

A horizontal band featuring a topographic map with various shades of red and orange, representing terrain contours. The word "IRONSTONE" is overlaid on this band in white, uppercase letters. A thin white vertical line is positioned to the right of the text, and a thin white horizontal line passes through the middle of the band.

IRONSTONE

Australian residential property – investing on solid ground

Presentation to Portfolio Construction Conference

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August 2009

Presentation outline

- Introduction
- Residential property
 - attractive fundamentals for investors
 - portfolio construction – asset allocation benefits
- Access to this asset class - fund managers vs DIY
- Ironstone Residential Fund

Australian residential property – attractive fundamentals

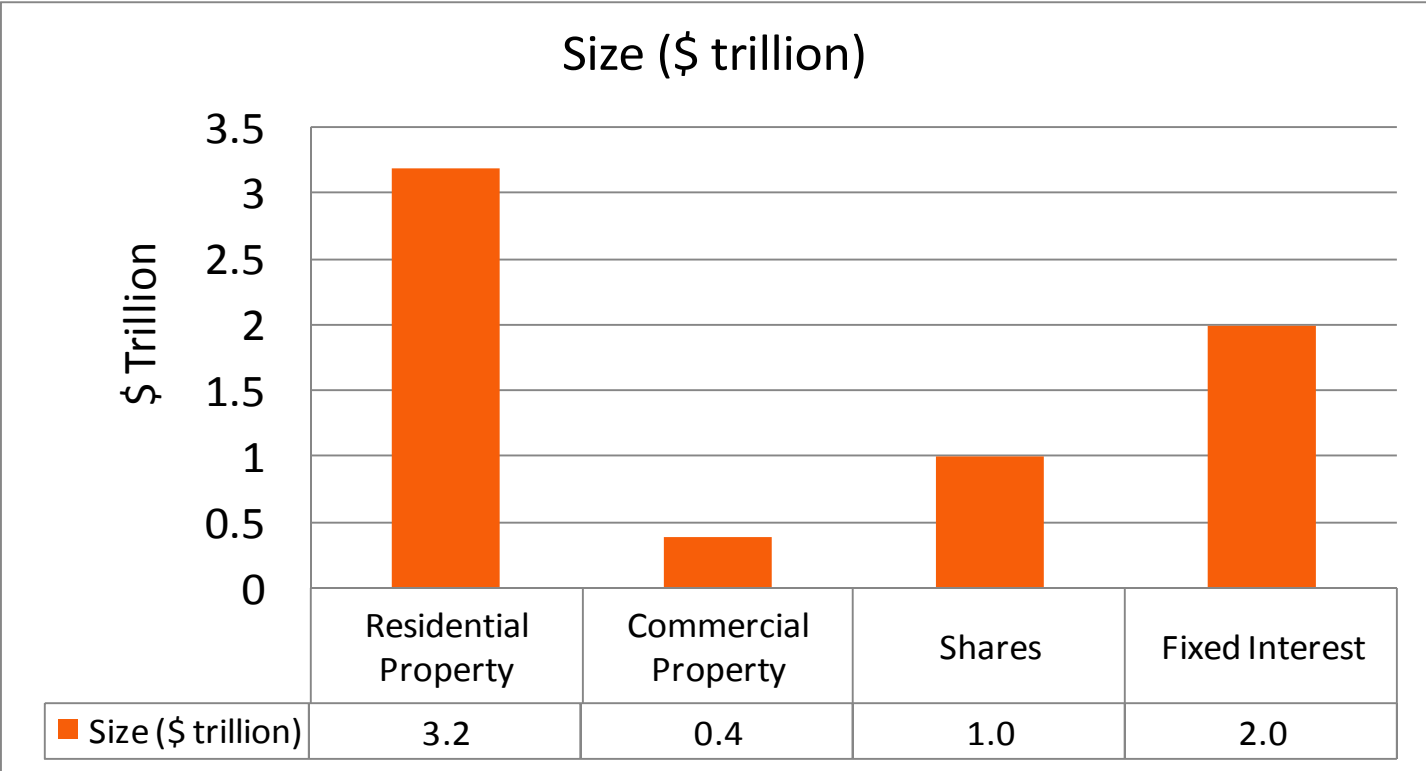
Research paper - 9 Facts

1. Size
2. Inflation hedged investment returns
3. Favourable risk and return trade-off
4. Negative returns less likely
5. Low correlation, largely independent performance
6. Inefficient market creates opportunities
7. Compelling fundamentals going forward
8. ASX Residential Property Index
9. Tax effectiveness

