

AUSTRALIAN

RESEARCH

PROPERTY ANALYSIS

Multiplex Acumen Prime Property Fund

June 2006

An opportunity to invest in an ASX-listed prime office property trust

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Australian Managed Investments

Listed Property

Multiplex Acumen Prime Property Fund

An opportunity to invest in an ASX-listed prime office property trust



Offer Overview

Multiplex Acumen Prime Property Fund (the *Fund*) is expected to list on the Australian Stock Exchange (ASX) in September 2006. The Responsible Entity (RE) is Multiplex Capital Limited (*Multiplex Capital*), which is seeking to raise A\$169M in investor equity for the Fund. The Fund will have a partly paid structure, with the first instalment of A\$0.60 per unit payable on application and the second instalment payable in five years (June 2011). The offer is 50% underwritten by Acumen Capital Securities Limited (sub-underwriter is NAB) and 50% by ANZ.

The capital raised will be used to fund the acquisition of three quality A-grade office buildings including one office building currently under construction. Around A\$63M will also be invested in a portfolio of Australian-domiciled Listed Property Trusts (LPTs) that are constituents of the S&P/ASX 300 Index.

Property Portfolio

The property portfolio metrics are considered to be of high quality: (1) long weighted average lease duration of around 10 years; (2) around 77% of the income derived from government agencies and large corporations, thereby mitigating the income risk; (3) 80% of property income subject to fixed rent reviews of 3.5%-4.8% per annum; and (4) high depreciation benefits as the buildings are relatively new.

Management

The assets are being acquired from the Multiplex Group (*Multiplex*) and managed by the associated entities of the RE, all of which are wholly owned subsidiaries of Multiplex. Aegis notes that such relationships are common in vertically integrated property companies. Any related party transaction must have the unanimous approval of independent directors. A number of 'poison pills' in the contracts provide Multiplex with the first rights of offer or refusal on the Fund's assets.

Investment View

The Fund is **Recommended**. Our investment view expires upon the listing of the units on the ASX.

Aegis notes that a key risk of the Fund relates to the high borrowing costs that are a result of the gearing of 81.3%. If the value of properties depreciates, the amount available under the Term Facility may be reduced due to the constraints of the financial covenants. Such an event would trigger an early payment of the final instalment of A\$0.40 per unit or asset sale to reduce gearing.

The forecast FY07 distribution yield of 7.8% is slightly above the LPT office sector average of 7.7%, although this is being achieved by higher than average sector gearing.

Offer Details

Offer Opens	10 July 2006
Offer Closes	31 August 2006
Quoted on ASX	15 Sept 2006
Partly Paid Units	A\$0.60 payable initially, with second payment of A\$0.40 payable in June 2011
Product Type	ASX-listed
Min. Investment	A\$10,000
Increments	A\$1,000

Product Characteristics



Advisors/Broker Fees (%)

Up-front **Up to 2.5**

Note: Brokerage fees may be rebated. Establishment fee includes brokerage.

Yr to Jun	Forecast net income (A\$M)	Syndicate fees & expenses (A\$M)*	Interest expense (A\$M)	Actual Forecast cash distribution (cpu)**	Yield (%)	Tax advantage (%)
2007F	39.2	(11.0)	(29.7)	4.7	7.8	100
2008F	45.5	(6.0)	(33.1)	4.8	8.0	100

* Includes write-off of acquisition costs as per AIFRS; **Distributions based on the first instalment of A\$0.60 for the forecast period. Source: Multiplex Acumen Prime Property Fund PDS

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Investment View continued

Pro forma forecast of the Fund implies a pre-AIFRS net tangible asset (NTA) of A\$0.92 per unit (A\$0.52 on a partly paid basis). Applying the LPT office sector average of 15% premium to NTA implies a trading price of A\$0.59 per unit on a partly paid basis.

SWOT Summary

Strengths

- High-quality A-grade office portfolio, with strong portfolio metrics.
- Well-regarded management team and the ability of the RE to draw upon the skills available within the vertically integrated Multiplex Group.
- A large portion of the Fund's income is derived from Australian Government authorities and well-known national tenants. This provides reasonable certainty of the Fund's income forecasts.
- Multiplex entities will be substantial co-investors, initially holding 30%-40% of the units on issue.

Weaknesses

- The gearing (debt/ portfolio value) of the Fund at 83% (long-term 65%) is well above the office LPT sector average of around 40%.
- A component of the Fund's expenses is supported by a cash top-up from the Term Facility.
- If the value of properties depreciates, an early payment of the final instalment or asset sale may be required to avoid any breach of the debt covenants on the Fund's assets.

Opportunities

- The Fund may source additional assets from Multiplex's property development pipeline.
- The LPT portfolio distribution yield may be enhanced during cyclical low points in the S&P/ASX 300 LPT Index.

Threats

- Class action against Multiplex may negatively impact the market sentiment on the Fund.
- Poison pills in contractual arrangements may negatively impact the marketability of the Fund's assets.
- Securityholder returns will comprise distributions and movements in the market price of the units and may not reflect the returns of the underlying investments of the Fund.

Operations

Responsible Entity – Multiplex Capital Ltd.	
Funds under Management (FUM)	A\$5B
Responsible Entity's parent reviewed by Aegis	No

Fees (incl. GST)

	Total Assets (%)	Office LPT Avg. (%)
Up-front	3.9	5.0
Ongoing/MER	0.5	0.6

Performance Fee

This is a two-tier structure. Tier 1 performance fee of 5.5% is payable on the amount by which the total return of the Fund exceeds the UBS Commercial Property Accumulation (200 Index).

Tier 2 performance fee of 16.5% is payable on the amount by which the total return of the Fund exceeds the benchmark by 1% or more over each six-month period.

Portfolio Profile

Number of properties	4
Vacancy (%)	4.0
Average lease term (yr)	10.0
Total net lettable area (m ²)	181,111

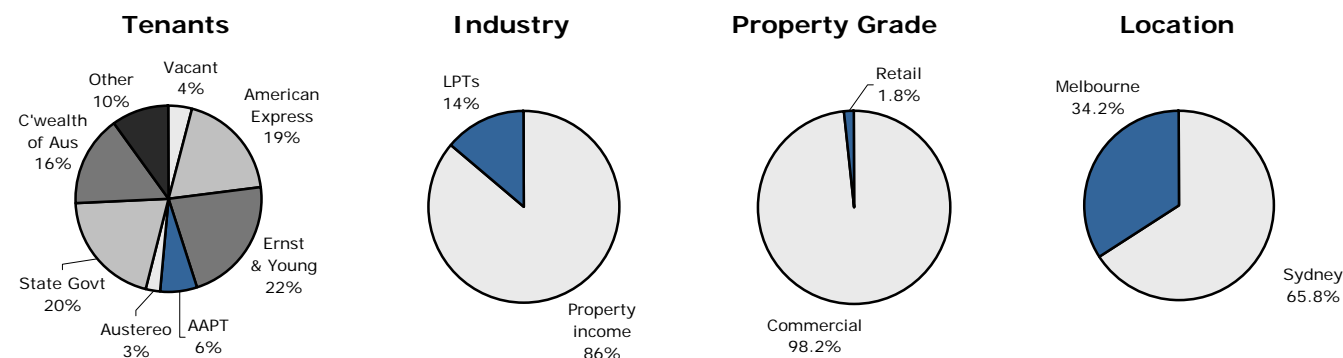
Financial Forecasts

IRR (pre-tax, %)	9.5
IRR benchmark (%)	8.7
Tax advantage (%)	100
Distribution frequency	Quarterly

Capitalisation (property completion)

Equity (A\$M)	169.1
Debt (A\$M)	513.3
Total (A\$M)	682.4
Property (gross, A\$M)	639.8
Gearing (debt/portfolio value, %)	83
Debt hedging (%)	99

Income Sources (by Income)



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2. Management

The Aegis rating system assigns 35% to *Management*. Management is integral to the Trust performance and broadly covers asset selection, asset management and funds management. With the exception of the analysis of previous investment performance, the assessment of management is largely qualitative. Capable and experienced management, a well-aligned Trust constitution and rigorous and proactive compliance are vital to the success of the Trust and the protection of unitholders' interests.

