

9 August 2011

Dear Unit Holder

**ARGOSY PROPERTY TRUST (the "Trust")**

The Manager, Argosy Property Management Limited ("the Manager"), has advised that at the Annual Meeting to be held on 30 August 2011, a proposal to internalise the management of the Trust will be considered and unit holders will be asked to approve a number of resolutions relating to this proposal. In addition, a number of institutional unit holders have requisitioned for a series of other resolutions to also be considered at that meeting. Accordingly, unit holders will be asked to consider three sets of resolutions which essentially represent competing proposals for a change in management of the Trust. These are summarised as follows:

Resolutions 1 to 3 – INTERNALISATION

These resolutions relate to the proposal by the Manager to internalise the management arrangements of the Trust ("Internalisation Proposal"), at a price of \$20m and on a basis agreed by it with One Path (NZ) Limited, the shareholder of the Manager.

**If you wish to support the Internalisation Proposal you should vote in favour of Resolutions 1 to 3 and against Resolutions 4 to 10 and the New Resolutions.**

Resolution 4 – RESOLUTION PROPOSED BY UNIT HOLDERS ON 8 JUNE 2011

This resolution is proposed by a group of institutional unit holders led by Accident Compensation Corporation requesting the Trustee to consider exercising its discretion to remove the Manager and to consider appointing a replacement temporary manager and imposing conditions, including that the temporary manager prepare an internalisation proposal for consideration by unit holders.

**If you wish to support removal of the Manager by the Trustee (as opposed to by way of the Internalisation Proposal) you should vote in favour of Resolution 4 and against Resolutions 1 to 3. However, you should be aware of the Trustee's current views on this matter as set out on page 3 of this letter.**

Resolutions 5 to 10 - RESOLUTIONS PROPOSED BY UNIT HOLDERS ON 24 JUNE 2011 together with new resolutions proposed on 5 August 2011

Resolutions 5 to 10 are proposed by a group of institutional unit holders led by DNZ Property Fund Limited ("DNZ") to make requests or give directions to the Manager and the Trustee with the objective of having them engage with other parties in relation to alternative proposals to the Internalisation Proposal. These include a merger proposal from DNZ.

On 5 August 2011, DNZ and a group of institutional unit holders (comprising some, but not all of the group that proposed Resolutions 5 to 10) submitted two further resolutions (**New Resolutions**) for consideration by unit holders. DNZ also indicated that it is anticipated that the proposal to put forward Resolutions 5 to 10 may be withdrawn. The detail of these New Resolutions are discussed in further detail below.

**If you wish to support further development of alternative proposals you should vote in favour of Resolutions 5 to 10 and the New Resolutions and against Resolutions 1 to 3 and 4. However, you should be aware of the Trustee's current views as set out on pages 4 and 5 of this letter.**

**If unit holders wish to retain the status quo, they should vote against each of these resolutions.**

**The detail of these resolutions and the reasons for them are set out in the Notice of Meeting. Because of their complexity, we do not seek to summarise them in this letter. Unit holders should read the Notice of Meeting carefully, as well as seek advice from their own financial or legal advisers. They should also read the Grant Samuel report referred to below.**

We do not comment on Resolutions 11 and 12 which relate to business as usual issues.

### **Grant Samuel Report**

An independent appraisal report has been prepared by Grant Samuel and is part of this package of meeting papers. This report comments on the merits of the Internalisation Proposal, and further provides commentary on the resolutions proposed by the institutional unit holders. In addition the report evaluates alternative proposals to the Internalisation Proposal, including the DNZ proposal of a merger.

Due to the late submission of the New Resolutions, the report does not expressly address those resolutions.

**We encourage you to read this report and give very careful consideration to the matters outlined.**

### **What Does Internalisation Mean?**

Each of the sets of resolutions relates to the concept of internalisation of management, and in deciding how to vote, it is important that unit holders understand how it relates to the Trust and what impact this may have.

Internalised management in its purest form, means that the operations of a fund are managed by an entity which is owned by the investors in the fund, and the directors of that entity are appointed by the investors in the fund. The Argosy Internalisation Proposal includes some but not all of these elements. The main differences between the current structure and what is proposed are outlined in the table below:

*Note that the current proposal of internalisation of management does not involve corporatisation, which would include different structural changes and have other impacts on unit holders. The Independent Directors have indicated that should the Internalisation Proposal be approved, the new manager will, however, give favourable consideration to corporatisation in the near future. Any such proposal would require unit holders' approval.*

	<b>Current Externalised Management</b>	<b>Argosy Internalised Management</b>
Structure	Unit Trust	Unit Trust
Trustee	Yes	Yes
Directors of the manager	Out of 5 directors currently 2 are appointed at the direction of the unit holders and the other 3 are appointed by OnePath (NZ) Limited.	All directors will be appointed at the direction of the unit holders.
Management and Staff	Employee and infrastructure costs are covered by the fees the Manager is paid ( <i>set out below</i> ).	Employees will transfer to the new manager and their remuneration will be paid by way of reimbursement out of the Trust.
Fees	Currently the Trust pays the Manager a base management fee ( <i>0.6% of average gross value of the fund</i> ), property management fees ( <i>up to 4% of gross rental income plus time-in-attendance</i> ) and an incentive fee ( <i>based on quarterly returns</i> ). In addition, the Manager is entitled to reimbursement for certain expenses.	No fees are payable as the new manager will recover its actual cost out of the Trust. In contrast to externalised management, there are no limits to the employee and infrastructure costs that can be reimbursed out of the Trust under internalised management. The obligation to ensure that the Trust is operating in a cost efficient manner sits with the directors of the new manager.

