth Return	-2.59	18.32	5.16	-28.65	-17.37	-12.56
Distribution Return	0.00	4.63	7.29	8.44	11.77	13.59
Total Return	-2.59	22.95	12.45	-20.22	-5.60	1.03
S&P/ASX 200 Property Accumulation Index	-5.01	23.91	7.92	-23.10	-7.27	-0.22

¹ Performance figures are calculated using withdrawal values and assume that income is reinvested. Annual management fees and expenses have been taken into account, however no allowance has been made for entry fees, tax or any rebates that may be given.

Past performance is not a reliable indicator of future performance.

FUND COMMENTARY

The Advance Property Securities Fund invests in a range of Australian listed property securities. The Fund is managed by MacarthurCook Fund Management Limited (MacarthurCook). The Fund outperformed the benchmark over the December quarter.

MARKET PERFORMANCE

The REIT sector stabilised during the December 2009 quarter, finishing down 5%, after having delivered significant total returns in both the June and September quarters. As stated in the last quarterly report, MacarthurCook viewed the September performance figures as a “relief rally” as debt continues to become more costly to attain, along with the general economic conditions remaining poor, despite showing signs of improvement (from a lower base). The necessary preconditions are yet to be in place for long-term sustainable growth.

It appears the markets are relieved that the global financial system did not collapse (as was previously feared) and have reacted as if the same rebound will occur post a downturn. Nothing will be “normal” until the supply of credit is unfrozen and the pricing becomes more reasonable. These conditions are yet to transpire and hence, fears are of a “double-dip” recovery, as the risk is now in with currency and sovereign risk, given the massive amount of government intervention globally to sure up the financial system.

The office sub-sector delivered positive total returns in the December quarter, as both improved sentiment (with the backing of some transactional evidence) coupled with

investors moving up the risk curve combined to deliver a strong quarter. By contrast, the retail sub-sector was the worst performing, with Westfield down 9.8% for the quarter.

FUND PERFORMANCE

The top contributors for the quarter were predominantly underweight positions, as the benchmark delivered negative total returns. The stand-out however was Challenger Kenedix Japan, which benefited from the parent-entity launching a highly opportunistic bid of \$1.00 per unit, for the remaining units on issue.

The Fund was hurt by not having any exposure to Macquarie Office, Abacus, Astro Japan and Bunnings Warehouse (at the close) during the quarter. Macquarie Office share price rose after the company announced a relatively positive September quarter update showing healthy leasing activity. The company also reported an average rental increase of 4.1% after 12% of its global portfolio was subjected to rent reviews during the September quarter.

The Fund increased its exposure to Ardent Leisure due to its move into the benchmark during the quarter. The manager wanted to maintain the Fund’s relative overweight position and acquired the securities accordingly.

Regarding Mirvac, the REIT has continued to display improved prospects and hence, a reduction in its underweight position was initiated.

Positions in Bunnings Warehouse and Lend Lease Primelife were exited during the December quarter. A continuation of the overall theme of the sell-downs during the quarter was moving the Fund further along the risk curve, given the further reduced exposure to CFS Retail, Commonwealth Property Office and Dexus.

OUTLOOK

MacarthurCook still expect more of the highly geared REITs and property vehicles to venture to the market to recapitalise their businesses at a substantial discount to even current pricing levels, as the ability to sell a portfolio of assets would see a discount applied. The REIT sector's bounce has provided the opportunity for further equity raisings in the period ahead. The sooner REITs can reduce their gearing, the quicker the turnaround in their performance and secondly, their ability to capitalise on the opportunities that the present environment will provide.

MacarthurCook expect enhanced merger and acquisition activity going forward. Another trend that will gain prominence is that IPO's/capital raisings will be structured such that overseas investors can participate. Overseas-based investors as a proportion of the REIT sector are circa. 35% and they too are after pure Australian, vanilla REITs. Coupled with the high AUD and their low cost of debt, it is a trade that will continue to gather momentum. Hence, we will see deals priced on relatively tight yields and metrics, given the combined demand from investors located both at home and abroad.

TOP 10 HOLDINGS

	Fund (%)	Benchmark (%)
Westfield Group	33.4	39.83
CFS Retail	7.75	5.84
Carindale	3.45	-
Stockland	16.33	14.12
Dexus	8.21	5.99
Mirvac	4.39	7.18
General Property Trust	3.44	7.76
Commonwealth Property Office	3.48	2.86
ING Office	3.38	2.72
Goodman Group	6.92	5.64

SECTOR ALLOCATIONS

	Fund (%)	Benchmark (%)
Diversified	35.21	35.68
Office	6.86	6.95
Retail	42.78	43.35
Industrial	6.92	7.01
Off-Benchmark	6.91	7.00
Cash	1.33	-

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