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Note: This report is based on the Viento Diversified Property Fund product disclosure document (the *Offer*), dated **10 May 2010**, together with other information provided by Viento Property Ltd and forecasts made by PIR as at April 2010. The rating assigned to this report is on the Offer.

Unlisted Property – Diversified

Viento Diversified Property Fund

Non-renounceable Convertible Preference Unit Offer

Offer Overview

Viento Property Limited (*Viento*), the Manager and the Responsible Entity (*RE*) of the Viento Diversified Property Fund (the *Fund*), is seeking to raise A\$7M by issuing non-renounceable convertible preference units (*CPUs*) by way of an entitlement offer at an application price of A\$1.00 per unit. The Manager may either return capital to CPU holders between 1 July 2012 and 31 July 2013 or give CPU holders the option to convert the CPUs into ordinary units in the Fund at a 40% discount to the net asset value (*NAV*) as at 30 June 2013. CPU holders will be entitled to preferred distributions of 9% per annum between 1 July 2010 and 30 June 2013.

The Fund's portfolio holds 12 assets, including commercial office buildings in CBD, suburban and regional locations in NSW, VIC and WA and 'Neighbourhood'-grade retail shopping centres in suburban and regional centres in NSW, QLD and TAS. The NAV of an ordinary unit was A\$0.54 as at April 2010.

The objective behind issuing CPUs is to reduce the Fund's gearing below its 65% loan-to-valuation ratio (*LVR*) covenant, to fund necessary capital expenditure to improve the income profile of the Fund and to recommence distributions to ordinary unitholders, which currently remain suspended. Post the raising, the LVR is forecast to be 64.1%, leaving little headroom against any further decline in asset values. However, the Manager has the discretion to accept additional capital to improve the LVR headroom. PIR also notes the Manager has the implicit backing of the financiers for the Offer to proceed. In the event LVR covenants are breached again, distributions to CPU unitholders should not be affected, although distributions to ordinary unitholders may be suspended temporarily to rectify any breach. Notwithstanding this risk, PIR's internal rate of return (*IRR*) analysis (refer to page 19) under four different scenarios suggests low to moderate returns over a five-year period.

Investment View

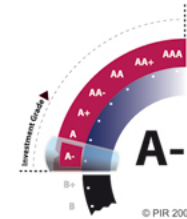
Investor Suitability

The Offer is structured to provide CPU investors with fixed 9% per annum distributions, 100% tax-advantaged over three years, and the opportunity to convert CPUs into ordinary units at a discount of 40% to the ordinary unit price at the time of conversion. An investment in CPUs must be considered illiquid over the term.

Major Considerations

- ▲ 9% p.a. preferred distributions that are 100% tax-advantaged, implying a 3.6% premium to the prevailing three-year swap rate.
- ◊ Ability to convert CPUs into ordinary units at a discount of 40% to the NAV as at 30 June 2013.
- ▼ Fund's gearing post the CPU Offer at around 64% is still close to the LVR covenant of 65%.

Investment Rating



Refer to Appendix for description of our rating

Offer Details

Offer Opened	10 May 2010 ¹
Offer Closes	30 June 2010
Maturity	30 June 2013 ²
Units to be Issued	7,000,000
Issue Price	A\$1.00
Liquidity	Illiquid
Min. Investment	A\$1,000 ³
Distributions	Quarterly
NAV	A\$43,283,980

¹To existing unitholders.

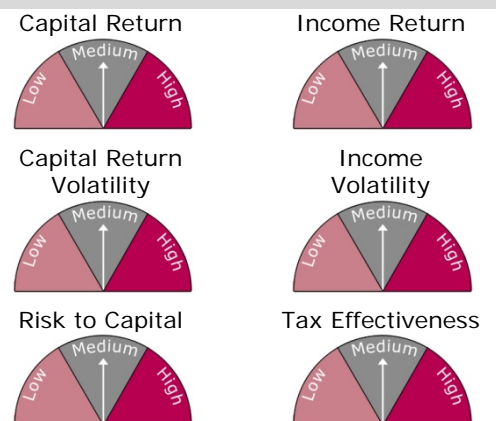
²Maximum investment term is 3 years. Capital may be returned to unitholders between years 2 and 3. At the end of Year 3, investors will have the option to convert the CPUs into ordinary units at a 40% discount to NAV.

³For existing unitholders or A\$10,000 for new unitholders.

Fees (paid to advisors), incl. GST, %

A non-rebateable commission of 3% will be paid to financial advisors.

Risk/Return Profile*



* Although the income return is high and volatility is low, our ratings have been adjusted to reflect the effect of conversion to ordinary units.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

SWOT Summary

Strengths

- Low risk to quarterly distributions made to CPU holders, as capital will be set aside in a separate account to fund these payments for the first two years.
- Investors can convert CPUs into ordinary units at a 40% discount to the prevailing NAV.
- Fixed rate of return, 9% per annum, and it is 100% tax-advantaged. Based on the prevailing three-year swap rate of 5.42%, the implied premium is a healthy 3.6%.