Fact # 1 – Size

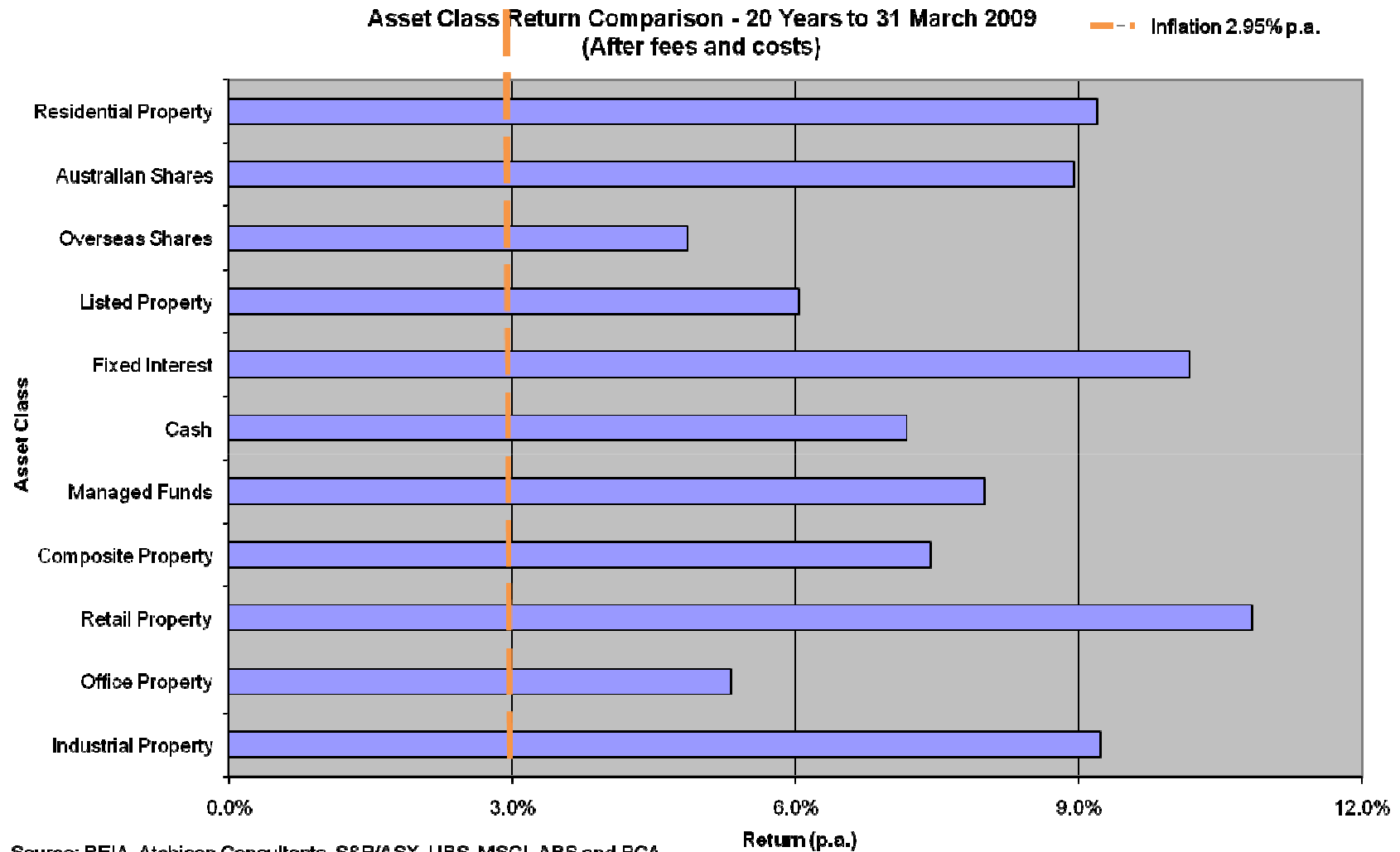
Residential property is the largest asset class in Australia