Executive Summary

- The RE is a wholly owned subsidiary of Multiplex, which is one of Australia's largest vertically integrated property management companies. The group has suffered a massive loss of investor confidence following losses incurred on its Wembley project.
- The group manages over A\$5B of funds and all of its unlisted property funds have performed at or above forecasts. Multiplex Capital is well regarded in the property industry and continues to be a profitable business for the group.
- Any dealings with associated entities will require the unanimous approval of independent directors.
- The structure of the Fund is considered to be complex, although not unusual in the property funds area.

Responsible Entity

- The RE is Multiplex Capital Limited (Australian Financial Services licence no. 223809). Multiplex Capital is one of the four major business divisions within Multiplex.
- The RE has appointed Multiplex Investment Funds Pty Ltd as the fund manager.
- Multiplex Capital has experienced strong growth in funds under management and manages over A\$5B of listed and unlisted property funds.
- The division develops and implements investment strategies for all property vehicles within the group, focusing on property acquisition, disposal, equity and debt management, asset management, geographical and sector weighting, leasing and retention and capital expenditure. The divisional management has an average of around 15 years' experience in the property funds management.

Company Overview

- The Multiplex Group is one of Australia's largest development, construction, facilities management and funds management businesses. Multiplex was originally founded in 1962 by John C Roberts AO as Multiplex Constructions Pty Limited. Multiplex has operations and offices in all Australian mainland states, the UK, New Zealand and the Middle East. Revenue is diversified geographically and extends across commercial, retail, industrial, and residential property sectors.
- The group has suffered a massive loss of investor confidence since the losses incurred on the Wembley Stadium construction project. The extent of the reported losses has overshadowed the operating performance of the other divisions.
- That said, recent announcements from the company point to a closure on the Wembley project by September 2006. The group is expected to return to profitability in FY07, with all divisions forecast to be profitable.

Management

- The Multiplex property team consists of over 40 staff with significant direct property and funds management experience. Where possible, the Fund is able to leverage off the capabilities and skills within the other divisions of Multiplex.
- The board of the RE has two executives and three independent directors. We view the board as having sufficient depth, experience and independence to perform its duties on behalf of unitholders.

Figure 1. Board of the Responsible Entity

Name	Title	Role/Responsibilities
Ian O'Toole	Executive Director	Ian is currently the managing director of Multiplex Capital and has the overall responsibility for the growth of the Multiplex Group's property investment and funds management. Ian has over 22 years of experience in real estate and funds management.
Rob Rayner	Executive Director	Rob is primarily responsible for the growth, development and performance of the Multiplex Capital business. He has over 16 years' experience in property funds management.
Dr Peter Morris	Non-executive Director	Peter is a recognised leader in the development and project management field having played a major role in the growth of professional project management as a specialist skill in Australia. He is also a non-executive director of Galileo Funds Management Ltd.
Robert McCuaig	Non-executive Director	Robert is Chairman of the Advisory Board of Colliers International Property Consultants in Australia. Robert has acted as a property adviser to government agencies and large corporations. Robert is a director of St Vincent's and Mater Health Sydney and a member of the Salvation Army Advisory Board.
Mike Hodgetts	Non-executive Director	As a senior professional consultant, Mike has extensive experience in development and construction, particularly in non-residential projects. Mike is currently a director of the peer group body known as the Australian Construction Industry Forum.

Source: Multiplex

- Senior management and other property staff responsible for the day-to-day operations of the Fund's assets are remunerated by Multiplex Investments Funds Pty Ltd.

Associated Entities and Conflict of Interest

- A number of associated entities of Multiplex will undertake management, financing and custodial roles of the Fund's assets. A number of these arrangements are disclosed in the Product Disclosure Statement (*PDS*). Some of the key relationships with the associated entities are as follows:
 - Multiplex Property Trust (*MPT*) subscribed for A\$253.9M units in the Fund in May 2006. Effectively, MPT has swapped assets for units in the Fund. Of the A\$253.9M units held by MPT, A\$169.1M units will be redeemed upon allotment to retail investors.
 - MPT has also provided the Fund with a short-term bridging loan to finance the acquisition of the assets. The interest rate payable is 7.22% and the Fund is expected to repay the debt in full shortly after allotment.
 - Executives of Multiplex Acumen Property Fund (*MPF*) have been appointed to manage the LPT portfolio. MPF is listed on the ASX and currently manages a portfolio of listed and unlisted property securities valued at over A\$300M.
 - Multiplex Facilities Management Ltd has been appointed as the property manager, which will receive an ongoing fee for managing the properties in which the Fund has invested.
 - Multiplex Development division is the developer and vendor of the American Express Building, which is currently under construction.
- Aegis notes that such relationships are common in vertically integrated property companies.
- Any related party transaction will require the unanimous approval of independent directors on the board of the RE. Related party transactions are required to be on arms-length terms or unitholder approval at a general meeting is required under the *Corporations Act 2001*.

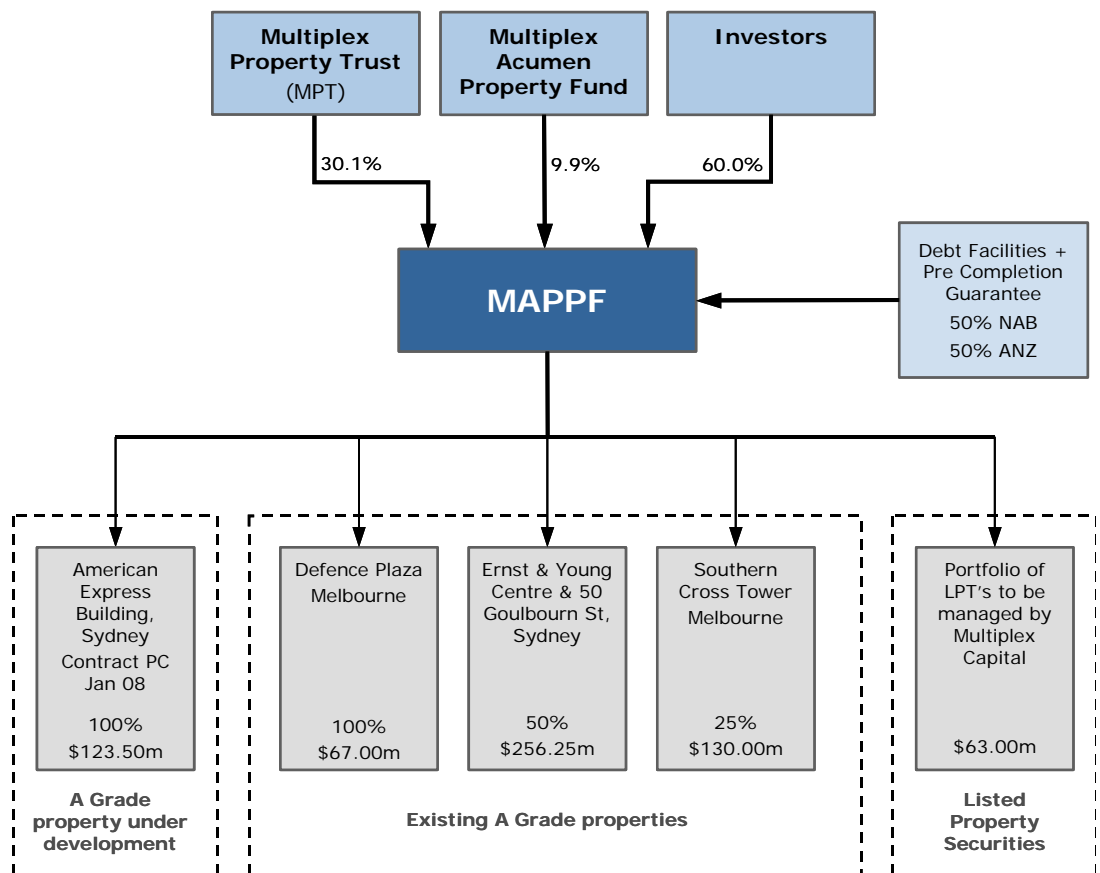
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Structure