Weaknesses

- Investment remains illiquid during the term of the Offer.
- The Fund gearing at around 64% is still close to LVR covenant of 65%, assuming all of A\$7M under the CPU Offer is subscribed.
- Reliance on Viento Property Ltd to prudently manage a sufficient liquidity buffer, where the ability to manage external market drivers may be out of the Manager's control.
- Where existing investors take up the Offer, the difference in returns over five years for conversion and non-conversion, based on the assumptions made, is marginal.

Opportunities

- Ability to convert CPUs into ordinary units at a discount of 40% to the NAV as at 30 June 2013.
- Weighted average lease expiry (*WALE*) of 2.4 years is below industry average. There remains an opportunity to improve portfolio metrics in a rebounding property market.

Threats

- Existing investors have the risk of a dilution in holdings should all CPUs be converted at the end of the term of the Offer. The dilution would be 7.25% based a CPU price of \$0.65 at the time of conversion.
- The inability to raise the required capital via the Offer, leading to insufficient capital being available to undertake necessary works or requiring assets to be sold.
- Refinancing risk may lead to significantly higher establishment costs, higher margins and Interest Coverage Ratio (ICR) covenants and lower LVR covenants or a forced sale of assets.
- Breach of existing LVR covenants may cause distributions to be frozen, which will affect CPU holders in Year 3 and lead to the risk of the forced sale of assets.
- Underlying asset grade is higher-risk than institutional-grade property, from both an income and a capital perspective. However, it is an asset class that the Manager specialises in and is in line with its core competency.

Key Qualitative Criteria

Management

Track record	★★★★☆
Investment process and philosophy	★★★★☆
Corporate Governance	★★★★☆

Product

Structure	★★★★☆
Fees	★★★★☆
Exit mechanism	★☆☆☆☆
Leverage/Capital structure	★★☆☆☆

Portfolio

Property Grade/Asset quality	★★★☆☆
Property diversification	★★★★☆
Tenancy profile	★★★☆☆
Weighted average lease expiry profile	★★★☆☆

Investment Profile

Direct Property

No. of properties	11 ¹
Locations	Commercial: Melbourne, VIC Blacktown, NSW Mirrabooka, WA St Leonards, NSW Campbelltown, NSW Retail: Brisbane, QLD Devonport, TAS Underwood, QLD Elermore, NSW Bowral, NSW

Other Assets

Location	Southern River, WA
Property sector	Residential

Fund Gearing (post Issue)

64.1%

¹Includes Elermore Shopping Centre, which is being sold for A\$8.35M, with settlement to take place on 25 June 2010.

Manager's Forecast

Distribution Yield for CPU	9.00%
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2. Offer Summary

Product Overview

The Viento Diversified Property Fund (the Fund) is an open-ended, unlisted property fund, which is a Managed Investment Scheme registered with the Australian Securities and Investments Commission (ASIC). The Fund currently holds 11 direct property assets valued at A\$136.7M and an allocation in the Southern River residential property subdivision syndicate (current valuation A\$2.5M). The assets owned by the Fund are well-located, established property complexes in major cities and suburban areas across Australia. The geographic spread of retail and office property provides important diversification benefits, varied lease terms and a mix of tenants, including government and national retailers.

The Offer

Viento, the Manager and the RE of the Fund, is seeking to raise A\$7.0M for the Fund by issuing non-renounceable CPUs by way of an entitlement offer at an application price of A\$1.00 per unit. While the Manager is seeking to raise A\$7.0M, it has the discretion to close the Offer if a lesser amount is raised.

A fixed rate of 9% per annum, calculated on the application price of A\$1.00, will be paid to CPU holders. Distributions for the first two years will be set aside in a trust as a fixed-term investment. Distributions for the third year will be paid from the operating cash flow.

Distributions for the first two years will be 100% tax-deferred. CPU holders may get the benefit of converting CPUs into ordinary units at a 40% discount to the NAV as at June 2013. Therefore, sufficient consideration must be given to the overall proposal rather than just the initial distribution.

Investment Objective

The purpose of the Offer is to raise capital to reduce debt and to enhance the Fund's assets. Should existing unitholders take up their entitlements in full (which equates to approximately 17% of each unitholder's current holding), the recapitalisation will be successful. Alternately, any shortfall will be offered to new investors through an external offer.

The new capital raised will be used for the following purposes:

- To strengthen the cash flow to complete essential capital works at the properties and offer incentives to secure new tenants to fill vacancies and
- To reduce borrowings and lower the Fund's LVR to 65% to satisfy the financiers' loan requirements, which, in turn, will facilitate the resumption of distributions.

