



resolution**CAPITAL**
real estate securities solutions

**RESOLUTION CAPITAL CORE PLUS PROPERTY
SECURITIES FUND**

DECEMBER 2010
QUARTERLY INVESTMENT REPORT



AUSTRALIAN REAL ESTATE SECURITIES

Fund Investment Performance

The Resolution Capital Core Plus Property Securities Fund outperformed the S&P/ASX 300 AREIT Accumulation Index by 30 basis points for quarter ending 31 December 2010.

Period Ending 31 December 2010*

	Quarter %	1 Year %	2 Year %	Since Inception [#] %
Fund	-0.87	0.92	6.93	-9.07
Benchmark	-1.17	-0.68	4.31	-13.23
Difference	0.30	1.60	2.62	4.16

*Returns are expressed after deducting investment management costs.

[#] 30 September 2008

Resolution Capital Core Plus Property Securities Fund Unit Price

	Entry	Exit
31 December 2010	\$0.7223	\$0.7179
30 September 2010	\$0.7304	\$0.7260

Market Performance

Market Overview

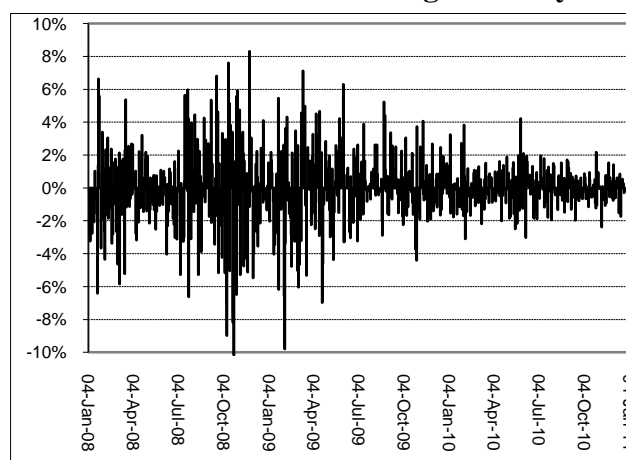
	31 Dec 2010	30 Sep 2010	Quarterly Total Return
S&P/ASX 300 (GICS) AREIT Accumulation Index	19,175	19,402	-1.2%
S&P/ASX 300 Index	34,560	33,023	4.7%
UBS Global Investors Index AUD (Hedged)	1,192	1,116	6.8%
UBS Global Investors Index AUD (Unhedged)	919	910	1.0%
10 Year Bonds	5.51%	4.97%	
90 Day Bills	4.96%	4.89%	
AUD/USD	\$1.02	\$0.97	5.2%

Commentary

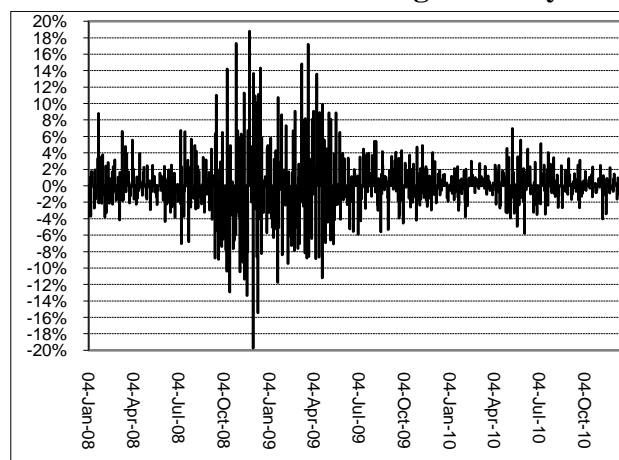
The S&P/ASX 300 AREIT Accumulation Index produced a total return of -1.2% for the three months ended 31 December 2010. In local currency terms, the AREIT return lagged many other investment classes including domestic and global equities benchmarks as well as Global REITs.

As the charts below highlights, the appreciable reduction in REIT price volatility continued during the December quarter. Among other factors, this partly reflects stabilised debt markets and consequent improving liquidity in real estate markets, thereby alleviating pressure on REITs as a source of liquidity within real estate exposures.

AREIT % Price Change Per Day



US REIT % Price Change Per Day



Source: Bloomberg

Real estate markets, including REITs, are gradually adjusting to the stabilising capital market and economic conditions although, based on AREIT's dismal 2010 performance, some better than others. In this more assured environment, REIT management focus has shifted from the challenge of debt refinance, including survival, to growth strategies.

At most levels, activity within the global real estate universe is increasing. This is reflected in: REIT equity issuance including IPOs, property transactions, leasing activity, mergers and acquisitions as well as tentative signs of new property development in select areas.

Unfortunately for hardy AREIT investors, a confluence of external events and poor management decisions within the sector continue to retard performance. Whilst not all management teams were guilty, the stench of the poor corporate governance is weighing on the entire sector. External to the sector, the strength of the resources sector is driving up domestic interest rates, further than we felt

necessary, but the flow-on benefits from the resources boom is not translating through to tenant demand where AREITs have much of their exposure, principally NSW and to a lesser extent Victoria.