- On application, investors will receive one unit for every A\$0.60 invested up-front in the Fund. The minimum application amount is A\$10,000, payable in two instalments. The minimum first instalment payment is A\$0.60 per unit and the balance A\$0.40 is payable in June 2011.
- Subject to the ASX approval, the Fund will be listed on the ASX, with the units trading on a partly paid basis, commencing in July 2006.
- The Fund has adopted a partly paid structure to enhance its distribution yield in its initial years. This is being achieved by the Fund borrowing an amount equal to the final instalment at an interest rate of 6.93% (this debt will be repaid from the amount received as final instalment in June 2011), which is lower than the cost of equity for the Fund. Aegis notes that this form of structuring has been previously used in the LPT sector, although for a much shorter duration (typically one to two years).
- The Fund's assets are being funded through a combination of debt and equity. The bank loan will equate to a loan-to-valuation ratio (LVR) of 65%, which is in line with industry benchmarks. As is common practice, the lender will have the first mortgage over the assets in the event of a default under the terms and conditions of the loan. However, inclusive of the final instalment received as debt, the Fund gearing is considered to be very high at around 80% over the next five years.
- The Fund will be treated as a 'flow through' trust for tax purposes and will not be taxed like public trading trusts, which are treated as companies for taxation purposes.
- As shown in Figure 2, entities associated with Multiplex will hold 30%-40% of the total units on issue. Whilst this limits the liquidity of the Fund, there is a good alignment of interest from an investor's perspective. The Centro Properties Group has also pioneered structures of this nature, which have been well received in the market.

Figure 2. Fund Structure Post Allotment of Units



Source: Multiplex Acumen Prime Property Fund PDS

Investment Strategy/Mandate

- The Fund's investment strategy is to invest in prime-grade office property and a portfolio of listed property securities. No geographical limitations have been placed on the acquisition of new assets and the Fund may acquire assets developed by the associated entities of Multiplex. However, the Fund is unlikely to acquire any new assets in the medium term, given the current market conditions (sub 6% investment yields for office property) and its own structure (highly leveraged).
- The Fund will maintain a 10% exposure to a portfolio of LPTs to enhance the distribution yield and as a source of income diversification. The investment criteria for the portfolio of LPT stocks are as below:
 - Minimum of five stocks that are domiciled in Australia and are constituents of the S&P/ASX 300 Index. Maximum cash level to range between 0% and 5% of the funds allocated to investment in LPTs;
 - Stocks with greater than 75% earnings from property rent and funds management income; and
 - Portfolio to have no exposure greater than
 - 50% to one fund manager or 50% to one stock,
 - 30% to one tenant,

Risk Management

- The key risks in relation to the Fund are listed below:
 - If the Fund is not admitted on the ASX official list for quotation, then the RE will return investor monies in full, but no interest will be paid on the application monies;
 - The Fund is highly leveraged at 83%, which is well above the unlisted and listed property sector gearing averages. Gearing reverts to 65% after June 2011 when some of the debt is retired from the proceeds of the final instalment. The risk associated with such leverage is that the returns will generally be more volatile, given the low spread between the risk-free rate and the weighted average portfolio capitalisation rate;
 - Around A\$63M of the Fund's assets will be invested in a portfolio of LPTs that are constituents of the S&P/ASX 300 Index. The RE has forecast an initial yield of 8.75% per annum from this portfolio. Aegis notes that the target yield is onerous, given the current LPT sector average yield despite the use of leverage to enhance the portfolio yield; and
 - The Fund has entered into a number of agreements such that Multiplex or any of its nominated subsidiaries may have the first and the last rights of refusal if the Fund were to sell an asset. Such poison pills may negatively impact the sale price of the property in an open market transaction.

Custodian

- The Custodian's primary role is to hold all property and to ensure that the Fund's interests are quarantined from other potential activities of the RE and its associated entities. The Custodian of the Fund is Multiplex Funds Management Limited.

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3. Property

The Aegis rating system designates a *Property* weighting of 15%. This lower level of weighting is due to the financial assessment of property being incorporated in the *Finance* rating (35% weighting). Our focus is to understand the positioning of the property within its market and the underlying drivers of and threats to forecast property income and capital value.

Executive Summary

- The Fund has acquired three A-grade office properties, two of which are located in Melbourne CBD and one in Sydney, and has contracted to acquire a second office property in Sydney CBD on the completion of the construction. The buildings are all of a high standard, with only one asset more than three years old.
- A key feature of the portfolio is the high level of income security due to the long weighted average lease term to expiry of around 10 years and the strength of the tenant covenants. Income growth has also been locked in at 3.5%-4.75% per annum.
- All current vacancy (4%) is covered by the rental guarantee from Multiplex.
- The individual assets are subject to significant single tenant risk. However, this concern does not impact rental income until 2011 (Defence Plaza is the asset that may be impacted).

Portfolio Overview

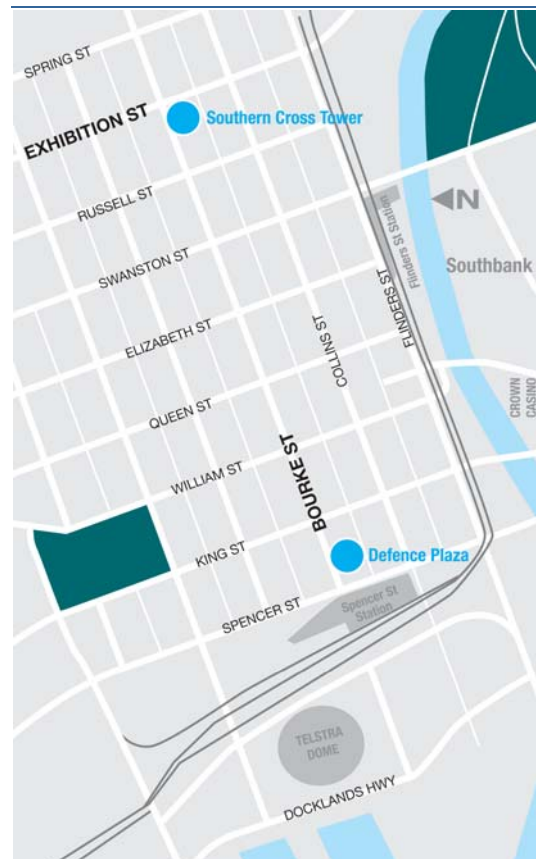
- The A\$577M portfolio (post completion of the American Express Building) comprises four A-grade office assets located in Sydney and Melbourne CBDs (64% and 36% of income, respectively). The Ernst & Young Centre in Sydney is the most significant exposure, generating 43% of the rental income.