If the Offer is fully subscribed, the Fund will have sufficient capital to reduce the current net gearing level (LVR) from approximately 68% to about 64% in June 2010.

If the raising is unsuccessful, the Manager has advised it will be necessary to sell assets to meet the loan conditions of the Fund's financiers.

The Assets

The Fund's asset base is currently made up of a small diversified portfolio of 12 assets, including commercial office buildings in CBD, suburban and regional locations in NSW, VIC and WA and 'Neighbourhood'-grade retail shopping centres in suburban and regional centres in NSW, QLD and TAS. The assets also include a 19.19% holding in a syndicated residential development fund with assets in WA.

The average age of the assets in the portfolio is 22 years (Office – 24.5 years and Retail – 19 years), with the age range across all assets being 4 to 36 years. Comments made in the recent external and independent valuations suggest the assets present well having regard to their age, with the older assets having been refurbished since original construction.

Leverage

The Fund currently has three loan facilities. As at 31 March 2010, the gearing ratio of the Fund was 68.15%. The Fund is in breach of its LVR covenants under two of the loan facilities (refer to Figure 6).

The National Australia Bank (NAB) loan is in breach of the LVR covenant. As at 31 March 2010, the LVR was 74.4%, which is above the required 65% covenant. The Manager has agreed to the following approach with NAB to remedy this breach:

- Repay debt, which will reduce the Fund’s available cash flow;
- Provide detailed monthly reporting;
- Sell two assets - one being Elermore Shopping Centre, which is currently under a contract for sale at A\$8.35M, and other being Nightowl Village Centre, which the Manager has forecast to sell at A\$5.2M; and
- Raise additional capital for the Fund.

The AXA Loan 1 is also in breach of the LVR covenant. As at 31 March 2010, the LVR was 65.7%, which is above the required 65% covenant. The Fund has notified AXA and intends to make repayments to reduce the debt to 65.0%.

Management

Viento Property Limited (Viento) is a wholly owned subsidiary of Viento Group Limited and holds an Australian Financial Services Licence (No. 224663) that authorises it to act as a responsible entity for the Viento Diversified Property Fund.

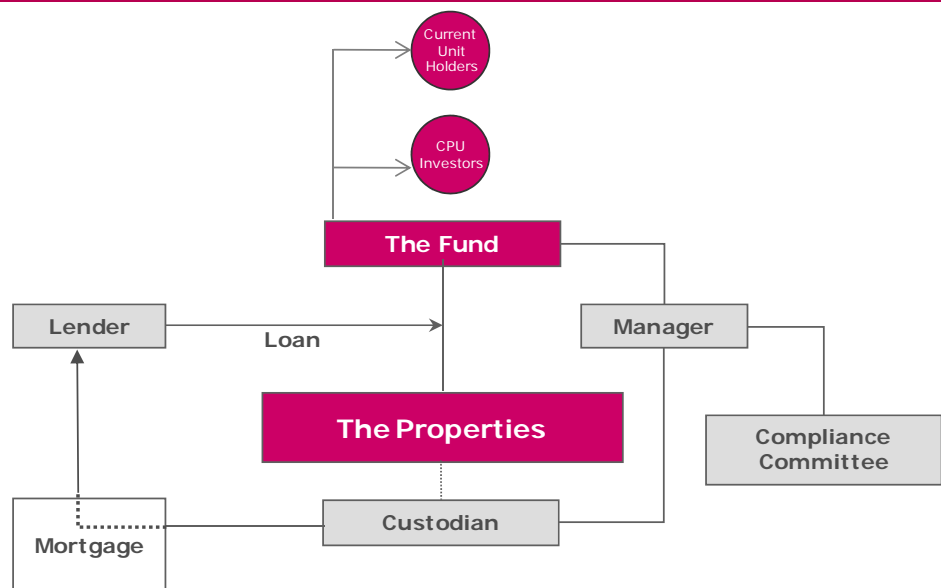
Viento manages traditional property assets in the commercial and retail sectors and develops residential subdivisions.

Liquidity and Exit Provisions

The Manager may either return capital to CPU holders between 1 July 2012 and 31 July 2013 or give CPU holders the option during April 2013 to either

- return capital before 31 July 2013 or
- have their CPUs converted into ordinary units in the Fund at a 40% discount to the NAV as at 30 June 2013.

