



Discovery Investment Services Core Income Fund

Delivering an attractive balance of risk and return, the Discovery Investment Services Core Income Fund is a blend of traditional mortgage trust returns, with the security of a well diversified portfolio of first mortgages.

Retail one-year return

2.93%*

Wholesale one-year return

3.55%*

Key benefits

- Attractive income returns
- Monthly income payments
- Stable unit price
- Specialist mortgage asset managers
- Diversification of geographic location, property sector, size, loan type and maturity profile
- Secured by registered first mortgages
- Flexibility to invest in fixed interest and property to diversify sector and income risk

What does the fund invest in?

The Fund will use investor contributions primarily to acquire units in a blended portfolio of various Underlying Funds focused predominantly on the mortgage sector, including:

- Australian Unity High Yield Mortgage Trust (HYMT)
- Australian Unity Mortgage Income Trust (MIT)

These Underlying Funds primarily invest in a portfolio of loans secured by registered first mortgages over quality retail, commercial, investment residential, industrial property and other income producing assets. The HYMT also invests in vacant land and specialised loans such as service stations, motels and cinemas.

There are currently 121 mortgagors within the HYMT representing 136 loan accounts. Twenty-four loan accounts were in arrears as at 30 June 2010, representing 17.85% of net assets. The current average loan to valuation ratio is 71.0%.

There are currently 202 mortgagors within the MIT representing 241 loan accounts. Five loan accounts were in arrears as at 30 June 2010, representing 1.42% of net assets. The current average loan to valuation ratio is 61.3%.

Fund investments

	%
HYMT	74.59
MIT	24.01
Cash & short term securities	1.40
Total	100.00

Fund performance[†]

Retail units	1 mth %	3 mths %	6 mths %	1 year %	2 years % p.a.	3 years % p.a.	Since Inception [#] %
Total return	0.25	0.74	1.49	2.93	3.99	5.03	5.32
Wholesale units	1 mth %	3 mths %	6 mths %	1 year %	2 years % p.a.	3 years % p.a.	Since Inception [#] %
Total return	0.30	0.89	1.79	3.55	4.61	5.66	5.94

[†] Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

[#] Inception date for performance calculations is 31 December 2006.

* One year return, assuming reinvestment of distributions.



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Sector allocation of the underlying fund

Asset class	Actual HYMT %	Actual MIT %
Registered first mortgages	72.79	82.26
Cash and short term securities	27.21	17.74
Total	100.00	100.00

Arrears

HYMT Days in arrears	Number of loans	% of fund size
31 - 60	1	0.35
61 - 90	0	0.00
> 90	23	17.50
Total	24	17.85

MIT Days in arrears	Number of loans	% of fund size
31 - 60	0	0.00
61 - 90	0	0.00
> 90	5	1.42
Total	5	1.42

Geographic allocation of the underlying fund

State	Actual HYMT %	Actual MIT %
NSW / ACT	58.22	37.76
VIC / TAS	19.54	25.11
QLD / NT	18.71	34.05
WA	3.53	2.33
SA	0.00	0.75
Total	100.00	100.00

Interest rate type of the underlying fund

Type	Actual HYMT %	Actual MIT %
Fixed Rate Loans	7.43	28.46
Variable Rate Loans	92.57	71.54
Total	100.00	100.00

Fund snapshot

	Retail units	Wholesale units
Inception date	11 December 2006	11 December 2006
Minimum initial investment	\$25,000	IDPS/ MasterFund minimums will apply
Entry fee	Nil	Nil
Exit fee	Nil	Nil
MER	1.70%	1.10%
Buy/sell spread	Nil	Nil
Income distributions	Monthly	Monthly
Adviser commission	0.495% pa	Nil