Figure 3. Sydney Location Map



Source: Multiplex Acumen Prime Property Fund PDS

Figure 4. Melbourne Location Map



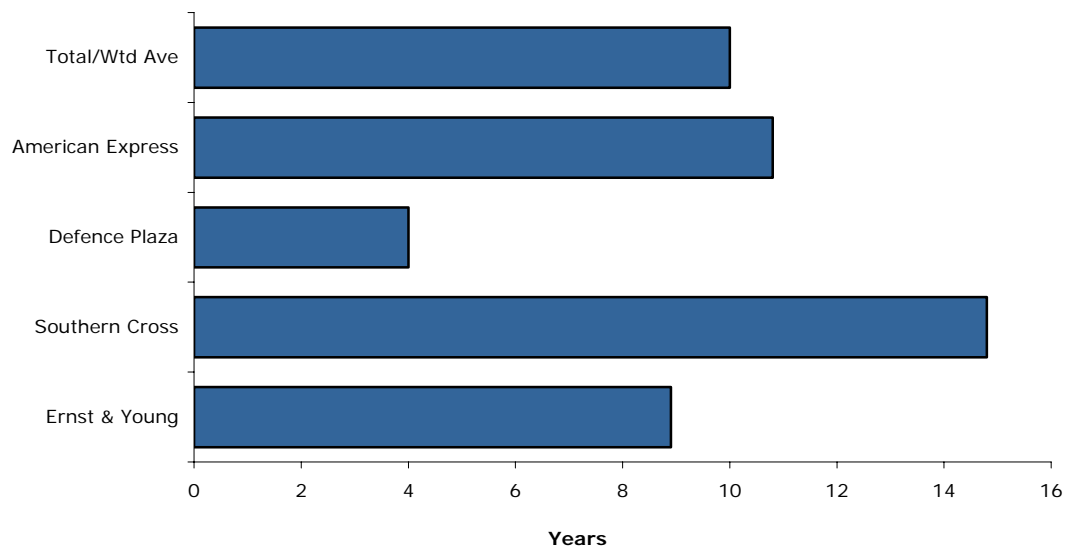
Source: Multiplex Acumen Prime Property Fund PDS

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Property Strategy

- This portfolio has been constructed to provide a secure long-term income stream, and, as such, does not require intensive property management. The first significant expiry comes up in 2011 (Department of Defence at Defence Plaza).
- The American Express Building has been acquired at a fixed price of A\$123.5M, therefore all the development risk remains with the developer. The Fund is required to make progress payments to the developer during the construction period, on which it receives interest income at a rate of 6.8% per annum.
- To protect these payments against developer risk, a Pre Completion Guarantee has been put in place with NAB and ANZ. This guarantee can be called up at any time until 31 March 2009 if
 - Multiplex does not complete the building by 31 March 2009;
 - Multiplex abandons the completion of the development;
 - Multiplex fails to pay interest on the prepaid purchase price;
 - American Express terminates the Agreement for Lease due to default by Multiplex and Multiplex does not find a suitable new tenant approved by the RE by March 2009; and
 - If the vendor does not otherwise refund the pre-paid purchase price on that day.
- Around A\$20M of capital expenditure has been budgeted for over the next 10 years. This will be mainly as leasing incentives and make good contributions to achieve full tenant occupancy and minor upgrades to the assets.

Figure 5. Weighted Average Lease Expiry Profile



Source: Multiplex

Figure 6. Portfolio Summary

	Date Acquired	Interest (%)	Purchase Price (A\$M)	NLA (sqm)	Initial Yield (%)	% Portfolio Income
Ernst & Young Centre & 50 Goulbourn St, Sydney	May-06	50	256.25	67,998	6.15	43
Southern Cross Tower, Melbourne	May-06	25	130.00	79,326	6.11	21
Defence Plaza, Melbourne	May-06	100	67.00	19,087	7.96	14
American Express Building, Sydney	Jan 08*	100	123.50	14,698	6.33	21
Total/Wtd Average			576.75	181,108	6.45	100

* Assumed completion date.

Source: Multiplex

- The portfolio is substantially new, with an average age of 3.2 years. This benefits the Fund via high depreciation and capital allowances and low risk of obsolescence.
- The Fund has contracted to acquire the American Express Building on completion (expected to be by 31 January 2008) for a total of A\$123.5M. Under the agreement, the Fund will make payments to the vendor/developer (Multiplex) over the construction period. The Fund will receive a 6.8% yield on all funds drawn down for this purpose.
- The long average lease term to expiry (10 years) and the quality of the tenant mix imply a high level of income security. The 3% of space currently vacant or uncommitted is covered by rental guarantees from Multiplex.

Figure 7. Major Tenant Profile

	Occupancy %	Term to Expiry (yrs)	Major Tenant	% NLA	Lease Expiry	Option (years)	Rent Reviews
Ernst & Young	95	8.9	Ernst & Young	56	Dec-16	2x4	4.75% p.a.
Southern Cross	98	14.8	Victorian Govt	98	Apr-21	3+2	4% p.a.
Defence Plaza	100	5.0	C'wealth Govt	98	Jun-11	2x5	CPI or 3% Mkt
American Express	97	10.8	American Express	97	Dec-18	3x4	4%
Total/Wtd Avg.	97	10.0					

Source: Multiplex

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Figure 8. Property Review

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Property	Pros	Cons
A Grade Office Ernst&Young Centre & 50 Goulburn St, Sydney, NSW	<ul style="list-style-type: none"> ■ Modern, high-quality building. ■ Long average lease term of 8.9 years, with quality tenants (E&Y 54.5% income, AAPT 14.6%). ■ 5% vacancy covered by 2-year rental guarantee. ■ Continuing development over the short to medium term should improve the attractiveness of the precinct. ■ Fixed rent review growth structures providing certainty of income. 	<ul style="list-style-type: none"> ■ Significant exposure to one tenant. E&Y has the right to break the lease in 2012. ■ 50% ownership does not allow for full control of the building. ■ Relationship governed by co-ownership agreement and return objectives of the co-owners may be different.
A Grade Office Southern Cross Tower, 121 Exhibition St, Melbourne, VIC	<ul style="list-style-type: none"> ■ Highly specified new building at a prominent location. ■ Office space substantially leased to the Victorian State Government until 2021, with 3.9% p.a. reviews. ■ Vacancy risk mitigated by income support from Multiplex. 	<ul style="list-style-type: none"> ■ Concentrated exposure to lease expiry risk in 2021.
A Grade Office Defence Plaza, 661 Bourke Street, Melbourne, VIC	<ul style="list-style-type: none"> ■ Weighted average lease duration of 5 years, government tenant. ■ Acquired at 12% below the assessed replacement cost of A\$75.8M. 	<ul style="list-style-type: none"> ■ Considered over-rented by around A\$225,000 p.a. due to ground floor area that would not be re-lettable. ■ Significant exposure to single tenant whose lease expires in 2011. ■ Maintenance capex required over medium term.
A Grade Office American Express Building, 12 Shelley Street, Sydney, NSW	<ul style="list-style-type: none"> ■ New A-grade building in the emerging King St. Wharf commercial precinct. ■ 11-year lease to American Express over 97% of space, with 4% p.a. reviews. ■ Uncommitted space, subject to income support for two years from vendor. 	<ul style="list-style-type: none"> ■ Significant exposure to single tenant.