Figure 1. Investment Structure



Source: Viento Property Ltd/PIR

Fund Structure

Manager:	Viento Property Limited.
Investment Term:	<p>Two or three year fixed-term investment. The Manager may either return capital to CPU holders between 1 July 2012 and 31 July 2013 or give CPU holders the option during April 2013 to either</p> <ul style="list-style-type: none"> - have their capital invested in CPUs returned before 31 July 2013 or - have their CPUs converted into ordinary units in the Fund at a 40% discount to the NAV as at 30 June 2013. <p>CPU holders will be entitled to preferred distributions between 1 July 2010 and 30 June 2013. CPU holders who convert their CPUs into ordinary units will not have the ability to redeem their units for a period of 12 months after conversion (unless determined otherwise by the Manager at its discretion).</p>
Equity/LVR:	<p>There are 7,000,000 convertible preference units on offer.</p> <p>As at 31 March 2010, the overall gearing ratio of the Fund was 68.15%. The Fund has three loan facilities. The NAB loan is in breach of the LVR covenant. As at 31 March 2010, the LVR was 74.4% against the covenant of 65%. The AXA Loan 1 is also in breach of the LVR covenant. As at 31 March 2010, the LVR was 65.7% against the covenant of 65%. The AXA Loan 2 LVR as at 31 March 2010 was 61.05%, which is below the 65.0% covenant.</p> <p>Should the Fund be unable to raise the capital being sought, it will restrict the Fund's capacity to pay distributions, reduce the likelihood of re-opening the Fund to new investment and may lead to a forced sale of assets.</p>
Distribution Entitlements:	<p>The Fund will pay a fixed-rate annualised preferred distribution of 9.0% on the CPUs (paid quarterly in arrears) for the financial years ending 30 June 2011, 30 June 2012 and 30 June 2013 based on the application price of A\$1.00 per CPU.</p> <p>CPU distributions will be set aside in a trust in a fixed-term investment to pay CPU holders in years 1 and 2. In Year 3, CPU distributions will be paid from the net operating income of the Fund.</p>
Security:	The debt facilities are secured over the properties and any other assets of the Fund, with no recourse to unitholders.

Trust Profile

Geographic Exposure:	NSW – 45%, VIC – 29%, QLD – 13%, WA – 10%, TAS – 3%
Sector Exposure:	Office – 65%, Retail - 33%, Other – 2% ¹

Tax

Disclaimer:	Tax consequences depend on individual circumstances. Investors must seek their own taxation advice. The following comments show PIR's expectation of tax for ordinary Australian taxpayers, but cannot be considered tax advice.
Capital gains:	If the Manager elects to return capital or investors do not elect to convert their CPUs (in which case investors will receive a return of capital), a capital gains tax (CGT) event may arise. Where the CPUs are held for more than 12 months, individuals and trusts may be eligible to receive a 50% discount on capital gains whereas superannuation funds are eligible to receive a 33.33% discount on capital gains. Companies are not eligible to receive any discount on capital gains.
Distributions:	It is expected that distributions made by the Fund to CPU holders will be 100% tax-deferred. Therefore, quarterly distributions that investors receive from the Fund on the CPU should not be required to be included in investors' assessable income.
Conversion:	If investors elect to convert their CPUs into ordinary units at the end of the three-year term, they should not be subject to CGT on the conversion, provided certain threshold conditions are satisfied. Under these circumstances, any capital gain would effectively be deferred until such time as unitholders dispose of their ordinary units in the Fund (see section 2.1 of the PDS for converting mechanism).

Legal Structure

Wrapper:	Unlisted Unit Trust
Custodian:	Sandhurst Trustees Limited (ACN 004 030 737)
Offer Document:	The "Viento Diversified Property Fund Convertible Preference Unit Offer" document, dated 10 May 2010, has been lodged with ASIC.

Returns

Capital vs. Income:	Investors will receive a 9.0% preferred distribution per annum (paid quarterly in arrears and 100% tax-advantaged). Committed capital will be returned should the Manager elect to return capital or investors do not elect to convert their CPUs. Should investors elect to convert their CPUs into ordinary units, the capital return will be dependent on the market value of the ordinary units at the time of conversion.
Income Frequency:	Quarterly, in arrears.

¹Comprises a 19.19% stake in the Southern River Syndicate (a residential subdivision development).

Risks

For a more detailed list of the key risks, refer to the *Investment Risks* section 9 of the Offer document.

Property/Market Risk: Capital at risk is diversified geographically. Income at risk is dependent on the tenancy profile of each asset. The current WALE (based on income) of around 2.6 years across the portfolio (Office – 1.9 years and Retail – 3.5 years) is considered poor, particularly for the Office assets.

The low WALE of some of the commercial assets is partly due to the government or local tenants requiring short-term leases. For the retail asset, Oxley Mall, short-term leases have been entered into as the centre is in a pre-development mode.

Debt Financing: The Fund has three loan facilities. As at 31 March 2010, the gearing ratio for the Fund was 68.15%. This was in breach of the LVR covenants for the Fund under two of its loan facilities.

The NAB loan (A\$40,000,000) is in breach of the LVR covenant. As at 31 March 2010, the LVR was 74.4% against the covenant of 65%. The Manager agreed the following approach with NAB to remedy this breach:

- Repay debt, which will reduce the Fund’s available cash flow;
- Provide detailed monthly reporting;
- Sell two assets - one being Elermore Shopping Centre, which is currently under Contract for Sale; and
- Raise additional capital for the Fund.

