



DOMAINE DIVERSIFIED PROPERTY FUND

ARSN 108 289 827

JUNE 2011

INVESTORS' REPORT

October 2011

ECONOMIC ENVIRONMENT

The term "multi-speed" best reflects the current state of the global economic recovery and domestic property markets, with strong and weak indicators evident in both arenas.

The outlook for the global economy has recently deteriorated as downside risks have increased. Worsening US economic data and ongoing European sovereign debt concerns have resulted in declining investor confidence and volatile financial markets. Investors now fear the US economic recovery may be unraveling, prompting concerns of a "double dip" economic recession.

The "multi-speed" economic recovery has become a dominant theme in the current challenging global environment, with gross disparities between some regions and countries. The Asia Pacific region continues to lead the global economy, while the US, Europe and Japan lag behind. There are now real concerns about how this slow down will impact the Asia Pacific region, in particular commodity prices and the Chinese manufacturing sector.

The Australian economy continues to perform soundly, however evidence of the "multi-speed" economy persists as conditions in sectors including retailing, tourism and construction remain subdued.

Concerns about the global economic outlook and signs the domestic employment rate may have peaked have dampened consumer confidence and retail sales. As a result of these fears the household sector is paying down debt and increasing savings.

While Australia's economy remains the envy of most advanced economies, the outlook is far less certain given the backdrop of global economic volatility.

APGF is continuing to focus on property fundamentals and proactive asset management across the "multi-speed" domestic property markets.

While quality commercial office properties are performing relatively well, lesser quality commercial and residential properties still face significant challenges. The availability and cost of bank finance remains an issue however credit conditions have improved over the past twelve months.

APGF remains cautiously optimistic about a continued recovery in commercial property rents and capital values over the next few years, although forced sales by banks and the wind up of unlisted property funds may place some pressure on non-A grade property valuations.

A continued focus on maximising each individual property's net operating income to deliver sustainable performance and long term value to investors remains APGF's priority.



Luis Garcia
Senior Manager
Funds Management



Bridget Woods
Investor Relations
Manager

APGF IS CONTINUING
TO FOCUS
ON PROPERTY
FUNDAMENTALS AND
PROACTIVE ASSET
MANAGEMENT
ACROSS THE
"MULTI-SPEED"
DOMESTIC PROPERTY
MARKETS.



19-27 Devlin Street, Ryde

INVESTOR REPORTS

APGF has amended its investor reporting cycle to half-yearly reports. Investors now receive reports for the six months ending June and December. In addition, APGF will continue to keep investors informed of important information with updates available online at www.apgf.com.au, by letter or investor bulletin. APGF's Investor Relations Team can be contacted during business hours on 1300 668 698.

WEBSITE

APGF has recently upgraded its website www.apgf.com.au. Visit your fund page under the Unlisted Funds heading for the latest financial information and asset management updates. The new-look website aims to facilitate timely and relevant communication with investors and we welcome your feedback to info@apgf.com.au.

OFFICE CLOSURE

APGF will close for the Christmas period at 2.00pm on Friday, 23 December 2011 and will re-open on Tuesday, 3 January 2012. We wish investors a safe and happy holiday season.

PROPERTY MARKET UPDATE

BRISBANE

Brisbane's office market rebounded quickly following the January 2011 floods, driven by positive demand for all grades of office space.

According to the Property Council of Australia, Brisbane's commercial sector is leading the recovery in Queensland, with a net absorption of 38,108 square metres in Brisbane CBD office space achieved in the six-months to July 2011 – more than triple the 20-year average.

As at July 2011, the total vacancy rate in the Brisbane CBD was 7.4%, representing a contraction of 2% compared to the previous year. In the fringe market, the vacancy rate has also dropped to 8.8%, with a net absorption of 7,053 square metres over the six months to July 2011. The inner city area experienced the lowest vacancy rate in the six months July 2011, with a 0.4% reduction to 2.2%.