- 70% owner occupier
- 95% owned by individuals



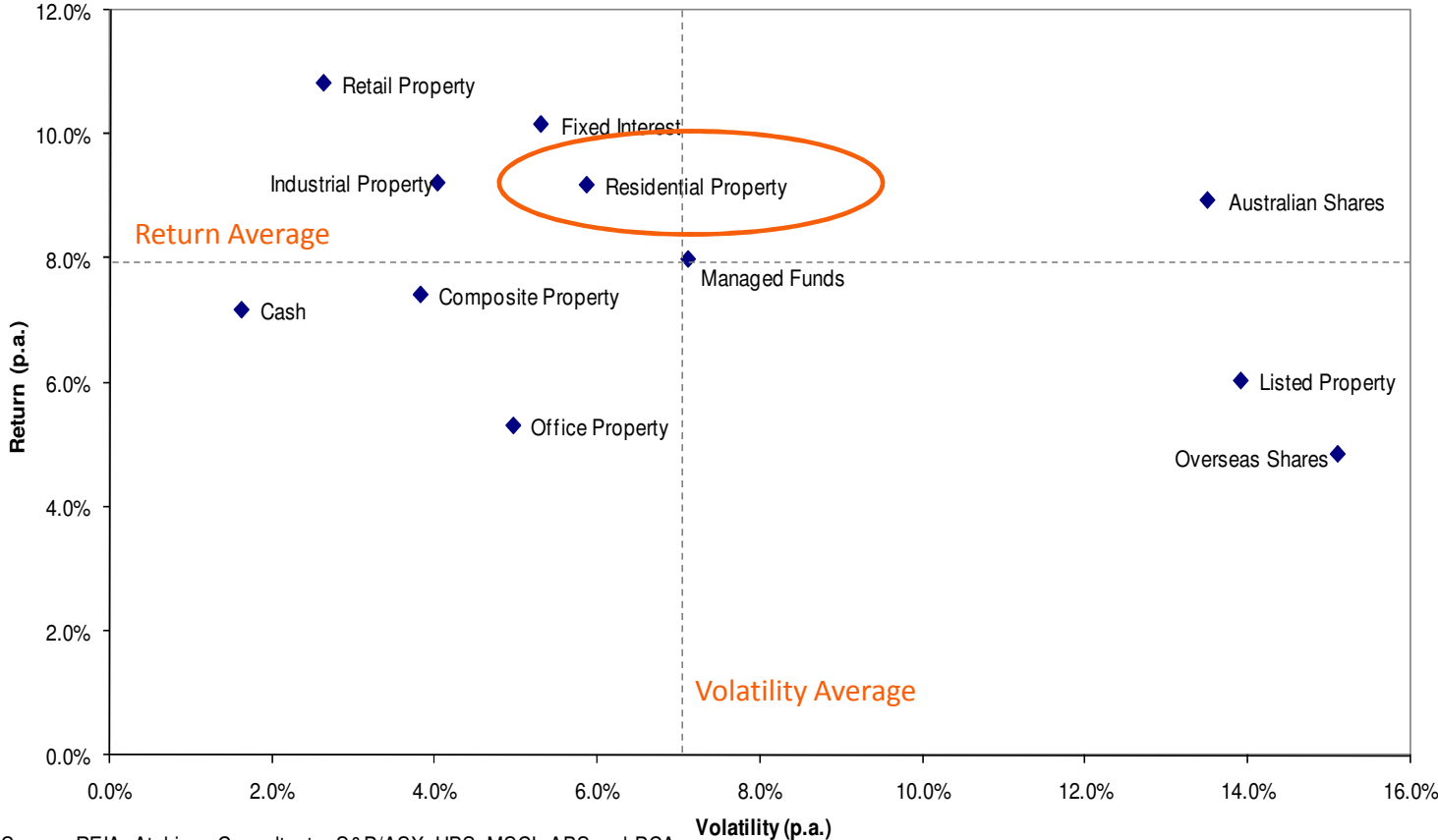
Sources: Estimates by Atchison Consultants, S&P, PIR – July 2009

Fact # 2 – Inflation hedged investment returns



Fact # 3 – Favourable risk and return trade-off

Asset Class Returns and Volatilities - 20 Years to 31 March 2009
(After fees and costs)



Source: REIA, Atchison Consultants, S&P/ASX, UBS, MSCI, ABS and PCA



Fact # 4 – Negative return probability lower

Probability of a Negative Return over Rolling 4 Quarter Periods
– 20 years to 31 March 2009