The AXA Loan 1 (A\$35,355,000) is also in breach of the LVR covenant. As at 31 March 2010, the LVR was 65.7% instead of below 65.0%. The Fund has notified AXA and intends to make repayments to reduce the debt to 65.0%.

The AXA Loan 2 (A\$17,767,000) is not in breach of the LVR covenant. As at 31 March 2010, the LVR was 61.05%, which is below the 65.0% covenant.

Other Risks: Should the Manager be declared insolvent and be unable to continue as the RE, a new RE must be appointed with the approval of the external financier. Should approval not be given, assets may need to be sold to repay the debt.

Fees/Expenses

Base Management Fee:	1.05% of the total gross asset value (TGAV) payable. This is comprised of a management fee of 0.7% of the total assets of the Fund as well as fees paid to related parties of the Manager, the Custodian and other expenses of the Fund.
Establishment Fee:	Nil
Performance Fee:	Nil
Termination Fee:	Nil
Custodian Fee:	The Custodian is entitled to 0.05% of the gross assets (included in the MER above)
Acquisition Fee:	Up to 2.5% of the value of the asset.
Asset Disposal Fee:	1.0% of the value of the asset.

3. The Offer – Analysis

Executive Summary

Viento, the Manager and the RE of the Fund, is seeking to raise A\$7.0M for the Fund by issuing non-renounceable CPUs by way of an entitlement offer at an application price of A\$1.00 per unit.

Convertible preference shares or units are not uncommon in the listed property market, though are utilised less in the unlisted market. While the Manager is seeking to raise A\$7.0M, it has the discretion to complete the Offer if a greater or a lesser amount is raised.

Investors who participate will receive the following:

- 9.0% per annum quarterly distributions for three years and the option to either convert at a 40% discount to the NAV of the Fund as at 30 June 2013 or elect a return of capital on 31 July 2013 or
- 9.0% per annum quarterly distributions for two years and a return of capital after June 2012 but no later than 31 July 2013;

The distributions will be tax-advantaged.

CPUs are a new class of units with preferred distributions and repayment of capital ahead of existing holders of ordinary units in the Fund.

CPUs will be offered initially to existing unitholders in the Fund. They may apply for the following:

- A minimum of 1,000 CPUs or 17% (pro rata) of the value of their current unit holding in the Fund, whichever is the greater amount,
- CPUs in excess of their entitlement or
- Allow their entitlement to lapse.

Any shortfall will be offered to new investors through an external offer.

The Manager proposes to fund the quarterly distributions for the first two years of the term of the Offer via an allocation of 18% of the capital raised, invested into a term deposit and drawn down quarterly to meet distributions. For the final year, the distributions will be met via the operating cash flow of the Fund as preferred distributions ahead of distributions to ordinary unitholders.

Effectively, for every A\$1.00 invested, A\$0.18 per unit will be returned in the first two years of the term of the Offer. The distribution in Year 3 will be a return on the remainder of the capital (A\$0.82 per unit) invested in the Fund.

The Manager may either return capital to CPU holders between 30 June 2012 and 31 March 2013 or give CPU holders the option at 30 June 2013 to either

- Have their capital invested in CPUs returned before 31 July 2013 or
- Have their CPUs converted into ordinary units in the Fund at a 40% discount to the NAV as at 30 June 2013.

CPU holders who elect to have their CPUs converted into ordinary units will not have the ability to redeem these for a period of 12 months after conversion, unless otherwise agreed by the Manager at its discretion. Upon conversion, Viento will issue CPU holders who elect to convert a special class of converting units for a period of 12 months. After 12 months, these units will automatically become ordinary units.

The attraction of this offer is a fixed return for three years with the ability to convert to ordinary units at the end of the term at a significant discount to the unit value at that time.

Take-up considerations

The Offer is being made to all unitholders to assist in improving the performance of the Fund's current property portfolio, to recommence distributions to existing ordinary unitholders and to provide the opportunity for future growth.

At present, any surplus cash generated by the Fund is being used to reduce debt and to pay for essential capital improvements and leasing incentives. It is intended that the new capital raised will allow the Fund to do the following:

- Strengthen the cash flow to complete essential capital works at the properties and offer incentives to secure new tenants to fill vacancies and
- Reduce borrowings and lower the Fund's LVR to 65% to satisfy the financiers' loan requirements, which, in turn, should facilitate the resumption of distributions.

If the Offer is fully subscribed, the Fund will have sufficient capital to reduce the net gearing level (LVR) from about 68% to about 64% in June 2010 and further reduce it to 61% in June 2013.

Should CPU holders elect to convert their units into ordinary units, the increase in ordinary units will have a small dilutive effect on the forecast NAV of the Fund due to the discounted price at the time of conversion.

