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INVESTMENT MANAGERS REPORT 2018 – AUSTRALIAN DIVERSIFIED INCOME FUND

Australian Diversified Income Pty Ltd (**ADI**) is pleased to deliver its first annual investment managers report for the Australian Diversified Income Fund (**Fund**).

The Fund aims to provide Investors with the opportunity to achieve attractive regular income returns by providing loans to Special Purpose Vehicles (**SPVs**) which invest in a range of income producing assets.

Fund Investments

The Fund has paid a distribution of 6.5% pa in the financial year ending 2018. The distribution is within the range of the target income return for the Fund, as noted below.

During financial year 2018, the Fund has delivered on its investment strategy by making loans to two SPVs, which have invested in a range of income producing assets with a primary focus on the following opportunities:

- Providing finance through loans or direct equity investments to property investors and developers
- First and second mortgage loans secured over real property
- Recurring revenue from residential property rental businesses

We see greater value in these assets than other investment assets in which the Fund can invest such as recurring commission revenue from mortgage broking or life insurance portfolios.

Future Investment Strategy

The Investment Manager does not intend to make any significant changes to its existing mandate in the financial year 2019. It will continue to be highly selective and opportunistic, with a clear focus on quality investments that deliver investment returns commensurate with the Fund's target income return requirements.

The Investment Manager has conducted due diligence on a number of investment assets within its mandate. We continue to evaluate these opportunities and their ability to meet our key criteria and investment objectives.

Fund Objectives and Investment Mandate

The Fund aims to provide Investors with regular income by investing indirectly in a range of income producing assets, through loans made by the fund to SPVs, that are related parties of the Investment Manager, Australian Diversified Income Fund Pty Ltd.

The Fund is suitable for wholesale and sophisticated investors, which may include investments from SMSFs.

Through the SPVs, the Fund has a mandate to invest in a range of income producing investment assets, including:

- Recurring revenue (commission) from mortgage broking or life insurance portfolios
- Recurring revenue from residential property rental businesses
- Finance through loans or direct equity investments to property investors and developers
- First and second mortgage loans secured over real property
- Fixed income instruments

The Fund may also invest directly into other managed investments that invest in income producing assets such as:

- Domestic and international bonds
- Cash and bank bills
- Corporate debentures and other debt securities
- Secured and unsecured loans to individuals and businesses

The Fund has a target income return to investors of 6% to 7% per annum (before tax, and after fees and expenses).

Note: For more information about the parties involved in the investment process and the loans to related party SPVs, please refer to the Information Memorandum.

Our investment strategy for property investments sets a series of strict criteria before any investment or loans are made, including:

- Low Loan to Valuation Ratios (LVRs)
- Smaller low-medium density developments
- Owner-occupied properties
- Growth areas in major cities
- Strong sales records
- Trusted developers and builders
- High standard build and fit out
- Completed approvals
- Ready to build
- Higher level of liquidity

ADI would like to thank you for your continued support in the Fund. Please do not hesitate to contact our office if you have any questions.