

28 March 2008

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Record Realty Trust (ASX: RRT) to undertake a three year asset realisation program

The Directors of Record Funds Management Limited (RFML) as Responsible Entity of Record Realty Trust (RRT) have announced the commencement of a targeted three year asset realisation program worth approximately \$2.1 billion, following a comprehensive strategic review that was detailed in the Half Year Results to 31 December 2007 (ASX announcement: 21 February, 2008).

As outlined in the presentation accompanying the release, the Directors' recommendation of the program will result in the measured realisation of the capital value of the Trust over a targeted three year period to optimise RRT's return potential for unitholders. Subject to the progress of the asset realisation program, distributions to unitholders are anticipated to recommence during the 2009 financial year.

Selected asset sales will be targeted over the immediate term to reduce gearing levels and address potential debt covenant and liquidity pressures. The selection of these assets follows an assessment of the potential to maximise proceeds from sales in the current environment and the quantum of potential equity released. The properties targeted for immediate sale include the U.S. and German portfolios consisting of 22 properties leased to the US Government and 8 properties leased to Deutsche Telekom; the ASX Building in Bridge St, Sydney; the Centrelink Building in Canberra; 1 Spring St, Melbourne and 126 Margaret St, Brisbane.

Based on asset realisations at 31 December 2007 valuations, the proposed RRT sales program would generate approximately \$2.1 billion, delivering net proceeds (before disposal costs and debt break costs / receipts) of around \$316.6 million, after the repayment of asset level debt of \$1.7 billion and corporate level debt of \$150.8 million.

Property	31 Dec 2007 Asset Value A\$'000	31 Dec 2007 Current Debt A\$'000	31 Dec 2007 Implied Equity Value A\$'000
US Portfolio	744,863	594,779	150,084
German Portfolio	587,544	494,420	93,124
Bridge Street, Sydney	250,000	190,400	59,600
Spring Street, Melbourne	90,000	60,381	29,619
Centrelink, Canberra	109,000	85,664	23,336
King William, Adelaide	50,000	23,425	26,575
Qantas, Mascot	50,800	32,903	17,897
Reed Street, Canberra	56,500	42,312	14,188
Mt Gravatt, Qld	53,000	37,424	15,576
St Kilda Road, Melbourne	42,000	31,455	10,545
Gosford, NSW	50,000	38,100	11,900
Margaret St, Brisbane	29,500	19,838	9,663
Warringah Road, Frenches Forest	23,500	18,225	5,275
Subtotal	2,136,707	1,669,324	467,383
Corporate Debt	na	150,798	na
Total	2,136,707	1,820,121	316,585

* Note: Equity value calculations are prior to disposal costs and debt break costs / receipts.
 The equity released may differ if asset sale prices vary from the 31 December 2007 valuations.

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Mr Ian Schilling, Fund Manager of RRT, commented that “this plan is in the best interests of unitholders in light of the current market conditions and follows a comprehensive review of a range of potential models. It is important to note that we will only execute specific asset sales if they optimise the potential outcome for unitholders.”

“Only a small number of the initial asset sales targeted over the immediate future will need to be executed to alleviate potential RRT debt covenant and liquidity pressures. As a consequence, there should be no need for forced sales.”

Mr Schilling noted that “a measured sale program targeted over a three year term is believed to be a reasonable timeframe for assets to be sold and equity returned to unitholders within a timely manner. This should allow sufficient time to ensure that the optimal value is secured for assets, therein maximising available returns to unitholders.”

“As we implement this program, we expect to be able to make distributions from the 2009 to 2011 financial years.” he added.

RRT’s closing price yesterday of 18 cents (27 March 2008), represented an 80.0% discount to the Trust’s Net Tangible Assets per unit as at 31 December 2007 of 90 cents. A sensitivity analysis undertaken by Management shows that capitalisation rates across RRT’s portfolio would need to increase on average by over 80 basis points for the total distribution per unit upon realisation of the asset sale program not to exceed this trading price.

Management believes that such an outcome is unlikely. The delivery of the proposed strategy should realise significant unitholder value in excess of RRT’s recent price trading history given the quality of RRT’s portfolio and the proposed measured approach to optimise asset realisations within a three year period.

