



# Discovery Investment Services Core Income Fund

Continuous Disclosure Notice - 31 December 2010

## Understanding the Fund

The Australian Securities and Investments Commission (ASIC) has issued a set of benchmarks to help you understand and assess unlisted mortgage schemes, such as the **Discovery Investment Services Core Income Fund** ('Fund') ARSN 122 452 457. The benchmarks, including how the Fund measures against them, are set out below. This information is current as at 31 December 2010 and has been provided to keep you informed and to assist you in better understanding the nature of this investment.

The Fund gains its mortgages exposure by investing in the Australian Unity Mortgage Income Trust (Mortgage Income Trust) ARSN 090 082 803 and the Australian Unity High Yield Mortgage Trust (High Yield Mortgage Trust) ARSN 113 151 705.

## Benchmark 1: Liquidity

*This benchmark requires responsible entities to 'have cash flow estimates for the next three months', 'ensure that at all times they have cash or cash equivalents sufficient to meet projected cash needs over the next three months' and to 'disclose our policy on balancing the maturity of assets and maturity of liabilities'.*

We meet the benchmark as we prepare estimates of cash flows three months ahead and ensure that at all times we hold cash or cash equivalents sufficient to meet projected cash needs over the next three months. The return objective and mortgage maturity dates are balanced against the requirement to provide cash to meet the planned withdrawals.

## Benchmark 2: Scheme borrowing

*This benchmark requires responsible entities who have borrowed funds to disclose the current nature of their mortgage scheme's borrowed funds.*

We meet this benchmark. The Responsible Entity is permitted to borrow for the purposes of the Fund and to grant security over the Fund's assets. Presently, we have no borrowings and have no intention to borrow.

## Benchmark 3: Portfolio diversification

*This benchmark requires responsible entities to disclose the current nature of their mortgage scheme's loan portfolio.*

We meet this benchmark and understand the importance of a transparent loan portfolio. To ensure consistent performance across a range of market conditions, the Fund is diversified at a number of perspectives.

Please note that the Fund allows for the issue of different units including Retail Units and Wholesale Units and therefore has the same portfolio diversification across both unit classes.

The underlying funds are registered managed investment schemes operated by Australian Unity Funds Management Limited (AUFM) ABN 60 071 497 115. These underlying funds primarily invest in a portfolio of loans secured by first registered mortgages over quality retail, commercial,

investment residential and industrial property. The High Yield Mortgage Trust also invests in specialised loans, construction and development loans, vacant land and other income producing assets. They aim to provide investors with regular income together with capital stability. The benchmarks, including how these underlying funds measure against them, are available to view and download at: [australianunityinvestments.com.au](http://australianunityinvestments.com.au).

## How are the loans classified by activity?

The loans in the portfolio are classified as follows:

| High Yield Mortgage Trust                 |                 |               |
|---|-----------------|---------------|
| Asset class                               | No. of accounts | Value (\$m)   |
| <b>Non-Specialised / Non-Construction</b> |                 |               |
| Retail                                    | 20              | 38.49         |
| Industrial                                | 40              | 48.02         |
| Residential Investment                    | 15              | 33.23         |
| Office                                    | 14              | 25.38         |
| Vacant land                               | 6               | 14.24         |
| <b>Specialised</b>                        |                 |               |
| Clubs                                     | 9               | 29.05         |
| Service Stations                          | 3               | 10.02         |
| Car Parks                                 | 3               | 6.87          |
| Schools                                   | 0               | 0.00          |
| Storage Units                             | 1               | 0.43          |
| Child Minding Centres                     | 1               | 0.91          |
| Hotels                                    | 1               | 0.80          |
| <b>Construction and Development</b>       |                 |               |
| Residential Investment                    | 0               | 0.00          |
| Clubs                                     | 0               | 0.00          |
| Service Stations                          | 0               | 0.00          |
| <b>Total</b>                              | <b>113</b>      | <b>207.44</b> |