Asset Class	Probability
Residential Property	2.5%
Australian Shares	22.5%
Overseas Shares	30.0%
Listed Property	13.8%
Fixed Interest	5.0%
Cash	0.0%
Managed Funds	16.3%
Composite Property	16.3%
Retail Property	1.3%
Office Property	18.8%
Industrial Property	13.8%

Source: REIA, Atchison Consultants, S&P/ASX, UBS, MSCI & PCA

Fact # 5 – Correlation benefits

A low correlation with other asset classes, residential property provides broad diversification benefits

Correlations by Asset Class – 20 years to 31 March 2009

	Australian shares	Overseas shares	Listed property	Direct property	Residential property	Australian fixed interest	Overseas fixed interest	Cash
Australian shares	1.00							
Overseas shares	0.56	1.00						
Listed property	0.56	0.35	1.00					
Direct property	0.13	0.04	0.20	1.00				
Residential property	0.14	-0.01	0.16	0.29	1.00			
Australian fixed interest	-0.05	0.13	0.14	-0.45	-0.23	1.00		
Overseas fixed interest	-0.11	0.12	0.07	-0.32	-0.21	0.81	1.00	
Cash	-0.06	-0.01	0.02	-0.17	-0.26	0.44	0.36	1.00

1.0 = perfectly correlated

-1.0 = perfectly uncorrelated

Source: Atchison Consultants

Fact # 6 – An inefficient market creates opportunity

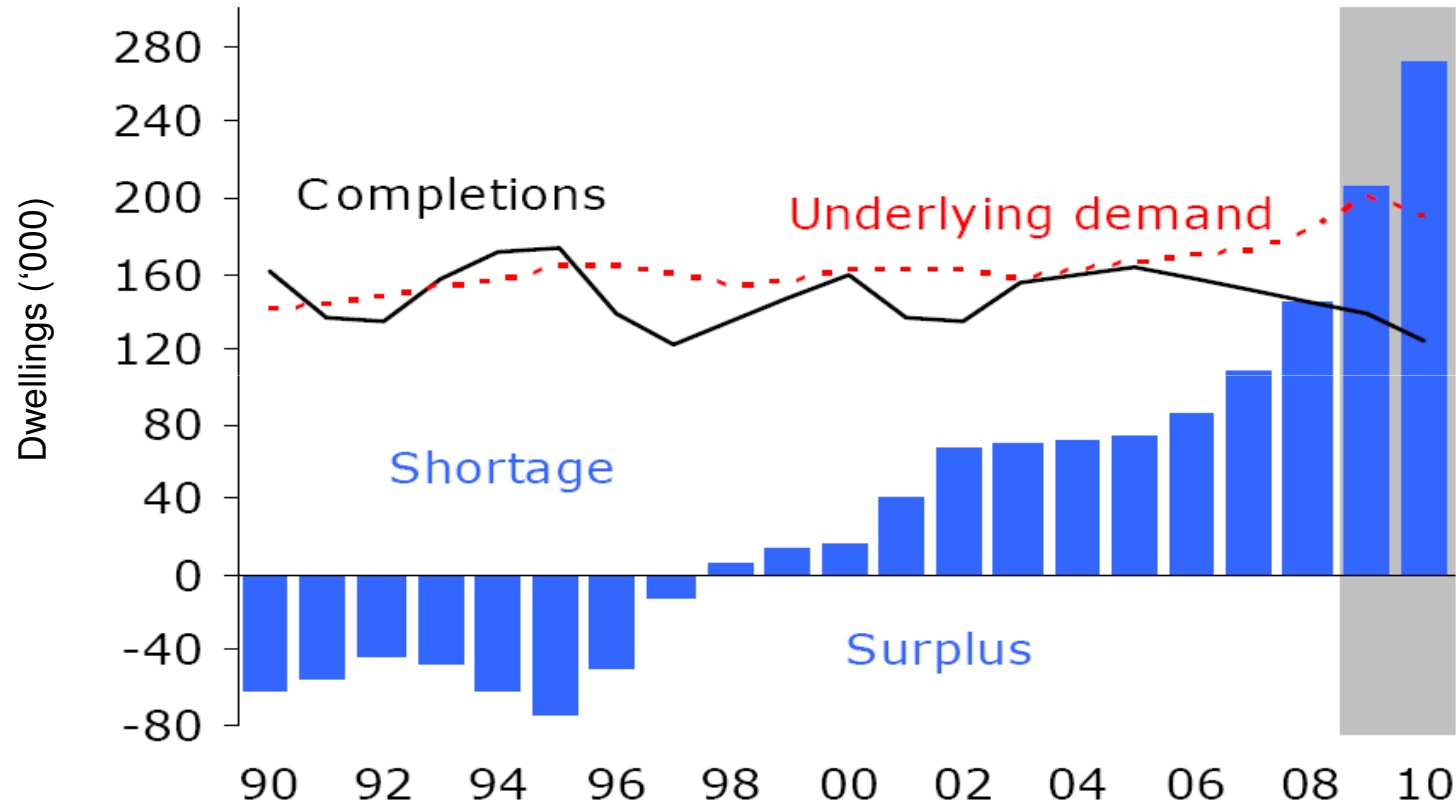
- Australia has very high home ownership rate of 70%*. As a result:
 - The sector is highly fragmented
 - Controlled by individuals/amateurs
- Most individuals only transact a few times in their lives – therefore not highly skilled at research, analysis, selection, negotiation, finance etc
- Emotional vs investment transaction
- Life events can result in forced sales with compromised investment outcomes – death, divorce, financial hardship
- Professional property buyers can have the advantage of ‘information’ such as “off market” sales or vendor situation

