

12 March 2010

RG46 DISCLOSURE NOTICE

The Australian Securities & Investments Commission (ASIC) now requires responsible entities of unlisted property funds in which retail investors invest to address eight disclosure principles which are set out in Regulatory Guide 46 *Unlisted property schemes—improving disclosure for retail investors* (RG 46). The disclosure principles are intended to assist retail investors to understand the risks associated with investing in unlisted property funds and to decide whether such investments are suitable for them.

Austock Funds Management Ltd (AFML), as responsible entity of the Australian Social Infrastructure Fund (ASIF or the Fund), issues this update to the previous RG46 Notice dated 14 October 2009.

Information included in this statement will be updated as soon as AFML becomes aware of a material change or otherwise at least every six months. Updates on the status of information relating to the disclosure principles will be available at www.asifund.com.au. Investors can request a hard copy of these updates to be sent to them by contacting AFML on +613 8601 2668.

This statement has been prepared as general information only and does not take into account the investment objectives, financial situation or needs of a particular person. ASIF's half year accounts to 31 December 2009 which are available on ASIF's website at http://www.asifund.com.au/reports_publications/half_year_financials.aspx provide additional information on the Fund.

Disclosure Principle 1 - Gearing Ratio

As at 31 December 2009, the gearing ratio of the Fund is 47%¹.

The gearing ratio represents the extent to which the assets of a fund are financed by debt. The higher a fund's gearing ratio the greater its reliance on external liabilities (primarily borrowings) to finance the assets. A higher gearing ratio may also expose a fund to increased costs if interest rates rise or property values decrease. A highly geared fund generally has a lower asset buffer to rely upon in times of financial stress. Investors can use the gearing ratio to assess the potential risks associated with an investment in a fund in the event interest rates rise or property values decrease; and to compare the risk associated with a fund's return on investment to other similar products.

The Fund does not have any off balance sheet financing. The Fund has investments in other listed and unlisted funds which is summarised in Disclosure Principle 4 - Portfolio Diversification of this report. Each of the listed and unlisted funds in which ASIF holds an individual investment has a level of debt. The gearing ratio of these investments ranges between 30% and 92%. These investments total 18% of ASIF's total assets.

Disclosure Principle 2 - Interest Cover

The Fund's interest cover is 1.92 times² for the financial year ending 31 December 2009. This figure indicates that the Fund currently has sufficient earnings to satisfy interest repayments. Specifically, based on current figures, the Fund could service its interest payments by 1.92 times. Having a high interest cover provides a buffer if interest rates or other expenses of the Fund increase.

Investors can use an interest cover ratio to assess a fund's ability to meet ongoing interest payments and therefore service debt. The lower the interest cover, the higher the risk a fund will not be able to meet its interest payments. A fund with a low interest cover only needs a small reduction in earnings (or a small increase in interest rates or other expenses) have difficulty in meeting its interest payments.

¹ Calculated by dividing the Fund's total interest bearing liabilities by the total value of the assets, based on the audited financial statements dated 31 December 2009.

² The interest cover for a fund is calculated by determining its earnings before interest, tax, depreciation and amortisation (EBITDA), subtracting unrealised gains (if any) and adding unrealised losses (if any). This figure is then divided by the current interest expense (also known as the finance cost) of the fund.

Disclosure Principle 3 - Fund Borrowing

Borrowing maturity profile

As at 31 December 2010 the Fund had total assets of \$114.6 million and debt of \$53.2 million and net assets attributable to unitholders of \$60.2 million. During the year, bank debt decreased from \$55.8 million to \$53.2 million. The Fund's existing debt facility is with the National Australian Bank ("NAB") and is due to expire on 30 June 2010.

The terms of the Fund's debt facility includes the following key terms:

- The facility limit is to be reduced to current total amount owing.
- 100% net proceeds from the sale of properties are to be applied to debt reduction.
- The Fund must not pay any funds to unitholders including distributions to unitholders without prior written consent from NAB.
- The Fund's Interest Times Cover Ratio is not to be less than 1.75 times. As at 31 December 2009 it was 1.95 times.
- The Fund's Property Finance Loan to Value Ratio (LVR) is set at a maximum of 60.5%. As at 31 December 2009 the Fund's LVR is 58.9%.

There are risks associated with the Fund's borrowings profile, as the Fund's debt facility expires on 30 June 2010. There is a risk that any refinancing will be on less favourable terms or not available at all. If the Fund cannot refinance, then it may need to sell assets on a forced sale basis. AFML uses a mixture of variable interest and interest rate hedging to manage the Fund's exposure to interest rates. The Fund has no off-balance sheet financial instruments.

