

Abacus Diversified Income Fund II

DISCLOSURE OF INFORMATION

The Australian Securities and Investments Commission has developed eight specific disclosure principles for unlisted property trusts to assist retail investors to compare risks across schemes.

The following information on the Abacus Diversified Income Fund II (the **Fund**) is based on the offer document dated 24 December 2009 and the 30 June 2010 annual financial report. These are available through the Fund page on the Abacus website at www.abacusproperty.com.au.

Investors in this Fund have the benefit of an underwritten distribution and an underwritten return of capital provided by Abacus Property Group. This means that some of the risks associated with an unlisted property trust scheme are mitigated.

1. Gearing ratio

The gearing ratio indicates the extent to which a scheme's assets are funded by interest bearing liabilities.

Gearing enhances the potential for capital gain if the Fund's properties increase in value. However, it may also increase any capital loss in the event that the value of the properties fall compared to an investment which has no borrowings. A higher gearing ratio implies a greater level of risk.

	ACTUAL AS AT 30 JUNE 2010	PRO FORMA AS AT 30 JUNE 2010
Gearing ratio	1.00	0.61

The actual gearing ratio at 30 June 2010 includes the bank debt borrowed by the Fund, a long term loan provided by Abacus Property Group and the Abacus Working Capital Facility (the Facility). The Facility is bridging finance provided by Abacus to the Fund while it is raising equity. The pro forma gearing ratio assumes that the equity is fully subscribed and the Facility is repaid. The Facility had an outstanding principal balance of \$75.8 million as at 30 June 2010.

The pro forma calculation is more relevant to investors because the Facility has the same priority of repayment as equity, there are no loan to value or other covenants and there are only limited circumstances when the loan must be repaid - for example, if Abacus Funds Management Limited ceases to be the responsible entity of the Fund.

2. Interest cover

Interest cover measures the ability of the scheme to service interest on debt from earnings. An interest cover of 1.0 indicates the scheme's cash earnings just cover its interest obligations. A lower interest cover implies more risk.

	ACTUAL AS AT 30 JUNE 2010	PRO FORMA AS AT 30 JUNE 2010
Interest cover	2.23	1.45

The actual interest cover at 30 June 2010 includes the benefit of \$15.9 million of debt forgiveness accounted during the year. The difference between the actual interest cover as at 30 June 2010 and the pro forma interest cover is the assumption that the Facility is fully replaced by unitholder equity and that the income from debt forgiveness is excluded. The rate of interest charged on the Facility is the same as the prevailing distribution yield received by unitholders in the Fund (unless interest is waived, as it was for part of the period). If necessary, Abacus Property Group will defer the payment of interest on the Facility to support the forecast cash distribution.

The pro forma calculation is more relevant to investors because the interest rate charged on the Facility is the same as the distributions on issued units. The Facility is repaid as units are subscribed by investors. Further, the Fund's bank does not include the interest on the Working Capital Facility in the calculation of Interest Cover for lending purposes. The debt forgiveness is a non-recurring item and thus its exclusion from the figures is more meaningful to investors.

The actual and the pro-forma interest cover ratio includes the cost of interest relating to the Abacus Loan Facility. Interest on this loan is being capitalised (that is, not paid in cash but rather added to the loan balance) to increase the amount of cash available to fund distributions to unitholders.

3. Scheme borrowing

Borrowing maturity and credit facility expiry profiles indicate when a scheme will have to renew borrowing or credit facilities.

At 30 June 2010 the Fund's facilities included bank loans of \$104.8 million, the Abacus Loan Facility of \$20,000,000 and the Abacus Working Capital Facility of \$100,000,000.

AS AT 30 JUNE 2010	TOTAL FACILITY LIMIT	AMOUNT DRAWN	AMOUNT UNDRAWN
Due within one year	\$50,775,000	\$48,228,000	\$2,547,000
Due within two years	-	-	-
Due within three years	\$54,000,000	\$52,929,300	\$1,070,700
Due within four years	-	-	-
Due within five years	-	-	-
Due after five years	\$120,000,000	\$96,852,000	\$23,148,000

The first expiry of bank debt facilities is 31 December 2010. This facility is expected to be refinanced before December 2010 with the same facility limit for a period of three years ending 30 September 2013.