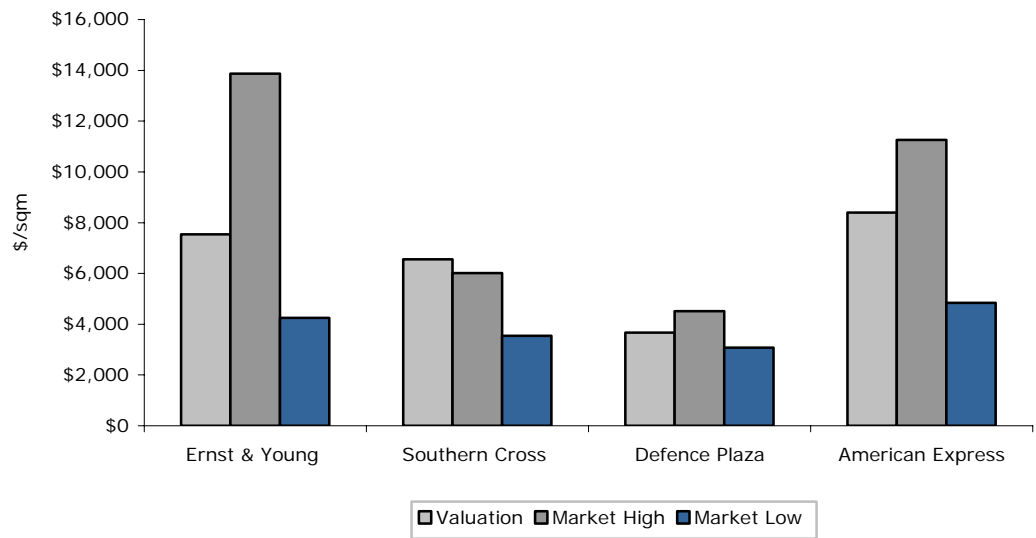
Source: Multiplex/Aegis Equities Research

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Valuation

- The Fund's assets have been valued for first mortgage purposes on capitalisation, direct comparison and discounted cash flow basis. The independent valuers used were Savills for the Ernst & Young Centre, Colliers International for Defence Plaza and Jones Lang Lasalle for the Southern Cross Tower and the American Express Building.
- The weighted average capitalisation, terminal yield and discount rates of the portfolio are 6.5%, 6.7% and 8.6%, respectively.
- Figure 9 below highlights the capital value of the properties relative to comparable market ranges. The valuations are within market benchmarks as identified by the property valuers. Potential revaluation gains in the portfolio are dependent on active asset management to enhance rental income and investor demand for these assets.

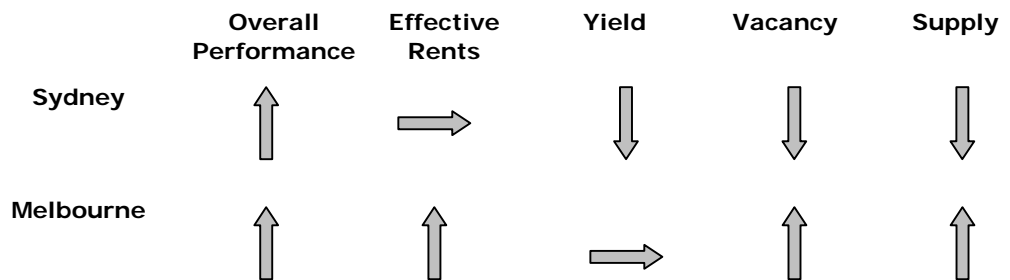
Figure 9. Property Capital Value vs. Market



Source: Valuation Reports

Market Overview

Figure 10. CBD Market overview



Source: Colliers

Sydney CBD

- The outlook for the Sydney CBD office market has improved over the past 12 months to March 2006 with higher levels of leasing activity, positive net take up of space and a number of major transactions, which have shown a significant compression of capitalisation and discount rates.

- Vacancy levels across the market decreased significantly over the December 2005 quarter by 0.8% to 10.4%. This vacancy is concentrated in older A-grade accommodation and secondary space. Vacant space in prime-grade office property is limited. While there are still numerous options available to tenants requiring up to 2,000m², those requiring larger areas of contiguous space have fewer alternatives.
- Prime (premium and A-grade stock) gross face rents have remained unchanged over the December 2005 quarter, whilst prime gross effective rents rose by 1.2% as a result of a slight decrease in incentive levels.
- Investor sentiment in the office sector is strong and the outlook is healthy, with a number of large leasing requirements from the financial and insurance sectors currently in the market place.

Melbourne CBD

- Two new projects completed over the second quarter of 2005, namely, Freshwater Place, anchored by PWC (52,200m²) and RACV Tower (12,000m²), now 50% committed to Deacons Lawyers. The Docklands area continues to produce new office space for the Melbourne CBD market, with all projects having high levels of pre-commitment.
- Melbourne CBD has shown another strong quarter of positive net absorption, with attractive rental conditions in the CBD continuing to draw tenants from the city fringe and suburbs.
- Tenant demand continued to be strong on the back of white-collar employment growth and this is expected to continue over the next few years.
- Vacancy levels continued to fall for prime grade accommodation. The overall Melbourne direct vacancy rate fell from 8.4% to 7.8% over the September 2005 quarter.
- Prime gross effective rents recorded 3.5% growth over the September 2005 quarter, the highest level since the June 2001 quarter.
- As a result of the strong levels of sales activity seen in Melbourne at the end of 2005, along with continued demand for investment-grade CBD office assets, prime investment yields have firmed 25 basis points to range from 6.25%-7.50%.

4. Finance

The Aegis rating system assigns a *Finance* weighting of 35%. Key to our financial rating are

- The identification of risk and the analysis of the critical assumptions underlying that risk; and
- The need for unitholders to receive a return (combined income and capital) that is commensurate with the underlying portfolio.

Executive Summary

- The Fund's distributions are underpinned by high-quality property income, and the portfolio has long weighted average lease duration of 10 years.
- Until the final instalment of equity, payable in June 2011, the Fund's gearing of 83% is well above the sector average. The Fund has hedged 99% of its interest rate exposure on all debt facilities (excluding the American Express construction facility) until July 2011.
- Aegis notes that a key risk of the Fund relates to the high borrowing costs that are a result of the implied gearing. If the value of properties depreciates, the amount available under the Term Facility may be reduced due to the constraints of the financial covenants. Such an event would trigger an early payment of the final instalment of A\$0.40 per unit (either by the RE or forced by the lenders under the covenant) to reduce the gearing level of the Fund.
- The forecast FY07 distribution yield of 7.75% is slightly above the LPT office sector average of 7.7%, although this is being achieved by higher than average sector gearing. In our view, investors do not seem to be compensated for the higher finance risks implied in the Fund.
- During the PDS forecast period, a component of the Fund's expenses will be funded via a cash top-up from the drawdown on the Term Facility. Aegis notes its preference for the RE to rebate some of its initial establishment fees to support the Fund's distribution yield rather than using debt (or capital) to top up its distribution.
- The internal rate of return (*IRR*) of 9.5% exceeds the weighted average implied discount rate of 9.2%, as per the independent valuation reports. That said, the Fund IRR will be more sensitive to the market pricing of the Fund upon listing on the ASX.
- Pro forma forecast of the Fund implies a pre-AIFRS NTA of A\$0.92 per unit (A\$0.52 on partly paid basis). Applying the LPT office sector average of 15% premium to NTA implies a trading price of A\$0.59 per unit on a partly paid basis.

Fund Income

- A substantial portion (around 88%) of the Fund's income is derived from property income and the balance as distributions from the portfolio of LPTs.
- Around 80% of the property income is subject to fixed annual rent growth of around 3.5%-4.8%, which is in line with comparable market evidence. Aegis considers the risk of tenant default to be low, given that a substantial portion of the portfolio is leased to government agencies or large national and international corporations. Also, the long weighted average lease term of 10 years provides further certainty to forecast income.
- The LPT portfolio is forecast to provide a distribution yield of 8.75% on the initial amount invested in the Fund. Aegis notes that the targeted distribution yield is well above the current S&P/ASX 300 sector yield of around 7%. The initial distribution yield is assumed to increase by 2.5% per annum and is consistent with the market expectations for growth in the sector.
- During the construction phase of the American Express Building, the Fund will receive a coupon payment of 6.8% on the balance of early payments of purchase price to the vendor. This is paid by the developer/vendor.

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Distributions

- The RE has forecast an annualised distribution yield of 7.75% and 8% for the next two years, respectively, with the first distribution payable in respect of the period from allotment to 31 December 2006.
- The cash distribution will be 100% tax deferred over the initial two years and will maintain a reasonably high tax-deferred benefit over the medium term.