* Housing Occupancy and Costs, ABS 4130.0.55.001 2006

Fact #7 – Compelling fundamentals going forward

Supply side: completions declining due to developer economics and uncertainty

Demand side: population growth highest in 4 decades; historically low interest rates



Source: ANZ Housing Snapshot June 2009; ABS; RBA; Residex; RP Data; REIA

Fact # 8 – ASX Residential Property Index

- ASX has recognised the importance of the residential property sector
- Recently announced the intention to develop derivatives
- Will promote asset class in its own right
- Index approach has merit but active approach has capacity to deliver above index returns to investors as active management allows cherry picking of best assets
- Potential hedging tool

Fact # 9 – Tax effectiveness

- Investors in a residential property managed fund can accrue similar tax benefits as DIY investors

Item	Fund Deductible	Individual Deductible
Cash Items		
Interest	✓	✓
Borrowing Costs	✓	✓
Repairs, Rates, Agent Fees	✓	✓
Non-Cash Items		
Depreciation	✓	✓
Capital Allowances	✓	✓
Net Loss (deductible against other income) <i>Source: HLB Mann Judd</i>	carried forward <i>subject to trust loss rules</i>	✓

- Unit holders can negatively gear into a residential property managed fund - similar to DIY investors

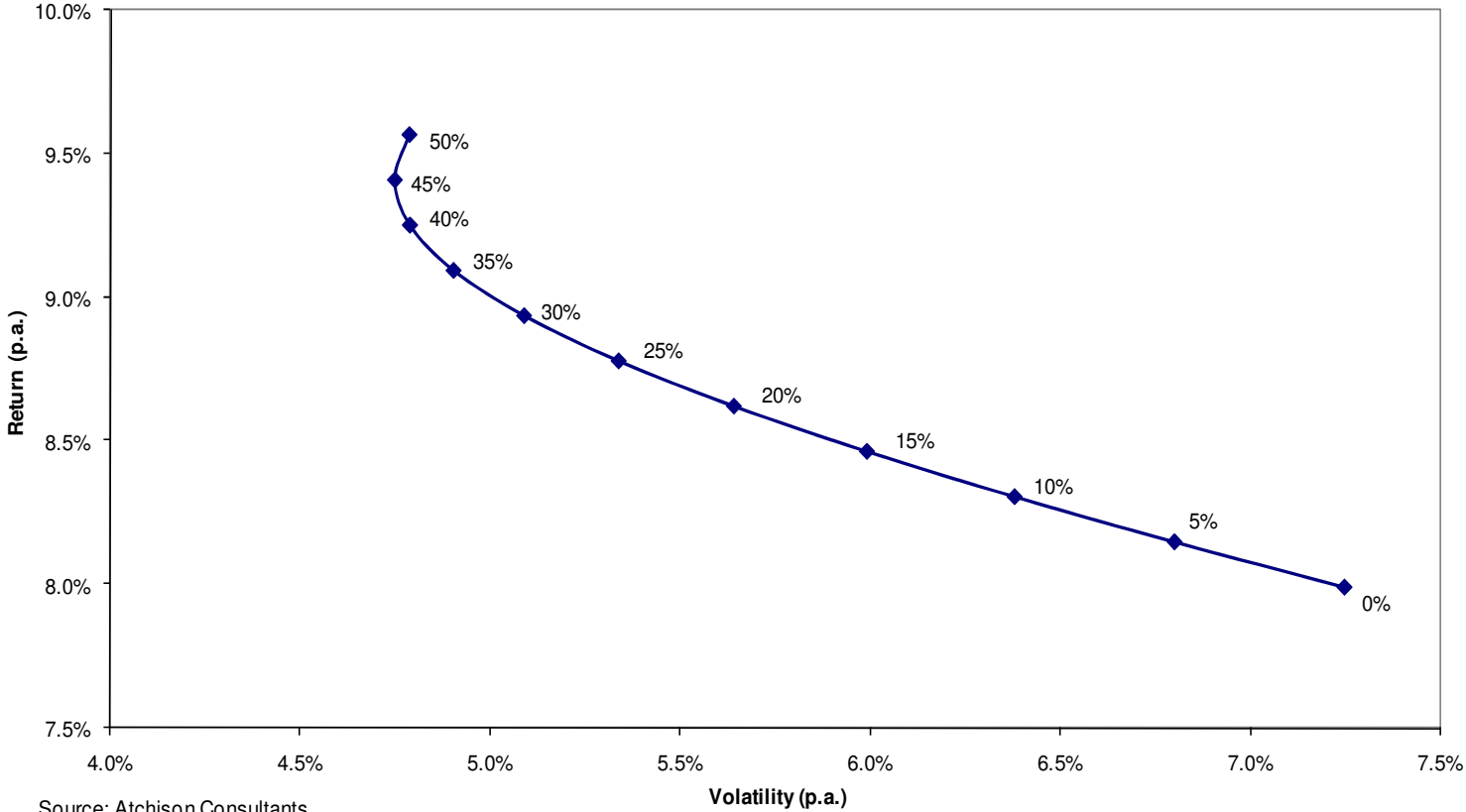
Portfolio construction – asset allocation benefits

- 3 key issues for investors in this asset class
 - Owning your own home vs an allocation in a diversified portfolio
 - “Australians already own too much property – the plaintive refrain of the uninformed” -*Monique & Richard Wakelin, Streets Ahead, 2007*
 - Is the house you live in an investment or simply a roof over your head?
 - Growth or yield?
 - Historically rental income (yield) has not been a key reason to invest in residential property
 - Residential property has a number of ongoing operating expenses (rates, interest etc) and this dictates that through the power of compounded growth residential property should have a growth focus, with some yield over the longer term
 - The impact of including residential property in a diversified portfolio

Portfolio construction

Risk & return impact of residential property in a diversified portfolio over 20 years

Risk Return Impact of Residential Property in a Diversified Portfolio
20 years to 31 March 2009