Below we discuss a number of the factors relating principally to real estate and AREITs which weighed on performance over the quarter.

Real Estate Operating Conditions

Globally, most commercial real estate markets experienced improving operating conditions during the period with upward pressure on market rent levels, particularly in the major cities.

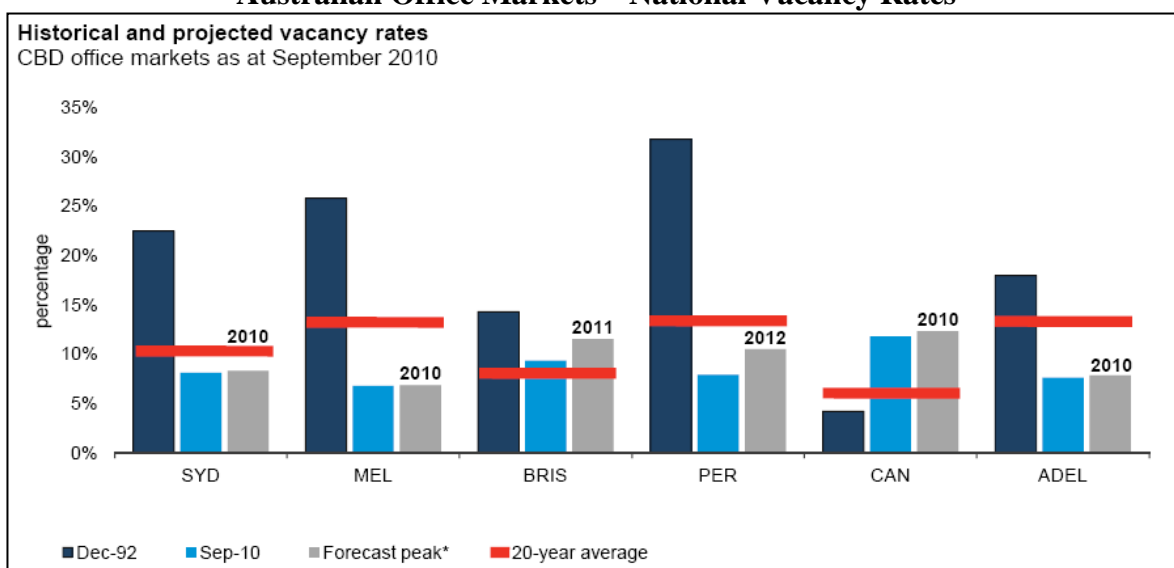
With limited supply of new space, commercial real estate operating conditions are beginning to trend positive with signs of a sustained improvement in tenant demand and generally low levels of vacancy.

By way of contrast, whilst far from depressed, the Australian commercial property market is more subdued. On the positive side, most capital cities continue to experience vacancy levels well below historically comparable periods and in many cases at or below long term averages.

Nevertheless, tenant demand remains moderate, largely thanks to a more constrained and frugal local consumer: the savings rate reached 10% in the latter part of the year. We attribute this to the run off of government stimulus packages last year together with higher interest rates and, perhaps, the urge to save for overseas holidays thanks to the strength of the A\$. Exacerbating this situation for local retailers is the growing internet shopping trend which we discuss later in the report.

Office markets are solid, supply is being generated to meet the resources sector demands in Perth and Brisbane but there are minimal signs of an impending imbalance. The national vacancy rate is holding below 10%. For Sydney, a test will come over the next 3-7 years as it digests the Barangaroo project which will add up to 300,000 sq m of office space (approximately 5 Australia Square office towers) to what will be an extension of the existing central business district.

Australian Office Markets – National Vacancy Rates



*Peak vacancy year varies between markets
Source: JLL data & CFSGAM Research Forecasts

During the quarter talk of a residential bubble in Australia impacted the performance of REITs such as Stockland Trust Group (-3.2% total return) and Mirvac Group (-6.4%) which have substantial residential development businesses. We agree that Australian residential prices are “toppy” but there are several factors which count against an extreme correction including:

- Australia’s monetary policy settings have deliberately been designed to curtail excessive investment in this area.
- The banking system requires substantial equity and imposes strict commitments on borrowers which acts against owners “dumping” their homes.
- High home prices is a lack of supply issue, Australia’s high population growth is outstripping supply due to planning constraints which will take years to address.

Real Estate Transactional Activity

Many AREITs continued the latest strategy of focusing on Australian real estate by selling down offshore assets.

After a period of GFC induced inertia, buyers now appear increasingly willing and able to cross the buy/sell spread for quality property. This comes from increased confidence that rental income streams are robust, whilst lower borrowing costs and improved capital availability has resulted in improving property transactional activity.