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| Mortgage Income Trust        |                 |               |
|------------------------------|-----------------|---------------|
| Asset class                  | No. of accounts | Value (\$m)   |
| Retail                       | 72              | 183.93        |
| Industrial                   | 58              | 148.86        |
| Office                       | 43              | 135.68        |
| Residential investment       | 23              | 50.03         |
| Other (specialised property) | 3               | 2.71          |
| <b>Total</b>                 | <b>199</b>      | <b>521.21</b> |

## What are the loans by geographic region?

The loans in the underlying funds' portfolio by geographic region are as follows:

| High Yield Mortgage Trust |                 |               |
|---------------------------|-----------------|---------------|
| State                     | No. of accounts | Value (\$m)   |
| NSW / ACT                 | 63              | 130.43        |
| VIC / TAS                 | 27              | 33.39         |
| QLD / NT                  | 20              | 43.11         |
| WA                        | 3               | 0.51          |
| <b>Total</b>              | <b>113</b>      | <b>207.44</b> |

| Mortgage Income Trust |                 |               |
|-----------------------|-----------------|---------------|
| State                 | No. of accounts | Value (\$m)   |
| NSW / ACT             | 97              | 211.14        |
| QLD / NT              | 52              | 200.04        |
| VIC / TAS             | 46              | 91.21         |
| WA                    | 1               | 14.23         |
| SA                    | 3               | 4.60          |
| <b>Total</b>          | <b>199</b>      | <b>521.21</b> |

## How many of the loans are in default or arrears? What is their value?

| High Yield Mortgage Trust |                 |              |
|---------------------------|-----------------|--------------|
| Days in arrears           | No. of accounts | Value (\$m)* |
| 31 - 60                   | 0               | 0.00         |
| 61 - 90                   | 0               | 0.00         |
| > 90 days                 | 17              | 43.88        |

\* Includes principle and interest.

| Mortgage Income Trust |                 |              |
|-----------------------|-----------------|--------------|
| Days in arrears       | No. of accounts | Value (\$m)* |
| 31-60                 | 0               | 0.00         |
| 61 days plus          | 0               | 0.00         |
| > 90 days             | 3               | 8.00         |

\* Includes principle and interest.

In the event that a borrower goes into default there is a process to remedy the default as quickly as possible. In cases where the borrower is unable to remedy the default the Trusts generally take action to take possession of the security in order to recover the loan amount outstanding. Third party service providers may also assist in the recovery process.

## What is the nature of the security for the loan portfolio?

All loans in the underlying Trusts' portfolios have been secured by a registered first mortgage.

## What proportion of the total loan monies have been lent to the largest borrower in the Funds? And 10 largest borrowers?

| High Yield Mortgage Trust |                             |             |
|---------------------------|-----------------------------|-------------|
|                           | Proportion (%) of Fund size | Value (\$m) |
| Largest borrower          | 7.64                        | 15.86       |
| 10 largest borrowers*     | 37.28                       | 77.34       |

\* Includes the largest borrower.

| Mortgage Income Trust |                             |             |
|-----------------------|-----------------------------|-------------|
|                       | Proportion (%) of Fund size | Value (\$m) |
| Largest borrowers     | 9.67                        | 50.41       |
| 10 largest borrowers* | 47.36                       | 246.86      |

\* Includes the largest borrower

## How many loans have been approved but have funds yet to be advanced? What are the funding arrangements in place for any of these undrawn loan commitments?

|                           | No. of Undrawn Loans | Value (\$m) |
|---------------------------|----------------------|-------------|
| High Yield Mortgage Trust | 0                    | 0.00        |
| Mortgage Income Trust     | 0                    | 0.00        |

Cash holdings in the trusts will fund any undrawn loan commitments.



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## What is the maturity profile of all loans?