Yours sincerely,

RECORD FUNDS MANAGEMENT LIMITED

as Responsible Entity for Record Realty



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Record Realty Strategic Review

28 March 2008



partnership / determination / ingenuity

Record Realty



1. Background
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4. Summary

1. Background

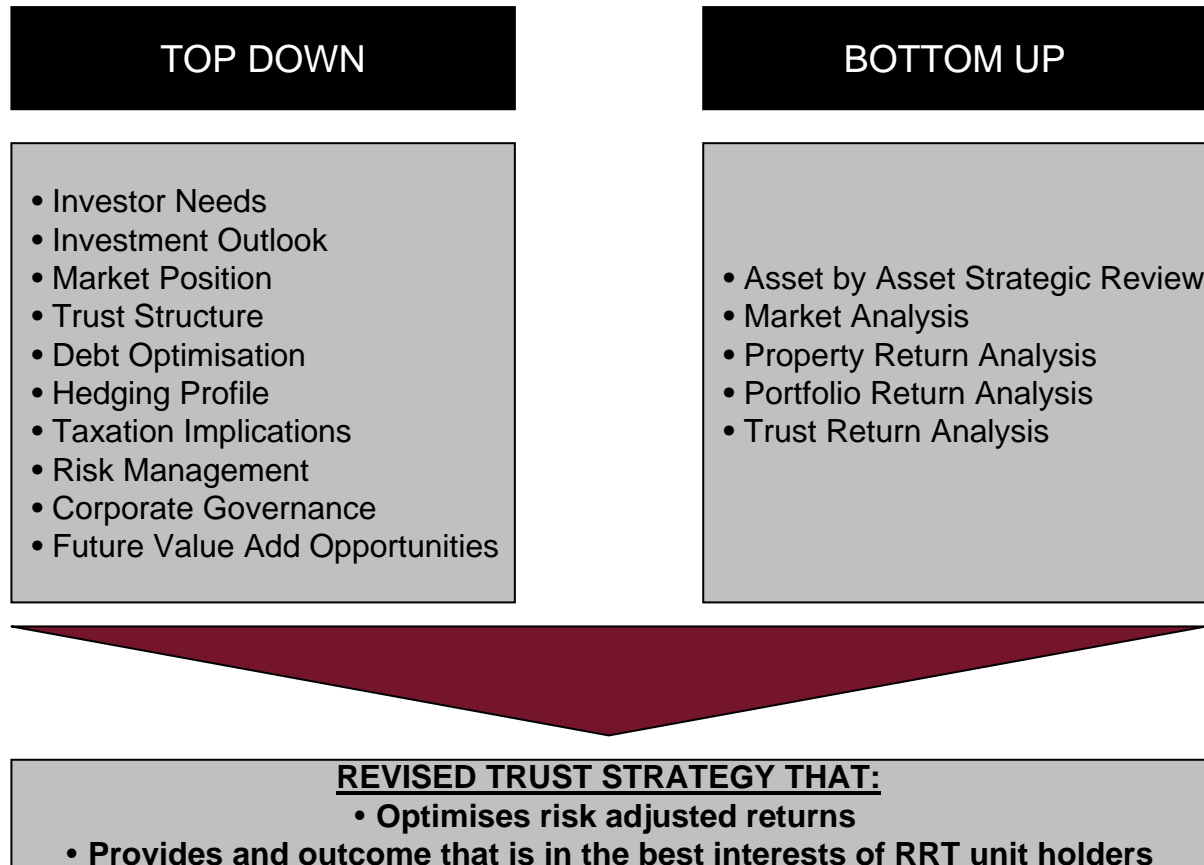
- ◆ Record Realty Trusts' (RRT) stated strategy is to:
 - Apply structured finance techniques to achieve optimal returns on investments;
 - Target quality properties with stable long-term cash flows from premium principal tenants (government or major corporates) with a high probability of lease renewal;
 - Focus on investing in the residual equity positions of properties;
 - Use rental from properties to service the interest on debt, repay the loans and cover other operating expenses; and
 - Pay distributions from capital growth through debt refinancing and assets sales.
- ◆ The current property market is very different to when RRT was established in 2002 with:
 - Pressures on property values and future capital growth;
 - Pressures on debt markets; and
 - Global economic pressures.