It is worth noting that vacancy levels, notably in prime office markets, are generally lower than has previously been the case after periods of economic and or financial turmoil. Much of this has to do with the relatively low levels of speculative commercial property development during the asset price bubble between 2004 & 2007. As a consequence, unlike the early 90’s, banks are not lumbered with non-performing commercial real estate loans which in turn generally results in generous tenant lease deals and fire sales at depressed prices. Hence, combined with the low global interest rate environment, distressed quality property at prices well below replacement cost is hard to secure. The bargain buying window created by the GFC was not open very long and regardless, with weak capital structures, few AREITs were in any position to take advantage.

During the quarter demand for high quality real estate was evident in a number of major transactions. The most significant buyers include the REITs together with Sovereign Wealth Funds including those from China, Norway, Singapore, Korea and Canada which require minimal debt to fund the acquisitions.

Westfield sold a 50% interest for A\$1.425bn in its London Stratford City development to two pensions funds. This transaction will result in a A\$490m valuation uplift (partly upon completion) and highlights a remarkable development profit from a project commenced on the eve of the financial crisis and which will not be completed until the end of 2011.

We have listed several of the quarter’s major global real estate transactions in Appendix 1.

Nevertheless, improved real estate investment and operating conditions are not being experienced by all. Compared with pre-GFC activity, credit for real estate investment is more discerning, imposing higher borrowing margins and more equity for lower quality real estate. As a consequence of more discerning buyers and their generally more disciplined capital providers, we believe markets are undergoing a reversal of the yield compression evident in much of the decade up to 2007. For want of a better term, we are seeing “yield decompression” – the gap between low and

high grade real estate is widening. This trend is being exacerbated by the bifurcation in tenant demand as tenants gravitate to better grade, better located property.

Corporate Activity

The dearth of large scale direct buying opportunities is encouraging merger and acquisition activity within the REIT sector.

In Australia, Goodman Group (GMG) confirmed its bid for ING Industrial but at a price below its initial indication. With GMG controlling almost 20% of the stock, and with the likely support from ING which is being paid an additional AUD\$22.5 million to help facilitate a smooth transition, we believe minority interests stand little chance of achieving fair value. Not only is it at a discount to the stated NTA of \$0.56, the bid price of \$0.53 per unit fails to recognise the significant stamp duty savings for Goodman, the quality of the portfolio (which would be challenging to replicate within a short to medium period of time) and the fact that the asset values are arguably at a cyclical low (the average cap rate used in the NTA is 8.43%).

The clean-up of smaller AREITs continued with take-over bids launched for ING Healthcare and Challenger Wine Trust. Centro also announced that it has called for expressions of interest in its businesses and assets.

Most AREIT takeovers have occurred at discounts to NTA highlighting, among other factors, investors do not believe the individual property valuations and lack of confidence in incumbent management: Better to take a slight discount now than wait for management to destroy more value in the future.

AREIT M&A at a Discount

Target	Buyer	Date*	Takeover Price	NTA	Discount / Premium to NTA
MRZ	MGR	Nov-09	0.594	0.850	-30.1%
CKT	Challenger Life Company Ltd	Feb-10	1.150	1.800	-36.1%
WOT	MGR	Apr-10	0.860	0.820	4.9%
IHF	NorthWest Value Partners	2011	1.000	0.980	2.0%
IIF	GMG	2011	0.53	0.56	-5.3%
CWT	CK Life Science International	2011	0.240	0.410	-41.5%

Source: Company data

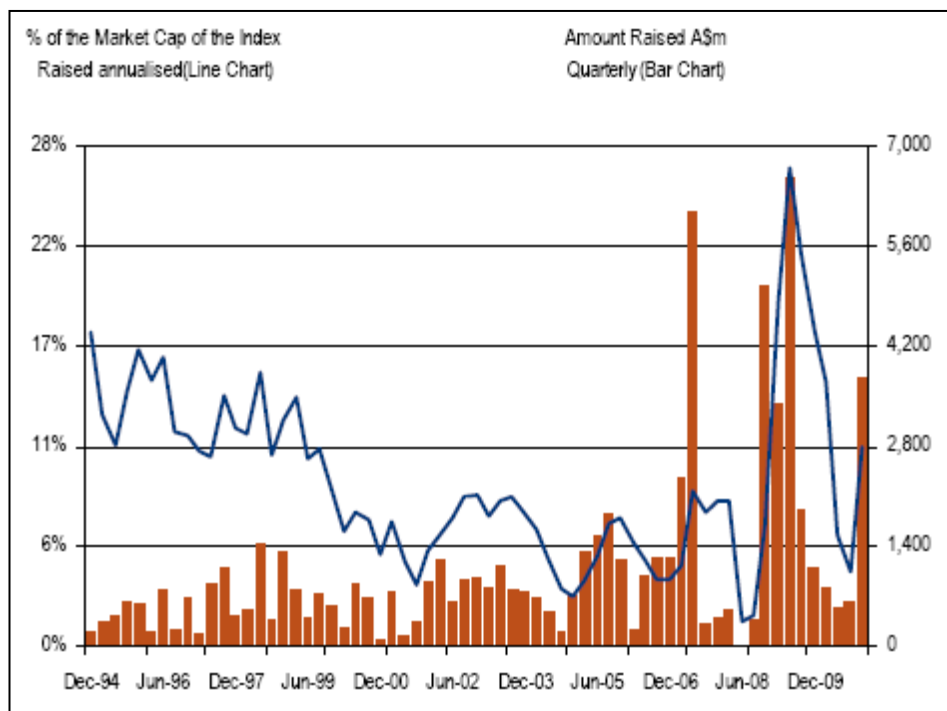
*Deals dated 2011 are yet to be completed

Equity Issuance

Australia experienced further significant raisings during the quarter with over \$2.3 billion equity raised principally by Commonwealth Property Office Fund and, in a strange twist, the Westfield Group sponsored IPO of Westfield Retail Trust.

