

14 October 2009

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 31 March 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 annual accounts to 30 June 2009 which are available on ASIF's website at http://www.asifund.com.au/reports_publications/annual_reports.aspx provide additional information on the Fund.

Disclosure Principle 1 - Gearing Ratio

As at 30 June 2009, the gearing ratio of the Fund is 48.5%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 look through gearing ratio is the ratio of a fund's net borrowings to its total assets adjusted for relevant borrowings of investments in third party funds and joint ventures.

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 10% and 94%. These investments total 17.0% of ASIF's total assets.

Disclosure Principle 2 - Interest Cover

The Fund's interest cover is 1.80 times² for the financial year ending 30 June 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 1.80 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 30 June 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 30 June 2009 the Fund had total assets of \$115.7 million and debt of \$56.1 million and net assets attributable to unitholders of \$57.3 million. During the year, bank debt decreased from \$59.4 million to \$56.1 million. The Fund's existing debt facility is with the National Australian Bank ("NAB") and is due to expire on 30 June 2010.

Under the terms of the Fund's debt facility with the NAB, the Fund required NAB's approval to assign the 7 ABC2 leases from ABC to the new tenants. NAB provided its approval and the leases were successfully assigned.

As part of this process the terms of the Fund's existing debt facility were revised to include 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 the NAB.
- The Fund's Interest Times Cover Ratio was increased from 1.35 times to 1.75 times.
- The Fund's Property Finance Loan to Value Ratio (LVR) was set at a maximum of 60.5%.

Initial discussions with NAB have commenced regarding the extension of the Fund's debt facility beyond 30 June 2010. NAB has indicated a willingness to consider the extension of the Fund's debt facility subject to several factors including the successful outcome of the ABC1 process which involves the assignment of the Fund's ABC1 leases to viable new tenants and an appropriate capital structure.

There are risks associated with the borrowing maturity profile of the Fund. As the Fund's borrowings mature on 30 June 2010, there is a risk 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 with the risk that it may realise a capital loss on those assets sold. 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.

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) has been placed in receivership. The Fund is in ongoing dialogue with the NAB regarding ABC being in receivership and the impact this may have on the Fund's debt facility in the future.

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 Funds investments as at 1 October 2009:

	Value as at 30-6-09	% of Gross Assets	Lease Expiry Years	Occupancy
Investment Properties				
ABC1 Centres	63,320	54.74%	12.02	100%
Childcare Centres not leased to ABC	8,895	7.69%	7.37	100%
Vacant Centres	4,700	4.06%	-	0%
Self Storage Property	9,300	8.04%	9.83	100%
Medical Centre	6,030	5.21%	5.19	100%
Revaluation Decrement	(1,450)	(1.25)%	-	
Investment Properties total	90,795	-	-	
Securities				
School Development Trusts	1,000	0.86%	-	
CIB Fund	5,898	5.10%	-	
Other listed Securities	7,827	6.77%	-	
Other unlisted Securities	4,991	4.32%	-	
Cash	3,695	3.19%	-	
Other Assets	1,458	1.27%	-	
Total Gross Assets	115,664	100.00%		

All ASIF's properties are located in Australia as detailed in the table below:

State/Territory	No. of Properties	Value as % of Property Portfolio*
NSW	3	2.4
NT	2	2.6
QLD	41	67.8
SA	1	1.2
VIC	3	19.4
WA	5	6.3
Total	55	100%

*Excludes impairment.

As investors are aware, the property portfolio of the Fund has historically been focussed on the ownership of childcare properties leased to ABC. The risks associated with a high reliance on a single tenant were thought to be mitigated by the fact that ABC was a large, profitable, publicly listed company which received substantial subsidies from the Federal Government. The collapse of ABC in November 2008 has highlighted the underlying risk. The Fund also owns units in a number of listed and unlisted property funds which enhances the Fund's diversification.

The Fund's childcare centres were leased to ABC. ABC was placed into receivership on 6 November 2008. Since that date, the Fund has sold 4 centres and reassigned 7 centres to new tenants which were previously leased to ABC.