The loan terms can range between 6 months and 5 years. Loans for 5 years are reviewed at the 3-year mark. The following provides an overview of the current maturity profile of all loans.

| High Yield Mortgage Trust |              |               |
|---------------------------|--------------|---------------|
| Maturity                  | No. of Loans | Value (\$m)   |
| < 6 months                | 21           | 60.58         |
| 6 months - 0.99 yrs       | 16           | 30.68         |
| 1 - 1.99 yrs              | 55           | 85.24         |
| 2 - 2.99 yrs              | 21           | 30.94         |
| 3 - 3.99 yrs              | 0            | 0.00          |
| 4 - 4.99 yrs              | 0            | 0.00          |
| 5 years +                 | 0            | 0.00          |
| <b>Total</b>              | <b>113</b>   | <b>207.44</b> |

| Mortgage Income Trust |              |               |
|-----------------------|--------------|---------------|
| Maturity              | No. of Loans | Value (\$m)   |
| < 6 months            | 62           | 132.99        |
| 6 months - 0.99 yrs   | 48           | 119.66        |
| 1 - 1.99 yrs          | 60           | 230.53        |
| 2 - 2.99 yrs          | 29           | 38.03         |
| 3 - 3.99 yrs          | 0            | 0.00          |
| 4 - 4.99 yrs          | 0            | 0.00          |
| 5 years +             | 0            | 0.00          |
| <b>Total</b>          | <b>199</b>   | <b>521.21</b> |

## What are the loan-to-value ratios for loans?

| High Yield Mortgage Trust |              |               |
|---------------------------|--------------|---------------|
| Loan-to-value ratios (%)  | No. of Loans | Value (\$m)   |
| 0 - 50                    | 6            | 6.99          |
| 50.01 - 60                | 5            | 17.48         |
| 60.01 - 65                | 10           | 21.85         |
| 65.01 - 70                | 11           | 40.50         |
| 70.01 - 75                | 12           | 31.32         |
| 75.01 - 80                | 24           | 23.53         |
| 80.01 - 85                | 43           | 59.19         |
| 85.01+                    | 2            | 6.58          |
| <b>Total</b>              | <b>113</b>   | <b>207.44</b> |

| Mortgage Income Trust    |              |               |
|--------------------------|--------------|---------------|
| Loan-to-value ratios (%) | No. of Loans | Value (\$m)   |
| 0 - 50                   | 33           | 67.86         |
| 50.01 - 55               | 9            | 10.93         |
| 55.01 - 60               | 19           | 40.34         |
| 60.01 - 65               | 23           | 35.62         |
| 65.01 - 70               | 114          | 360.96        |
| 70+                      | 1            | 5.50          |
| <b>Total</b>             | <b>199</b>   | <b>521.21</b> |

## What are the interest rates on loans?

| High Yield Mortgage Trust |              |               |
|---------------------------|--------------|---------------|
| Interest rates (%)        | No. of Loans | Value (\$m)   |
| Less than 6.50%           | 20           | 63.26         |
| 6.50% - 6.99%             | 19           | 17.13         |
| 7.00% - 7.49%             | 16           | 21.82         |
| 7.50% - 7.99%             | 23           | 41.68         |
| 8.00% - 8.49%             | 9            | 18.72         |
| 8.50% - 8.99%             | 14           | 26.16         |
| 9.00% - 9.49%             | 12           | 18.67         |
| 9.50% - 9.99%             | 0            | 0.00          |
| 10.00% plus               | 0            | 0.00          |
| <b>TOTAL</b>              | <b>113</b>   | <b>207.44</b> |

| Mortgage Income Trust |              |               |
|-----------------------|--------------|---------------|
| Interest rates (%)    | No. of Loans | Value (\$m)   |
| < 6.50                | 65           | 183.32        |
| 6.50 - 6.99           | 39           | 58.70         |
| 7.00 - 7.49           | 20           | 73.17         |
| 7.50 - 7.99           | 25           | 94.95         |
| 8.00 - 8.49           | 21           | 49.25         |
| 8.50 - 8.99           | 6            | 21.57         |
| 9.00 - 9.49           | 23           | 40.25         |
| 9.50 - 9.99           | 0            | 0.00          |
| 10.00 +               | 0            | 0.00          |
| <b>Total</b>          | <b>199</b>   | <b>521.21</b> |

## How many loans are in the portfolio where interest has been capitalised? What is their value?

There are currently two loans in the High Yield Mortgage Trust portfolio, representing \$2.80m, where interest has been capitalised. The Mortgage Income Trust portfolio has one loan capitalised to the value of \$10.74m.



