

January 2007

About this Fund	
Fund Size	\$2.023b
Responsible Entity	Centro MCS Manager Limited
Fund Commenced	June 2002
Wholesale MER (p.a.)	On-going Fee 0.75%
Buy/Sell Spread	(Spread – Buy 1.00% / Sell 0.00%)
Structure Availability	Wholesale
Initial investment	\$25,000
Fund Gearing	0% (underlying 43%)

History	FY2004	FY2005	FY2006
Unit Price (\$)	1.087	1.226	1.355
NTA per Unit (\$)	1.088	1.247	1.369
Distribution/unit	8.23c	8.54c	8.78c
Income Return	8.00%	8.40%	7.70%
Tax Advantaged	73%	70%	58%
Capital Return	2.00%	12.80%	10.60%
Total Return	10.00%	21.20%	18.20%
Total Assets (\$m)	280.5	404.4	725.0

About the Fund Manager	
Fund Manager	Centro MCS Manager Limited
Ownership	Centro Properties Group (CNP.ASX)
Investment Team	
Team size dedicated to this Fund	4
Portfolio Manager	Ryan Bass
Investment Process	
Benchmark	Mercer Unlisted Property Funds Index
Ratings History	Highly Recommended – May 04/Nov 05

➤ This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

➤ The Fund is a 'long' only Property Securities Fund that balanced investors may consider introducing for income and/or to diversify their listed property exposure.

➤ Fund is suitable for mid- to high-risk profile investors with a 5+ year investment time horizon.

For information about Lonsec's rating system, please see last page.

Lonsec Opinion of this Fund

➤ The Centro Direct Property Fund (DPF) is managed by Centro MCS Manager Limited (CMML). CMML is owned by the Centro Properties Group, a **leading provider of retail property investments** with over \$15b of assets under management spanning 380 shopping centres in Australia, New Zealand and the US. DPF is an open-ended vehicle that predominantly invests in Centro's managed funds with exposure to the domestic retail market. DPF is unlisted, but the manager provides liquidity through daily unit-pricing.

➤ The Fund's 25% exposure to Centro's DPF International product captures the benefits of investing in a broader, less securitised investment universe, which has the potential to provide higher total returns than the mature domestic market.

➤ Since our last review, DPF's **buy spread has been reduced** from 2.50% to 1.00% - a very competitive level when compared to Lonsec's universe of direct property and hybrid funds. Furthermore, the Fund's **minimum investment amount has been reduced** from \$50,000 to \$25,000, making this product more accessible to retail investors, particularly self-managed superannuation funds.

➤ Other material changes to the DPF since Lonsec's 2005 review include:-

- Removal of the Fund's restriction of a maximum 50% ownership interest of any investment.
- Increase in MER from 0.73% p.a. to 0.75% p.a.
- Small exposure to non-Centro managed funds.

➤ DPF has **outperformed its benchmark** since inception in July 2002 to 31 December 2006 by 3.3% p.a. The Fund has also outperformed its benchmark over a one, two and three year time frame.

➤ Given the current low yield environment, Lonsec believes that over the medium term it will be challenging for CMML to continue to create domestic funds that offer attractive returns. This will likely impact DPF's ability to drive earnings accretive growth whilst investing in funds of similar quality to its existing portfolio. A case in point is the Centro Direct Property Fund *International's* recent yield dilutive investments in the Centro MCS 38, 39, 40 and the Centro America Fund.

➤ Lonsec believes that over the medium term it is unlikely that Australian retail property will continue to experience the same level of capital growth as over the last few years. Over the longer term, however, well managed retail property should continue to deliver to investors attractive risk adjusted returns.

➤ Lonsec believes that the DPF will on average **continue to outperform** its benchmark, driven by solid property management and the opportunities afforded by DPF's relatively broad investment universe.

➤ Centro’s co-investment philosophy in relation to all managed vehicles **aligns the interests** of the Manager with that of its investors. This co-investment ensures Centro is motivated in both the selection and the on-going management of its assets, contributing to the Group’s prolonged success. Overall, the DPF is an efficient investment mechanism for investors to gain

exposure to a large portfolio of retail assets and Centro’s management capabilities.

