



THE ART TRUST

PRODUCT DISCLOSURE STATEMENT
11th FEBRUARY 2008

ARSN 126 921 828

AN ART INVESTMENT
AND RENTAL FUND

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THE OFFER

NAME OF SCHEME:

The Art Trust ARSN 126 921 828 (Trust)

RESPONSIBLE ENTITY & ISSUER OF PDS

Huntley Management Limited
ACN 089 240 513

Suite 301 3rd Floor
37 Bligh Street
SYDNEY NSW 2000

TEL (02) 9233 5444
FAX (02) 9233 3119
AFS Licence No. 229754

IMPORTANT NOTICES

This PDS has been issued by the Responsible Entity of the Trust. Huntley Management Limited is the holder of Australian Financial Services License No. 229754.

This PDS is dated 11th February 2008.

This offer of Units is only available to the people who receive this Product Disclosure Statement (PDS).

The Offer is being made in Australia. No offer will be made in any overseas jurisdiction where it would not be lawful to do so. It is the responsibility of overseas Applicants to ensure compliance with all laws of any country relevant to their Application. No person named in this PDS, nor any other person, guarantees the performance of the Trust, the repayment of capital or the payment of a return on the Units.

To apply for Units the investor must complete the application form accompanying this PDS, or download it from the Responsible Entity's website at www.huntleygroup.com.au and return it to the address provided.

Units will only be issued upon receipt of the Application Form. However Units will not be issued unless the minimum subscription of 25 million Units is reached.

This PDS has been prepared without taking account of any individual's specific financial situation, investment objectives or needs. Before making a decision to invest in the Trust, Investors should analyse this PDS and seek independent advice to assess its suitability for their particular circumstances.

The Responsible Entity does not guarantee any particular rate of return from the Trust nor does it guarantee the repayment of any capital invested in, or income received from, the Trust.

All relevant information that postdates the publication of this PDS will be posted on the Responsible Entity's website at www.huntleygroup.com.au. Investors preferring to access the information as hard copy form can contact the Trust on 02 9233 5444 and the information will be posted to them free of charge.

All Applicants will be immediately notified of any materially adverse change to information contained in this PDS.

PRIVACY AND PERSONAL INFORMATION

The completed Application Form provides personal information about you to the Responsible Entity. The Responsible Entity collects your personal information to process and administer your investment in the Trust and to provide related services to you. If you do not complete the Application Form in full, The Responsible Entity may not accept your Application Form. The Responsible Entity may disclose your personal information, for purposes related to your investment, to its agents or service providers, including any sponsoring broker and Unit registry. You can obtain access to personal information that the Responsible Entity holds about you. To make a request for access, please contact the Responsible Entity.

Please read this document carefully before you make a decision to invest. An investment in the Trust has specific risks which you should consider before making a decision to invest.

None of the images contained in this document are assets of the Trust.

FROM THE MANAGER

I invite you to apply for Units in the Trust.

Adding alternative assets such as works of art to the traditional mix of equity, property and fixed interest investments has been a growing trend over the past 20 years.

You may already be an experienced investor in art. If so, you will know that the Australian art market has performed very strongly in the medium-to-long term when compared with other investments.

You would also be aware that the key to successful art investment involves knowing which artists to invest in, and when to buy and sell their work.

This is not easy information to obtain in a market which – along with the comparatively transparent art auction market – has a thriving private market, which is not transparent.

The result is that, even knowing what art to invest in does not necessarily mean that the investor will be able to find what they are looking for, or will know what price they should pay.

Successful investment requires an established contact network as well as a certain level of knowledge – the very requirements which led to the establishment of the Trust.

The Trust Manager has assembled an impressive team of reputable experts (see p13) to ensure that it pursues appropriate art investment opportunities while professionally managing the risk of art ownership and investment.

Investing through a pooled structure has two major advantages. One is that it enables investment diversification – that is, a broad investment spread across different art periods, styles and artists. Secondly, it enables income generation to defray the Trust management costs through the renting of works of art from the Trust Collection.

Additionally, the Trust will deliver to its investors the ability to rent art from the Trust Collection at a favourable rate, and the ability to purchase works of art from it.

I ask that you carefully review this PDS and seek professional advice prior to making your investment decision.