The Abacus Working Capital Facility has a maximum limit of \$100 million and is to be repaid by 30 June 2018. The Abacus Loan Facility has a maximum limit of \$20 million and is to be repaid by 30 June 2018.

A lender has no obligation to roll over a loan at the end of the loan term. There is no guarantee that future loan funds will be secured, or be secured at competitive interest rates at the time that the Fund's debt facilities are to be refinanced.

At 30 June 2010, more than 100% of the Fund's total bank debt facilities were covered by interest rate swap arrangements at an average effective fixed interest rate (including bank margin) of 8.3% with a weighted average bank loan term to maturity of 1.3 years.

If the Fund were to be wound up, amounts owing to external lenders and other creditors of a scheme rank before an investor's interest in the scheme, while any amount owing on the Abacus Working Capital Facility would rank proportionately with unitholders on any return of capital. The repayment of the principal of the Abacus Loan Facility will not be before 30 June 2016 and if required the Fund will set off all or part of the principal of the Abacus Loan Facility in satisfaction of Abacus Property Group's obligations in respect of the underwritten capital return. Full details are set out in section 2.5.3 of the offer document dated 24 December 2009.

4. Portfolio diversification

Investment Strategy

The Fund's investment strategy is to build a diversified portfolio of property investments across different property asset classes and sectors.

Commercial investment properties valued at less than \$25 million are the core focus of the Fund with a particular emphasis on properties that offer:

- a recurring and growing income stream;
- long-term leases to quality tenants; and
- the opportunity for further capital growth.

Active management of each asset by Abacus's team of experienced property professionals will seek to maximise income and capital growth over time.

Portfolio diversification as at 30 June 2010

As at 30 June 2010 the Fund's investment portfolio (excluding cash and other assets) was \$191.6 million, comprising:

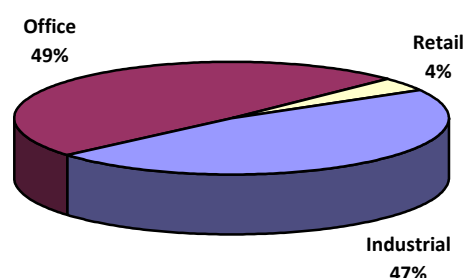
PORTFOLIO ASSETS	VALUE	PROPORTION
Property assets	\$175,410,000	91.6%
Indirect property investments	\$16,161,000	8.4%

At 30 June 2010, the Fund owned 23 direct properties and two indirect property assets, diversified by sector and location as shown in the charts below.

Property value by state



Property value by sector



On 30 August 2010 one of the indirect property assets, an option to purchase a 50% interest in a property in Hobart, was exercised and the property was settled on 1 October 2010.

Occupancy of the Fund's properties at 30 June 2010 was 95%, and the weighted average lease expiry was 3.8 years by income and 4.4 years by area.

TOP 5 TENANTS	% OF INCOME
Colorpak Limited	10%
Pacific Brands	9%
Centrelink	8%
Unicharm Australasia Pty Ltd	7%
Bartercard Aust Pty Ltd	7%

PORTFOLIO LEASE EXPIRY BASED ON INCOME	
< 1 year	18%
1-2 years	15%
2-3 years	11%
3-4 years	16%
4-5 years	0%
> 5 years	40%

5. Valuation policy

The Fund obtains independent valuations of each property at least annually on either a December or June anniversary date to ensure that the carrying amount does not differ materially from the asset's fair value at the balance sheet date.

The valuations are undertaken by an independent valuer who is registered under the appropriate state or territory valuer registration schemes in which the property is located to practice as a valuer who has at least five years of continuous experience in valuation and who has no pecuniary interest that could conflict with their valuation. The valuation is required to follow the principles set out in the guidelines established by the Australian Property Institute.

Approximately 58% of the Fund's properties were independently valued in June 2010, 33% were independently valued in October 2009 and the remaining 8% (held indirectly) were independently revalued in December 2009. The weighted average capitalisation rate was 9.0%.

