

18 August 2008

Dear Unitholder

Australian Social Infrastructure Fund (ASIF)

Stapling Proposal

As you may be aware, the stapling of ASIF and the Api Fund is not proceeding. Although 74% of unitholders voted in favour of the Stapling Proposal, this was insufficient to enable ASIF's constitution to be amended as these changes required approval of more than 75% of those voting. As a result, ASIF will remain as a stand alone fund.

Current Economic Climate, Increasing Cost of Debt and Stapling Costs

As ASIF derives the majority of its income from long term leases to quality tenants including ABC Learning Centres, Guardian Storage, Primary Healthcare and the Victorian Government (via its investment in the CIB Fund), ASIF's earnings stream has remained relatively constant through the current turbulent economic conditions. ASIF has experienced no rental arrears from any of its tenants.

Despite this, ASIF is not totally immune from the impact of the current economic environment and in particular, the sharp increase in the cost of debt which has been caused by increases in official interest rates and the sub-prime crisis. Further, the sharp decline in the value of listed property securities has had a material impact on the value of ASIF's investment in Api, which ASIF initially acquired in November 2006. Api suspended distributions in April 2008 and is currently suspended from trading pending an announcement on its future.

ASIF's current cost of debt is approximately 9.50% per annum, which is substantially higher than its historic cost of debt. The increase in ASIF's cost of debt has been driven by several key factors including higher interest rate costs, the expiry of its fixed \$24.50 million bill facility in June 2008 which was fixed at a rate of 6.95%, an increase in NAB's margins and the requirement under the terms of ASIF's debt facility to hedge 65% or more of the fund's debt.

The Stapling Proposal recently put to unitholders resulted in ASIF incurring approximately \$650,000 of costs including legal, independent expert, tax advisory and regulatory fees. These costs have to be paid by ASIF and have caused a short term reduction in ASIF's cash flow and earnings.

Year Ending June 2009 Earning Guidance

As detailed at the recent unitholders' meeting, and outlined in the Stapling Booklet sent to unitholders, management proposed to review ASIF's current distribution rate if the Stapling Proposal was not approved, and this review was likely to result in a reduction in ASIF's distribution. As has been previously detailed, ASIF's distribution has been in excess of underlying cash earnings. In a higher interest rate environment, this is not a sustainable or appropriate strategy.



It is currently estimated that ASIF's distributable profit for the year ending June 2009 will be in a range of 13 to 15 cents per unit per annum. This compares with estimated distributable profit for the year ending June 2008 of approximately 14.5 cents per unit.

To allow the Fund to pay costs associated with the Stapling Proposal, ASIF's July 2008 distribution which was due to be paid on 21 August 2008 will be cancelled. The August and September 2008 distributions (payable in September and October 2008 respectively) will be paid at an annual rate of approximately 13.2 cents (1.1 cents per month per unit). The rate of distribution will be reviewed at the end of the current quarter.

ASIF Loan to Api

As part of the Stapling Proposal, ASIF loaned \$20 million to Api. This loan is due and is expected to be repaid in full by 30 September 2008. Until the loan is repaid, Api pays ASIF interest at commercial rates. The repayment is likely to be made by cash and/or the transfer of securities at current value.

Liquidity

ASIF is currently unlisted and as a result there is no liquidity mechanism available to unitholders. Management is currently reviewing the liquidity options available to ASIF. A decision is not expected until early 2009.

Investor Communications

With a view to reducing fund costs, in the future ASIF Fund Updates will be uploaded on ASIF's website at www.asifund.com.au. Updates will also be sent to unitholders via email to those who have provided their email addresses. I strongly encourage unitholders and advisors who have not provided their email address details to do so by sending your details to llossi@austock.com.au

Yours faithfully

Ian Townsing
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