THE KEY TO SUCCESSFUL
ART INVESTMENT
INVOLVES KNOWING
WHICH ARTISTS TO INVEST
IN, AND WHEN TO BUY
AND SELL THEIR WORK.

David I S Baker
Director
Australian Fine Art Management Pty Limited

THE KEY FACTS

SEEK A RETURN FOR
INVESTORS THROUGH
PRICE APPRECIATION OF
A DIVERSIFIED PORTFOLIO
OF PREDOMINANTLY
AUSTRALIAN PAINTINGS,
SCULPTURE, PHOTOGRAPHY,
DECORATIVE ARTS AND
OTHER COLLECTIBLES.

THE OFFER

- Invitation to apply for Units in the Trust, which is a registered managed investment scheme (MIS).

THE TRUST OBJECTIVE

- To seek a return for Investors through the price appreciation of a diversified portfolio of predominantly Australian paintings, sculpture, photography, decorative arts and other collectables.

MINIMUM INVESTMENT

- The minimum number of Units in the Trust available per investor is 25,000. Thereafter investment must be made in multiples of 5,000 Units.

OFFER OPENS

- The offer will open for receipt of applications on 9.00 a.m 11th February 2008.

OFFER CLOSES

- The offer will remain open for 12 months from the opening date.
- The Responsible Entity has the discretion to close the offer early and will publish a notice of any such decision on the Trust website: www.huntleygroup.com.au

ISSUE PRICE

- The issue price for each Unit in the Trust is \$A1.00 payable in three instalments the first instalment being required with the application form and the second and third instalments being payable within 14 days of the call being made as outlined below.

INITIAL INVESTMENT INSTALMENT

- \$A0.50c per Unit (ie half the issue price) payable at the time of application.

SECOND INSTALMENT

- The Responsible Entity intends to call for the second instalment of \$A0.25c per Unit on or about the first anniversary of the offer's closing date; the \$A0.25c being payable within 14 days of the first anniversary of the offer closing date.

THIRD INSTALMENT

- The Responsible Entity intends to call for the third instalment of \$A0.25c per Unit on or about the second anniversary of the offer's

closing date; the \$A0.25c being payable within 14 days of the second anniversary of the offer closing date.

INSTALMENT DEFAULT

- If Investors do not pay their subsequent investment instalments, the Responsible Entity will have the right to cancel the investment, and the investor may forfeit the Units. However, subject to compliance with any requirements of the *Corporations Act 2007*, the Responsible Entity may, at its discretion, attempt to sell their partly paid Units at a price determined under the Trust Constitution subject to approval by the Trust Auditor and refund from the Trust the net balance to the investor. However the Responsible Entity will not be making a market for any of the Units.

MINIMUM SUBSCRIPTION

- The minimum subscription of this offer before any Units will issue pursuant to this PDS is 25 million Units.
- If the minimum subscription is not reached within 12 months of the date of this PDS then the Responsible Entity will return that portion of Application monies accompanying the Application Form to applicants. Interest will not be paid on any application money returned and any interest derived on the Application Monies will be retained by the Responsible Entity.

THE MANAGER

- The Responsible Entity, on the Trust's behalf, will enter into an Operational Management Agreement with Australian Fine Art Management Pty Limited ACN 122 015 105 (Manager).
- The Manager will be responsible for managing the day-to-day operations of the Trust Collection. However this does not reduce the responsibility of the Responsible Entity who is ultimately responsible under the *Corporations Act 2007*.

LIFE OF THE INVESTMENT

- It is intended that the Trust will have a life of between five and eight years from the date on which the first Units are issued to Investors although the term of the Trust is the NSW statutory perpetuity period of 80 years.

THE KEY FACTS

WORKS OF ART
FROM THE AAI
COLLECTION WILL BE
ACQUIRED FOR THE
VALUE DETERMINED
BY THE INDEPENDENT
VALUATION
AUTHORISED BY THE
RESPONSIBLE ENTITY.

- Prior to the end of the eighth year, the Responsible Entity may make a decision to terminate the Trust at any time if it considers that this would maximise the returns expected from the sale of the Trust Collection.
- If the Responsible Entity considers the Trust should be extended beyond eight years from the date on which the first Units are issued to Investors, it will call a meeting of Investors to approve a special resolution to this effect.