- ◆ Pressures on RRT's current model:
 - Current volatile property markets and resultant pressure on asset values.
 - Limited capital growth expected across the RRT portfolio over the short to medium term.
 - Regular distributions from capital growth is likely to be difficult in the immediate future.
 - High gearing levels have resulted in a negative operating cash flow position.
 - Property revaluations may result in pressure on asset level loan-to-value (LTV) debt covenants within parts of the domestic portfolio and Net Tangible Asset (NTA) covenants within the corporate debt facility.
- ◆ Despite RRT's quality global property portfolio which provides a secure property income profile, a strategic review of RRT's operating model is required in the light of the current property market and financial environment.

2. Strategic Review

- Approach Undertaken
- Capital Distribution Model
- Income Distribution Model
- Asset Realisation Program
- Recommended Strategy
- Implementation
- Sensitivity Analysis

- ◆ Allco has undertaken a comprehensive strategic review of RRT, using a Top Down / Bottom Up approach.



- ◆ The strategic review has evaluated of a wide range of alternatives for RRT.
- ◆ In particular, three potential operating models for RRT have been a focus:
 - 1. Capital Distribution Model:**
 - Continuing RRT's current capital distribution model at lower and more sustainable levels of gearing.
 - 2. Income Distribution Model:**
 - Converting RRT to a traditional REIT that pays distributions from net income (rather than capital growth).
 - 3. Asset Realisation Program:**
 - Implementing a program of asset sales that will ultimately result in a wind-up of the Trust over a period that maximises the return potential for unitholders.

Assumptions:

- ◆ Continuation of the current model at lower, more sustainable levels of gearing. A range of gearing levels have been modelled with the optimal gearing level assessed at 60 - 70% LTV.
- ◆ Repayment of the \$165 million BOS International (BOSI) corporate debt facility and \$5 million of subordinated notes.
- ◆ Sales of properties and portfolios have been modelled (at various sale price assumptions) to facilitate an appropriate reduction of gearing levels while maintaining an optimal portfolio to deliver capital growth and maximise future distributions to unitholders.

Results:

- ◆ No distributions payable until gearing is reduced. Distributions are targeted for FY 2009.
- ◆ Subject to the modelling assumptions adopted, sustainable distributions are achievable post-2009 of approximately 5 - 6 cents per unit; substantially below the 11 cents targeted and delivered over the last 2 years.
- ◆ Based upon a 10% trading yield, the resultant theoretical price for RRT once sustainable distributions are achieved in 2010 could approximate 55 cents, substantially below the current NTA of 90 cents. Any significant re-rating from current prices is likely to take time.
- ◆ Significant execution risk remains in continuing the original model in the current financial and property market environment.

Assumptions:

- ◆ Conversion of RRT into a traditional REIT where distributions are paid from net income (rather than capital growth).
- ◆ The gearing is reduced to be similar to traditional REITs, targeting no more than 50% LTV.
- ◆ Repayment of the \$165 million BOSI corporate debt facility and \$5 million of subordinated notes.
- ◆ Share buy-backs modelled up to the targeted gearing level.
- ◆ Sales of properties and portfolios have been modelled to facilitate an appropriate reduction of gearing levels while maintaining an optimal portfolio to maximise income distributions.

Results:

- ◆ Difficult to compete with similar existing listed REITs due to:
 - The portfolio lacking critical mass and market relevance. (The optimal portfolio modelled would comprise 8 Australian assets valued at approximately \$430 million and with a market capitalisation of circa \$300 million).
 - Limited geographical diversification.
 - No distributions payable until gearing is reduced.
 - Subject to the modelling assumptions adopted, the distribution yield per NTA is likely to be between 2% to 5% (which is below existing REIT comparables) and RRT is likely to trade at a significant discount to NTA based upon a theoretical trading yield of 8 – 10%.
 - Execution risks in realising asset sales further detracted from this being pursued as a viable option and any potential price re-rating would likely to be long dated.