Valuation details of the most significant properties in the Fund are set out in the table below:

PROPERTY	DATE OF VALUATION	CAP RATE	INDEPENDENT VALUATION \$'000
144-168 National Boulevard, Campbellfield, VIC	June 2010	8.75%	17,000
1-5 Lake Drive, Dingley VIC	October 2009	8.75%	13,400
Bartercard House, Southport QLD	October 2009	8.50%	11,250
22-28 Edgeworth David Ave, Hornsby NSW	June 2010	9.25%	11,000
27 Grant Street, Port Macquarie, NSW	June 2010	10.00%	11,000

6. Related party transactions

Abacus's policy on related party transactions is that transactions are required to be at arms length or the financial benefit must be approved by securityholders. Details of related party transactions between Abacus Property Group and the Fund are set out in section 4.6 of the offer document dated 24 December 2009.

Appropriate disclosure to unitholders is an essential element of Abacus's arrangements to manage conflicts of interest. This disclosure may be made through the scheme's offer document, annual report and/or the explanatory memorandum of any meeting of unitholders held to approve related party transactions. The Abacus compliance framework requires appropriate review of all controls applying to a fund at least annually.

The Fund's working capital facility is a loan provided by Abacus Finance Pty Limited. The terms of the loan are set out in Section 2.5.2 of the offer document dated 24 December 2009. The Abacus Loan Facility is also provided by Abacus Finance Pty Limited and the terms of this loan are set out in Section 2.5.3 of the offer document dated 24 December 2009. The Fund may be liable to pay management and other fees to Abacus Funds Management Limited. Details of all fees are set out in Section 5 of the offer document dated 24 December 2009.

7. Distribution practices

The Fund pays quarterly distributions to unitholders. The forecast distribution for the year ending 30 June 2011 is 8.5 cents per unit for Class A and Class B unitholders (8.5% on the \$1 issue price per unit). The forecast distribution for the year ending 30 June 2011 for Class C unitholders is 6.18 cents per unit (8.24% on the \$0.75 issue price per unit).

The distribution is primarily sourced from realised income comprising rent from the properties owned by the Fund, management fee deferrals and waivers and/or interest deferred on the Abacus Working Capital Facility and Abacus Loan Facility.

Abacus Property Group has underwritten a cash distribution yield of 8.5% pa until 30 June 2011 for Class A and Class B unitholders. Abacus Property Group has underwritten a cash distribution yield of 8% per annum, indexed annually in line with CPI, for the term of the Fund for Class C unitholders. To the extent required, the underwritten distribution will be achieved by deferral of the interest on the Abacus Working Capital Facility and Abacus Loan Facility or deferral of any fees payable to Abacus under the Fund constitution, or any combination of these things or in any other way Abacus considers appropriate.

The reasons for the underwritten distribution include the number of one-off costs associated with the establishment of the Fund, unanticipated vacancies in some of the properties and to increase the appeal of the Fund in the current environment.

8. Withdrawal arrangements

The Fund is illiquid with no current withdrawal facility. The liquidity facility is fully utilised and was suspended on 15 April 2009.

When operative, withdrawals under the redemption facility are processed weekly with the price calculated as the net asset value adjusted for accrued distribution entitlements less the sell spread (currently 0.5%). Full details of the redemption facility are set out in the Fund's offer document dated 24 December 2009.

As part of the Fund restructure, Abacus has introduced a new limited liquidity facility for all units whereby in cases of investor hardship (as determined by Abacus in its absolute discretion), Abacus will acquire investor's units at a price that is the lesser of the Fund's net asset value per unit less the sell spread and the then current issue price of units. The new limited liquidity facility may be terminated at any time by Abacus in its sole discretion.

Investors holding Class A and Class B units in the Fund have an underwritten return of their original capital after 30 June 2016. Investors should be aware that the purchasing power of a dollar invested today is worth more than the purchasing power of the same dollar in 2016 due to the effects of inflation. For example if the inflation rate was 3% per annum then \$100 in June 2016 would have the same purchasing power as \$84 in June 2010.

Dated: 10 November 2010

Prepared by Abacus Funds Management Limited ACN 007 415 590 AFSL 227819

Abacus intends to update these disclosures on a six-monthly basis through the Fund page on the Abacus website.

Investors are entitled to a hard copy of this information on request. Please call 1800 253 860 or email enquiries@abacusproperty.com.au.