

The Australian Securities & Investments Commission (ASIC) issued the Regulatory Guide 46 (sometimes referred to as the RG 46 or the Guide) in September 2008. The Guide sets out eight disclosure principles which responsible entities must address for unlisted property schemes with retail investors. The aim of the Guide is to provide improved disclosure to retail investors.

Viento Property Limited is the responsible entity (RE) of the Viento Diversified Property Fund (the Fund). The Fund is an open ended unlisted property fund. Applications and withdrawals are suspended; therefore, the Fund is presently a closed scheme under RG 46.

This document presents the eight disclosure principals in relation to the Fund and will be updated for any material changes or at least every six months. It should be read in conjunction with the Fund's Product Disclosure Statement (PDS), annual financial statements and quarterly update reports, available on the Viento website at [www.vientogroup.com](http://www.vientogroup.com).

### Disclosure Principle 1: Gearing Ratio

The gearing ratio indicates the extent to which a scheme's assets are funded by external liabilities. The gearing ratio can assist investors to assess the potential risk to the scheme as a result of its borrowings. Gearing ratios can be impacted by interest rate and property value movements.

As at 30 September 2011, the gearing ratio of the Fund is 60.94%.

$$\text{Gearing ratio} = \frac{\text{Total interest bearing liabilities}}{\text{Total assets}}$$

Note: The above gearing ratio formula is defined by ASIC and is not the gearing related ratio (loan to value ratio) formula adopted by our financiers. The Fund gearing ratio is not within banking covenants. Refer to Disclosure Principal 3 for details.

### Disclosure Principle 2: Interest Cover

A property scheme's interest cover is a key indicator of its financial health and indicates a scheme's ability to meet interest payments from earnings. A scheme with a low interest cover only needs a small reduction in earnings (or a small increase in interest rates or other expenses) to be unable to meet its interest payments. For example, interest cover of 1.5 means that there is \$1.50 of earnings to service every \$1.00 of interest on debt.

As at 30 September 2011, the interest cover of the Fund is 1.04.

$$\text{Interest Cover} = \frac{\text{EBITDA}^* - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest Expense}}$$

\* EBITDA (earnings before interest, tax, depreciation and amortisation)

Note: The above interest cover formula is defined by ASIC and is not the interest cover related formula (interest times cover) adopted by the Fund's financiers. The Fund interest cover ratio is within banking covenants.

### Disclosure Principle 3: Scheme Borrowing

This principle provides information on a scheme's borrowing maturity and credit facility expiry and any associated risks or loan breaches. A scheme's borrowings are secured against its assets, and repayment of borrowings from secured creditors will rank ahead of unsecured creditors and equity investors in the scheme. Relatively short term borrowings are a risk factor if they are used to fund assets intended to be held long term. Refinancing could result in less favourable terms, or the inability to refinance may result in the need to sell an asset on a forced sale basis with the risk that it may realise a capital loss.

Lender	Loan Amount	Maturity Date	Interest Rate (combined)	Loan covenants
National Australia Bank	\$18.472m	Expired	72% Variable 28% Fixed	Compliant
AXA (Facility 1)	\$35.355m	Expired		Non Compliant
AXA (Facility 2)	\$17.767m	Expired		Compliant

## Disclosure Principle 4: Portfolio Diversification

This principle addresses the scheme's investment practices and portfolio risk. Generally, the more diversified a portfolio is, the lower the risk than an adverse event affecting one property or one lease will put the overall portfolio at risk.

The Fund aims to provide investors with regular tax effective income and capital growth by investing in direct property assets valued between \$5 million and \$30 million in the commercial office and retail sectors. The Fund has the ability to further diversify by investing in other property investment vehicles including Australian real estate investment trusts (A-REITs), property funds, cash or syndicates operated by Viento or other responsible entities. The investment objective is to achieve an internal rate of return of 8-10% p.a.

The portfolio's occupancy rate is 86.5% with a Weighted Average Lease Expiry (WALE) by income of 2.29 years.

