

Fund Review at 31 March 2008

| Fund performance [^] | 1 month % | 3 months % | 6 months % | 1 year % | Inception (pa) % |
|-------------------------------|-----------|------------|------------|----------|------------------|
| Performance before fees | -2.4 | -7.8 | -19.1 | -23.3 | 0.9 |
| Performance after fees | -2.5 | -8.1 | -19.6 | -24.2 | -0.3 |
| Benchmark* | 0.0 | -5.9 | -15.5 | -20.6 | 1.6 |
| Excess return after fees | -2.5 | -2.2 | -4.1 | -3.6 | -1.9 |

* EPRA NAREIT Global ex Australia Index Hedged in A\$

| Top ten holdings | % |
|-------------------------------|-----------|
| Unibail | 8.5 |
| Simon Property Group | 3.2 |
| Sol Melia SA | 3.0 |
| Public Storage Inc | 2.9 |
| DIC Asset AG | 2.8 |
| Immobiliare Grande | 2.6 |
| Klepierre | 2.5 |
| AvalonBay Communitie | 2.4 |
| Post Properties Inc | 2.3 |
| Orco Property Group | 2.3 |
| Total number of stocks | 47 |

| Country weights | Fund % | Benchmark % |
|-----------------|------------|-------------|
| Asia (ex Japan) | 26.0 | 17.7 |
| Europe (ex UK) | 26.3 | 14.5 |
| Japan | 6.0 | 13.0 |
| North America | 29.4 | 45.5 |
| United Kingdom | 7.4 | 9.3 |
| Cash | 4.9 | - |
| Total | 100 | 100 |

| Distribution history | Cents per unit |
|----------------------|----------------|
| December 2007 | 0.35 |
| September 2007 | 0.71 |
| June 2007 | 6.36 |
| March 2007 | 2.22 |
| December 2006 | 2.37 |
| September 2006 | 0.33 |

| Fund details | |
|--|--|
| Total funds under management | \$ 64.5 million |
| NAV unit price at review date | \$0.8897 |
| Inception date | 29 March 2006 |
| Investment manager | European Investors Inc, New York |
| Suggested minimum investment timeframe | At least 3-5 years |
| Benchmark | EPRA NAREIT Global ex Australia Index Hedged in AUD |
| Management costs | 1.18% p.a. (inclusive of the net effect of GST) |
| APIR code | MAQ0463AU |
| Portfolio turnover | Approximately 15% - 25% per year |
| Buy/sell spread | 0.45% / 0.45% |
| Minimum investment | Indirect investors: refer to the operator of your service Direct investors: minimum initial investment \$50,000 |
| Distributions | Paid quarterly as at 31 March, 30 June, 30 September and 31 December |



Comment from European Investors Inc

Overview – Global Liquidity Crisis

The sub-prime crisis continued to haunt the global capital markets during the early part of 2008, and the financial instability that it caused was also accompanied by a variety of additional shocks to the system: the rogue trader at Societe Generale costing the bank \$5 billion in losses on trades; the collapse of Bear Stearns and trauma at Lehman; and on the final day of the quarter, the revelation of huge losses that will be suffered by Lehman in Japan after the firm fell victim to a classic investor Ponzi scheme. All of these events served to highlight the fragility of the global financial system and its high degree of concentration among a few major global companies.

The primary effect on the property sector from the capital markets turbulence was increased financing cost as lenders and investors shied away from this sector. While real estate is a local business and markets are not correlated, the primary sources of capital have become globalized. Despite inherent and substantial differences between real estate markets, the lenders are tending to treat them the same. A problem loan in New York made by a Swiss bank is being reviewed by the bank's directors in Zurich, resulting in a more conservative stance on all property financings. Property companies in Paris are paying the price of problem loans in the US and other markets. Consequently, property companies globally are paying more for financings and getting less financing than they could have only 6-9 months ago.

This liquidity crisis has had several long-term beneficial impacts. First, speculative developments are no longer financeable, reducing fundamental risk for the property sector. Second, only the stronger companies have access to capital, and they can easily take market share from the undercapitalized companies. Finally, the crisis is putting downward pressure on interest rates such that even with increased spreads, total interest cost is declining.

During the quarter, the markets were generally negative for all sectors with the notable exception of commodities and certain emerging markets that had not participated in the rally of the past few years – like Thailand. Volatility in equity markets surged as investors sought the “safety” of commodity funds. Commodities are trading at the highest levels ever despite fundamentals that would suggest otherwise – exactly the opposite of property shares which are trading at prices that are far below fundamental value. Prices of commodities suggest that world economies are heading for faster growth and rising inflation while the property sector is discounting a sharp economic correction – seemingly contrary conclusions. Actually, if markets are poised for growth and inflation, this would argue for increased investment in the property sector, but this is not occurring.