Despite the solid performance of the office market, retail property in Brisbane continued to struggle during the June 2011 quarter on the back of continued economic uncertainty. As a result, rents, yields and values are expected to remain flat in this sector for the remainder of 2011¹.

Brisbane's industrial market also remains challenging. There does, however, seem to be increased confidence in the market, with transactions totalling more than \$326 million in the first quarter². It will still be some time before confidence can sufficiently return to absorb the supply overhang experienced across the greater Brisbane area³.

Across the other sectors there was a modest market yield experienced throughout the June 2011 quarter, with enclosed shopping centres experiencing a high yield of 9%.

The Queensland Treasury has forecast 5% growth for Queensland's economy in 2012 and the Property Council of Australia expects vacancies in both Brisbane's CBD and fringe locations to continue at healthy levels, fuelled by ongoing demand from the resources sector and its associated professional services.

¹ Herron Todd White: *A month in review, June 2011*

² Colliers International: *Research and Forecast Report: Brisbane Industrial, First Half 2011*



99-103 William Angliss Drive, Laverton North

SYDNEY

Sydney's exposure to the global economy makes it sensitive to headwinds in financial markets and this flow-on effect was evident in the CBD office market during the first half of 2011.

According to the Property Council of Australia, of all the nation's capitals, Sydney was the only CBD market to record an increase in vacancy rates in the six months to July 2011 – increasing from 8.3% to 9.3% to record its highest vacancy rate in five years.

Net absorptions across the CBD totalled 5,509 square metres during the same period, with supply additions totalling 111,552 square metres – 44% more than the 20-year average.

Investment continued to remain strong across all metropolitan office markets. The most significant transaction during the first six months of 2011 was the sale of 259 George Street for \$395 million – the largest transaction to have occurred in the Sydney CBD since November 2009⁴.

Yields remained stable during the year to date, reflecting the nature of the tightly-held Sydney CBD market together with the continued challenges with obtaining finance despite resurging investor appetite⁵. Within the Sydney CBD, market yields for the June 2011 quarter ranged between an estimated 6.75% and 7.25% for prime assets, while secondary asset yields ranged between 7.5% and 9%.

According to the National Australia Bank June 2011 quarter commercial property survey, CBD retail property was identified as the best-performing property type, with the super prime Pitt Street Mall retail strip experiencing vacancies of just 0.9%.

Outside the CBD, demand for retail has softened with rental rates dropping across both prime and secondary space⁶, despite the recent number of sales of neighbourhood activity centres.

Retail remains the weakest performer in the property space as retailers continue to suffer from low retail sales turnover and weak consumer confidence⁷.

While Sydney's industrial property market has stabilised, it experienced a fragmented performance over the past 12 months⁸. The high Australian dollar is continuing to put pressure on local manufacturers, with a number of large South Sydney tenants moving to cheaper markets in the western suburbs keeping a lid on rent growth in 2011⁹.

MELBOURNE

Melbourne remains one of the strongest performing capitals in Australia's property sector.

According to the Property Council of Australia, during the June 2011 quarter, the Melbourne CBD office market boasted the lowest vacancy rate of any Australian capital city, at 6.3%. Strong demand is expected to continue over the next three years on the back of limited supply¹⁰ and, with only one building completed in the past six months, no new stock is scheduled to enter the market until 2013¹¹.

The tightening vacancy rate in Melbourne's CBD is having a flow-on effect into other major precincts including the Southbank waterfront and St Kilda, which are experiencing increased demand¹².

Despite being renowned for its retail market, Melbourne is not immune to the lack of consumer confidence impacting the rest of Australia. There is, however, notable increased interest in new and expansionary accommodation by global and national retailers. Spanish fashion label Zara has leased space along Melbourne's super prime Bourke Street Mall. This has resulted in increased rental prices for super prime CBD space, with net rents ranging from \$5,500 to \$9,000 per square metre¹³.