➤ Lonsec has maintained its rating of ‘Highly Recommended’ on the DPF based on its diversified portfolio, strong management, excellent track record and relatively low fees.

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Fund Details

The Fund

The DPF is an unlisted open-ended investment trust, established in June 2002 by MCS, prior to their merger with Centro Properties Group (ASX: CNP). The Fund's objective is to provide investors with a combination of attractive tax advantaged income and capital returns from the direct property market, predominantly through investment in Centro MCS direct retail property syndicates.

Benchmark

The DPF's benchmark is the Mercer Unlisted Property Funds Index. This index reflects the composite performance of a number of unlisted wholesale Direct Property Funds.

Portfolio

Since Lonsec's November 2005 review, the Fund has experienced considerable growth, its assets under management increasing 325% to \$2.023b. The Fund is invested in Australia (68.3%), USA (31.4%) and NZ (0.3%).

Future growth is dependent on Centro's ability to deliver new funds. Although syndicate rollovers will continue to provide DPF with investment opportunities, these will not have a significant affect on the vehicle, given its large size.

The Fund also has the option to invest outside Centro and currently has a 1.0% allocation to non-Centro direct property funds and an outsourced LPT portfolio. Lonsec would view further investment in non-Centro managed funds favourably, as there are some quality direct property investment alternatives available.

Investment Details

Distributions are paid quarterly. DPF paid a total CY06 distribution of 8.96¢ per unit and during CY07 Lonsec forecasts that DPF's total distribution will grow to 9.36¢ per unit.

Since Lonsec's last review of the DPF, the minimum required investment in the Fund has been reduced from \$50,000 to \$25,000 and the buy spread has been reduced from 2.5% to 1.0%. The Fund's MER, however, has increased slightly (+2 bps) to 0.75% p.a.

Management

Manager Background

The Centro Properties Group (CNP.ASX) is a top 50 ASX entity and one of Australia's largest property fund managers with over \$15b in funds under management (FUM) across Australia, New Zealand and the US, \$8.0b of which is invested in unlisted property vehicles.

Lonsec has reviewed a range of Centro's syndicates, including five of which the DPF is invested in and believes that it is in the top tier of managers of retail property in Australia.

People & Resources

The DPF has the ability to leverage Centro's significant retail property expertise, which includes over 700 domestic and over 350 US-based employees. Centro's unlisted funds business has 44 employees responsible for development, marketing, management and the distribution of Centro MCS' unlisted (syndicate) funds.

Size and Experience

The relatively passive nature of the DPF means a small team can adequately cope with the day-to-day management of the Fund. Ryan Bass has been managing the DPF since October 2003, with guidance from Bryce Mitchelson and Alan Hayden. Lonsec believes the team has the necessary resources and experience to continue to successfully manage the DPF.

Team Structure

The following table details the key inputs into the management of the DPF.

Team Member	Position
Alan Hayden	Manager, Direct Property Funds and DPFI Portfolio Manager
Ryan Bass	DPF Portfolio Manager
Phillipa Kelly*	General Manager, Institutional Funds
Bryce Mitchelson	Senior Funds Manager

(* Replacing Tony Torney who is transferring to the Centro Watt team in February 2007)

Lonsec believes the emphasis on management is less onerous than for more actively managed products, hence the team size and depth is viewed as appropriate. Nonetheless, management has indicated that a new hire is expected in early CY07, in order to help cope with the additional workload resulting from the growth in both the DPF and DPFI.

Rather, Lonsec believes a key issue with the DPF is the ongoing supply of quality, appropriately priced, syndicate investments.

Turnover/Key Person Risk

There has been no turnover in the wholesale funds management team since the 2005 review. Lonsec believe there is limited key person risk due to the team structure utilised by Centro to manage their wholesale funds, combined with the depth of management skill within the Centro Group.

Remuneration / Alignment of Interests

Centro's interests are strongly aligned with that of investors as it holds approximately a 42% interest in the Fund. Centro intends to maintain a 40% – 50% interest in the Fund which will ensure management's interests remain aligned with investors.

