

Aspen Diversified Property Fund

Disclosure update – February 2012

Introduction

This disclosure is intended to update investors in the Aspen Diversified Property Fund (**Fund**) in accordance with ASIC Regulatory Guide 46: *Unlisted property schemes – improving disclosure for retail investors*.

Investors will be updated via the Aspen Group website on any material changes to the below information on a 6 monthly basis, or immediately if there is a materially adverse change to the information. Investors may request hard copies of this document and the documents referred to in the disclosure update below by calling Aspen Group on 1800 220 840.

References made to the Fund's Product Disclosure Statement ("PDS") refer to the PDS dated 5 June 2009. The figures stated below are generally based on the latest available audited/reviewed figures, being for the half year ended 31 December 2011, unless otherwise stated.

Investors should note that the Fund is temporarily closed for new applications and withdrawals.

Disclosure Principle	Summary	Further Explanation
1. Gearing ratio	Gearing ratio = 73.0% (0.730)	<p>The Fund's gearing ratio is 73.0% (0.730) as at the latest audited financial statements, 31 December 2011. Gearing is a measure of the level of debt funding used by an entity. The gearing ratio is calculated by dividing total interest bearing liabilities by total assets.</p> <p>A ratio of 0% indicates zero debt funding and a ratio of 100% indicates that an entity is entirely debt funded. Higher gearing levels may indicate a higher risk that the entity will become unable to adequately service its debt facilities as a highly geared scheme has a lower asset buffer to rely upon in times of financial stress.</p> <p>It should be noted that the Fund's debt facilities include debt of \$14.7 million provided by Aspen Group. This debt is unsecured and convertible into units in the Fund at Aspen's discretion. The gearing ratio excluding this debt is 61.2% (0.612) as at 31 December 2011.</p>
2. Interest Cover	Interest cover ratio = 1.59. This means the Fund has 1.59 times more earnings than interest expenses.	<p>Interest Cover is a key indicator of a scheme's financial health as it is a measure of how many times an entity's earnings exceed the entity's net interest expense. Interest cover is calculated by dividing EBITDA (earnings before interest, tax, depreciation and amortisation) minus unrealised gains plus unrealised losses with interest expense. The higher the ratio, the easier it is for the entity to service its debt. The lower the interest cover ratio, the higher the risk that the entity may be unable to adequately service its debt.</p>

Disclosure Principle	Summary	Further Explanation												
3. Scheme Borrowings	<p>Borrowings repayable in less than 5 years is \$89.4m</p> <p>Borrowings repayable in more than 5 years is \$nil</p>	<p>The Fund has the following debt facilities available:</p> <table border="1" data-bbox="829 342 1955 483"> <thead> <tr> <th>Facility name</th> <th>Maturity Date</th> <th>Drawn Amount</th> <th>Undrawn Amount</th> </tr> </thead> <tbody> <tr> <td>National Australia Bank Loan</td> <td>31 October 2014</td> <td>\$74.7m</td> <td>Nil</td> </tr> <tr> <td>Aspen Loan Facility</td> <td>N/A</td> <td>\$14.7m</td> <td>N/A</td> </tr> </tbody> </table> <p>Investors should note that the Fund's bank financiers have a first ranking mortgage over the assets of the Fund and that the interests of the bank rank ahead of the investors' interests in the Fund. Loans provided by Aspen Group are unsecured and are reviewed annually.</p> <p>Key terms of the National Australia Bank facility are as follows:</p> <p>Loan to Valuation Ratio</p> <p>The Fund must ensure at all times that the LVR does not exceed 65%. At 31 December 2011 the LVR ratio as defined by National Australia Bank is 65.0%.</p> <p>Net Interest Cover Ratio:</p> <p>The Fund must ensure at all times that the net interest coverage ratio (defined by National Australia Bank as being earnings before interest, tax, depreciation and amortisation of the secured properties divided by interest expense payable under the facilities) does not fall below specified thresholds. The quarterly ICR must not be less than 1.2 times.</p> <p>For the quarter ended 31 December 2011 the ICR, as defined by National Australia Bank, was 1.59 times.</p> <p>Weighted Lease Duration:</p> <p>The Fund must ensure that the weighted average lease duration across its portfolio does not fall below 2.5 years. As at 31 December 2011 the weighted average lease duration of the Fund was 5.1 years.</p> <p>The Fund continues to meet its obligations under the facility agreement.</p> <p>Given that Aspen Group is a cornerstone investor in the Fund and its wholly owned subsidiary Aspen Funds Management is the Responsible Entity of the Fund, the directors are unaware of any reason why the Aspen Loan Facility would not be renewed upon expiry.</p> <p>As with all geared property funds, there is a risk that the Fund's financiers will not renew the borrowing facilities upon their expiry. Should this occur, the manager could be forced to sell assets to repay debt, potentially not realising the full value of those properties. This would have a negative impact on investors.</p>	Facility name	Maturity Date	Drawn Amount	Undrawn Amount	National Australia Bank Loan	31 October 2014	\$74.7m	Nil	Aspen Loan Facility	N/A	\$14.7m	N/A
Facility name	Maturity Date	Drawn Amount	Undrawn Amount											
National Australia Bank Loan	31 October 2014	\$74.7m	Nil											
Aspen Loan Facility	N/A	\$14.7m	N/A											