Overall, there is a 6% vacancy rate in Melbourne's retail market, despite some of the more historic retail areas such as Bridge Road experiencing vacancy rates of up to 10%.

According to industry research, Melbourne has led the country in relation to industrial rental growth in 2011 as developers reconsider new projects in key transport hubs. This increase in demand, coupled with limited additional supply coming into the market, is expected to see the vacancy rate decrease, thereby keeping pressure on rentals for prime assets located close to key transport networks^{14 15}.

With limited supply and little development of quality industrial land forecast over the next 12 months, it is expected there will be continued pressure on maintaining or increasing rents, which should see increased interest from investors¹⁶.

The market update published in this report relates to the property market(s) relative to this Fund. Should you wish to read our complete property market update which covers Sydney, Melbourne, Brisbane, Perth, Cairns, Gold Coast, Canberra and Hobart, please request a copy at either info@apgf.com.au or call 1300 668 698.

3 Herron Todd White: A month in review, July 2011

4 Preston, Rowe Paterson Property Market Report: Sydney Commercial Office Market

5 Preston, Rowe Paterson Property Market Report: Sydney Commercial Office Market

6 Herron Todd White: A month in review, June 2011

7 Property Observer: 'Apart from Pitt Street mall, NSW retail outlook bleak: NAB' (28 July 2011)

8 Herron Todd White: A month in review, July 2011

9 CBRE: Media Release (Melbourne emerges as Australia's industrial powerhouse)

10 Colliers International: Research and Forecast Report: Melbourne CBD Office: First Half 2011

11 Colliers International: Research and Forecast Report: Melbourne CBD Office: First Half 2011

12 Colliers International: Research and Forecast Report: St Kilda Road and Southbank Office: First Half 2011

13 Herron Todd White: A month in review, July 2011

14 Colliers International: Research and Forecast Report: Melbourne Industrial: First Half 2011

15 Herron Todd White: A month in review, July 2011

16 Herron Todd White: A month in review, July 2011



11 Murray Dwyer Circuit, Mayfield West

ASSET MANAGEMENT

Note: Net building income is for the 12 months to 30 June 2011.

11 Murray Dwyer Circuit, Mayfield West, NSW

Net Building Income: \$554,661

The Mayfield West property failed to sell at auction in June 2011, however APGF's asset management team is currently in negotiations with a potential purchaser, resulting in contracts being forwarded and currently awaiting exchange. An update will be provided on APGF's website, www.apgf.com.au, as the sale progresses.

Centrelink Building, 19-27 Devlin Street, Ryde, NSW

Net Building Income: \$521,695

This property was marketed for sale and failed to sell at auction in June 2011. Sales agents Hartigan Bolt has been working together with APGF's asset management team and a sale has been successfully negotiated. Contracts were exchanged on 14 September 2011 and settlement is due in late October 2011. An update will be provided on APGF's website, www.apgf.com.au, following settlement.

99-103 William Angliss Drive, Laverton North, VIC

Net Building Income: \$1,773,115

This property continues to perform in line with expectations and will be marketed for sale in the first half of 2012. The property is fully leased to Scotts Refrigerated Freightways until December 2020 and APGF's asset management team is currently working through a number of late payment and health and safety issues with the tenant.

518 Brunswick Street, Brisbane, QLD

Net Building Income: \$1,542,508

The discovery of asbestos in this property has led Bechtel to withdraw from negotiations regarding a lease extension and it will vacate the building upon its lease expiry in December 2011. APGF's asset management team is working together with external consultants on an asbestos removal program to be implemented in early 2012. Cost estimates are still being reviewed, however it is anticipated the removal program will cost around \$1 million.

Following the removal of the asbestos and relevant safety checks, a leasing campaign will commence to fully lease the property before marketing for sale in mid-late 2012.