ASIF has commenced discussions with the NAB regarding the extension of its existing debt facility which is due to expire on 30 June 2010. Having regard to the following factors:

- advanced negotiations between ASIF and GoodStart;
- repayment of bank debt from a peak of \$59.4 million in 30 June 2008 to \$50.8 million in February 2010;
- a gearing level of 47%;
- recent sales and valuations confirming the underlying value of ASIF's assets; and
- stabilisation of market conditions.

ASIF believes it is well placed to negotiate an extension of its debt facility post 30 June 2010.

Loan covenants

The Fund is not in breach of any covenants under its debt facility with the NAB. However, as investors are aware, the key tenant of the Fund's properties, ABC Learning Centres Limited (ABC) remains in receivership. The Fund is in ongoing discussions with the NAB regarding ABC being in receivership and the impact this may have on the Fund's debt facility.

A breach of a Loan Covenant or an Event of Default may result in a lender being able to impose a penalty or require immediate repayment of the loan, in which case the Fund may be forced to arrange alternative financing or sell assets within a short timeframe.

Ranking of investors

Investors' interests in the Fund will rank behind secured lenders and other creditors of the Fund. This means, if the Fund was to be wound-up, then the Fund's lenders and other creditors would be repaid first, before any capital or outstanding distributions were paid to investors.

Disclosure Principle 4 - Portfolio Diversification

Generally, the more diversified a fund's portfolio is, the lower the risk that an adverse event affecting one property or one lease will put the overall portfolio (and therefore, the Fund) at risk. The table below summarises the Fund's investments as at 31 December 2009 and should be read in conjunction with the Fund's 31 December 2009 half year accounts:

	31 Dec 2009 Carrying Value \$'000's	% of Gross Assets At 31 Dec 2009	30 June 2009 Carrying Value \$'000
Investment Properties – Childcare - Vic 1, NSW 3, WA 5, NT 2, SA 1, Qld 40	73,646	64.26	75,440
- Other - Vic 2	15,355	13.40	15,355
Securities			
Listed Securities	11,255	9.82	7,827
CIB Fund - Unlisted	5,983	5.22	5,898
Unlisted Securities	3,662	3.20	4,991
School Development Trusts	-	-	1,000
Cash	3,164	2.76	3,695
Other Assets	1,533	1.34	1,457
Total Gross Assets	114,598	100%	115,663
Borrowings	53,238		55,808
Other Liabilities	1,117		2,594
Net Assets	60,243		57,261
Number of units on Issue	28,450		28,450
Per unit NTA (\$)	\$2.12		\$2.01

ASIF's childcare properties are categorised as follows:

	No of Childcare Properties	Carrying Value \$000's	Current Rent (pa) \$000's
Operating Properties			
ABC 1 (under the control of McGrath Nicol – ABC Receiver)	43	62,300	5,849
Other Childcare Properties	7	8,896	836
Closed Properties	2	2,450	-
Total Childcare Properties	52	73,646	6,685

Investment Properties

Childcare

ABC 1: ABC 1 properties remain under the control of McGrath Nicol (ABC Receiver). The 43 ABC1 properties owned by ASIF form part of 704 properties that continue to be operated by ABC. On 22 December 2009, ABC announced they had signed Contracts of Sale with the GoodStart syndicate the prospective purchaser of the ABC1 assets. ASIF is continuing negotiations with both the ABC Receiver and GoodStart with respect to the assignment of ASIF's ABC1 properties. ASIF's consent is required before the ABC Receiver can assign its leases to GoodStart. It is expected that the assignment of leases to GoodStart will occur over the following two months subject to agreeing final terms of assignment. The rent and recoverable expenses continue to be paid on a monthly basis.

Other Childcare: These comprise 7 properties, 4 of which are leased to Leading Child Care Limited, 2 to Kindy Patch Pty Ltd and 1 to Mission Australia. These properties are former ABC2 properties which have been assigned to new tenants.

Closed Properties: The 2 closed properties are 2 Foundation Street, Northlakes, Qld and 35 Beaconsfield Avenue, Midvale, WA, both of which are vacant. The Midvale property was vacated by ABC subsequent to ABC going into Receivership on 6 November 2008. The Northlakes property was damaged by fire in October 2008 and has subsequently been rebuilt. Northlakes was subsequently sold for \$1.6 million compared with a carrying value of \$1.5 million with settlement occurring on 29 January 2010.

Other Property

ASIF has 2 other properties in its portfolio comprising a Self Storage Facility located at Glen Iris, Victoria, leased to Guardian Storage and a Medical Centre located at Melton, Vic, leased to Primary Health Care. Rent for both properties continues to be received in accordance with the relevant leases.

Up to date information on the portfolio is maintained on the Fund's website at www.asifund.com.au.

The investment strategy

The Fund is an unlisted retail property trust that primarily invests in social infrastructure assets such as childcare facilities, medical centres and self storage facilities. The Fund aims to provide investors with a secure, investment that has a low level of volatility and is underpinned by long term leases.