Across the portfolio there are five major tenants and 172 specialty tenants. The top five tenants based on the percentage of portfolio income are:

Property	Tenant	% of portfolio gross income
Mirrabooka Commercial Centre WA	Centrelink	6%
34 – 36 Chandos Street St Leonards NSW	Aspen Pharmacare	6%
Parkinson Plaza Shopping Centre QLD	Supa IGA	5%
Devonport Cinema Complex TAS	C-Max International	4%
11 Queens Road Melbourne VIC	Levi Strauss (Australia)	3%

The latest Viento *Insider News* provides investors with quarterly updates on the diversification of all Viento managed investments and is available on the Viento website [www.vientogroup.com](http://www.vientogroup.com).

## Disclosure Principle 5: Valuation Policy

This principle provides investors with details of the valuation policy and current valuations for assets owned by the Fund. The value of property assets can be volatile and a significant fall in valuations will mean an increase in the Fund's gearing ratio, which may impact loan covenants.

All direct property assets are independently valued prior to acquisition and every two years following acquisition or more frequently if required, to assess the value of each property in the portfolio. All independent valuations are carried out by certified and practising valuers who are registered with the appropriate professional bodies.

Between independent valuations, the board of Viento Property Limited will form will prepare internal valuations, referred to as directors valuations. These valuations are tested and supported using commercially available software developed for property valuation estimates. All internal valuations are made on a six monthly basis and approved by the board.

If the board becomes aware of reasons to suspect that the carrying value of a real property could differ materially (i.e. up or down by 10% or more) from the most recent external valuation, the board will obtain a new, independent valuation.

Property	Valuation	Date	Valuer	Cap rate
11 Queens Rd, Melbourne VIC	\$21,000,000	30/6/11	Directors	9.25%
14 Queens Rd, Melbourne VIC	\$16,300,000	30/6/11	Directors	9.25%
Highviews Building, 81–85 Flushcombe Rd, Blacktown NSW	\$19,300,000	30/6/11	Directors	9.75%
Parkinson Shopping Centre, Brisbane QLD	\$12,600,000	30/6/11	Directors	8.50%
City Centre Building, Campbelltown NSW	\$13,200,000	30/6/11	Directors	10.25%
24 Chesterfield Rd, Mirrabooka WA	\$13,100,000	30/6/11	Directors	8.75%
34–36 Chandos St, St Leonards NSW	\$7,400,000	30/6/11	Directors	9.00%
Underwood Village, Underwood QLD	\$4,200,000	30/6/11	Directors	8.50%
Devonport C-Max Complex, Devonport TAS	\$4,500,000	30/6/11	Directors	10.00%
Allocation in Southern River Syndicate, WA	\$2,500,000	30/6/11	Directors	Not applicable

## Disclosure Principle 6: Related Party Transactions

This principle provides investors with information on the Responsible Entity's approach to related party transactions. A conflict of interests may arise when a scheme invests in, makes loans or provides guarantees to related parties.

The Responsible Entity (RE) of the Fund is Viento Property Limited (ABN 51 095 920 648). Viento Property Limited is a wholly owned subsidiary of Viento Group Limited (ABN 79 000 714 054), an Australian public company listed on the Australian Securities Exchange (code: VIE).

The RE may enter into transactions with related parties. Any decision to appoint a related party will be made on the basis that:

- The decision to appoint a related party is in the best interests of the unit holders;
- The agreement is entered into on an arms length basis and approved by the board of directors Viento Property Limited;
- Any remuneration paid to the related party from the scheme is within prevailing market rates; and
- The arrangements are documented in writing and approved by the board of directors of Viento Property Limited.

The Fund does not employ personnel in their own right, however it is required to have an incorporated RE to manage its activities. The RE is entitled to a management fee which is calculated as a proportion of net profit and/or a proportion of gross asset value. See below for a more detailed description.

The directors and executives of the RE and the parent company are the Key Management Personnel (KMP). No compensation is paid directly by the Fund to directors or any of the KMPs of the RE. No director or KMP of the RE or parent company has received or become entitled to any benefit because of a contract made by the RE with a director or KMP, or with a firm of which the director or KMP is a member, or with an entity in which the director or KMP has a substantial interest.

### Loans to Directors and Key Management Personnel of the Responsible Entity

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the directors and KMP or their personally-related entities at any time during the reporting period.

### Other Transactions with Directors and Key Management Personnel of the Responsible Entity

From time to time directors and KMP or their personally-related entities may buy or sell units in the Fund. These transactions are subject to the same terms and conditions as those entered into by other investors in the Fund.