The total raised was simply too big an ask for a sector out of favour and not in need of equity given the dearth of value opportunities. As we explain below, the nature of the raisings helped contribute to its ongoing lacklustre performance of the AREIT market.

Australian REIT Capital Raisings



Source: Merrill Lynch

In Hong Kong Hang Lung Properties (101) raised HK\$ 11bn, after the stock hit an all time high the day before. Even though the company has a net cash position it has a huge development pipeline of Chinese malls to fund, with appetite for more.

AREITs – when will they learn?

Following the debacles of 2007 to 2009 which decimated the AREITs return profile, we had hoped that management would have learnt from the painful lessons, particularly as very few were willing to take responsibility and resign their posts. During the quarter we witnessed more poor capital management and questionable related party transactions.

Indicative of the corporate governance issues, we believe management remuneration across the Australian sector remains excessive. Given the value destruction it is hard to explain why some REIT managers deserve more than the average wage.

The Annual General Meeting season gave us the opportunity to demonstrate our displeasure. Within our broad based Core Plus AREIT mandate, we voted against 53% of AREIT resolutions related to Remuneration Reports. The lack of opposition from the majority of other unit holders was puzzling.

REIT AGM – Remuneration Report Resolution

	CHC	MGR	WDC*	GPT*	SGP	DXS	GMG
% voted Against	36.1%	24.8%	16.2%	14.2%	8.3%	2.9%	0.6%

*AGM was held in May 2010

Commonwealth Property Office Fund’s (CPA) acquisition of the Grollo office portfolio in November exemplified the capital management problems inherent in the Australian listed REIT

market. CPA raised \$377 million of equity to fund the acquisition at 86c per security versus an NTA of \$1.14 per unit and a preceding trading price range of 90-97c per unit.

Hence, management was prepared to issue equity at a significant discount to both the stated NTA and the recent market trading price in return adding assets which are, generally speaking, of moderate value and quality. Nor did the transaction enhance short term income returns, which is but one albeit sometimes and often misleading indications of value creation. A better strategy for CPA would have been to finance the acquisition with asset sales or simply not do the transaction at all.

Moreover, it is worth noting that earlier in 2010 the vendor, Grollo, had explored an IPO of a vehicle which contained at least some of the assets but failed to garner investor support for a float at NTA. The same assets were sold at NTA to CPA which diluted its own equity base to fund the transaction.

Rubbing salt into the wound, soon after announcing the deal came news that BHP Billiton, one of the major tenants in the Grollo portfolio, would vacate its premises upon lease expiry. Charter Hall Office REIT (CQO) secured a 12,000 square metre pre-commitment to its 50% owned development project at 171 Collins Street Melbourne. BHP will take a 10 year lease on the upper floors of the building from completion in mid 2013.

The lack of discipline and respect for unitholder value was a slap across the face of investors and market commentators who have been asking why many AREITs have been trading at a substantial discount to written down NTAs. CPA was one of the worst performing stocks for the quarter (-6.6% total return), representing a significant fall from grace by one of the few AREITs that had survived to GFC with a reasonable reputation derived from its low leverage and pure domestic asset focus. The portfolio has an underweight exposure to CPA.

Investors are now accustomed to management issuing equity too often and a too great a discount to fair value (whether that be NTA or market price) which creates lasting discount mentality.

Therein lies one of the great flaws in the motivation of some AREIT management who appear to view the primary reason for being listed as a means of extracting exorbitant fees and salaries as well as raising equity capital to buy more assets without clearly adding value.

The major reason for being listed should be for the benefit of investors, theoretically the owners and beneficiaries of the entity, principally to provide them with liquidity when needed. It is management's role to act in capital providers best interests, outline a strategy and ensure that the stock trades as close to fair value as possible for as long as possible by being disciplined, whilst keeping the market fully informed. Capital should be treated as a scarce commodity, secondary capital raisings undertaken judiciously when it can add value. Clearly, based on the events of the past 5 years, many AREIT managers fail to grasp this basic concept.

We were also puzzled by Westfield Group's decision to spin-off a half share of its Australia and New Zealand portfolio into a separately managed vehicle called Westfield Retail Trust (WRT). Like CPA, WRT also issued equity at a discount to NTA, albeit a meaningful capital raising was required to reduce stamp duty on the transaction.