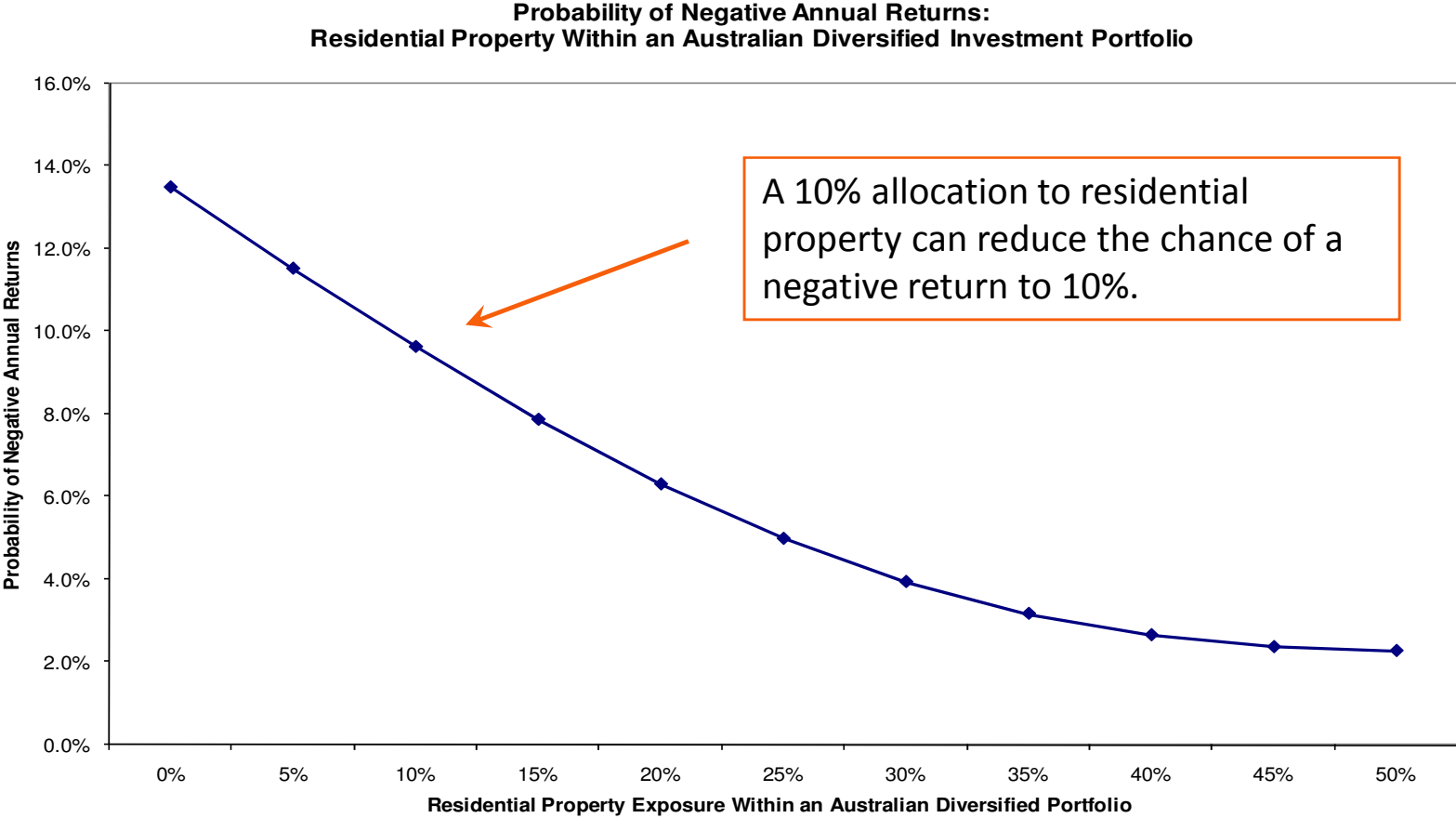


Source: Atchison Consultants



Portfolio construction

Probability of negative returns decreases by including residential property



Source: Atchison Consultants



Access to this asset class – fund managers vs DIY

- The comment “buy residential property” has a number of consequences for direct investors
 - Upfront capital plus debt servicing
 - Administrative burdens of managing residential property
 - Few individual investors achieve portfolio diversification
- Professional fund managers in this sector can offer:
 - A disciplined and unemotional approach
 - Professional search tools & techniques
 - Diversification beyond the reach of most investors
 - Maintenance of moderate gearing levels
 - Focus on initial risk buffer buy acquiring assets below market value
 - Active ongoing management of portfolio creates value add to each asset

