



# DOMAINE HUNTER FUND

ARSN 089 279 023

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.



## 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](http://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](http://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](mailto: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

### NEWCASTLE

Newcastle's road to recovery continued during the first six months of 2011, albeit slowly across most property sectors.

The expansion of the mining sector in Newcastle is having a small flow-on effect in the office sector with some leasing deals and sales occurring, however not at a significant level.

Owner-occupiers continued to dominate the industrial market, which is characterised by falling rental rates and increased incentives. Development in this sector has also stalled and, coupled with land values falling between 3% and 40% across the sector, it is anticipated it will take some time for this part of the local property market to recover<sup>1</sup>.

A-Grade stock located near transport networks continued to prosper during the first half of the year, as did the port area which is the focus of significant investment in coal infrastructure associated with the mining boom.

Newcastle's retail sector continues to face downward pressure on rental returns. Vacancy rates have stabilised across the area, however there is potential for this to rise in the next six months should the retail sector not see a marked increase in retail profits<sup>2</sup>.

*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](mailto:info@apgf.com.au) or call 1300 668 698.*

<sup>1</sup> CBRE: Market View: Newcastle office and industrial: First quarter 2011

<sup>2</sup> Herron Todd White: A month in review, June 2011

## ASSET MANAGEMENT

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

### **326 Hillsborough Road, Warners Bay, NSW**

Net Building Income: \$558,416

After a prolonged sales and marketing campaign APGF's asset management team has successfully negotiated the sale of this property. The property settled on 27 September 2011 for \$4.5 million and the proceeds have been used to repay bank debt.

### **525 High Street, Maitland, NSW**

Net Building Income: \$543,297

This property will be prepared for sale in the first quarter of 2012 following lease negotiations with the sole tenant, New South Wales Police Infringement Bureau, whose lease expires in May 2012. The property continues to present well, following minor refurbishments in late 2010.

### **8 Hartley Drive, Thornton, NSW**

Net Building Income: \$418,689

This property was marketed for sale in early 2011 and was sold for \$4.47 million on 1 July 2011. The Manager believes the sale achieved a positive result in the current market and the sale proceeds were used to reduce the bank debt.

### **17 Nelson Road, Cardiff, NSW**

Net Building Income: \$400,199

The lease to Stramit Corporation Pty Ltd was due to expire in December 2011 and APGF's asset management team has successfully agreed terms on a five-year lease extension. The lease documentation is currently being finalised and the property will be marketed for sale via an expressions of interest campaign in October/November 2011.

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

Net Building Income: \$983,550

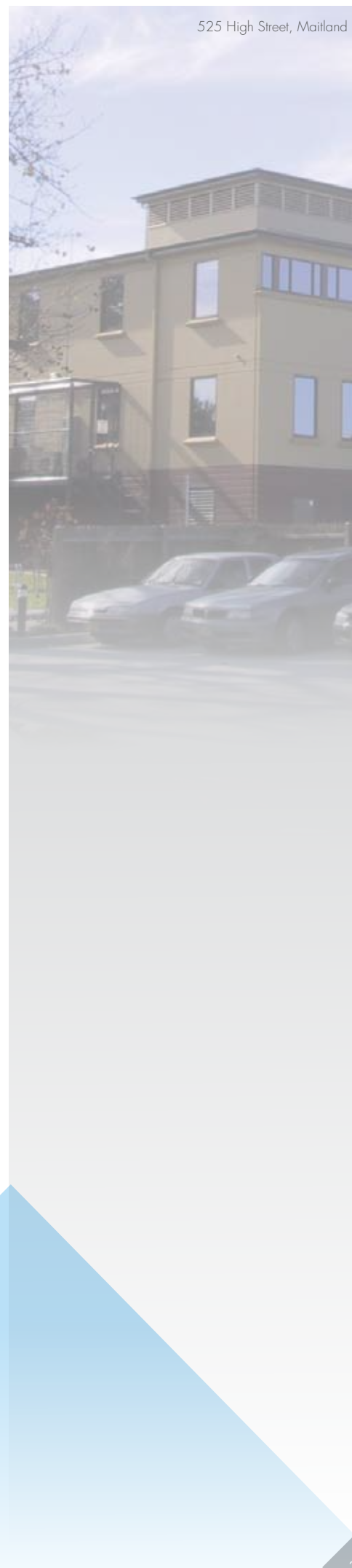
Leasing remains the priority for Belmont Central as the \$450 million Charlestown Square redevelopment continues to negatively impact sales and traffic. The sales of anchor tenant Woolworths have decreased and sales for the smaller retailers have fallen below the benchmark for neighbourhood retail centres.

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 Manager has commenced an orderly sale of the Fund's assets. The current market remains challenging and offers being received for the Fund's properties are generally below 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 months. Investors will be kept informed throughout the process.

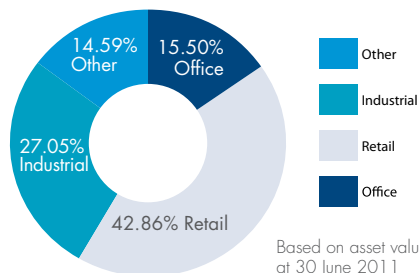
## NET TANGIBLE ASSETS PER UNIT (NTA)

NTA as at 30 June 2011	\$0.21
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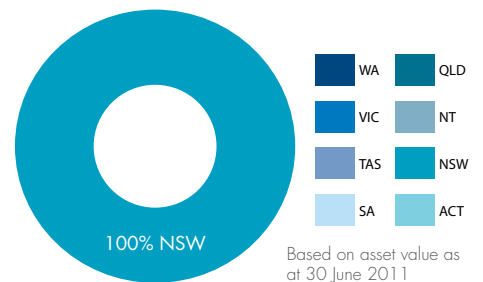
*The NTA does not represent the return an investor will receive on final settlement as it does not consider future performance, distributions, disposal costs or achieved sales price. The NTA should be used as a guide only and is calculated using the latest valuations.*

Domaine Hunter Fund holds a 50% interest in the Domaine Belmont Trust, originally valued at \$2.7 million. Domaine Belmont Trust's principal asset is Belmont Central 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 Centre at its current fair value.