Assumptions:

- ◆ Implementing a program of asset sales that will ultimately result in a wind-up of the Trust over a period that maximises the return potential for unitholders.
- ◆ Order of property sales based upon an assessment of potential LTV covenant pressures, property saleability in the current environment and quantum of potential equity released, resulting in an assumed sale of the US Portfolio, German Portfolio, ASX, Centrelink, Shell (Spring St) and Margaret St by the 30 September 2008.
- ◆ Sale of the remaining RRT properties targeted within three years.
- ◆ Return of capital to unitholders on individual asset sales after repayment of corporate level debt.

Results:

- ◆ Net proceeds to unitholders would exceed the projected theoretical trading price under both the Capital and Income Distribution Models.
- ◆ This approach is likely to be the most expedient and most certain approach to maximise the price outcome for unitholders over a short to medium term investment horizon.
- ◆ While there are some execution risks in realising asset sales, a three year horizon is viewed as a reasonable period to optimise the realisable value for unitholders.

The Asset Realisation Program is seen as the most viable option for RRT unitholders for the following reasons:

- ◆ The net proceeds from the realisation of assets is likely to be greater than the potential price re-rating under the Capital and Income Distribution Models;
- ◆ RRT is unlikely to be competitive continuing the Capital Distribution Model, or changing to an Income Distribution Model when compared to its listed peers;
- ◆ Under both the Capital and Income Distribution Models, RRT is likely to lack critical mass, market relevance and diversification following the required asset sales required to reduce debt;
- ◆ Any significant re-rating under the Capital and Income Distribution Models is likely to be long dated. Adopting an Asset Realisation Program is likely to be the most expedient approach for equity to be returned to unitholders in a timely manner, while maximising returns available to unitholders; and
- ◆ While there are execution risks in realising asset sales in the current environment for all three options, managing an orderly sale program over a targeted three year period is viewed as a reasonable timeframe for assets to be sold to optimise the realisable value for unitholders, while avoiding the need for forced sales.

- ◆ An Asset Realisation Program will be targeted over a three year period.
- ◆ Immediate asset sales will be targeted in excess of the required equity to alleviate potential debt covenant and fund liquidity pressures to:
 - Avoid a “forced sale scenario”; and
 - Ensure that assets are **only** sold if the sale price optimises the return potential.
- ◆ The targeted property sales over the immediate term will be based upon an assessment of:
 - Potential debt covenant pressures;
 - Property saleability in the current environment; and
 - Quantum of potential equity released.
- ◆ In order of priority, proceeds from the asset sales will be used as follows:
 1. Reduction of asset level debt where covenants are close to LTV limits;
 2. Repayment of the \$165 million BOSI corporate debt facility (current debt as at 20 February 2008 is \$147.5 million);
 3. Repayment of the \$5 million of subordinated notes; and
 4. Return of net proceeds (after repayment of asset level debt) to unitholders.

- ◆ A summary of the potential equity released from asset sales at 31 December 2007 valuations is as follows:

Property	31 Dec 2007 Asset Value A\$'000	31 Dec 2007 Current Debt A\$'000	31 Dec 2007 Implied Equity Value A\$'000
US Portfolio	744,863	594,779	150,084
German Portfolio	587,544	494,420	93,124
Bridge Street, Sydney	250,000	190,400	59,600
Spring Street, Melbourne	90,000	60,381	29,619
Centrelink, Canberra	109,000	85,664	23,336
King William, Adelaide	50,000	23,425	26,575
Qantas, Mascot	50,800	32,903	17,897
Reed Street, Canberra	56,500	42,312	14,188
Mt Gravatt, Qld	53,000	37,424	15,576
St Kilda Road, Melbourne	42,000	31,455	10,545
Gosford, NSW	50,000	38,100	11,900
Margaret St, Brisbane	29,500	19,838	9,663
Warringah Road, Frenches Forest	23,500	18,225	5,275
Subtotal	2,136,707	1,669,324	467,383
Corporate Debt	na	150,798	na
Total	2,136,707	1,820,121	316,585

Note: Implied equity value calculations are prior to disposal costs and debt break costs / receipts.

The equity released may differ if asset sale prices vary from the 31 December 2007 valuations.

- ◆ Only a small number of the initial targeted asset sales will need to be executed to alleviate RRT debt covenant and liquidity pressures.
- ◆ The higher quality premium and A-grade RRT properties and those with active management opportunities are likely to attract stronger investor interest in the current investment market.