Perhaps the spinoff was a lapse in WDC management's otherwise exemplary judgement although it is too early to tell. We have appreciated and benefited from the superior capital and asset management skills demonstrated by WDC over the longer term (once again demonstrated by the profit achieved on the Stratford disposal) and so were prepared to support the transaction as it did not appear to be materially value destroying. However, the market's response to the deal could be described as disappointing to say the least, the anticipated extent of demand for quality Australian

assets failing to materialise in the short term at least, nor the immediate earnings or balance sheet benefits to WDC obvious.

Meanwhile Goodman Group (GMG) unitholders voted in favour of the transaction involving the purchase of Greg Goodman's (the CEO of GMG) private real estate holding at Moorabbin Airport in Melbourne. Ignoring the huge profit that Mr Goodman achieves on the transaction, as a principle we do not believe this type of related party transaction should be encouraged. This was followed by news that together with other senior executives, the CEO of Valad Peter Hurley was stepping aside in order to be part of a management buy-out of Valad's European business.

Little wonder AREITs in general are earning a dubious reputation.

The other notable feature of the quarter was the number of AREITs that completed share consolidations during the quarter. Whilst management can point to liquidity as a primary reason, we believe it is much to do with masking the sins of the past.

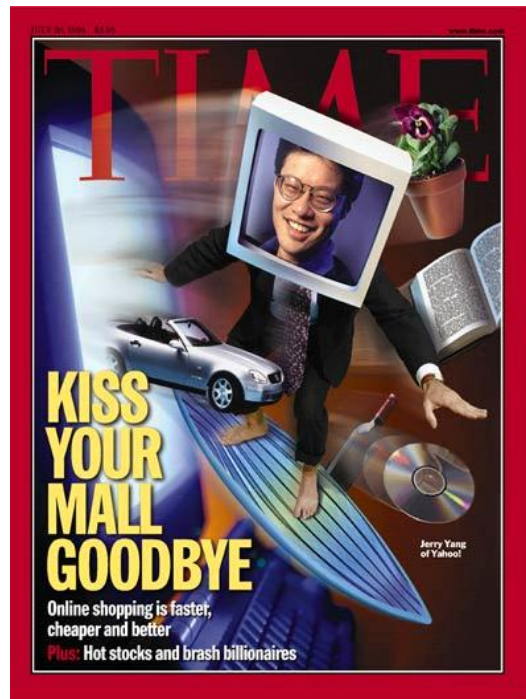
Internet Retail – What is the threat to bricks and mortar shopping centres?

During the quarter, the Australian media was filled with discussion on the impact of internet retail on traditional retailers and bricks and mortar shopping centres. This was heightened by retailer lobby groups calls to remove the GST exemption on offshore internet transactions of less than AUD\$1,000. This sudden awakening of domestic retailers towards online competition was no doubt stimulated by disappointing retail sales growth in the second half of calendar year 2010 and the rapid appreciation of the Australian Dollar.

With all the media and industry hype around online retailing, it should be recognised that its estimated market share is still quite limited; around 5 to 6% of non-food retail sales in Australia (source: Citigroup), compared with around 9% in the United States. Whilst it is reasonable to say that the longer term impact remains open to debate, it is likely to be profound in the way that shopping centres are developed and tenanted.

Having abandoned its previous short lived attempt during the dot-com bubble a decade ago, Westfield's new effort to create its own internet shopping portal during the quarter (www.westfield.com.au) is at the very least an acknowledgement of the threat. Although we don't believe that the 1998 Time magazine cover below is correct, we do agree with former American baseball player Yogi Berra: "The future ain't what it used to be".

The internet makes shopping more transparent and allows consumers to more easily search for value. A search online quickly confirms that many goods are much cheaper abroad and the overall offer better. This begs the question: why are goods in Australia so much more expensive? We think the differences can be explained by a lack of purchasing power with suppliers, higher labour costs, not always passing through the benefits of a rising Australian dollar and (until recently) limited offshore competition. Some might argue that rents in Australia are relatively high, but we note that sales productivity per square metre is also very high compared with offshore markets which might be explained by high urbanisation levels and low retail space per capita.