Mortgage selection criteria	AUI High Yield Mortgage Trust	AUI Mortgage Income Trust
Total assets in registered first mortgages	Up to 100%	Up to 90%
Maximum single loan exposure	No single loan amount to exceed the greater of \$10 million or 5% of net assets of the Fund.	No single loan amount to exceed 5% of net assets of the Fund.
Maximum Loan to Valuation Ratio (LVR)	85%	70%
Loans secured by income producing property	Yes, however, annual rents must be greater than 80% of annual interest payments.	
Loans secured by owner occupied property	Yes, however, borrowers must demonstrate strong repayment ability.	
Loans secured by vacant land	Yes, however, borrowers must pre-pay interest for the term of the loan.	No
Exposure to specialised securities	Yes, however, no single loan to valuation ratio for specialised securities to exceed 70%.	Yes, however, no single loan amount for specialised securities to exceed 1% of net assets.
Exposure to construction and development loans	Yes, however, borrowers must demonstrate an adequate level of pre-sales or lease commitments.	No



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Sector in review

The end of the financial year drew to a close another challenging 12 months for the mortgage trust sector. However, conditions for well-managed, conservative funds have been gradually improving throughout 2010.

Key issues facing the sector continued to be redemptions and the low level of new investor flows due to negative investor sentiment. As confidence starts to return to the sector during the new financial year, it would be expected that redemption demand will moderate.

The major challenge facing the high yield mortgage sector continues to be the management of defaulting accounts.

Term deposit rates offered by various banks, building societies and credit unions remain high, putting added competitive pressure on the sector.

The Reserve Bank of Australia (RBA) continued tightening monetary policy by raising the official cash rate by 0.50% during the quarter to 4.50%. Borrowers have absorbed the higher rates of interest and credit quality remains sound.

The improving economic environment experienced during the first half of 2010 has assisted in the sale of assets. As well, the improved conditions are expected to lead to a reduction in the overall level of defaults.

Despite improved conditions, borrowers within the high yield sector continue to find it difficult to refinance, especially if their assets are highly geared, consist of unimproved real estate, specialised assets or partially completed construction projects.

Underlying Funds in review

High Yield Mortgage Trust

Some key milestones include:

- Investment performance during the quarter remained stable.
- The Fund's mortgage allocation was 72.79% and 92.57% of the mortgage portfolio was in variable rate loans.
- As at 30 June, there were 24 loan accounts more than thirty days in arrears representing 17.85% of funds under management.
- The Fund is undertaking a sales program for the remainder of 2010 with the aim of reducing the level of arrears within the Fund.
- Of the loan accounts that have reached default, six properties were under contract for sale at the end of the quarter.
- Some of the other assets in default are considered difficult to sell or lease, so we intend to release these properties as market conditions improve.
- Pleasingly, the Fund's lending team has managed the maturing loan accounts successfully during the past 12 months.

Mortgage Income Trust

Key milestones include:

- Investment performance steadily improved during the quarter as the Fund has extended the terms of a limited number of loans at higher credit margins. In addition, the variable rate loan mortgages (71.5% of the Fund's mortgage allocation) benefited from the recent interest rate rises.
- As at 30 June, there were five accounts more than 30 days in arrears, representing 1.42% of funds under management. To maintain investors' capital, our approach is to evaluate the immediate sale of the security property or lease the property until market conditions become more favourable.
- Of the five accounts in arrears, we expect to sell two of the properties during the next quarter and lease one of them within the next four months.
- Variable rate loans were repriced on 1 May with the next reprice due on 1 August 2010.

Outlook

The Fund is presently providing investors with quarterly withdrawal arrangements and this is likely to continue over the medium term.

Our lending teams remain in place in Melbourne, Sydney and Brisbane ensuring sound management of our existing mortgage portfolio. The key focus is two-fold; management of the existing mortgage book and managing down the level of current arrears and defaulting loan accounts.

Our aim is to reduce the level of arrears during the remainder of 2010.

Commentary courtesy of Australian Unity Investments. 'Australian Unity Investments' is a general description which covers entities within the Australian Unity Group undertaking investment activities, and includes Australian Unity Funds Management.

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For more information or full product details, please refer to the Product Disclosure Statement.

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