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## Are derivatives used?

It is not our current policy to use derivatives for gearing purposes or for speculative activities for this Fund. However, we may use derivatives for implementation of interest rate risk strategies and management of the Fund's interest rate exposures.

## Describe any non-loan assets of the scheme and their value.

The Fund does not directly hold any loan assets as it gains its mortgages exposure by investing in the Mortgage Income Trust and the High Yield Mortgage Trust.

Apart from holding units in the Mortgage Income Trust and the High Yield Mortgage Trust the Fund holds cash and similar liquid investments, including a holding in the Australian Unity Wholesale Cash Fund (Wholesale Cash Fund) ARSN 111 933 361, to the value of \$441,803.

## What is the maximum loan amount for any one borrower?

The maximum loan amount for any one borrower at the time that the loan is taken out is:

- the greater of 7.5% of funds under management or \$15m for High Yield Mortgage Trust; and
- 5% of funds under management for Mortgage Income Trust.

## What is the method of assessing borrowers capacity to service loans?

The capacity to service the debt is assessed on financial information provided by the borrower and/or guarantor for at least two financial periods. Borrowers are generally required to meet a minimum interest coverage ratio of 1.25 times.

## What is the policy on revaluing security properties when a loan is rolled over?

A formal rollover of an existing loan facility requires full financial analysis and revaluation of the security property.

## What is the approach to taking security on lending by the scheme?

All loans in the underlying Trusts' portfolios have been secured by a registered first mortgage.

## Benchmark 4: Related party transactions

*This benchmark requires responsible entities to disclose their approach to related party transactions, and any policy regarding related party lending including any details of such transactions.*

We meet this benchmark. All transactions we enter into in relation to the Fund, including those with related parties, are on arm's length commercial terms. Entities within the Australian Unity group may provide registry, accounting and tax services to the Fund for fees charged at a commercial rate.

Policies and guidelines are in place to manage the risk of any actual or perceived conflict of interest as a result of a related party transaction. Related party transactions with Australian Unity group entities are reviewed and approved by senior management with clearly identified governance policies and guidelines. All decisions in relation to conflicts of interest and all related party transactions are documented. Policies and guidelines are generally reviewed annually.

Details of material related party transactions are reported yearly as part of the Fund's audited annual accounts.

The following table details how the Fund's total funds under management are invested in any related parties.

| Related Party                              | Proportion of FUM invested in Related Party (%) |
|--|---|
| Australian Unity Wholesale Cash Fund       | 3.84  |
| Australian Unity Mortgage Income Trust     | 24.44   |
| Australian Unity High Yield Mortgage Trust | 71.34   |

The Wholesale Cash Fund is a registered managed investment scheme operated by Australian Unity Funds Management Limited. This fund acts as a centralised cash management vehicle for a number of Australian Unity's investment products. The Wholesale Cash Fund invests in cash and cash equivalents primarily and may also invest in fixed interest securities. It aims to provide regular income with capital security over the short term.

The Fund does not make and has no intention to make, guarantee or secure, directly or indirectly, any loans to related parties.

## Benchmark 5: Valuation policy

*This benchmark for property valuations requires responsible entities to establish a panel of valuers, and to ensure that no one valuer conducts more than a third of the valuation work.*

We do not meet this benchmark for the Mortgage Income Trust or High Yield Mortgage Trust. Our Credit Lending Guidelines stipulate that no valuer can undertake two consecutive valuations. This requirement ensures that valuation work is rotated within the portfolio over a period of time, however presently we do not ensure that no one valuer conducts more than a third of the valuation work.

We are able to confirm that all valuations are conducted by qualified independent valuers in accordance with industry standards. Valuations have a three month currency from the date of the report and settlement must occur within this time frame. Furthermore, all security properties are revalued at least each three years. These requirements are no different for a loan, where the security property exceeds 5% of funds under management for the Mortgage Income Trust and 7.5% of funds under management for the High Yield Mortgage Trust.