Investment Style

The Fund's strategy is to invest substantially in new and existing (via rollover) Centro MCS direct property syndicates. The Fund utilises a passive long-term investment approach.

The Fund can also invest in money market securities and other liquid financial instruments with a maximum duration of 12 months.

Any proposed new unlisted investments must meet the minimum investment criteria which will usually include an independent investment grade rating.

Centro's approach to property investment is based around a disciplined property selection process that focuses on fundamental retail property drivers such as:

- Established and strong catchment demographics.
- Quality retailers and lease terms to provide solid income streams.
- Value-adding potential.

Financial Analysis

Income

Distributions are paid quarterly based on the number of units held on the last day of the distribution period (end September, December, March and June). The Manager will pay distributable income at the end of the following month; payments must be made to unitholders within 80 days after the distribution period ends.

The following table compares the DPF's income relative to Lonsec's unlisted sector averages, including Centro's DPF International offering. Whilst the Fund's

forecast yield is below the Lonsec averages across all measures, its total return potential appears more significant. This is due to Centro's effective management of the underlying properties and the broader investment universe into which DPF is investing relative to the mature/consolidated Australian retail market (31.7% of DPF's portfolio by value is invested offshore).

Income Analysis	Pre-tax Yield	Tax Advan*	After-tax Yield
Centro DPF ^	6.6%	60.0%	5.3%
Centro DPFI ^	7.1%	80.0%	6.4%
Lonsec Unlisted Sector Average [#]	7.9%	95.2%	7.7%
Lonsec Unlisted Retail Sector Average [#]	7.8%	95.1%	7.6%

(Note: * Tax advantaged Income, [#] FY07 forecast yield, ^Lonsec est. of CY07 yield)

Debt Position & Interest Costs

The Fund's Constitution restricts borrowing levels to 15% of the gross asset value of the Fund. However, the Manager does not intend to have direct borrowings within the Fund.

Each of the underlying syndicates in DPF's portfolio, including the Centro Properties Group, are geared. Whilst there is no gearing at the fund level, DPF's 'look through' gearing as at December 2006 was 43%.

Lonsec has been advised that most of this interest rate exposure is fixed / hedged for the term of the closed-end syndicates. However, there will be a small proportion of this debt exposed to changes in interest rates.

Management Fee Structure

The Manager estimates the total MER will be 0.75% p.a. of the Fund's net asset value. The MER comprises a management fee of 0.67% (GST inclusive) and an uncapped cost (estimated to be 0.08%) for expense recoveries. The maximum annual management fee as permitted by DPF's Constitution is 0.85% of the net asset value of the Fund (including property acquisition costs).

Fund/Sector	Total
Lonsec Hybrid Property Fund Ave	0.80%
Lonsec Unlisted Retail Sector Avge	0.86%
Listed Prop Securities Funds Avge*	0.75%
Lonsec Unlisted Sector Average	0.88%
Centro DPF International	0.56%
Centro Direct Property Fund	0.75%

(Note: * based on Lonsec wholesale universe)

Based on the Fund's estimated MER of 0.75% p.a., the DPF's ongoing management fees are below other unlisted/hybrid products and are in line with the average of LPT funds within Lonsec's peer group.

As of January 2007, the Fund's buy spread was reduced from 2.50% to 1.00% (this is an asset of the Fund and is not a fee paid to Centro). There is no sell spread and the Fund does not pay adviser service commissions.

Lonsec's sector review for hybrid property funds (which hold both listed and direct/unlisted property) indicates an average buy spread of 1.13% and a sell spread of 0.60% (total 1.73%). The DPF's buy/sell spread is now competitive even against hybrid funds which may be considered an alternative to the DPF due to its highly liquid nature.