ABC1: ABC1 Properties – remain under the control of McGrath Nicol as Receiver of ABC

ABC1 properties are childcare centres that have remained under the control of McGrath Nicol as Receiver of ABC since 6 November 2008. McGrath Nicol selected 720 properties (ABC1) that were deemed profitable and continue to be operated by ABC, 43 of these properties are owned by the Fund. McGrath Nicol, indicated that they proposed to stabilise the operating performance of the centres with the aim of selling the ABC business to new operators. The Administrators of ABC made a court application requesting an extension to the convening period of the Administration. The ABC Administration period has been extended twice previously and whilst McGrath Nicol continues to pay the rent on a monthly basis, the Fund has been unfairly prejudiced as a result thereof.

Austock Funds Management Limited (AFML) as the Responsible Entity of the Fund challenged the extension of the convening period on the basis that the Fund is suffering continued financial prejudice due to the length of the administration and the Receiver's continued ability to disclaim the Fund's leases as provided under the Corporations Law and other negative factors that have adversely affected the Fund as a direct result from the continued Administration. Orders by the Federal Court on 21 August 2009, provided that the convening period of the Administration be extended to 31 March 2010. The Federal Court also required the Receiver of ABC to provide a number of undertakings which have provided greater short term clarity to the Fund and addresses some of the key issues which were in abeyance. For further details on the Court Orders made by the Court, please refer to the Fund's 30 June 2009 Annual Financial Report.

ABC2 Properties – were under the control of PPB Pty Ltd ("PPB") as Court Appointed Receiver

There were 7 childcare centres owned by the Fund in the ABC2 portfolio, which were under the control of PPB, the Court Appointed Receiver. PPB had originally set a deadline of 31 March 2009 for the completion of the sale of the business and lease assignments; this was extended to 15 May 2009. The Fund has been able to conclude the assignment of all 7 leases to 3 new tenants on terms very similar to the terms of the existing leases between the Fund and ABC.

Closed Centres

The Receiver of ABC closed 6 of the Fund's childcare centres. The Fund appointed Jones Lang LaSalle (JLL) to manage an Expressions of Interest (EOI) process to invite interest from prospective buyers or tenants for 5 of the closed centres. EOIs closed on 25 March 2009. The sixth centre was not part of the EOI campaign as it was substantially damaged by fire and is currently being rebuilt. As at 30 June 2009 the Fund had sold 3 of the 6 closed centres. A fourth closed centre was sold post 30 June 2009 and settlement occurred on 14 August 2009. The remaining 2 centres are yet to be sold or leased.

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, schools, hospitals, 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 monthly 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 12 months including the general negative effects associated with the Global Financial Crisis, its largest tenant ABC going into Receivership, the decline in value of a number of its assets, in particular its investment in the SDTs and the repayment of the Api loan via the transfer of securities from API to the Fund which have all affected the Fund's 2009 performance. Looking forward, management believes it has appropriate measures in place to deliver improved performance in 2010.

Management has been primarily focused on dealing with the many issues arising from the failure of ABC and the non performance of the Fund's investment in the SDTs. Although there have been some successes and positive signs in dealing with the ABC2 portfolio and closed properties, a level of risk will remain, until the Fund's 43 ABC1 centres have been successfully assigned to new operators. Completion of the ABC1 process is not expected until March 2010. Management will continue to liaise with the Receivers, play an active role in the ABC1 sales process and have input into the selection of viable tenants for its properties.

The outlook for the Fund is to continue to reduce its debt via selective asset sales, work closely with the Receivers of ABC to ensure viable long term tenants are found for the Fund's 43 ABC1 properties and negotiate long term debt facilities, beyond 30 June 2010. The successful completion of these tasks should see the Fund commence regular distributions to unitholders during the second half of 2010. Management also proposes to develop a liquidity mechanism for unitholders which may involve listing the Fund on a market.

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 30 June 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
- Austock Education Development Trust (Casey)
- Austock Education Development Trust (Melton)
- Austock Education Development Trust (Penrith)

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.

It is proposed Austock Corporate Finance Pty Ltd (ACF), a related corporation of AFML, be appointed to assist the Fund with current negotiations with the Receivers of ABC1 childcare centres and source potential new tenants for the Fund's 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 in the first half of 2010, 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 llioffi@austock.com.