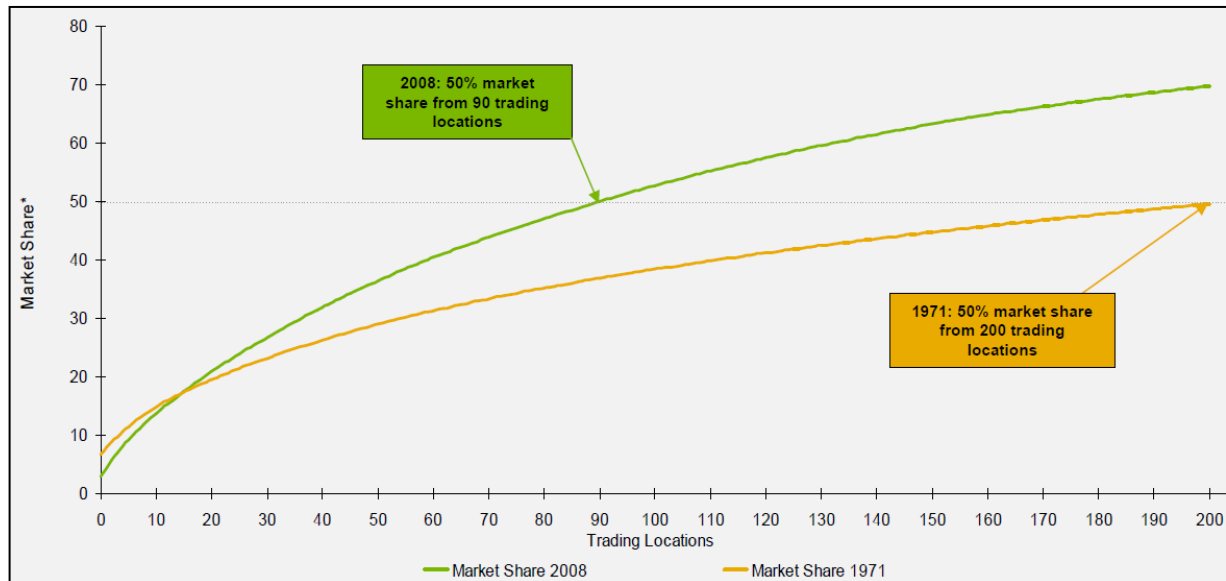
Source: cover Time magazine 20 July 1998

Whilst pure online retailers like Amazon and ASOS (UK apparel retailer) are now significant, seven of the top 10 online retailers in the US actually have a bricks and mortar presence. Apple is a prime example of a company which successfully combines online sales with a (quite impressive) bricks and mortar presence. US department store Nordstrom's online sales are 9% of its total while Best Buy, a US consumer electronics retailer, generates 7% of sales from online channels. Australian bricks and mortar retailers will beef up their online presence (David Jones recently relaunched their mothballed site), but they will face increased competition from retailers abroad, even though these retailers may not have a physical presence in Australia.

We continue to believe in the power of quality shopping centres to attract shoppers and tenants. Shopping centres provide an intimate environment for retailers to engage directly with their customers and demonstrate the benefits of their products and suitability to their individual needs. Entertainment, food and services together with timeliness and return policies are powerful drivers for well located properties in high population density catchment areas.

Continued success of shopping centres has always depended on the ability of landlords and their retailing occupants to adapt to the changing needs of consumers. Those centres that do not will become obsolete, further strengthening the more powerful shopping centres. This migration to better centres has been the case for some time as the graph below clearly shows.

Market Share – Top UK Retail Locations



Source: CBRE NSLSP / Capital Shopping Centres

Some people simply like to go shopping – to explore and socialise.

One should not overlook the possibility that the internet will increase the consumers' ability to spend and therefore increase total retail spending. As an example, internet gambling has not destroyed casinos, merely expanded the gaming pie. That said, we continue to carefully monitor the situation, which we believe will have a profound impact on retailing and shopping centre tenancy mix.

Our Travels

London Calling

We visited London in early December coinciding with unusually cold weather but critically ahead of Australia's Ashes defeat. Our visit involved attending a global REIT conference, visiting local management teams as well as physical property inspections including time on the road with management of Derwent London and Big Yellow in which we have substantial exposure.

Having survived the financial crisis, London is alive and well, the mood is buoyant, in fact more optimistic than Sydney. The mood of local REIT management was definitely upbeat, surprised by the speed of the turnaround as tenants are considering long term plans rather than short term survival. London is improving on various fronts, as well as the fact that you now can even get a decent coffee and the coalition government is working, getting more done than expected as evidenced by the student riots. Do not misconstrue these comments, the London economy is far from booming but it is certainly expanding which is major improvement compared with the bleak environment just 18 months ago.

The city is enjoying investment in infrastructure associated with the Olympics (now largely complete under David Higgins oversight, with whom we met), and other longer term transport initiatives such as Crossrail (crossing London from east west) and Thameslink (north south). Crossrail in particular will be a major positive for international travellers, continuing the Heathrow Express directly into the city (rather than terminating at Paddington) through Canary Wharf and Stratford in the east.

Pre-empting better economic times, investment in London property is rolling in from offshore, particularly from Russia and the Middle-East. As well as office buildings, middle-east buyers are reportedly behind a couple of recent record prices for apartments with off the plan purchases at £120 million (A\$200m) and £140 million (\$230m, or over \$110,000 sq m). Apart from Simon's bid for CSC, US REITs are now active with SL Green buying a mortgage over a London office building. The Chinese are expected next.

Foreigners are attracted by London's safety, rule of law and tax regime together with the urbanisation trend toward the bigger cities. London, as opposed to the rest of the UK, is the focus of investment activity.

The mood of local REIT management was definitely upbeat, surprised by the speed of the turnaround as tenants are considering long term plans rather than short term survival.