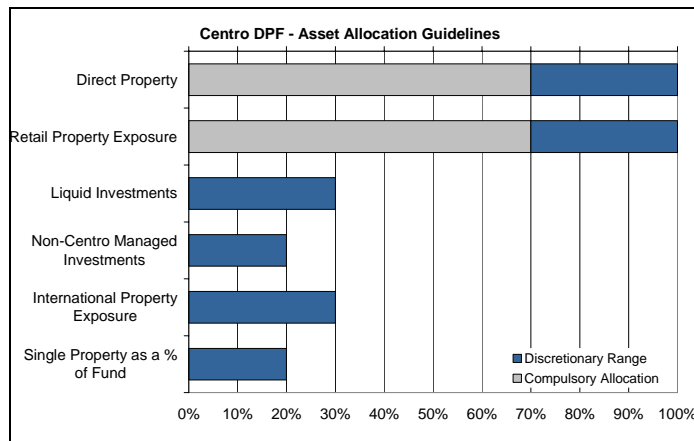
The Fund is also subject to a performance fee. At the end of each financial year, if the Fund's unit price (ex-distribution) has increased by 6%+ compared with the highest unit price for the preceding two years, the performance fee will be 10.25% (GST inclusive) of any increase above this hurdle. Lonsec believes the hurdle for the performance fee, while not overly onerous, is an appropriate way to reward the Manager for a reasonable level of sustained performance.

Risk Limits

The Manager's key risk management strategies are based upon limiting the Fund's exposure to:

- Maximum 30% international property (currently 31.7% on a look through basis and 26% on an equity basis). This is predominantly achieved via exposure to Centro's DPF International Fund.
- Maximum 20% exposure to any single underlying property.

These are soft limits, so the Fund may occasionally exceed these in certain circumstances (e.g. property revaluations). During FY06 the Responsible Entity removed the requirement for DPF to not hold more than a 50% interest in any syndicate or trust. This was done because management believed that DPF was now large enough for this to not compromise its diversification. Given the size of DPF relative to most syndicates, Lonsec accepts this argument. Importantly, we believe that the limit to international property will ensure that the Fund will retain its focus towards domestic retail assets. The following chart provides a guide to the Fund's asset allocation.



Investors should refer to the PDS for details of the risks associated with investing in the DPF.

Liquidity Management

The Fund has a targeted 10% liquid component that comprises investments in its listed parent entity Centro Properties Group (2.4%), Centro Retail Trust (2.9%) and an outsourced LPT portfolio (1.1%). DPF's portfolio also includes other liquid investments such as cash and money market securities. Overall, as at December 2006, 8.6% of the Fund was invested in liquid assets.

Liquidity is also facilitated to some extent via investors choosing to participate in the DRP instead of receiving cash distributions, as well as through ongoing unitholder subscriptions for new units in the Fund.

Centro Properties Limited (CPL) has also agreed to provide a liquidity guarantee to the Fund. Under this guarantee, CPL will invest up to \$50m in the Fund (less amounts previously subscribed and still held under this liquidity guarantee) at times when there is a need for further liquidity. Lonsec believes that this is adequate for what is a diversified, relatively passive investment vehicle. The Fund is also able to borrow up to 15% of its gross assets in order to facilitate redemption requests.

Fund redemptions will generally be processed and posted within 14 business days (30 days for a single withdrawal >\$1m), but may be extended to 365 in accordance with the Fund's Constitution. Under extraordinary circumstances, the Manager may suspend or defer withdrawals if they deem a withdrawal will or may have the effect of diluting or disadvantaging remaining investors.

Background of Fund Holdings

DPF is invested in 34 Centro syndicates / unlisted funds, as well as in the ASX listed Centro Properties Group and the Centro Retail Trust. In addition, DPF has a small exposure to non-Centro managed direct property funds and LPTs. On a look through basis, the Fund now has exposure to over 340 properties.

The following table compares the Fund's positions at December 2006 with those when Lonsec undertook its previous review of the DPF in November 2005.