Security properties are valued on the following basis:

- 'as is' basis and 'as if complete' basis for property development loans, such as those in High Yield Mortgage trust; and
- 'as is' basis for all other property loans (e.g. established buildings), such as those in Mortgage Income Trust.



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What are the property valuations for loans that are 5% or more of the loan book?

| High Yield Mortgage Trust |                |                          |
|---------------------------|----------------|--------------------------|
| Loan Balance (\$m)        | % of loan book | Property Valuation (\$m) |
| 15.86                     | 7.64           | 24.03                    |
| 11.42                     | 5.51           | 14.24                    |

| Mortgage Income Trust |                |                          |
|-----------------------|----------------|--------------------------|
| Loan Balance (\$m)    | % of loan book | Property Valuation (\$m) |
| 50.41                 | 9.67           | 76.37                    |
| 30.33                 | 5.82           | 43.33                    |

## Benchmark 6: Lending principles - loan-to-value ratios

*This benchmark for loan-to-valuation ratios requires, where loans relate to property development, that responsible entities maintain a 70% ratio on the basis of the latest 'as if complete' valuation. In all other cases, 80% should be maintained on the basis of the latest market valuation.*

We do not meet this benchmark in respect of the High Yield Mortgage Trust. Consistent with the underlying Trusts' strategy, and previous disclosure to investors, our Credit Lending Guidelines permit us to advance loans up to a maximum of:

- 85% of loan-to-value ratio on the basis of 'as if complete' valuations for property development loans, such as those in High Yield Mortgage Trust; and
- 70% of loan-to-value ratio on the basis of 'as is' valuations for all other property loans (e.g. established buildings), such those in Mortgage Income Trust.

There is one loan with a loan to value ratio over 85% in the High Yield Mortgage Trust and one loan with a loan to value ratio over 70% in the Mortgage Income Trust. The loan-to-value ratio is based on the valuation amount as advised by an independent registered valuer.

## Benchmark 7: Distribution practices

*This benchmark requires responsible entities that make or forecast to make distributions to disclose the source of the distribution or any forecast distributions.*

We meet this benchmark as all distributions, including forecast distributions, are sourced from income.

## Benchmark 8: Withdrawal arrangements

*This benchmark requires responsible entities to disclose the maximum withdrawal period, any significant limitations, approach and funding arrangements allowed under the Fund's constitution for investor withdrawals.*

We meet this benchmark as on a periodic basis, at least quarterly, we will assess the liquid assets of the Fund and we may make a withdrawal offer if there are sufficient liquid assets available to support a withdrawal offer. We may make additional withdrawal offers at any time during the year.

On an ongoing basis we assess the liquid assets of the underlying Trusts and make withdrawals available where there are sufficient liquid assets available to support a withdrawal. We may make additional amounts available for withdrawal at any time during the year.

The withdrawal offer will be made in writing to all investors. The withdrawal offer will specify the period during which the offer will remain open (at least 21 days after the offer is made); the amount of money available to meet withdrawal requests or the amount available for withdrawal; and the process for completing a withdrawal request.

If an investor wishes to take up the withdrawal offer, they must notify us in writing by making a withdrawal request by the closing date of the offer. We will not make any payments to investors until after the closing date of the offer. The unit price investors will receive will be the effective unit price on the closing date of the offer.

Subject to the terms of the withdrawal offer, any withdrawal requests (up to the amount of acceptance) are required to be paid within 21 days of the closing date of the offer. However, we will endeavour to make payments as soon as possible after the withdrawal offer closes. Under a withdrawal offer, investors may request to withdraw part or all of their investment in the Fund.

## Contact us

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## Important information

The Discovery Investment Services Core Income Fund is issued by Australian Unity Funds Management Limited ABN 60 071 497 115, AFS Licence No. 234454. This information is intended only to provide a general update on the investment particulars of this financial product. You should refer to the current Supplementary Product Disclosure Statement (dated 23 October 2008) and the Product Disclosure Statement (dated 30 April 2008) if you wish to know more about this product. Copies of these documents can be obtained at [www.discoveryinvestments.com.au](http://www.discoveryinvestments.com.au). The information provided here was current at the time of publication only.