Belmont Central Shopping Centre, Belmont, NSW (Ownership Interest 50%)

Net Building Income: \$983,550

Leasing remains the priority for Belmont Central as the \$450 million Charlestown Square redevelopment continues to negatively impact sales and traffic. The sales of anchor tenant Woolworths have decreased and sales for the smaller retailers have fallen below the benchmark for neighbourhood retail centres.

Marketing efforts have increased with agents actively canvassing nearby operators and advertising in local newspapers to attract new tenants. Additional signage is being investigated and the managing agent is working with local media and retailers to entice shoppers with various product and service special offers.

The Chinese massage operator, as reported in the December 2010 Investors' Report, commenced its five-year lease in August 2011. Five vacant tenancies remain.

A number of repairs are being undertaken around the centre to rectify minor water leaks, and the main expansion joint across the roof top car park slab has been repaired and resealed by the original developer.

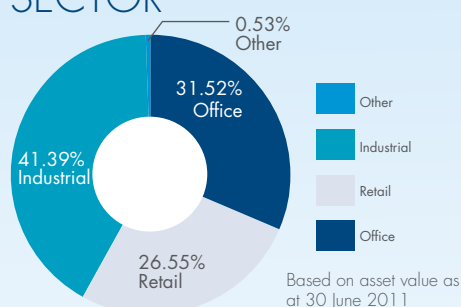
After prolonged negotiations and dispute resolution, the property has finally been subdivided from the Belmont Bowling Club and will be offered for sale in due course.

FUND UPDATE

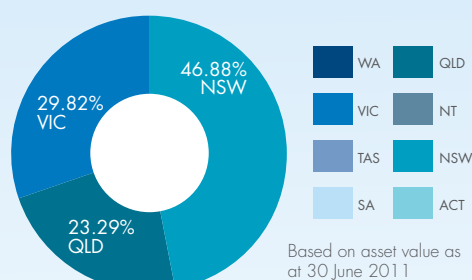
Investors are aware the Fund Manager has commenced an orderly sale of the Fund's assets. The current market remains challenging and offers being received are at a discount to valuation, a reflection of the soft market conditions. To place the properties in the best possible position for sale, and to achieve the maximum return for investors, the Manager (where possible) is working to extend the lease terms prior to marketing for sale.

It is the Manager's intention to preserve as much value as possible for investors, and it is anticipated the sale process will continue over the next 12 to 18 months. Investors will be kept informed throughout this process.

DIVERSIFICATION BY SECTOR



DIVERSIFICATION BY LOCATION



NET TANGIBLE ASSETS PER UNIT (NTA)

NTA as at 30 June 2011 | \$0.16

The NTA does not represent the return an investor will receive on final settlement as it does not consider future performance, distributions, disposal costs or achieved sales price. The NTA should be used as a guide only and is calculated using the latest valuations.

Domaine Diversified Property Fund holds a 50% interest in the Domaine Belmont Trust, originally valued at \$2.3 million. Domaine Belmont Trust's principal asset is the Belmont Shopping Centre. The Directors of the Domaine Belmont Trust have impaired the investment value which is now carried at \$nil and is reflected in the above NTA. The impairment reflects the uncertainty over the ability to sell and realise the Shopping Centre at its current fair value.

REGULATORY GUIDE 46 DISCLOSURE PRINCIPLES

Pursuant to Australian Securities and Investment Commission (ASIC) Regulatory Guide 46 (RG 46): "Unlisted property schemes – improving disclosure for retail investors", these disclosures can help retail investors understand the inherent investment risks and decide whether these investments are suitable for them.

Information relative to the Scheme based on ASIC's eight disclosure principles is for the reporting period ended 30 June 2011.

DISCLOSURE PRINCIPLE 1: GEARING RATIO

Gearing covenants generally refer to the maximum permissible level of gearing as measured against an asset's value, usually called a loan to value ratio (LVR). Each lender imposes its own maximum LVR. These are important, because if an LVR covenant is breached, then this could lead the lender to take steps under its security to recover the loan.

The table below highlights the covenant and actual gearing ratios.