Figure 11. Multiplex Acumen Prime Property Fund Operating Statement

	Forecast Period from 22 May to 30 June 2006 (\$'000)	Forecast Year Ending 30 June 2007 (\$'000)	Forecast Year Ending 30 June 2008 (\$'000)
Income			
Rent from investment properties ¹	463	5,692	10,752
Share of net profit from associates ²	2,594	23,983	24,827
Distributions from LPT Portfolio	-	5,513	5,650
Interest income from Vendor ³	290	3,857	4,138
Interest income from cash deposits ⁴	8	118	126
Total income	3,355	39,163	45,493
Expenses			
Management fees ⁵	-	2,390	2,619
Finance costs ⁶	2,640	24,372	27,178
Financing costs - Partly Paid Facility ⁷	-	7,160	7,811
Other ⁸	227	1,235	1,140
Net loss from fair value adjustments on investment properties ⁹	-	-	1,084
Write-off property acquisition costs ¹⁰	850	6,093	-
Total expenses	3,717	41,250	39,832
Net Profit/(Loss) attributable to unitholders	(362)	(2,087)	5,661

- 1 In forecasting rent from investment properties (Defence Plaza & American Express Building), the current rental and rent review provisions in respect of each tenancy were analysed and adjustments made to the passing rents to reflect anticipated variations upon rent review.
- 2 Share of net profit from associates (25% interest in Southern Cross Tower and 50% in Ernst & Young Centre and 50 Goulburn Street) represents the Fund's proportionate share of net rental income from the unit investments.
- 3 Interest income from early payments made to the Vendor for the American Express Building calculated at a rate of 6.80% per annum.
- 4 Interest on surplus funds held, pending distribution, calculated at 5.50% per annum.
- 5 The Responsible Entity is entitled to management fees payable on the basis set out in Section 8. The management fee is payable quarterly in arrears. The Responsible entity may waive or defer all or part of the management fee in any particular year. The Responsible Entity has agreed to defer payment of a percentage of its management fee over the Forecast Period and to the extent necessary to meet distributions to unitholders in future periods.
- 6 The Responsible Entity has fixed the interest rate on the Term Facility at 6.38% per annum through until 26 July 2011 via interest rate swaps. The Responsible Entity has also fixed the interest rate on 80% of the American Express Facility at 6.68% per annum through until February 2008 via interest rate swaps. Finance costs include amortisation of the swap premium calculated on a straightline basis.
- 7 The Responsible Entity has fixed the interest rate on the Partly Paid Facility at 6.93% per annum through until 26 July 2011 via interest rate swaps.
- 8 Includes the Responsible Entity's estimate of costs associated with accounting, registry, tax, audit and listing fees. This amount also includes amortisation of the establishment costs on the various Debt Facilities.
- 9 Fair value adjustments resulting from the adoption of A-IFRS. Rental income from operating leases is recognised on a straightline basis over the lease term. Refer Section 4.6 for details of the accounting treatment.
- 10 Write-off of property acquisition costs resulting from the adoption of A-IFRS. To the extent that the contract price of each property plus the acquisition cost including the fees paid to the Responsible Entity exceed the independent valuation of that property, the excess has been written off.

Source: Multiplex Acumen Prime Property Fund PDS

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Figure 12. Pro Forma Balance sheet

	At Allotment (\$'000)	On Completion (\$'000)
Assets		
Current assets		
Cash	2,838	1,143
Total current assets	2,838	1,143
Non-current assets		
Investment properties ¹	67,000	190,500
Investment in associates ²	386,346	386,346
Investment in LPT Portfolio	63,000	63,000
Early payment to Vendor ³	42,765	-
Other assets ⁴	9,070	9,070
Other receivables ⁵	84,395	84,395
Total non-current assets	652,576	733,311
Total assets	655,414	734,454
Liabilities		
Current liabilities		
Other payables	1,179	1,179
Total current liabilities	1,179	1,179
Non-current liabilities		
Interest bearing liability ⁶	319,761	398,801
Party Paid Facility ⁷	111,040	111,040
Total non-current liabilities	430,801	509,841
Total liabilities	431,980	511,020
Net assets	223,434	223,434
Equity		
Equity raised ⁸	253,454	253,454
Issue costs ⁹	(20,386)	(20,386)
Retained profits	(9,634)	(9,634)
Total equity	223,434	223,434
Interest bearing debt/total assets¹⁰	75.4%	78.4%
NTA on fully paid Unit of \$1.00		
A-IFRS NTA	\$0.80	\$0.80
Add:		
Present value of equity receivable	\$0.10	\$0.10
Write-off of acquisition costs	\$0.02	\$0.02
NTA pre adjustments	\$0.92	\$0.92
NTA on First Instalment of \$0.60		
A-IFRS NTA	\$0.50	\$0.50
Add:		
Write-off of acquisition costs	\$0.02	\$0.02
NTA pre adjustments	\$0.52	\$0.52

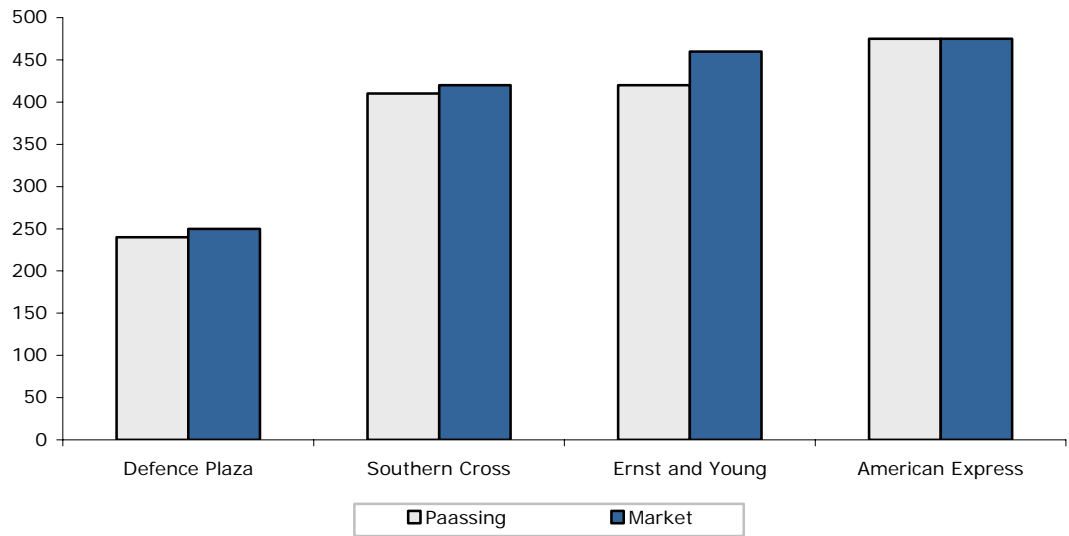
- 1 The investment properties comprise Defence Plaza and the American Express Building upon Completion.
2 Investment in associates represents the Fund's investment in 25% of the Southern Cross Tower and 50% of the Ernst & Young Centre and 50 Goulburn Street. 3 Early payments paid to the Vendor throughout the Construction Period of the American Express Building. 4 Other assets comprise swap premiums paid for interest rate hedges entered into to fix the interest rate on the Debt Facilities. 5 Other receivables represent the present value of the Final Instalment discounted at 6.00% per annum. 6 Total of the Term Facility and American Express Facility net of establishment costs. 7 Partly Paid Facility less establishment costs. 8 Equity raised consists of the First Instalment of \$0.60 and the present value of the Final Instalment of \$0.40. 9 Issue costs comprise the equity portion of the Fund establishment fee and other costs paid in relation to the issue of the PDS. 10 Total assets exclude present value of Final Instalment.