The main objective of the Fund is to provide investors with stable tax effective distributions and capital growth over the medium to long term. To achieve this objective, the following strategy has been implemented:

- Application of and adherence to a consistent investment discipline in assessing acquisitions and disposals.
- Acquire properties that are expected to add value to the Fund's long term earnings and asset base.
- Apply appropriate debt levels to maximise returns.
- Apply hedging policies to minimise volatility in earnings and asset values.
- Apply portfolio and risk management policies to maximise returns and operating efficiencies.

Fund and Distribution Outlook

The Fund has faced a number of challenges in the last 24 months including the general negative effects associated with the Global Financial Crisis and its largest tenant ABC going into Receivership. Looking forward, management believes it has appropriate measures in place to deliver improved performance in the second half of 2010.

The National Australia Bank (NAB) is required to authorise distributions to unitholders as a condition of ASIF's debt funding arrangements with the NAB. The NAB has requested that distributions be suspended until the completion of the ABC1 sale and successful assignment of ASIF's 43 properties to a new operator. As a result distributions to unitholders are currently suspended. Having regard to the advanced negotiations between ASIF and GoodStart, the prospective new purchaser of the ABC assets, regarding the assignment of leases and preliminary discussions with NAB regarding the extension of ASIF's debt facility which expires on 30 June 2010, management is hopeful that ASIF will be in a position to recommence distributions to unitholders prior to 30 June 2010.

Management proposes to develop a liquidity mechanism for unitholders which may involve listing the Fund on a market by April 2011.

Disclosure Principle 5 - Valuation policy

Investing in a property fund exposes investors to movements in the value of the fund's assets. Investors therefore need information to assess the reliability of valuations. The more reliable a valuation, the more likely the asset will return that amount when it is sold. However, any forced sale may still result in a shortfall compared to the valuation.

After initial recognition, investment properties of the Fund are measured at fair value and revalued with sufficient regularity to ensure the carrying amount of each property does not differ materially from its fair value at the reporting date. Independent valuations are performed on each property at intervals of not more than two years by registered valuers who are appropriately qualified to undertake the valuation, based on the type and locality of the property being valued. All independent valuations comply with relevant industry standards and codes. These valuations are considered by the Directors of AFML when determining fair value. When assessing fair value, the directors may also consider the discounted cash flow of the property, the highest and best use of the property, sales of similar properties and general market conditions. The Fund's 31 December 2009 accounts provide additional information regarding the current value of the Fund's investments.

Disclosure Principle 6 - Related Party Transactions

Current related party transactions

The Fund holds investments in the following schemes managed by AFML or its affiliates:

- Australian Education Trust (ASX:AEU)
- CIB Fund
- School Development Trusts

AFML, as responsible entity for the Fund, is entitled to receive fees in connection with the operation of the Fund. Directors of AFML are entitled to receive remuneration in their capacity as Directors and senior management of AFML and these amounts are paid from an entity related to AFML. No Director is remunerated directly from the Fund. Directors of AFML may also hold units in the Fund.

Austock Corporate Finance Pty Ltd (ACF), a related corporation of AFML, has been appointed to assist the Fund with current negotiations with the Receivers of ABC1 and the potential new tenants (GoodStart) regarding ASIF's 42 childcare centres.

More information on the Fund's related party transactions are set out in the financial statements for the Fund, which is available on the Fund's website, www.asifund.com.au.

Policy on related party transactions

As conflicts of interest may arise when the Fund invests in, makes loans to or provides guarantees in favour of related parties, AFML has a policy about managing conflicts of interest (Conflicts Management Policy). AFML's Conflicts Management Policy documents the company's approach to managing conflicts. That approach is adopted by the Board of AFML and underpins the training of staff to identify and manage potential conflicts. All identified conflicts are recorded in a conflicts register. The register also identifies what measures AFML has in place to manage the conflict. The principal mechanisms used to manage conflicts involve controlling conflicts, avoiding conflicts and disclosing conflicts. The register is regularly updated by compliance staff and reviewed by the Compliance Committee.

Disclosure Principle 7- Distribution Practices

As investors are aware, distributions for the Fund are currently suspended. The Fund hopes to be in a position to recommence distributions once the ABC1 portfolio has been successfully assigned to new operators and a revised debt facility has been negotiated.

Disclosure Principle 8 - Withdrawal Rights

The Fund is illiquid and investors have no redemption facility available to them. Management proposes to develop a liquidity mechanism for investors by April 2011, which may involve listing the Fund on a market.

Fund Updates

As previously advised, ASIF Fund Updates will be uploaded on ASIF's website and will also be sent to unitholders via email. We are committed to keeping ASIF's investors well informed and update our website as often as possible. 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.