## **The Resolutions (other than the New Resolutions)**

The Grant Samuel report was commissioned by the independent directors of the Manager and is also for the benefit of unit holders and the Trustee. It addresses the various proposals reflected in the sets of resolutions to be considered.

### Resolutions 1 to 3 – INTERNALISATION

These resolutions deal with the Manager's Internalisation Proposal as briefly discussed above. The Grant Samuel report evaluates the Internalisation Proposal on pages 30 to 44.

The key features of the Internalisation Proposal are summarised in the table above. As part of the Internalisation Proposal, the Trust Deed will be amended to reflect the new cost recovery process and the new manager's obligation will be to ensure that the Trust is operating in a cost efficient manner accountable directly to the unit holders. The Trustee will have no responsibility for verifying or approving those costs.

The advantages and potential risks for unit holders, including the costs (note that there are one-off costs associated with the Internalisation Proposal in addition to the \$20m payment) and the financial impact, if the Internalisation Proposal proceeds, are outlined in sections 7.3 to 7.4 of the report.

Unit holders will note that on Page 44 of the report, Grant Samuel has concluded that the "Proposed Internalisation is in the best interests of Unit Holders".

### Resolution 4 – RESOLUTION PROPOSED BY UNIT HOLDERS ON 8 JUNE 2011

Resolution 4 deals with the proposal by a group of institutional unit holders led by Accident Compensation Corporation. The Grant Samuel Report evaluates that proposal at pages 45 to 46.

This resolution is an ordinary resolution and only requires a simple majority to pass. This resolution is from three institutional unit holders and seeks to provide the Trustee with a request that the Trustee consider whether it should certify that it is in the best interests of unit holders that the Manager should cease to hold office as the manager of the Trust. Under the Trust Deed and the Unit Trusts Act 1960, the Trustee has the ability to remove the Manager at any time if it considers it in the interests of unit holders to do so, without a requirement to pay compensation for the removal.

This resolution has been requisitioned on the basis that those institutions consider that it would not be in the interests of unit holders for the Manager's shareholder to be paid \$32.5m for the internalisation of management. Unit holders will be aware that the payment for the internalisation of the rights to manage the Trust is now \$20m. Notwithstanding the change to the cost of internalising the rights to manage the Trust, we understand that the group of institutional unit holders still wishes to have this resolution considered by unit holders.

Please note that the resolution does not oblige the Trustee to remove the Manager. It requests the Trustee consider removal.

As advised in our letter dated 19 July 2011, the Trustee does not consider that, at this stage there are sufficient grounds to make it appropriate, or in the interests of unit holders, for the Trustee to remove the Manager. The Trustee, however, continues to monitor the position and will consider any relevant information at any time, including any appropriate information provided to the Annual Meeting.

Grant Samuel has concluded that Resolution 4 would not achieve internalization immediately, on page 45 of its report and in any event, the Trustee would have no power to direct a new manager to consider internalisation.

## Resolutions 5 to 10 - RESOLUTIONS PROPOSED BY UNIT HOLDERS ON 24 JUNE 2011

These resolutions are a series of Extraordinary Resolutions and Special Resolutions requisitioned by DNZ and a number of other institutional unit holders (some of which were also party to Resolution 4) to be passed by a 75% majority. All resolutions except Resolution 5 may be also passed as an ordinary resolution if only passed by a 50% majority.

You should have regard to the full text of these resolutions as they are complex, but in summary, these resolutions provide:

5. For a change to the Trust Deed to state that any of resolutions 6 to 10 would be binding on the Manager and the Trustee, even if passed as an ordinary resolution;
6. A direction that the Manager take all reasonable steps to engage co-operatively with appropriate third parties that provide credible alternative proposals;
7. A direction that the Trustee appoint a further independent adviser (not Grant Samuel) to consider any credible alternative proposals to the Internalisation Proposal;
8. A direction that the Trustee appoint an independent adviser to prepare a report for the Trustee and unit holders on the merits of alternative proposals and whether it is in the interest of the unit holders that the Manager should cease to hold office;
9. A direction that the Manager refrain from holding a meeting to consider the Internalisation Proposal until any credible alternative proposals are evaluated, and
10. A direction that the Manager outline any exclusivity arrangements and any other arrangement relating to the management of the Trust to the market.

The directions to the Manager are matters for the Manager to address, and the Manager has made comment on how it views those resolutions in the notice of meeting on pages 29 and 30. The Grant Samuel report has also provided some commentary on those resolutions on pages 47 to 49. Unit holders should consider these comments carefully before exercising their rights to vote on those resolutions.