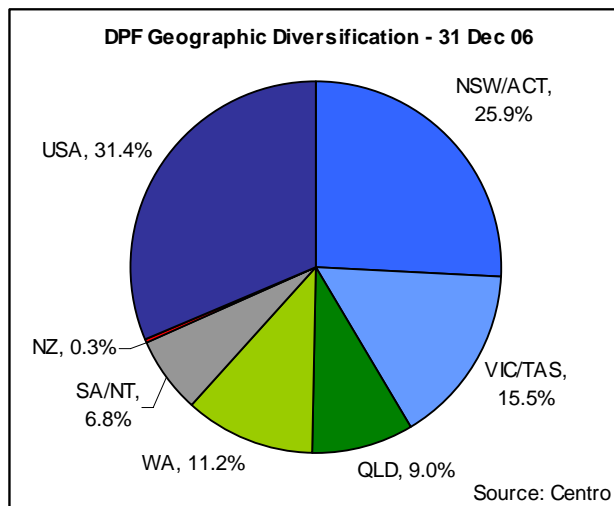
Top Investments	2005	2006
Direct Property Syndicates/Funds	%	%
Centro Australia Wholesale Fund	0.0%	40.6%
Centro DPF International**	15.9%	25.0%
Centro MCS 03	0.0%	1.6%
Centro MCS 21	8.2%	2.2%
Centro MCS 25	4.0%	0.0%
Centro MCS 26	3.5%	0.0%
Centro MCS 27	2.2%	0.0%
Centro MCS 28*	15.6%	4.1%
Centro MCS 33*	9.1%	2.5%
Centro MCS 34*	4.1%	1.2%
Centro MCS 37	0.0%	1.3%
Non-Centro Direct Property Funds	0.0%	1.0%
Other Centro MCS Investments	18.3%	10.7%
Total Direct Property Syndicates/Funds	80.9%	90.2%
Listed Property		
Centro Properties Group	6.6%	2.4%
Centro Retail Trust	6.5%	2.9%
Outsourced LPT portfolio	0.0%	1.1%
Total Listed Property	13.1%	6.4%
Other Liquid Investments		
MCS CMBS Capital Notes	0.0%	1.6%
Cash & Money Market Securities	4.5%	0.6%
Other Assets	1.7%	1.3%
Total	100.0%	100.0%

(Note*: includes equity notes.)

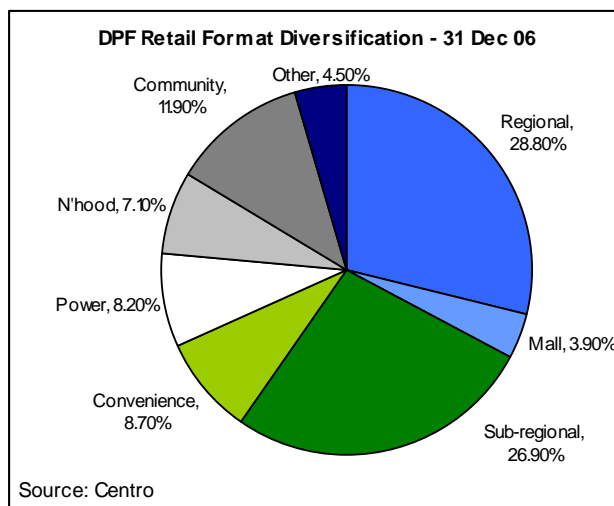
(Note**: includes MCS 32, 35, & 36)

DPF's largest exposure (40.6%) is to the Centro Australia Wholesale Fund (CAW). CAW has interests in 28 Australian retail assets geared at only 36% and DPF has acquired units in this vehicle at NTA.

Although DPF has a large exposure to the CAW, its diversification remains attractive at the underlying property level. DPF's largest exposure to any one asset is largely unchanged at just under 9%, whilst its geographic diversification remains attractive as indicated by the following chart.



The pie chart below shows that while the portfolio is retail focused, it is exposed to a number of retail sub-sectors. Lonsec believes that these sub-sectors will align differently with the macro-economic cycle and therefore provide relatively stable returns to investors compared to funds with significant exposure to one particular retail format.



There is an argument that the Fund's diversification is not complete without exposure to other property sub-sectors. However, Lonsec believes the merits of the DPF investing solely in retail property are strong:

- Retail is Centro's area of specialisation;
- Retail is Australia's dominant property sector, comprising over 50% of the listed and unlisted market; and
- A large portion of Centro's centres are underpinned by non-discretionary retail spending (necessity shopping) e.g. supermarkets, that will continue to trade well throughout the economic cycle.