Despite the improved outlook, rent growth is still hard to achieve for most REITs. Rental income of many UK REITs still reflect the heady days of 2005-2007 with income ratcheted at peak levels. To put it in perspective, spot office rents have fallen by 30-40% from the peak but are now showing signs of increasing albeit partly due to lower incentives.

That said, London office vacancy is relatively low (around 7%) and office development is underway, principally designed to take advantage of the amount of obsolete stock experiencing lease expiries over the next 5 years. The commencement of large office development, mostly spec built, is itself remarkable given some speculated about the end of London as a finance hub less than 2 years ago. It seems to be the SMEs that are doing best.

As an example, Derwent London (in which the fund has a significant exposure) has an impressive track record of adding value to older office buildings, principally in London's west end, whilst not raising equity at dilutive prices.

UK retail sales are growing with many retailers reporting a strong start to Christmas trade. Shopping centres are experiencing renewed tenant demand (UK malls were particularly hard hit by retailer defaults as a consequence of the Western Financial Crisis). Ugg boots are the must-have fashion item.

Once again we visited Westfield London which is proving to be a home-run, making a mockery of claims that people prefer high street shopping on Oxford and Regent Streets (which still seem to be doing just fine). We visited on a Sunday and it was as busy as any centre we have visited, the food court booming with lines 10 and 20 long after 3pm at various outlets. Within 2 years of opening, in terms of tenant's retail sales, it is the most successful shopping centre in the UK and sales are growing at 30%, albeit this is helped by the recent opening of the cinema complex.

Top UK Malls

	Name	Location	Owner(s)
1	Westfield London	London	Westfield / JV
2	Bluewater	Greenhithe	Lend Lease / JV
3	Meadowhall	Sheffield	British Land / JV
4	The Trafford Centre	Manchester	Peel Holdings
5	Lakeside	Thurrock	Capital Shopping Centres
6	The Mall at Cribbs Causeway	Bristol	Capital Shopping Centres / JV
7	Metrocentre	Gateshead	Capital Shopping Centres / JV
8	Cabot Circus	Bristol	Hammerson / Land Securities
9	Brent Cross	London	Hammerson / JV
10	Liverpool One	Liverpool	Grosvenor / JV

Source: PMA

Meanwhile, the European Union is viewed as a basket case with the UK looking on with some satisfaction. There is a widespread recognition that the EU is structurally flawed as the various country governments lack effective fiscal oversight and a currency which, driven by Germany, is impacting the competitiveness and hence recovery of the outliers like Greece, Spain and Ireland. However, dissolving the EU is seen as impractical. Whilst some of the members can gripe about being a member of the EU they may conveniently overlook the enormous improvements in their infrastructure which would have been difficult to achieve without the EU subsidies. The problem was the profligate spending of the governments and inability to introduce labour market reform.

Like our trips to the US, it is apparent that the bamboo curtain remains in place from an Anglo-Saxon perspective – the understanding of China is shallow, it is conveniently fobbed off by some as experiencing a bubble. India and Russia are seen as no go areas – largely due to corruption issues.

November NAREIT

During the quarter we also attended the NAREIT conference in New York, where the tone was almost apologetic by some REIT managers who have thus far failed to deliver on earlier promises of plentiful bargain acquisitions from distressed vendors. Indeed many in the US are surprised at the strong prices being paid for the few transactions that have occurred as low interest rates drive down investor hurdle rates. IRR's on the better quality core real estate transactions have been reported to be in the 8% to 9% range. Under-bidders claim that the buyers must be factoring in higher rental growth expectations than their own, or lower capital expenditure requirements.

Somewhat reassuringly, Host Hotels and Resorts pointed to their preference for quality acquisitions rather than entering “a pie-eating contest”.

Operating fundamentals in the US appear to be bottoming, with residential rents best placed for near term growth. Office and industrial properties remain over-rented but market rents in select CBD markets are beginning to turn around. National chain retailers are looking to expand, while hotel operators are beginning to increase room rates.

New construction remains subdued, although build-to-suit industrial development is beginning to occur in select markets where tenants have no other options. Offshore expansion was downplayed by those who had raised it in the earlier profit reporting season.

Among a number of other property inspections, we also toured the medical office building assets of Cogdell Spencer Erdman in Charlotte, North Carolina. Our investigations did not allay our concerns

about the leasehold nature of the land and the relative bargaining power of the tenant/landowner and so we decided to overlook the inclusion of this stock in the portfolio. Our hunt for new opportunities continues.

Fund Performance

Due to the seemingly outstanding value of AREITs, we have maintained a low allocation to offshore REITs. Given the continuation of poor performance from the Australian REITs, our decision to stand by our significant AREIT exposure has cost us alpha opportunities. Having cleaned up balance sheets, recalibrated dividends we believed the sector looked relatively good value in light of the strength of the Australian economy and the fact that higher interest rates had been factored into the market. For many reasons explained earlier in the report we were wrong in 2010.