Source: Multiplex Acumen Prime Property Fund PDS

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Figure 13. Passing Rent vs. Current Rent

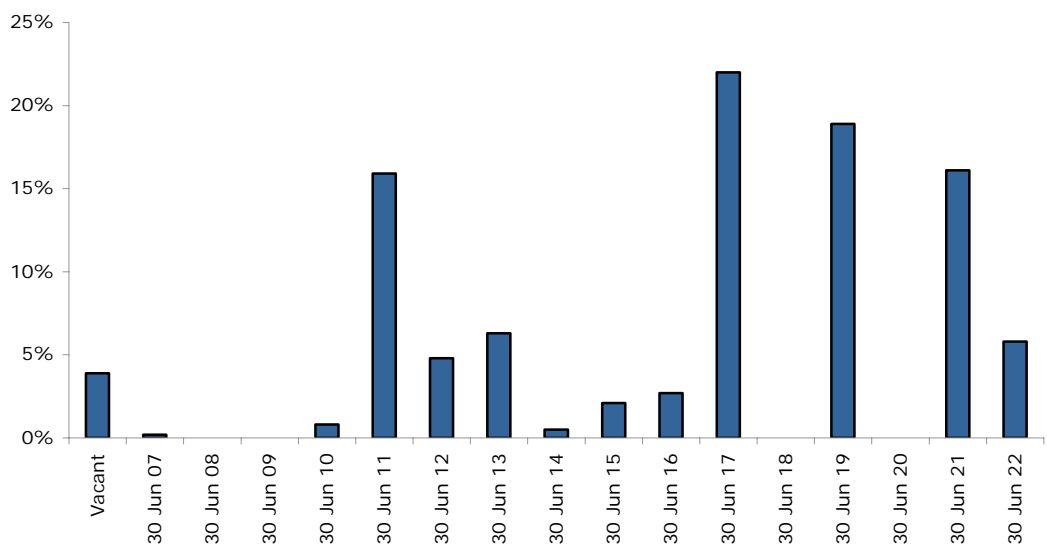


Source: Multiplex/Valuation Report/Aegis Equities Research

Lease Expiry

- The portfolio (on completion of the American Express Building) will be 96% leased. The Fund has income guarantees (vendor pays any shortfall to contracted income) over areas that are not currently leased and mitigates any loss of income until at least 22 May 2008. To that extent, the portfolio is considered to be fully leased. Given the location, prime quality of the assets and robust market conditions, Aegis considers vacancy risks to be minimal.
- The weighted average lease duration is long at around 10 years and is considered to be well above the LPT sector average. Defence Plaza in Melbourne is the only asset with a lease duration of around five years. As such, this attribute is a key strength of the portfolio.

Figure 14. Lease Expiry Profile



Source: Multiplex Acumen Prime Property Fund PDS/Aegis Equities Research

Capital Expenditure

- Capital expenditure requirements are assumed to be minimal over the next five years. Any provision for capital expenditure is being mainly used for tenant incentives and general upkeep of the Fund's assets.
- No development capital expenditure has been forecast over the medium term on any of the assets.

Debt

- The RE has entered into a number of loan facilities, which are being provided by NAB and ANZ as the joint lenders, to acquire the initial portfolio of the Fund.
- The Term Facility allows a maximum borrowing of A\$420M at an interest rate of 6.38%. Interest rate has been 99% hedged until July 2011 and the loan will be an interest-only payable loan. This facility will also be used to partly fund the acquisition of the LPT portfolio and will be drawn to facilitate cash top-ups to fund a component of the Fund's expenses and to provide for the ongoing working capital requirements of the Fund. Security is by way of first rights over the Fund's property portfolio, and the covenant allows for a maximum LVR of 67.5% on property portfolio and 50% on the value of the LPT portfolio.
- The Fund will borrow up to a maximum of A\$113M under the partly paid facility at an interest rate of 6.93% and is 100% hedged until the receipt of the final instalment of A\$0.40 cents per unit. The partly paid facility will be drawn down at allotment and will be used to repay the MPT Loan, to purchase the LPT Portfolio, to pay the establishment fee to the RE and to pay other Fund costs. Security is by way of a lien over the Fund's rights to receive the final instalment in accordance with the Constitution.
- The Fund has also structured a borrowing facility to make progressive payments to the developer of the American Express Building in order to make early payments of the purchase price to the vendor pursuant to the American Express Sale Contract and in line with the construction of the American Express Building. The American Express construction facility will be repaid in full from proceeds available under the Term Facility on completion.
- Interest cover is calculated to be slightly over 1.5 times, and the debt-to-total asset ratio is 78%.
- The Fund is highly leveraged at around 78%, which is well above the unlisted and listed property sector gearing averages. Gearing reverts to 65% after June 2011 when some of the debt is retired from the proceeds of the final instalment. This is also considered high when compared with the current gearing levels in the LPT sector.
- Aegis notes that a key risk of the Fund relates to the high borrowing costs that are a result of the implied gearing. If the value of properties depreciates, the amount available under the Term Facility may be reduced due to the constraints of the financial covenants. Such an event would trigger an early payment of the final instalment of A\$0.40 per unit (either by the RE or forced by the lenders under the covenant) to reduce the gearing level of the Fund.

Fund Fees

- A list of fees charged by the RE for managing the Fund is shown below. The ongoing management fee or the management expense ratio (*MER*) is considered to be lower than the LPT sector averages.
- The Fund's base fee plus performance fee for any half year has been capped at 0.5% of the gross value of assets. Any excess fees that accrue may be paid in subsequent periods where the fees earned are less than the above cap.

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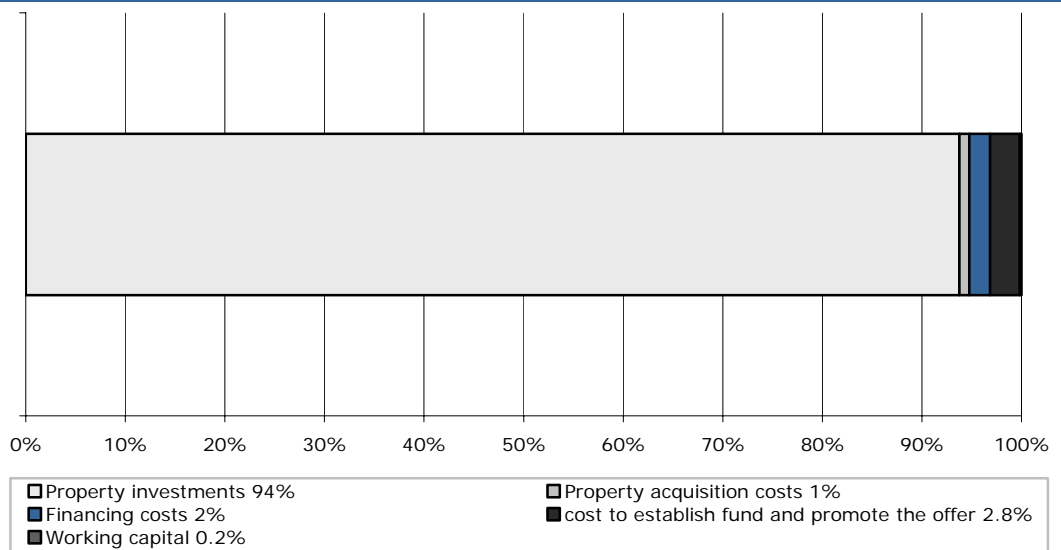
Figure 15. Fund Fees including GST