Looking ahead, Lonsec believes that it will become increasingly challenging for CMML to continue to create domestic funds that offer attractive returns from quality retail properties. This will likely impact DPF's

ability to drive earnings accretive growth. A case in point is the Centro Direct Property Fund International's (DPFI's) earnings dilutive investments in the Centro MCS 38, 39, 40 and the Centro America Fund which have seen its CY07 forecast distributions fall 8.3% to 7.52¢ per unit. Similarly with the DPFI, given the current low yield environment, it is possible that if the DPF makes a major investment in a new fund that its distribution level may also reduce.

Centro Quantitative Performance Analysis

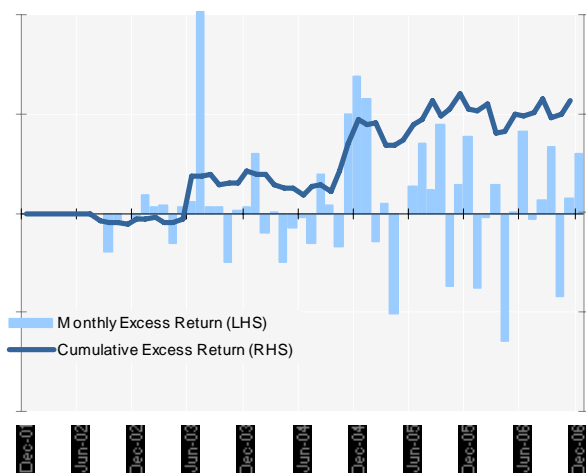
In the following table the performance of the DPF relative to its benchmark index (Mercer Unlisted Property Index) is outlined over a one, two and three year time frame.

Centro Direct Property Fund			
Performance ending 31 Dec 06 (% p.a. net)			
	1 yr	2 yrs	3 yrs
Performance (% pa)	18.4	16.7	17.0
Standard Deviation (% pa)	3.8	3.4	3.9
Excess Return (% pa)*	3.5	2.3	3.4
Outperformance Ratio (%)*	66.7	62.5	58.3
Sharpe Ratio	3.2	3.2	2.9
Information Ratio	0.8	0.5	0.8
Tracking Error (% pa)	4.6	4.4	4.3

(*Benchmark: Mercer Unlisted Property Index - Net of Fees).

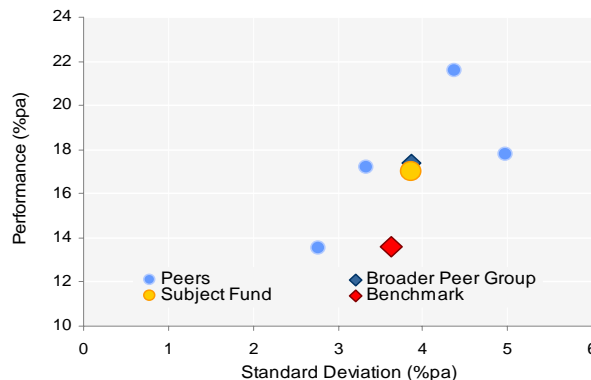
The DPF has consistently delivered returns in excess of its index. Since the DPF's inception in July 2002, as at 31 December 2006 it had delivered a total return of 16.1% p.a. This represents an outperformance of its benchmark of 3.3% p.a. DPF's cumulative excess returns are graphed below.

DPF Cumulative Excess Returns



The following chart outlines DPF's performance relative to the Lonsec hybrid peer group, as well as its benchmark index.