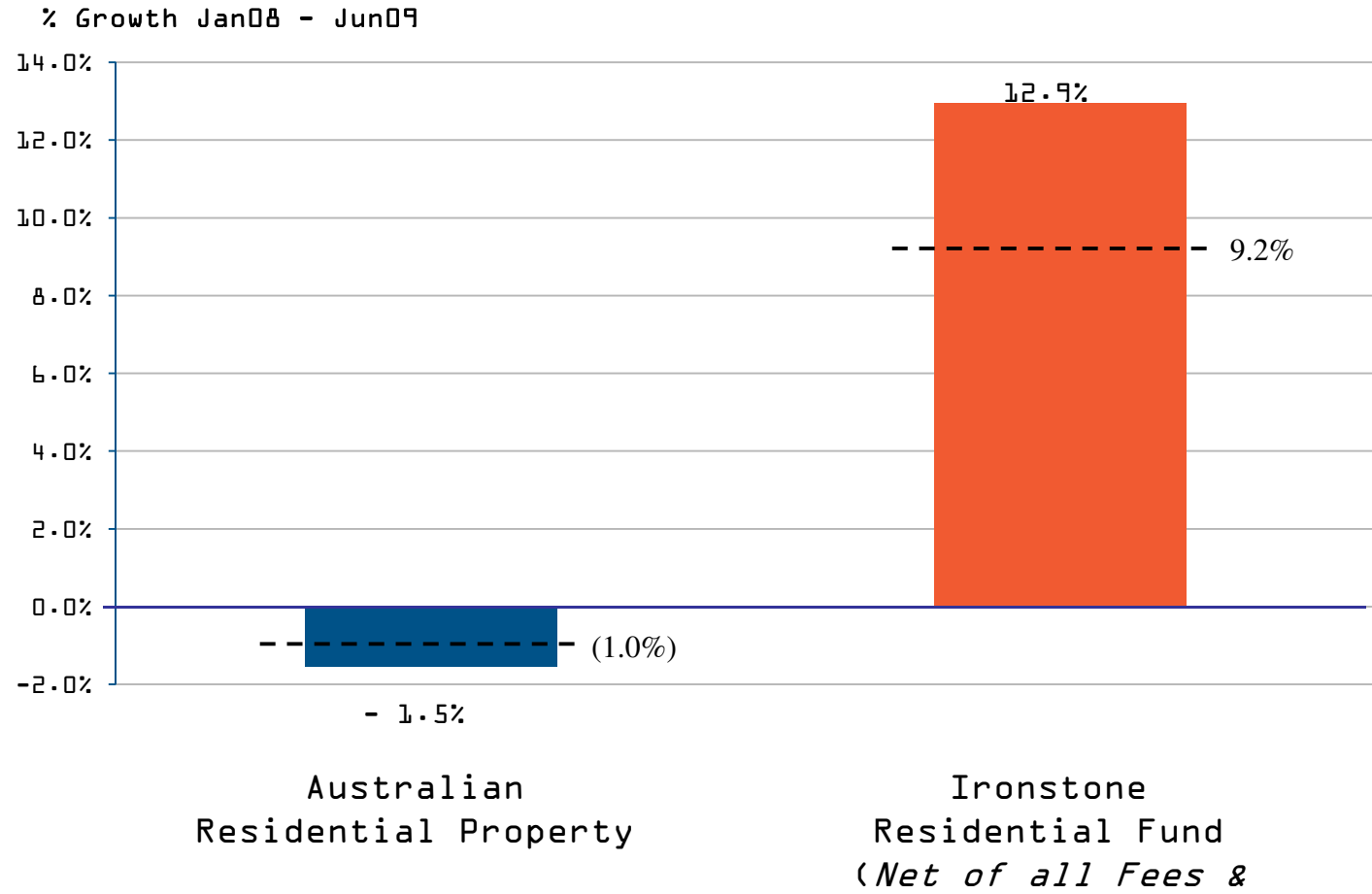
The Ironstone Residential Fund - introduction

Key metric	Ironstone Residential Fund
Fund objective	To provide investors with geared exposure to the Australian residential property market with the aim of outperforming the major residential property markets over the long term.
Investment style	Conservative investment parameters (acquisition selection, gearing, valuation etc) with active management overlay
Investment strategy	Buy quality houses and units with potential for high growth, yield, and the opportunity to add value – and hold for the long term
Universe	>75% of assets to be within 10km ring of Australian capital city
Benchmark	Official ABS House Price Index 6416.0 – released quarterly
Gearing policy	<ul style="list-style-type: none">• Targeted long term gearing level of 65%• Actively managed through cycle, as at June 2009 was 37.7%
ICR	1.75%

Ironstone Residential Fund – performance

(Jan 08 – Jun 09)

----- = average annualised growth



NOTE: The value of the Fund, and thus the unit price, can go up and down. Past performance is not necessarily indicative of future performance of the Fund. (Based on redemption prices)



Ironstone's competitive advantage

- **Fund structure** – Managed Investment Scheme registered with ASIC, independent custodian of assets, boutique firm
- **Acquisition edge** - rigorous screening process
- **Value add** – pre and post purchase
- **Information advantage** – economies of scale with data, superior access to real estate networks
- **Valuation methodology** – industry standard
- **Track record & fund performance**

The background is a solid orange color with a pattern of white, irregular, wavy lines that resemble topographic contour lines on a map. These lines are scattered across the entire area, creating a textured effect.

“Invest on Solid Ground.”

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