	Description
Establishment Fee	The RE charges this fee for securing the properties, creating the Fund and carrying out due diligence. This fee also includes commissions that are payable to financial advisers. The establishment fee equates to 4.2% of the Fund's gross assets and is considered to be less than industry benchmarks.
Acquisition Fee	The RE will receive 5.5% of the gross acquisition price for any new asset acquired by the Fund after the close date.
Leasing Fee	The RE charges a leasing fee equal to 9.35% of the first year's gross rent for signing up a new tenant or where a lease term is extended.
Management Fee	This is an ongoing fee charged by the RE to manage the Fund and equates to 0.33% of the Fund's gross assets. The 0.33% fee has been rebated by 25%, although the Fund may revert to charging the full 0.44% if the Fund's income exceeds its forecast Fund income. The maximum fee that the RE can charge is capped at 0.71% of the gross assets.
MER	The MER is estimated at around 0.4% and includes other expenses incurred in running the Fund. This is considered to be in line with MERs of other LPTs.
Sale Fee	2.2% of the sale price plus an additional fee of 2.2% of the amount by which the net sale proceeds exceed a figure greater than 50% profit on the purchase price plus acquisition costs.
Performance Fee	<p>This is a two-tier structure. Tier 1 performance fee of 5.5% is payable on the amount by which the total return of the Fund exceeds the UBS Commercial Property Accumulation (200 Index).</p> <p>Tier 2 performance fee of 16.5% is payable on the amount by which the total return of the Fund exceeds the benchmark by 1% or more over each six-month period.</p> <p>Importantly, any underperformance of the Fund relative to its benchmark must be recovered before the RE becomes eligible for a performance fee.</p>

Source: Multiplex Acumen Prime Property Fund PDS/Aegis Equities Research

Application of Funds

Figure 16. Application of Funds



Source: Multiplex/Aegis Equities Research

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IRR

Aegis models its IRR using the forecast distribution of the Fund. The implied growth rate in distributions equates to around 2.1% per annum over 10 years. Growth in distributions beyond the forecast period is assumed at around 2% in perpetuity. The IRR is net of all disclosed fees as outlined in the PDS.

Aegis notes that the broader property market, general economic and market conditions and the performance of the properties will be key determinants of the Fund's distribution.

Aegis' IRR is benchmarked against the weighted average discount rate as applied by each valuer. Combined, the weighted average discount rate for the Fund is 8.4%. This is adopted as our benchmark return to ensure that the Fund generates a return commensurate with the underlying properties.

The IRR is calculated to be 9.5% and is higher than the implied weighted average discount rate of 8.4% adopted by independent valuers. We have adopted a terminal yield of 8% on our Year 10 distribution forecast.

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Aegis Equities Research

Peter Leodaritsis
Managing Director
Phone: 61 2 8296 1100
peter.leodaritsis@aer.com.au

Tony Baddour
Finance and Administration
Phone: 61 2 8296 1113
tony.baddour@aer.com.au

David Heather
Sales & Implemented Research
Phone: 61 2 8296 1108
david.heather@aer.com.au

Peter Rae
Head of Equities
Phone: 61 2 8296 1151
peter.rae@aer.com.au

Rebecca Ratcliffe
Head of Property
Phone: 61 2 8296 1100
rebecca.ratcliffe@aer.com.au

John Kessell
Head of Corporate Research
Phone: 61 2 8296 1152
john.kessell@aer.com.au

Damien Klassen
Head of Structured Products
Phone: 61 2 8296 1104
damien.klassen@aer.com.au

RESEARCH

RESOURCES

Nicholas Raffan
Phone: 61 2 8296 1167
nicholas.raffan@aer.com.au

Brendan Fitzpatrick
Phone: 61 2 8296 1157
brendan.fitzpatrick@aer.com.au

David Cotterell
Phone: 61 2 8296 1159
david.cotterell@aer.com.au

INDUSTRIALS

Robert Gregory
Phone: 61 2 8296 1119
robert.gregory@aer.com.au

Anthony Farnham
Phone: 61 2 8296 1150
tony.farnham@aer.com.au

John Deniz
Phone: 61 2 8296 1123
john.deniz@aer.com.au

Sandeep Gupta
Phone: 61 2 8296 1133
sandeep.gupta@aer.com.au

FINANCIALS

Peter Rae
Phone: 61 2 8296 1151
peter.rae@aer.com.au

Peter Leodaritsis
Phone: 61 2 8296 1101
peter.leodaritsis@aer.com.au

Ravi Reddy
Phone: 61 2 8296 1165
ravi.reddy@aer.com.au

David Ellis
Phone: 61 2 8296 1115
david.ellis@aer.com.au

TELECOMMUNICATIONS, MEDIA & TECHNOLOGY

Rodney Lay
Phone: 61 2 8296 1106
rodney.lay@aer.com.au

HEALTHCARE

John Kessell
Phone: 61 2 8296 1152
john.kessell@aer.com.au

STRUCTURED PRODUCTS

Matthew Bullock
Phone: 61 2 8296 1105
matthew.bullock@aer.com.au

Andrew Wong
Phone: 61 2 8296 1138
andrew.wong@aer.com.au

Rodney Lay
Phone: 61 2 8296 1106
rodney.lay@aer.com.au

PROPERTY TRUSTS

Dinesh Pillutla
Phone: 61 2 8296 1163
dinesh.pillutla@aer.com.au

EMERGING COMPANIES

Nathan Lim
Phone: 61 2 8296 1137
nathan.lim@aer.com.au

Sharon Loaiza
Phone: 61 2 8296 1131
sharon.loaiza@aer.com.au

Joe Zeleny
Phone: 61 2 8296 1127
joe.zeleny@aer.com.au

DATA SERVICES

Radek Zeleny
Phone: 61 2 8296 1168
radek.zeleny@aer.com.au

INFORMATION TECHNOLOGY

Evan Ferris
Phone: 61 2 8296 1116
evan.ferris@aer.com.au

Jimmy Lee
Phone: 61 2 8296 1135
jimmy.lee@aer.com.au

Liam Lim
Phone: 61 2 8296 1154
liam.lim@aer.com.au

Vijay Seevaratnam
Phone: 61 2 8296 1121
vijay.seevaratnam@aer.com.au

Ian Kennedy
Phone: 61 2 8296 1122
ian.kennedy@aer.com.au

Grant Drury-Green
Phone: 61 2 8296 1155
grant.drury-green@aer.com.au

Simon Truong
Phone: 61 2 8296 1132
simon.truong@aer.com.au

RESEARCH PRODUCTION

Sharon Loaiza
Phone: 61 2 8296 1131
sharon.loaiza@aer.com.au

Aireen Silva
Phone: 61 2 8296 1136
aireen.silva@aer.com.au

Renata Meleo
Phone: 61 2 8296 1129
renata.meleo@aer.com.au

Deepika Jindal
Phone: 61 2 8296 1163
deepika.jindal@aer.com.au

SALES

David Heather
Sales & Implemented Research
Phone: 61 2 8296 1108
david.heather@aer.com.au

Ian Gibson
Business Development Manager
Phone: 61 2 8296 1100
ian.gibson@aer.com.au

Craig Northey
Business Development
Manager
Phone: 61 2 8296 1114
craig.northey@aer.com.au

Nigel O'Brien
Business Development Manager
Phone: 61 2 8296 1166
nigel.o'brien@aer.com.au

Ray Udabage
Business Development Manager
Phone: 61 2 8296 1118
ray.udabage@aer.com.au

Pamella McIntosh
Manager, Client Services
Phone: 61 2 8296 1124
pamella.mcintosh@aer.com.au

Connie Sammut
General Enquiries
Phone: 61 2 8296 1100
connie.sammut@aer.com.au



Level 6, 33 York Street
Sydney NSW 2000 Australia
Locked Bag 7 Australia Square
Sydney NSW 1215
Phone 61 2 8296 1100
Fax 61 2 9299 3777
ABN 72 085 293 910
www.aer.com.au