PIR has assessed a range of scenarios for new investors and existing investors and the potential returns generated under these scenarios. This is discussed in more detail under the *Investment Analytics* section. As a high-level summary, PIR notes that new investors taking up CPUs and converting them into ordinary units will have the benefit of receiving the highest return across all scenarios, which we consider appropriate.

Non-take-up considerations

If there is any shortfall in the take up of CPUs by existing unitholders, CPUs will be offered to new investors through an external offer, which opens on 1 June 2010 and closes on 30 June 2010.

Should the Manager be unable to raise A\$7.0M under the offer, then

- It may be unable to reduce the LVR and the financiers are likely to seek extra loan repayments;
- It may be unable to carry out capital works to retain existing tenants;
- It may be unable to pay lease incentives to attract new tenants; and
- It may be unable to recommence distributions to existing ordinary unitholders in the near future.

The effect of these factors is likely to reduce the Fund's available income, restrict the Manager's capacity to pay any distributions and reduce the likelihood of re-opening the Fund to new investment.

Under such a scenario, sale of assets may be necessary to reduce gearing within LVR covenants. Moreover, the sale price achieved could be below market values, thereby eroding investor returns significantly.

4. Property

Summary

The Fund’s assets comprise a small diversified portfolio of assets, including commercial office buildings in CBD, suburban and regional locations in NSW, VIC and WA and ‘Neighbourhood’-grade retail shopping centres in suburban and regional centres in NSW, QLD and TAS. The assets also include a 19.19% holding in a syndicated residential development fund with assets in WA.

The average age of assets is 22 years old (Office – 24.5 years and Retail – 19 years), with the age range being 4 to 36 years. According to the recent external valuations, the assets present well having regard to their age, with the older assets having been refurbished since original construction. The top five tenants, as a percentage of gross income of the portfolio, are shown below in Figure 2.

Figure 2. Top 5 Tenants as a % of Portfolio Gross Income

Property	Tenant	% of portfolio gross income
Oxley Mall Shopping Centre, NSW	Coles	7.77
Mirrabooka Commercial Centre, WA	Centrelink	5.55
Parkinson Plaza Shopping Centre, QLD	Metcash (Supa IGA)	4.57
Elmore Vale Shopping Centre, NSW	Bi-Lo	4.56
Devonport Cinema Complex, TAS	C-max International	3.25

Source: Viento Property Group

Lease Expiry Profile

The portfolio WALE (based on income) is 2.6 years and the occupancy rate is 78.6%. Both of these metrics are well below the industry average. Nonetheless, improving both metrics in a rebounding property market provides an opportunity for income growth and, consequently, capital growth.

On a sector basis, the average WALE for the commercial office assets is 2.02 years, which is less than ideal, with an average occupancy rate of 71.9%. The Blacktown asset has the most impact on the portfolio, as its occupancy rate currently stands at 26.6% with the WALE at 1.91 years. As the Fund is weighted 65% to commercial office, the short WALE is a risk to the portfolio.

The average WALE for the retail assets is 3.6 years, which is considered reasonable for sub-regional and ‘Neighbourhood’-grade shopping centres. The average occupancy rate is 93.35%, which is acceptable. It should be noted that based on the advised sale of the Elmore and Underwood assets, the average WALE would reduce slightly to 3.36 years, though the average occupancy rate will increase to 94.1%.

Figure 3. Property Portfolio Summary

Portfolio	State	Valuation 2010 (A\$M)	Yield (%)	Occupancy Rate (%)	WALE By Inc. (Yrs)
Commercial					
11 Queens Road, Melbourne	VIC	22.80	9.25	85.2	2.23
81-85 Flushcombe Road, Blacktown	NSW	17.80	9.75	26.6	1.92
24 Chesterfield Road, Mirrabooka	WA	11.20	8.75	100.0	2.37
14 Queens Road, Melbourne	VIC	17.90	9.25	73.4	1.88
34-36 Chandos Street, St Leonards	NSW	8.00	9.25	100.0	2.97
City Centre Building, Campbelltown	NSW	13.30	10.00	86.2	1.26
Sub-total				71.9%	2.02
Retail					
Parkinson Plaza Shopping Centre, Brisbane	QLD	13.20	8.25	100.0	5.72
Devonport C-Max Complex, Devonport	TAS	4.40	10.00	100.0	3.85
Nightowl Village, Underwood	QLD	5.20	8.00	80.0	2.59
Elermore Shopping Centre, Elermore Vale	NSW	8.40	9.75	88.8	3.30
Oxley Mall Shopping Centre, Bowral	NSW	14.50	8.75	89.0	1.67
Sub-total				93.3%	3.59
Total Direct Property		136.70		78.6%	2.58
Unlisted Property Investment					
Southern River Syndicate allocation	WA	2.50	N/A	N/R	N/R
TOTAL PORTFOLIO		139.20			