- ◆ The assets targeted for immediate sale are:
 - German Portfolio
 - Bridge Street, Sydney
 - Centrelink, Canberra
 - US Portfolio
 - Spring Street, Melbourne
 - Margaret Street, Brisbane
- ◆ Mt Gravatt, Queensland, previously targeted for disposal, will be withdrawn from sale for the immediate term.
- ◆ While mindful of LTV loan covenants, sales will **only** be executed if they optimise the potential outcome for unitholders.
- ◆ Sales of the remaining RRT assets will be targeted over a three year term. This is believed to be a reasonable timeframe, to ensure that optimal values are secured from asset sales, therein maximising returns to unitholders.
- ◆ No distributions are anticipated for FY2008. Subject to asset sales and repayment of the BOSI corporate debt facility and subordinated notes, distributions are targeted from FY 2009 to 2011.
- ◆ Separately, Allco as Manager of RRT, will explore options for the potential sale of the Trust in its entirety. This will only be pursued if this secures an outcome that is in the best interests of unitholders.

Sensitivity Analysis

- The following demonstrates an analysis of portfolio values and resultant forecast distributions per unit should capitalisation rates increase from those adopted in the 31 December 2007 valuations:

RRT Asset Realisation Program Property Sale Scenario Assumptions	Valuation as at 31 Dec 2007	Capitalisation Rate Adjustment Scenarios			
		Scenario 1 (+25 bps)	Scenario 2 (+50 bps)	Scenario 3 (+75 bps)	Scenario 4 (+100 bps)
<u>Australian Portfolio</u>					
Assessed Portfolio Value (AUD) (Approx.)	802,300,000	771,412,849	742,879,921	716,435,396	691,852,870
Resultant Weighted Capitalisation Rate (Approx)	6.28%	6.53%	6.78%	7.03%	7.28%
% Discount to 31 December 2008 Valuation		(3.85%)	(7.41%)	(10.70%)	(13.77%)
<u>US Portfolio</u>					
Assessed Portfolio Value (AUD) (Approx.)	653,319,000	628,672,713	605,818,374	584,567,410	564,756,807
Resultant Weighted Capitalisation Rate (Approx)	6.38%	6.63%	6.88%	7.13%	7.38%
% Discount to 31 December 2008 Valuation		(3.77%)	(7.27%)	(10.52%)	(13.56%)
<u>German Portfolio</u>					
Assessed Portfolio Value (AUD) (Approx.)	350,000,000	334,318,996	319,982,847	306,825,658	294,707,741
Resultant Weighted Capitalisation Rate (Approx)	5.33%	5.58%	5.83%	6.08%	6.33%
% Discount to 31 December 2008 Valuation		(4.48%)	(8.58%)	(12.34%)	(15.80%)
Forecast Total Distribution Per Unit Upon Execution of the Asset Realisation Program (Approx)	90 cents	70 cents	50 cents	30 cents	10 cents

- Capitalisation rates across RRT's portfolio would need to increase on average by over 80 basis points for the total distribution per unit upon realisation of the asset sale program not to exceed yesterday's (27 March 2008) closing price for RRT of 18 cents*.
- Management believes that such an outcome is unlikely given the quality of RRT's portfolio and the proposed measured approach to optimise realisations within a targeted 3 year period.

3. Debt Covenants, Liquidity & Management Fees

- Asset Debt Covenants
- Corporate Debt Covenants
- Fund Liquidity
- Management Fees

- ◆ RRT has minimal refinance risk over the immediate term given:
 - A long dated weighted average debt maturity profile of 4.2 years (31 December 2007); and
 - The first asset level debt maturity is June 2009 comprising only 1.3% of the Trust's total debt. The BOSI corporate debt facility is due to be repaid in July 2009 (unless extended)
- ◆ Asset level LTV debt covenants exist on the Australian portfolio, but not on the US or German Portfolios.
- ◆ Downward revaluations at 30 June 2008 could pressure certain Australian asset debt covenants, as shown in the table below.
- ◆ The proposed asset sale program should avoid any breach of LTV debt covenants.