### Detail of Related Party Transactions

Since the last RG46 update, the fees payable for compliance, accounting and the unit holder registry have increased in line with the Consumer Price Index (CPI). All transactions with related parties are conducted on normal commercial terms and conditions.

Viento Diversified Property Fund	Related Party Transactions - Explanation/Commentary
Management Fee	Under the PDS the total MER is capped at 1.3% of Gross Assets. The MER is currently running at 1.1% of Gross Assets and the Management fee component is equivalent to 0.76% of Gross Assets.
Leasing Fee	15% of Year 1 gross income (if lease term is greater than 12 months) for leases at 11 & 14 Queens Road, Melbourne.
Property Management Fee	\$26,232 p.a. for 11 Queens Road. \$22,826 p.a. for 14 Queens Road.
Compliance Fee	Fixed \$61,120 p.a.
Accounting Fee	Fixed \$105,240 p.a.

Viento Diversified Property Fund	Related Party Transactions - Explanation/Commentary
Registry Fee	Fixed \$70,240 p.a.
Reimbursable expenses paid	Costs paid by the RE on behalf of the Fund, subsequently recovered. These relate to printing, postage and other directly allocable costs.

<i>The Fund holds units in the following related party scheme:</i>		
Inter-entity Investments	Unit holding	Interest held (%)
Southern River Syndicate	1,834,000 Ordinary Units; 1,320,480 Bonus Units	19.19%

<i>Units in the Fund held by Related Parties</i>			
Entity	Relationship	Unit holding	Interest held (%)
Mr R C Nichevich	Director of Responsible Entity	322,724	0.40%

<i>Additional Related Party Disclosure</i>
Viento Group Limited leases office space at 11 Queens Road, Melbourne, a property owned by the Fund. The lease was negotiated and entered into on an arm's length basis. An external real estate agent confirmed that the lease was in accordance with similar lease deals in the same precinct.

## Disclosure Principle 7: Distribution Practices

This principle provides investors with information on the scheme's distribution practices and will assist investors in assessing the sources of distributions and sustainability of distributions from sources other than realised income.

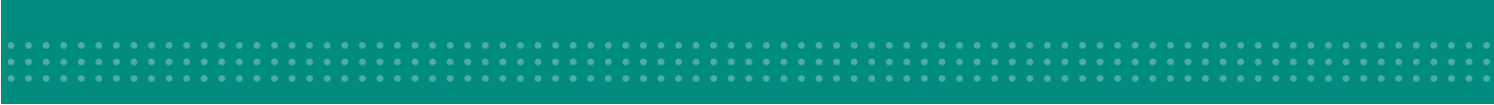
The Fund PDS refers to distributions as the amount earned by investors, after interest and all fees and expenses have been paid, and may include some return of capital.

The directors of Viento Property Limited made the difficult decision in June 2009 to suspend distributions from the Fund to maintain cash reserves for leasing incentives and essential capital works required at the properties and to repay debt to its financiers as a result of increased loan repayments and transaction costs. The Fund's ability to recommence distributions depends on selling an asset.

## Disclosure Principle 8: Withdrawal Arrangements

This principle provides investors with information regarding their withdrawal rights in each scheme. Unlisted property schemes often have limited or no withdrawal rights which means they can be difficult to exit.

**Applications and withdrawals for the Fund have been suspended, including suspension of regular investments and reinvestment of distributions.**



The Fund is defined by the Corporations Act as an illiquid fund. Investors may withdraw from the Fund only in accordance with the Constitution and section 601KB of the Corporations Act. The RE may close a withdrawal offer early or not make a further withdrawal offer. Investors have been notified in writing that applications and withdrawals are suspended.

## Further Information

You may obtain additional information about your investment by contacting our Investor Relations Manager.

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Dated: 30 September 2011

**IMPORTANT INFORMATION AND DISCLAIMER:** The information provided in this investment update has been carefully prepared and reviewed and the RE has based its assumptions on information available to it at the time. Neither the RE nor any company related to the RE guarantees the performance or success of the scheme, the total distribution or the repayment of Investors' capital. Advisors and Investors should appreciate that factors which affect results may be outside the control of the RE. This report has been prepared for general information only. It does not take into account your current or future financial circumstances. You should consider these matters and read the Product Disclosure Statement (PDS) for the Fund before you make an investment decision on holding or acquiring units. Nothing in the information contained in this update is intended to induce you to acquire or dispose of your units in the Fund.