## DIVERSIFICATION BY SECTOR



## DIVERSIFICATION BY LOCATION





## 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%	81.89%	78.22%	76.75%	76.75%

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	1.09

### DISCLOSURE PRINCIPLE 3: SCHEME BORROWING

The Scheme sources borrowings from Suncorp Bank in the amount of \$14,705,715. 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, it is believed 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
326 Hillsborough Road, Warners Bay, NSW	Retail/Warehouse	0	0.00%
525 High Street, Maitland, NSW	Office	0	0.00%
8 Hartley Drive, Thornton, NSW	Industrial	0	0.00%
17 Nelson Road, Cardiff, NSW	Industrial	0	0.00%
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
17 Nelson Road, Cardiff, NSW	Stramit Industries	13.04%
525 High Street, Maitland, NSW	Police Infringement Processing Bureau	16.54%
8 Hartley Drive, Thornton, NSW	Department of Mineral Resources	12.74%*
326 Hillsborough Road, Warners Bay, NSW	Newcastle Super Strike	16.33%**
Belmont Central Shopping Centre, Belmont, NSW (50%)	Woolworths Limited	31.81%
	Priceline Pharmacy	7.36%

\* Sold on 1 July 2011

\*\* Sold on 27 September 2011

Excluding Belmont 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	0.00%	58.40%	0.00%	0.00%	21.85%	19.75%
WALE (by income)	1.25 years					

The table above excludes Belmont Shopping Centre.

## 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 Shopping Centre 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
326 Hillsborough Road, Warners Bay, NSW**	\$4,800,000 (I)*	11.00%
525 High Street, Maitland, NSW	\$5,100,000 (I)*	11.00%
8 Hartley Drive, Thornton, NSW***	\$4,600,000 (I)*	9.00%
17 Nelson Road, Cardiff, NSW	\$4,300,000 (I)*	9.00%
Belmont Central Shopping Centre, Belmont, NSW (50%)	\$14,000,000 (I)*	8.00%

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

\*\* The property was sold for \$4.47 million on 1 July 2011

\*\*\* The property was sold for \$4.5 million on 27 September 2011.

## 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.

## DISCLOSURE PRINCIPLE 7: DISTRIBUTION PRACTICES

As at 30 June 2011, distributions were suspended. The Scheme's quarterly distributions were suspended in the March 2009 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

DPFL is required to convene a meeting of investors each seventh anniversary from the inception of the Scheme to consider its future (each such anniversary being a 'Review Date'). At each meeting following a Review Date, investors may resolve that the Scheme be terminated.

Any resolution to terminate the Scheme must be passed as a special resolution within the meaning of the Corporations Act but in respect of which investors holding at least 75% of all units on issue have voted in person or by proxy or representative. If it is not resolved that the Scheme be terminated, then the Scheme will continue on the terms of the Scheme's Constitution.

If following a meeting of the investors after a Review Date investors resolve the Scheme be terminated, then DPFL must proceed to sell or realise the assets and terminate the Scheme.

If, however, investors resolve that the Scheme not be terminated, then those investors voting for termination will have the option to elect to have their units redeemed (in whole or in part) in accordance with the following procedures:

- Any investor who votes, whether in person or by proxy, in favour of a resolution that the Scheme be terminated will be termed an 'Exiting Unit Holder'
- DPFL must do everything reasonably necessary to identify Exiting Unit Holders and must put procedures in place to determine whether an Exiting Unit Holder wishes for all, or a part only, of their units to be redeemed
- DPFL may Scheme any redemption offer made by it in any manner that it determines, including by way of cash, debt or sale of assets. DPFL may also, as an alternative to redemption, facilitate the sale of an Exiting Unit Holder's units under this clause in any manner permitted by law, so long as the Exiting unit Holder receives the same net price for their units as if they had been redeemed.

If there are insufficient resources to redeem the Interests of all investors who wish to exit the Scheme at that time, then DPFL may decide to terminate the Scheme and sell all the properties in the Scheme at that time.

The Domaine Hunter Fund's Extraordinary General Meeting (EGM) was held in Brisbane on 15 September 2010, following the Explanatory Memorandum sent to investors in August 2010. As less than the required 75% of all units on issue were voted, the Resolution to terminate the Scheme was not carried and the Scheme is not required to be wound up at this time.

Following the EGM, DPFL identified the Exiting Unit Holders and wrote to them to ascertain the number of units required for redemption. Further to this letter, it was determined that 10,076,186 units were required to be redeemed.

Based on the number of units required for redemption, and value of the current property portfolio, all properties will need to be sold. As a result, the Scheme will be terminated and all investors units will be redeemed.

It is anticipated the sale process will take up to a further 12 months. Proceeds from the sales will firstly be used to retire the debt facility with Suncorp and thereafter redemption of units.

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](http://www.apgf.com.au).

We welcome your feedback on this June 2011 Investors' Report. You can contact us at [info@apgf.com.au](mailto:info@apgf.com.au).

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