LENDER	BANK GEARING COVENANT	ACTUAL GEARING RATIO			
		Book Value	Per Bank Accepted Valuations	RG 46 Gearing Ratio	RG 46 At Fair Value
SUNCORP	65%	81.15%	77.10%	77.84%	77.84%

On 23 February 2011, Suncorp Bank issued a further LVR Default Notice to the Scheme as the gearing ratio continues to be in breach of the LVR covenant in clause 18.2 of the facility agreement.

Suncorp has reserved its rights to take certain actions as outlined in the facility agreement. The Manager and Suncorp continue to co-operate in relation to the asset disposal program and the maturity date of the loan facility.

DISCLOSURE PRINCIPLE 2: INTEREST COVER

Information on a scheme's interest cover indicates the Scheme's ability to meet interest payments from earnings. The lower the interest cover, the higher the risk that the Scheme will not be able to meet its interest payments.

The Responsible Entity monitors the Scheme's interest cover ratio on a regular basis to ensure it complies with bank loan covenants and to indicate the Scheme's overall financial performance.

The Scheme's interest cover ratios for the 12 months to 30 June 2011 are outlined below. The Scheme's actual interest cover ratio is measured on a 12-month rolling basis and may be calculated differently to the RG 46 definition.

LENDER	BANK INTEREST COVER RATIO COVENANT	ACTUAL INTEREST COVER RATIO	RG 46 INTEREST COVER RATIO
SUNCORP	1.5	1.56	1.21

DISCLOSURE PRINCIPLE 3: SCHEME BORROWING

The Scheme sources borrowings from Suncorp Bank in the amount of \$29,641,605. The facility agreement expired in June 2011 and is on a daily rollover. As the properties are being marketed for sale and the Scheme is to be wound up, we believe Suncorp will continue to provide funding until the properties are sold.

DISCLOSURE PRINCIPLE 4: PORTFOLIO DIVERSIFICATION

PROPERTY	ASSET TYPE	VACANCY BY SQUARE METRE	VACANCY RATE
11 Murray Dwyer Circuit, Mayfield West, NSW	Industrial	0	0.0%
Centrelink Building, 19-27 Devlin Street, Ryde, NSW	Office	0	0.0%
37 William Angliss Drive, Laverton North, VIC	Industrial	0	0.0%
518 Brunswick Street, Brisbane, QLD	Office	0	0.0%
Arthur Street Car Park, Brunswick, QLD (part of Brunswick Street Brisbane).	N/A	N/A	N/A
Belmont Central Shopping Centre, Belmont, NSW (50%)	Retail	228.1	3.45%

Tenants that constitute 5% or more of the Scheme's net income are as follows:

PROPERTY	TENANT	PERCENTAGE OF SCHEME'S NET INCOME
518 Brunswick Street, Brisbane, QLD	Bechtel Australia	28.88%
99-103 William Angliss Drive, Laverton North, VIC	Scotts Refrigeration Freightways Pty Ltd	29.45%
11 Murray Dwyer Circuit, Mayfield West, NSW	CSC Australia	9.59%
Centrelink Building, 19-27 Devlin Street, Ryde, NSW	Centrelink	9.63%
Belmont Central Shopping Centre, Belmont, NSW (50%)	Woolworths Limited	17.26%

Excluding Belmont Central Shopping Centre, the occupancy rate of the Scheme's property portfolio is 100%.

LEASE EXPIRY	VACANT	WITHIN 1 YEAR	BETWEEN 1 AND 2 YEARS	BETWEEN 2 AND 3 YEARS	BETWEEN 3 AND 4 YEARS	MORE THAN 4 YEARS
Net Lettable Area	0.07%	23.08%	0.00%	9.76%	15.31%	51.79%
WALE (by income)	4.55 years					

The table above excludes Belmont Central Shopping Centre, Belmont, NSW.

DISCLOSURE PRINCIPLE 5: VALUATION POLICY

The properties are valued at least once per annum unless required more frequently by the Scheme's constituent documents, financier, or if Directors believe there is a material change in market conditions.