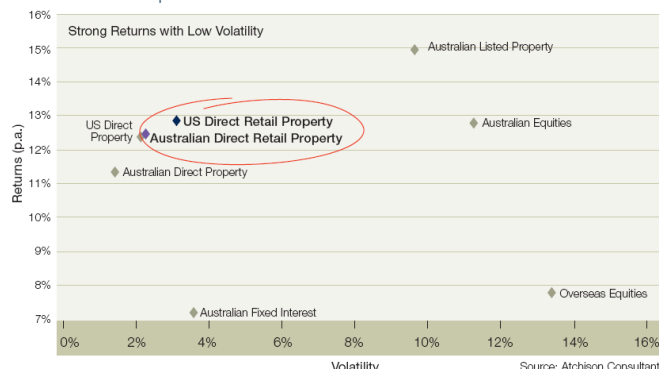
DPF – 3 Year Returns



Although the DPF has outperformed its benchmark index, it has performed in line with the Lonsec hybrid peer group in terms of the size and volatility of its returns. Over the three year time frame, the DPF has also performed similarly with the Lonsec Hybrid peer group with regard to its Information Ratio (peer group 0.8) and Sharpe Ratio (peer group 3.0).

The following chart highlights the performance of direct retail property relative to other asset classes.

Performance Of Property Against Other Asset Classes
10 Years to Sept 2006



Over the ten years to September 2006, both Australian and US retail property has provided similar returns to Australian equities, but with far less volatility. Furthermore, direct retail property has outperformed overseas equities.

During this period, a significant component of retail property returns has been driven by capital growth based on yield compression. Given the record low yields in the market today, Lonsec believes that over the medium term it is unlikely that retail property will continue to deliver the same level of capital growth as the last few years.

Nonetheless, Lonsec believes that the DPF will on average continue to meet its objective of outperforming its benchmark, driven by solid property management and the opportunities afforded by DPF's relatively broad investment universe. On an absolute basis, Lonsec expects the DPF to provide investors with a long term average total return of 9-10% p.a. (this may vary substantially in the short term).

Glossary

Absolute Return	'Top line' actual return, after fees
Excess Return	Return in excess of the benchmark return
Standard Deviation	Volatility of monthly Absolute Returns
Tracking Error	Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)
Sharpe Ratio	Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)
Information Ratio	Relative reward for relative risk taken (Excess Returns / Tracking Error)
Worst Drawdown	The worst cumulative loss ('peak to trough') experienced over the period assessed
Time to Recovery	The number of months taken to recover the Worst Drawdown

Analyst Disclosure & Certification

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Date Prepared: January 2007
Analyst: Paul Pavlidis
Release Authorised by: Kevin Prosser



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Lonsec has introduced a graphical representation of its ratings system to allow readers to obtain ratings information at a glance. The following table explains the ratings for hybrid and managed funds projects.

 Highly Recommended	<p>The Highly Recommended rating indicates that Lonsec has high conviction in the manager's capabilities within this asset class. Lonsec does not have any issues or concerns with the manager's expected ability to outperform peers on a risk-adjusted basis and achieve its performance targets over a full economic cycle.</p>
 Recommended	<p>The Recommended rating indicates that the Fund is considered to be a worthy substitute for Highly Recommended products, given the manager is still considered to be well positioned overall to deliver outperformance in the long term. A Highly Recommended rating has not been assigned due to one or more factors that are likely to impact the manager's overall capabilities.</p>
 Investment Grade	<p>The Investment Grade rating indicates that the Fund is approved for investment and has the potential to achieve its investment objectives over a full economic cycle. However, there are particular areas of weakness or deficiency in the Fund, when compared to other products in the sector with higher ratings.</p>
Hold	<p>The Hold rating indicates that it is not recommended that any new or additional investment be made into this product. A Hold is typically assigned when Lonsec believes the Fund has the potential to achieve its investment objectives over a full economic cycle (and hence remains acceptable for existing investments), but other funds provide better long-term options for new investments. A 'Hold' is also assigned when a Fund closes to new money but Lonsec remains comfortable with the outlook for the Fund.</p>
Fund Watch	<p>The Fund Watch rating indicates that it is not recommended that any new or additional investment be made into this product. A 'Fund Watch' rating is typically assigned when a significant change has occurred with the management of the Fund and a more detailed assessment of the change is required. A Fund Watch rating can usually be interpreted as a precursor to a ratings change and will typically be shorter term in nature.</p>