We are monitoring the emerging Queensland flood crisis. Most REITs are indicating minimal damage to their properties and any damages are covered by insurance. We wish the same could be said for the impact on the resident population.

Conclusion

The impact of dwindling stimulus packages is likely to impact the pattern of returns from the real estate sector, particularly relative to other investment categories.

A lack of discipline has further damaged the already low reputation of the AREIT “industry”.

A lot of factors have gone against AREITs over the past 12 months. Valuations look attractive IF management let markets take their normal course and work a little harder to maximise value (easier said than done it seems).

AREIT management cannot control the interest rate environment nor investor preferences for more economically sensitive equities. Long term investors appreciate the transitory/cyclical nature of these factors. It is more important that AREIT management understand their need to implement a long term strategy and honour their fiduciary responsibility.

Portfolio Top 10 Stocks

Top 10 Portfolio Holdings* – December 2010

Stock	Sector	Country
CFS Retail Property Trust	Retail	Australia
Dexus Property Group	Diversified	Australia
Goodman Group	Industrial	Australia
GPT Group	Diversified	Australia
ING Industrial Fund	Industrial	Australia
ING Office Fund	Office	Australia
Mirvac Group	Diversified	Australia
Stockland	Diversified	Australia
Westfield Group	Retail	Australia
Westfield Retail Trust	Retail	Australia

Top 10 Portfolio Holdings* – September 2010

Stock	Sector	Country
CFS Retail Property Trust	Retail	Australia
Charter Hall Retail REIT	Retail	Australia
Dexus Property Group	Diversified	Australia
Goodman Group	Industrial	Australia
GPT Group	Diversified	Australia
ING Industrial Fund	Industrial	Australia
ING Office Fund	Office	Australia
Mirvac Group	Diversified	Australia
Stockland	Diversified	Australia
Westfield Group	Retail	Australia

*In alphabetical order

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Appendix 1

Major transactions:

The quarter saw a number of large-scale transactions, demonstrating increased liquidity in real estate markets.

Property	Vendor/Purchaser	Price	Cap rate
Australia			
Melbourne office portfolio	Grollo / Commonwealth Property Office Fund	A\$ 581 million	7.6%
Doncaster Shopping Centre, Melbourne (25%)	LaSalle / ISPT	A\$ 350 million	5.7%
Brisbane Square, Brisbane	Westscheme / Charter Hall fund & Telstra Super	A\$ 300 million	7.7%
Australian Industrial property portfolio	Colonial fund / Dexus Wholesale Property	A\$ 232 million	9.0%
USA			
HCR ManorCare Inc	Carlyle Group etc/ HCP Inc	US\$ 6.1 billion	7.7%
US Industrial portfolio	Prologis / Blackstone	US\$ 1 billion	8.0%
US diversified portfolio	ProLogis / TPG	US\$ 505 million	n/a
John Hancock Building, Boston	Normandy & 5 Mile / Boston Properties	US\$ 930 million	4.3%
510 Madison Avenue New York	Macklowe / Boston Properties	US\$ 317 million	6.25% (stabilised)
State of California Portfolio	State of CA / Hines & Antarctica	US\$ 2.33 billion	n/a
New York City freehold portfolio	Gramercy Capital / SL Green	US\$ 390.8 million	
Midwest suburban office portfolio	Duke Realty / CBRET	US\$ 516.7 million	
South Florida office/industrial portfolio	Premier / Duke Realty	US\$ 450 million	
UK			
Westfield Stratford City	Westfield Group /APG of The Netherlands and Canada Pension Plan Investment Board (CPPIB)	£871.5 million (50%)	5.5% (estimated)
Trafford Centre	Peel / Capital Shopping Centres	£1.6 billion	5.0%
Bishops Square, London	Hammerson & OIF / JPMorgan Funds	£ 557 million	6.3% (last sale 6/09) 7.3%)
25 Bank Street, Canary Wharf	Canary Wharf Group / JP Morgan	£ 495 million	Owner-occupier
Rolls Building, London	Delancey & Invista / Legal & General	£ 305 million	4.5%
Singapore			
Marina Bay Financial Centre (33%)	Cheung Kong / Suntec REIT	S\$ 1.5 billion	4.0% related party transaction
Marina Bay Financial Centre (33%)	Keppel Land / K-REIT	S\$ 1.5 billion	4.0% related party transaction
Keppel Towers & GE Tower	K-REIT/ Keppel Land	S\$573 million	Residential redevelopment
Continental Europe			
OpennTurm office tower Frankfurt	Tishman Speyer & UBS / JPMorgan Fund & GIC	€550 million	
Blåmannen 20 city block in Stockholm	HausInvest / Vasakronan	SEK 4.35 billion (A\$ 650 million)	5.0%
Swedish/Nordic office & industrial portfolio	NR Nordic & Russia Prop / Kungsleden	SEK 3.6 billion (A\$ 537 million)	7.0%
German retirement portfolio	Kungsleden / Hemso	SEK 1.3 billion (A\$ 194 million)	7.0% (similar to acquisition price in 2006/7)