Where valuations are performed by independent registered valuers, they are required to be appropriately qualified to undertake the valuation, based on the type and locality of the property being valued. The valuation reports are prepared by valuers in compliance with all relevant industry standards and codes.

At all times Directors must ensure that properties are carried at fair market value. The value of investment properties is measured on a 'fair value basis', being the amounts for which the properties could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases.

Changes in fair value are recognised in profit or loss in the year it occurs.

Belmont Central is owned by Domaine Belmont Trust of which the Scheme holds a 50% ownership interest. The Scheme recognises change in the investment in profit or loss. At June 2011 the Directors impaired the investment in Domaine Belmont Trust to \$nil.

PROPERTY	VALUATION	CAPITALISATION RATE
11 Murray Dwyer Circuit, Mayfield West, NSW	\$6,100,000 (I)*	9.25%
Centrelink Building, 19-27 Devlin Street, Ryde, NSW	\$4,900,000 (I)*	8.50%
99-103 William Angliss Drive, Laverton North, VIC	\$15,725,000 (I)*	9.25%
518 Brunswick Street, Brisbane, QLD**	\$11,720,000 (I)*	9.0%
Arthur Street Car Park, Brunswick, QLD (part of Brunswick Street Brisbane).	\$280,000 (I)*	9.0%
Belmont Central, Belmont, NSW (50%)	\$14,000,000 (I)*	8.0%

* I = Independent Valuation, D = Director's Valuation

DISCLOSURE PRINCIPLE 6: RELATED PARTY TRANSACTIONS

As at 30 June 2011, the Scheme does not lend, invest in or provide any other form of financial accommodation to Domaine Property Funds Limited (DPFL) or its associates.

Except for the management fees paid/payable to DPFL as Responsible Entity of the Scheme as disclosed in the Product Disclosure Statement, or as otherwise disclosed, there are no other related party transactions for the period ended 30 June 2011.

DPFL maintains a Register of Related Party Transactions and a Potential and Actual Conflicts of Interests Register which records and details any of the Scheme's dealings with related parties and potential and actual conflicts of interests. These are constantly monitored by DPFL and its independent Compliance Committee to ensure that any related party transactions are on commercial arm's length terms and any potential and actual conflicts of interests are dealt with and disclosed to ensure that investors are not disadvantaged.



MELBOURNE
REMAINS ONE
OF THE
STRONGEST
PERFORMING
CAPITALS IN
AUSTRALIA'S
PROPERTY
SECTOR.

DISCLOSURE PRINCIPLE 7: DISTRIBUTION PRACTICES

As at 30 June 2011, distributions are suspended. The Scheme's quarterly distributions were suspended in the June 2008 quarter. With the challenging economic and property market conditions and the pressure on the Scheme's gearing continuing, distributions will unfortunately have to remain suspended.

DISCLOSURE PRINCIPLE 8: WITHDRAWAL RIGHTS

At the Review Meeting held on 10 December 2010 investors voted in favour of the termination of the Scheme. The properties are being prepared for sale and the Scheme will be wound up once all properties have been sold.

It is anticipated the sale process will take between 12 to 18 months and the proceeds from the sales will initially be used to retire the debt facility with Suncorp. It remains APGF's intention to preserve as much value as possible for investors.

DISCLAIMER

This information is provided without taking into consideration your objectives, financial situation or needs and is not intended as financial product advice or a recommendation. You should obtain independent financial advice before making any investment decision. Past performance is not indicative of future performance.

Domaine Property Funds Limited (DPFL) ACN 085 616 824, AFSL 225131 holds an Australian Financial Services license authorising it to only provide general financial product advice limited to its own funds. For further information, please refer to the DPFL Financial Services Guide at www.apgf.com.au.

We welcome your feedback on this June 2011 Investors' Report. You can contact us at info@apgf.com.au.

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