Source: JLL/Savills/Urbis/CBRE

Geographical and Sector Exposure

Figure 4. Weighting by Geography

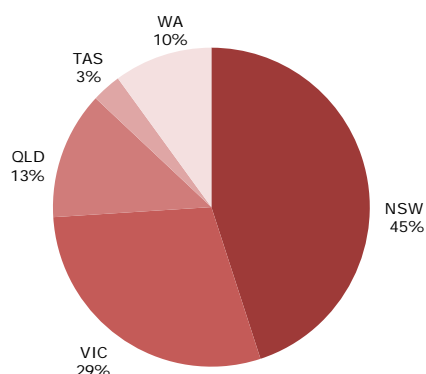
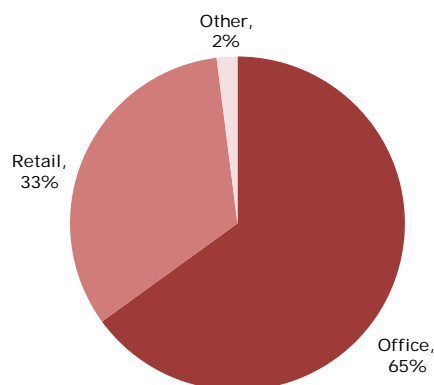


Figure 5. Weighting by Sector



Source: Viento Property Group

The portfolio is well diversified geographically, though from a sector perspective, it is focussed primarily on commercial office and retail shopping centres.

The Fund also has an allocation of 19.19% in the Southern River residential property development syndicate in Western Australia, valued at A\$2.5M. PIR notes that the residential project is held in a fund associated with Viento Property Group.

Property Valuations

PIR has reviewed the independent valuations undertaken for each asset. The valuation dates range from June 2009 to March 2010. The oldest valuation, dated June 2009, was for the Elmore Shopping Centre, which has been sold, with settlement due to occur in June 2010. PIR views the assumptions made in the valuations to be in line with market conditions at that time they were undertaken. PIR has also reviewed the Manager's forecast cash-flow assumptions (over the proposed term of the CPU offer) having regard to the external valuations and, in most cases, found them to be in line with industry practice.

The two assets that showed noticeable variation to the valuers' market assumptions were 81–85 Flushcombe Rd, Blacktown, and 11 Queens Rd, Melbourne. The Manager has advised the following in relation to the variation between the external valuations and the management strategy for these two assets:

Flushcombe Rd, Blacktown- The income figures and forecast valuations are below those of the valuers in relation to the leasing-up assumptions over the next 12-24 months. It is considered that a more conservative view will provide a potential upside bonus to investors. The current strategy is to upgrade the building progressively over the next five years, with a significant amount of capex to be spent in the medium term, that is, after three years.

Queens Rd, Melbourne- The leasing assumptions are slightly more aggressive than those of the valuers. In relation to the major vacancies, the Manager has now received a signed lease on Level 7 (280sqm). Enquiries have also been received for the remaining large vacancy on Level 8 (641sqm) and the Manager is confident of leasing this before the end of 2010. The leasing of these two tenancies prior to the end of the year would bring the building vacancy down to a total of 4%. Once the vacancy rate is at this level and stability returns to the leasing market, the Manager is confident about increases in rental income augmented by lower rent abatements.

5. Management

Viento Property Limited (Viento) is a wholly owned subsidiary of Viento Group Limited and holds an Australian Financial Services Licence (No. 224663) that authorises it to act as a responsible entity for the Viento Diversified Property Fund.

Viento manages traditional property assets in the commercial and retail sectors and develops residential subdivisions.

The board comprises three executive directors and one independent director, all of whom (with the exception of one) are with Viento Group Ltd. The executive chairman is Mr. Robert Nichevich, who has been responsible for establishing Viento in the property funds management industry since 2001. PIR considers that the board is well qualified and experienced to supervise the Fund.

The management team includes a fund manager, two asset managers, a leasing executive and a marketing manager amongst others, with a combined experience of 45 years in funds management. The property team maintains an active portfolio assessment and management approach.

PIR views the management team as having suitable skills and experience for managing a property funds management business.

The direct property management is undertaken by Viento Property Ltd, which may outsource the day-to-day management of some properties to external agents.

The directors of the Viento Group have adopted Australian Standard AS3806-2006 Compliance program as the framework for the compliance program for Viento Property Limited.

The Compliance Plan of the Fund is monitored by a compliance committee, which has two independent members, namely, Mr. Murray Jones and Mr. Ian Rust.

6. Investment Analytics

Summary

On the basis of data provided by the Manager for the current and next financial years, PIR has reviewed the assumptions and sensitivities to the distributions and return of capital (assuming unitholders elect not to convert) at the end of the term of the Offer.