Europe

UK. After selling off during the second half of 2007, property share prices rebounded off their 52-week lows. While much of the activity has been attributed to short covering, by the end of the quarter it appeared that long-term institutional investors were beginning to re-enter the market. At the property level, demand for commercial office space essentially evaporated for the larger requirements (100,000 sf and above) as banks

and other large users attempted to assess the ultimate carnage from the credit crisis. Leasing activity for smaller tenants remained relatively steady, especially in the West End and other locations where vacancies are at historically low levels. Efforts by the government to increase taxes by assessing foreign residents (“non-doms”) initially caused concern in the West End, as this group is a major driver of demand for the most expensive residential and commercial space in London. However, the tax was substantially watered down and should not be much of a long-term factor in the relocation decision for these wealthy individuals. Even the largest of property companies report that banks have become more demanding, both in terms of interest rate and collateral requirements. This trend should continue throughout the year until more liquidity returns to the financial markets and banks realize that they need to generate earnings through increased loan volume.

Continental Europe. The farther you get from London, the greater the market stability and economic activity – until you reach Italy and Spain. During the quarter, France endured strikes, President Sarkozy's romantic interludes, and the highest level of inflation in 15 years. Despite these challenges, the property market improved steadily, rising over 5% while the CAC 40 declined by over 16%. Tenant activity and a lack of supply in the primary locations resulted in solid rental growth for commercial space in this market. While prices for office and shopping centers have weakened, the change has been modest (-5%) as compared with London's declines of 10-15%.

Germany's property market continues to show signs of improvement, but this appears to have been lost on the equity market investors, as property shares declined sharply during the quarter, falling 9% overall.

Italy and Spain suffered from declining confidence in their respective governments (or lack thereof), and investors continued to sell out of these markets until very late in the quarter. Concerns about the political situation, declining wealth and property values, rising inflation and the general economic slowdown have weighed heavily on investors. The share price declines in these markets have been precipitous, nearly -17% in Italy and -27% in Spain, despite relatively stable property market fundamentals. In order to reverse the negative economic trend, the Spanish government announced a major stimulus plan that it can easily afford given its large government surplus. Italy would like to do the same but it lacks both a government and a budget surplus.

The **Swedish** property market, in contrast to Europe, peaked and is now experiencing rental rate declines in its major office market, but the property shares ignored this trend and rose nearly 8% in the quarter, far outperforming the broader market index return of -12%.

Asia

Japan. The commercial property market fundamentals in the major cities in Japan, especially Tokyo, have reached historically low vacancy levels. New supply, which would normally accompany such conditions, is not in evidence. In fact, the financial turmoil in the US has deeply affected sentiment in Tokyo. This was directly reflected in share prices for property companies, which declined 22% during the quarter despite rising rents and falling vacancies. Discounts to

NAV for the property developers range from 30-50% and are also at historically high levels, despite ample transaction evidence to support higher valuations. Several major transactions were concluded during the quarter at initial yields ("cap rates") of 2.5-3.5%, and rents for some properties increased as much as 30% during the past 12 months. Property companies are now trading at implied yields of 6-7% which seems excessive given recent trading data and prevailing debt rates of 1.5-2.5%. The residential market on the other hand is suffering from overbuilding, a lack of consumer confidence and rising land and materials costs that has reduced developer margins.

Hong Kong/China. After outperforming most other property markets in 2007, this market experienced profit-taking throughout the quarter until the last two weeks of March. At the same time, there was an abundance of positive news at the macro-economic level:

- › The Hong Kong government reported its largest ever budget surplus of 7% of GDP and announced that it would be redistributing some of that surplus to its residents.
- › Interest rates – which are tied to the US market – fell substantially below the 4% inflation level, resulting in negative real interest rates that would normally stimulate demand.
- › Supply of all types of real estate have not kept pace with underlying demand.

As a result of the decline in share prices, property companies in Hong Kong reached 30-40% discounts to NAV, and values continued to increase during the period – as have office and retail rental rates. China suffered its worst snowstorm during the quarter and economic growth stalled as a result. The market for property company shares declined at the same pace as Hong Kong. In this case, however, the selling pressure was related to fears that efforts by the government to slow the pace of property development would result in a greater than expected decline in primary demand. Initially, this was the case, as sales of housing units were very slow during the first two months of the year. However, the Chinese New Year and snowstorm probably had much to do with this as demand soared in March, and the property company shares of one of our top holdings, China Overseas Land, rose 47% from March 17 through April 7.

Singapore. The office sector reported an increase of 90% in rents over the past year and rents are expected to grow another 15-20% in 2008. Residential price increases are moderating from the heated pace of last year, rising 4.2% during the first quarter. Luxury home prices are also expected to moderate in 2008 in response to the global slowdown. Supply of both office and residential space may increase in 2011, and this should dampen growth rates for rentals and prices for the sector overall – if the supply materializes.