Disclosure Principle	Summary	Further Explanation
4. Portfolio Diversification	The Fund is diversified both geographically and by property sector.	<p>Generally, the more diversified a portfolio is, the lower the risk that an adverse event affecting one part of a portfolio will put the overall portfolio at risk.</p> <p>A detailed analysis of the portfolio's assets, their valuations (as adopted by the Board from the latest independent valuations), sectors, occupancy rates, key tenants and lease profiles can be found on the Aspen Diversified Fund Update: http://www.aspengroup.com.au/pdf/ADPFFlyer.pdf</p> <p>The Fund does not have the intention of making further property acquisitions in the immediate future.</p>
5. Valuation Policy	The Fund has a valuation policy which ensures that independent valuations are obtained on a regular basis.	<p>As the Responsible entity of the Fund, Aspen Funds Management has a valuation policy relating to the assets of the Fund.</p> <p>The policy states that the Fund's assets will be subject to an external independent valuation in accordance with industry standards by a suitably qualified and registered valuer at least once every three years.</p> <p>In addition to this, the directors will review the asset valuations at least once a year on a rolling basis. If any major factor influencing the valuation of a property is judged to have moved significantly, the directors shall consider if the next independent asset valuation should be brought forward, in order for the Board to meet its ongoing disclosure obligations.</p> <p>The portfolio was 100% independently valued in June 2011, and 4 properties totalling 46% of the portfolio was independently valued at 31 December 2011.</p> <p>Information showing the value of the latest property valuations can be found on the website at: http://www.aspengroup.com.au/pdf/ADPFFlyer.pdf</p> <p>There have been no recent material changes to the valuation policy.</p>

Disclosure Principle	Summary	Further Explanation
6. Related Party Transactions	The Fund has a loan facility from Aspen Group which it owes Aspen Group \$14.7 million.	<p>Aspen Group has provided the Fund with a loan facility which represents amounts drawn under previous facility, named the Asset Purchase Facility and Withdrawal Loan Facility. The terms of the loan facility are summarised below.</p> <p>Key Terms</p> <ul style="list-style-type: none"> • The loan matures on July 2012, and can be extended by Aspen Group subject to the approval of the Aspen Group board of directors; • Any new drawing under this facility requires the approval of the Aspen Group board of directors; • The loan is an unsecured, subordinated obligation of the Fund and is non-recourse to unitholders; • In the event of a default under the facility, Aspen Group may require the Fund to issue Units to Aspen Group up to the balance outstanding under the facility; • Upon maturity, the Fund must repay the outstanding amount or, with the agreement of Aspen Group, the Fund may issue Units to the value of the outstanding facility amount; and • Aspen Group is entitled to be paid interest on the outstanding balance at the greater of 8.75% per annum or the 90 day bank bill rate plus 2.5% per annum. <p>Aspen Funds Management has a Related Party Policy which can be accessed at: http://www.aspengroup.com.au/docs/forms_policies/Related_Party_Policy.pdf</p> <p>Aspen Funds Management has a Conflict of Interest Policy and keeps a register of all potential conflicts of interest. The Conflict of Interest Policy can be accessed at: http://www.aspengroup.com.au/docs/forms_policies/aspen_funds_management_conflict_of_interest_policy.pdf</p> <p>Aspen Group also employs a full time Compliance Manager and has a Compliance Committee made up of two thirds external independent members to monitor and ensure compliance with this policy.</p>
7. Distribution Practices	Distributions are currently comprised of underlying profit and a partial return of capital.	<p>Since the inception of the Fund in 2005, the manager maintained a policy of paying distributions entirely out of underlying earnings, in line with industry practice and Australian Accounting Standards.</p> <p>Recently however, the Fund has experienced reduced cashflow as a result of its continued high gearing, and the interest costs associated with this, as well as the need to offer attractive rent free incentives to secure tenancies. The restricted cashflow has led to the decision by Management to include a return of capital to investors in the monthly distribution payment.</p>
8. Withdrawal Arrangements	Limited monthly withdrawal facility is suspended	<p>Investors should note that this facility has been suspended by the manager.</p> <p>As such there is no guaranteed redemption of Units in the Fund.</p>