The Trustee has serious concerns relating to Resolution 5. This resolution purports to amend the Trust Deed by a direction that would impose obligations upon the Trustee in relation to ordinary resolutions which is contrary to the principles inherent in the Trust Deed and the Unit Trusts Act 1960. That Act only envisages that directions may be given to the Trustee in accordance with section 18 of the Act, which has mechanisms for the protection of minority unit holders and the Trustee. In addition, despite the wording of Resolution 5, the Trust Deed can only be amended with the agreement of the Trustee and the Manager. The Trustee has determined that it should not agree to amend the Trust Deed as envisaged by Resolution 5, even if it is passed.

Resolutions 7 and 8 require the Trustee to appoint a further independent adviser to evaluate any alternative proposal as referred to in Resolution 6 and further to determine whether or not it is in the unit holders' interests for the Manager to be removed. If each of these resolutions are passed as a Special Resolution, the Trustee will act in accordance with those directions and seek to give effect to them. If passed as an ordinary resolution, given the Trustee's position on Resolution 5, Resolutions 6 and 7 will operate only as a non-binding request, and the Trustee will consider its position in that eventuality.

Depending upon the approach taken by the Manager and such other factors as may be relevant at the time, the Trustee may decide to apply to the Court for directions as to how best to carry out any direction given or request made.

## **New Resolutions**

As referred to above, on 5 August 2011 DNZ and a group of institutional unit holders (comprising some, but not the entire group that proposed Resolutions 5 to 10) submitted the New Resolutions for consideration by unit holders. DNZ also indicated that it is anticipated that the proposal to put forward Resolutions 5 to 10 will be withdrawn. As to those matters:

- i. The first New Resolution is a request to the Manager to, among other things, fully investigate, evaluate and develop the DNZ merger proposal, and appoint an independent adviser to report on the merits of other alternative proposals to the Internalisation Proposal.
- ii. The second New Resolution requires the Trustee to appoint a further independent adviser to evaluate any alternative proposal to the Internalisation Proposal. This New Resolution is largely identical to Resolution 8 above.

## **Summary of what will happen if the resolutions pass/fail**

- a) Resolutions 1 to 3 - Should the Internalisation Proposal be passed by the required majority then the Manager and the Trustee will give effect to the Internalisation Proposal. If, however, the Internalisation Proposal fails to pass, then the status quo will remain and the Manager will remain as the manager of the Trust, depending on the outcome of Resolutions 6, 7 and 8.
- b) Resolution 4 – Whether this resolution passes or fails, the Trustee constantly considers the Manager’s position in respect of its obligations to unit holders under the Trust Deed and under the Unit Trusts Act 1960. The Trustee will consider any information provided at the Annual Meeting or on any other occasion relating to the Manager’s obligations.
- c) Resolution 5 - If this resolution passes, the Trustee would not agree to amend the Trust Deed as sought.
- d) Resolution 6 - The Manager has advised that it does not accept that it has an obligation and therefore whether this resolution passes or fails, the Manager will do nothing.
- e) Resolutions 7 and 8. - Should these resolutions pass as Special Resolutions then the Trustee will act in accordance with those directions and seek to give effect to them which may result in the need to consider applying to the Court for directions.
- f) Resolutions 9 and 10 - Resolution 9 is now redundant as the High Court has ruled the proposals may be dealt with at the same meeting and the Manager has provided its comments on Resolution 10, which means that there will be no further action taken on this resolution.
- g) New Resolutions – In relation to the first New Resolution, the Manager has advised that it does not accept that it has an obligation and therefore whether this resolution passes or fails, the Manager will do nothing. In relation to the second New Resolution, should this resolution pass as a Special Resolution then the Trustee will act in accordance with those directions and seek to give effect to them which may result in the need to consider applying to the Court for directions.

If resolutions from more than one set are passed, the Trustee’s view is that it would potentially result in confusion and the Trustee would need to consider what further action is required to clarify the position. As stated, this may include determining whether or not it needs to seek the directions of the Court.

Also, as indicated in the Notice of Meeting, if Resolutions 1 to 3 are passed and the approval of the Trust’s financiers (to the Internalisation Proposal) is given subject to conditions that are material, the Trustee may need to seek further directions from unit holders or seek the directions of the Court.

**In considering the resolutions as outlined, unit holders will need to consider their own circumstances. As stated, we consider the resolutions and the explanations are complex. We again urge unit holders to consider carefully the information provided in the Grant Samuel report and the notice of meeting and take independent professional advice in respect of their own circumstances.**

We would encourage you to attend the meeting, but if you are unable to do so personally, we recommend that you complete the proxy form to record your vote. You may elect the Chairman to act as your proxy, however if you do not tick the box to record which way you would like the Chairman to vote, the Chairman will vote in favour of Resolutions 1 to 3 and against Resolutions 4 to 10 and the New Resolutions.

Yours faithfully



B D Connor  
General Manager Corporate Client Services