The Offer comprises a 9% per annum distribution (paid quarterly) on the capital raised. The Manager proposes to fund the distributions for the first two years of the term of the Offer via an allocation of 18% of the capital raised, to be invested into a term deposit and drawn down quarterly to meet distributions. For the final year, the distributions will be met from the operating cash flow of the Fund as preferred distributions ahead of distributions to ordinary unitholders.

The Manager has assumed a term deposit fixed rate of 5% per annum. As such, the distributions to unitholders will not be impacted by changes in the cash rate or other market fluctuations during that time. The draw-downs for each quarter's distribution have been assumed to comprise both interest and capital from the term deposit.

The final year distributions are intended to be paid from the operating cashflow from the Fund, with the distribution to CPU holders given preference over ordinary unitholders. These distributions will be sensitive to the performance of the Fund, and PIR has undertaken sensitivity analysis of the gross operating income in Year 3 to determine what conditions would be necessary to put these distributions at risk.

On the basis that no additional assets, other than those identified in the PDS, are disposed of in years 1 and 2 of the term of the Offer, it is estimated that in the event the forecast net property income declined by 31% during Year 3, the Fund would have sufficient net operating income to meet CPU distributions in full.

PIR has also forecast that net property income would need to decline by 63% during Year 3 for the Fund to be unable to make any partial CPU distributions.

The risk associated with the Manager's ability to return capital at the end of the term is predicated on the underlying value of the assets at that time. A fall in asset values of more than 11% per annum would be required for the Fund to be unable to return capital (assuming no units were converted). It is currently considered that the probability of further significant declines in asset values in the short term is low.

Product Leverage

Post the Offer, it is forecast that the total LVR of the Fund will be 64.1%, with the NAB facility at 64.98%, the AXA 1 facility at 65% and the AXA 2 facility at 60.90%. The LVR covenant for all three facilities is 65%.

The Manager has advised that should the Fund be unable to raise capital under the Offer, it will restrict its capacity to pay distributions and reduce the likelihood of re-opening the Fund to new investment. The longer term impact is that the cash flow in the Fund is likely to be significantly reduced, putting further pressure on the LVR covenants.

Should further breaches of LVR covenants occur, it is likely that the financiers will restrict the payment of distributions. While CPU distributions in years 1 and 2 of the term of the Offer are from a term deposit and not linked to the operating income, the Year 3 distributions would be at risk as they are paid from operating income.

Continued breaches of LVR covenants may also see the sale of assets necessary to meet the loan obligations, posing some risk to the CPU holders as their capital ranks second to that of the financiers. A worst-case scenario would see potentially no distribution in Year 3 and only a partial or no return of capital to CPU holders.

The sensitivity of the Fund to repay the CPU capital at the end of Year 3 is addressed in *LVR Sensitivity Analysis* below.

Figure 6. Debt Facility Data

	Facility 1	Facility 2	Facility 3
Provider	NAB	National Mutual (AXA)	National Mutual (AXA)
Facility Limit - Main	\$40M	\$33.475M	\$16.77M
- Extension 1	Nil	\$0.33M	\$0.61M
- Extension 2	Nil	\$1.55M	\$0.387M
Drawn	\$40M	\$35.355M	\$17.767M
LVR Covenant	65%	65%	65%
Current LVR	74.42%	65.72%	61.05%
LVR (post Offer)	64.98%	65%	60.90%
Maturity Date	31/01/2011	30/11/2011	30/06/2011

Source: Viento Property Ltd/PIR

Capital Adequacy to Repay CPU Holders

PIR considers that the market values in the property sector reached the low point in the current cycle in the later part of 2009. There have been improvements in asset capital values reported to the market in the A-REIT sector since then.

As stated previously, the value of the assets would need to decline by more than 11% per annum for the Fund to be unable to repay the Offer capital (see Figure 7 below). It is PIR's view that such material declines in the value of assets would require either capitalisation rates to move materially higher or vacancies to rise dramatically.

Nonetheless, should declines in asset values occur over the term of the Offer, it would likely cause progressive breaches of the LVR covenants. Such an event would require further capital to be raised and/or the sale of assets to reduce debt to below existing covenants. We would also expect banks to force a suspension of distributions until any breaches are rectified.

Figure 7. Return of Capital Sensitivity

	Decline in Asset Value		
	-5% p.a.	-10% p.a.	-15% p.a.
Capital Remaining at end of Yr 3	A\$18.2M	A\$9.5M	A\$1.9M

Source: PIR

Refinancing

The Manager has advised that the forecast cashflows reflect the increased cost of refinancing maturing debt facilities shown in Figure 6 above. PIR has reviewed the assumptions in terms of costs and probability of renewing having regard to current market conditions and considers them to be reasonable.

The risk to refinancing is primarily related to the LVR covenants that may be sought and the margins sought relative to the LVR. It should be noted that should lenders seek lower LVR covenants, it may be necessary for the Manager to dispose of assets.



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