Property	Debt Level 31-Dec-07	Asset Value 31-Dec-07	LTV 31-Dec-07	LTV Covenant 30-Jun-08	Maximum Asset Value % reduction
Bridge Street, Sydney	190,400,000	250,000,000			
- Senior	100,500,000	na	40.2%	50.0%	19.6%
- Junior	89,900,000	na	76.2%	77.0%	1.1%
Centrelink, Canberra	85,663,541	109,000,000	78.6%	80.0%	1.8%
Gosford, NSW	38,100,000	50,000,000	76.2%	78.0%	2.7%
Warringah Road, Frenches Forest	18,225,000	23,500,000	77.6%	80.0%	3.5%
Reed Street, Canberra	42,312,038	56,500,000	74.9%	82.5%	10.2%
St Kilda Road, Melbourne	31,454,593	42,000,000	74.9%	83.0%	10.7%
Margaret St, Brisbane	19,837,500	29,500,000	67.2%	78.0%	14.3%
Mt Gravatt, Queensland	37,423,662	53,000,000	70.6%	83.0%	15.3%
King William, Adelaide	23,425,000	50,000,000	46.9%	65.0%	27.9%
TOTAL	486,841,334	663,500,000	73.4%	78.5%	6.5%

- ◆ The BOSI corporate debt facility contains a number of restrictive covenants and requirements that need to be managed as part of the implementation of RRT's strategy:
- ◆ **Covenants:**
 - The principal outstanding on the corporate facility cannot exceed 45% of the Trust's NTA value. As at 31 December 2007, the NTA covenant ratio was approximately 40%. Given current capitalisation of debt forecasts, and with no further debt reductions, revaluations cannot fall by more than approximately 5% across the portfolio as at 30 June 2008.
 - RRT must have a total tangible assets value of at least \$1.5 billion and a minimum of 30 properties.
 - A breach of a covenant results in an event of default.
- ◆ **Requirements:**
 - An insolvency event or enforcement of security under certain asset level structures can trigger a review event.
 - A review event enables BOSI to renegotiate the terms of their loan. If no agreement is reached by the end of 30 days, the facility must be repaid within a further 60 day period.
- ◆ Management is confident that the proposed sale program should avoid any breaches and is working closely with BOSI to proactively manage these covenant pressures.

- ◆ RRT's high gearing levels has resulted in a negative fund cash flow position at a corporate level where interest expense and operating costs exceed the net income from the underlying portfolio.
- ◆ This could potentially result in Trust liquidity issues during the 4th quarter of the 2008 calendar year should asset sales not be realised.
- ◆ The proposed sale program should avoid any liquidity issues from eventuating.

- ◆ The RFML Board previously undertook to review the RRT management fees in the light of the proposed future strategy.
 - RRT's ongoing management fee (approximately 32 basis points of gross assets) is lower than its peers.
 - No future acquisition fees will be paid as no further acquisitions are proposed.
 - No management fees are payable upon the disposal of assets.
- ◆ Given the proposed strategy to implement an Asset Realisation Program, a revision to the fee structure is viewed as unnecessary.
- ◆ The benefit to investors of incorporating a performance fee is viewed as negligible given the current low base fee and relatively short timeframe proposed for strategy implementation.

4. Summary

- ◆ Management will undertake an asset realisation program with the view to optimising the realisable value of RRT for the benefit of unitholders.
- ◆ Selected asset sales will be targeted over the immediate term to:
 - Address current debt covenant and liquidity pressures; and
 - Reduce debt within RRT (in particular repayment of the \$165m BOSI corporate debt facility and \$5m in subordinated notes).
- ◆ Subsequently, there will be a measured realisation of assets targeted for completion within three years.
- ◆ No distributions are anticipated for FY2008. Distributions are targeted from FY2009 to FY2011.
- ◆ The RFML Board is confident that the proposed strategy is in the best interests of unitholders and will optimise RRT's return potential in the current environment.

The material that follows is a presentation of general background information about Record Realty's activities current at the date of the presentation. It is information given in summary form and does not purport to be complete.

This presentation is not an offer or invitation for subscription or purchase of or a recommendation of securities. It is not intended to be relied upon as advice to unitholders or potential unitholders and does not take into account the investment objectives, financial situation or needs of any particular investor. These should be considered, with or without professional advice, when deciding if an investment is appropriate.

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