Malaysia. Property share prices declined sharply in March (-12%) after a surprising election result: the perennially ruling party to receive less than its usual 90%+ vote of support. Despite the negative sentiment, the property market performed well, with steady demand for housing and a shortage of office space resulting in rising prices and rents.

Thailand. The best performing market during the quarter as the housing and commercial property markets were greatly helped by improving consumer sentiment and economic activity. The government added to the stimulus by providing

tax incentives to homebuyers and developers. Our primary holding in this market, Central Pattana (a developer/owner of office and retail properties) rose 13%.

Investment Activity and Outlook.

As we noted in our last Outlook, we were expecting the Bank of England to lower rates given the current economic environment. Not only did they lower rates by .25% – to 5%, they also signaled that more cuts may be necessary to keep the economy from sliding into recession. Even the ECB, whose mandate is to curb inflation almost without regard to its impact on the economy, commented that the impending economic slowdown in Europe may require some interest rate relief – and that the ECB would be ready to accommodate this eventuality. The downward trend in interest rates should ultimately prove favorable to the real estate sector, but it may take some time to eradicate the negative market sentiment prevailing in most markets. The market is still very volatile as each week brings news of another financial crisis or earnings decline that exceeds market expectations – the UBS announcement of efforts to raise \$15 billion in capital, GE's much lower than forecast earnings, Toyota's sales declines, etc.

After last year's sell-off in the UK property sector, we allocated more capital to the market during the quarter, and are now taking profits after certain of the companies exceeded our price targets. The market in France remains attractively priced and we are maintaining positions in the best quality companies. Spain and Italy have become so attractively priced relative to underlying property values (over 50% discount) that we are reluctant to sell at these levels. However, we are closely monitoring each holding and contacting key personnel on a regular basis – at least twice a month. It appears to us that the European banks have suddenly become so risk averse that the European economy may suffer greater damage in the short-term than the Asian markets, so we are redeploying some capital to Asia.

Of all of the Asian markets, Japan is the most difficult to fathom. While every company could provide at least 50% upside if this market becomes more stable (politically and economically), the prospects for this depend largely on the US economy regaining strength. Overall, the Asian markets – both developed and emerging – are better capitalized than any other market, and the average country has nearly half of its GDP in cash. Intra-Asian demand is accelerating, and even Japan has become far less reliant on US trade. We do not believe that a "decoupling" from the US market has occurred, but the trend toward such an event is clear. After the recent sell-off in all Asian markets, there is ample upside potential for nearly all companies.

After suffering through the seizure of the capital markets – starting six months ago and further intensifying in 2008, despite the efforts of global Central Banks – we have been reassessing our portfolio companies' leverage and exposure to development risk. It has become clear that hedge funds have been aggressively shorting property companies in general, and those exposed to refinancing risk have been the most severely affected. Rumors about financing difficulties precipitated sharp declines in share prices for even the best capitalized companies, regardless of whether the rumors proved correct. This rumor-mongering activity has triggered

SEC investigations in many jurisdictions and we hope that the impact of short-selling on rumor will abate.

In the meantime, we have been spending more time with our companies – reviewing and re-underwriting valuations – and will be reducing exposure to those markets and companies that are more leveraged and development-oriented. This capital will be shifted to companies with better growth prospects and stronger balance sheets.

We will continue to maintain relatively high cash levels (7-9%) in this turbulent environment, but we expect to reduce this level throughout the quarter when and as it becomes clearer to us that the financial market turmoil is abating.

How the Fund is managed

European Investors Inc's (EII) investment approach for the Fund is based on the premise that investment in equity securities issued by global, listed real estate companies and trusts is an efficient and cost-effective way to obtain broad, indirect exposure to the real estate asset class.

Furthermore, as an asset class, real estate may offer several advantages such as historically low volatility relative to the broader equity markets and a low correlation with other asset classes.

EII will make asset-allocation decisions based on both:

- economic, geographic, real estate fundamental / sector factors (known as 'top down asset allocation'); and
- factors specific to each individual security (known as 'bottom-up security selection').

Although both facets of EII's approach are important, it is the 'bottom up' security selection process that will primarily drive the investment strategy for the Fund.

^ Past performance is not a reliable indicator of future performance. The returns on the fund assume distributions are reinvested.

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How to contact Macquarie

Financial advisers


 1800 005 056

 Macquarie Professional Series
PO Box H111 Australian Square NSW 1215

Master trusts and wrap operators


 1800 214 616

 professionalseries@macquarie.com


 (02) 8232 9435

Prospective investors

 www.macquarie.com.au/professionalseries

 Call your financial adviser or
Macquarie on 1800 236 141

Institutional investors

 (02) 8232 7017

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