DISTRIBUTIONS

- Investors should expect to receive the majority of Investor Distributions from proceeds following the sale of the Trust Collection. This is expected to occur progressively from the end of the fifth year following the issue of Units.
 - Distributions will be made as follows initially in the form of capital reduction payments to the level of Units held;
 - next the Hurdle Amount
 - next by 80% of the residual balance.

However no return is forecast, warranted or guaranteed. Any return is subject to the risks disclosed in this PDS.

REDEMPTION AND SALE OF UNITS

- Units in the Trust will not be listed on any stock exchange and there will be no secondary market established for the sale of the Units.
- Investors should expect to hold their Units for the full term of the investment – that is, for at least five years.
- However, should Investors need to sell or redeem their Units prior to the final maturity date; the Responsible Entity will consider a request subject to receiving 6 months written notice. The redemption price will be set by the Responsible Entity having taken into consideration the Unit value determined under the Constitution and approved by the Trust auditor. A discount may be applied to that Unit price valuation.
- The Responsible Entity may arrange a purchaser to acquire the Units requested for redemption, or may decide to redeem the Units and reduce the Trust capital.
- As the basic premise of the Trust is an investment of five to eight years, the Responsible Entity will be under no obligation to accept any redemption, but may assist with the sale of Units.

INVESTMENT PROCEDURES

- Before the Trust makes any investment, a rigorous process has been established to ensure the acquisition is in line with the Trust objectives.
- The Responsible Entity has appointed an independent art investment committee (the Committee) comprised of art experts with expertise in all or specific genres of Australian art, to advise the Manager on all acquisitions.
- The Committee members will be individually remunerated commensurate with their contribution to the benefit of the Trust.
- The Responsible Entity will appoint fully qualified curatorial personnel to manage the Trust Collection.
- The curatorial staff will also recommend specific acquisitions and sales to the Manager and the Committee, based on professional provenance checks.

INITIAL ACQUISITION

- The Trust initial acquisition (at independent valuation) will be some or all of the collection of Australian Art Investment Pty Ltd ACN 079 313 792 (AAI) which consist of 958 works of art by 119 artists as at 30th June 2007.
- The reason for this acquisition is that these works of art already form the basis of an art rental business, a business with strong future growth potential.
- About 50% of the AAI's works of art are currently rented on term contracts to professional firms and other businesses, and it is expected these will continue to be rented following acquisition by the Trust.
- Works of art from the AAI collection will be acquired for the value determined by the independent valuation authorised by a Responsible Entity and conducted by McWilliam & Associates, a registered art valuer. A copy of the summary of the valuation can be found in Appendix 1.

ART RENTAL

- Following its acquisition of works of art from the AAI collection, the Responsible Entity, on behalf of the Trust will enter into a rental agreement with Australian Fine Art Rental Pty Limited ACN 125 514 605 (AFAR).
- AFAR will take over all the costs and responsibilities of managing the existing rental business with the objective of expanding it during the life of the Trust.

THE KEY FACTS

THE AUSTRALIAN
ART MARKET HAS
PERFORMED VERY
STRONGLY IN THE
MEDIUM-TO-LONG
TERM WHEN
COMPARED WITH
OTHER INVESTMENTS.

- When gross income is received by the Trust from the corporate rentals, the Trust will pay AFAR $\frac{5}{8}$ to cover costs of managing the rentals, and will retain $\frac{3}{8}$ of the gross rental income. This $\frac{3}{8}$ return to the Trust will equate to 7.5% p.a. of the market value of each work of art rented.
- The initial gross rental income is expected to total about \$A400,000 p.a., which will provide an initial income of about \$A150,000 p.a. to the Trust under this formula.
- AFAR will also offer its Investors the ability to rent certain works of art from the Trust Collection, subject to strict conditions relating to environment and insurance.

INVESTMENT BENEFITS

Investment in the Trust offers Investors:

- The benefit of investment in art through a diversified portfolio of works of art, selected and acquired on the basis of expert advice.
- A level of access to the Australian art market which is usually only available to a select few art professionals and art collectors.
- Competitive transaction and holding costs for the Trust Collection through economies of scale and income from art rental.

RISKS

- As with any investment, there are a number of risk factors which may impact on the Trust's performance.

FEES AND EXPENSES

See Fee Table in the statutory required format at page 24. The following is a summary only.

ADVISER REMUNERATION/ESTABLISHMENT FEE

This fee could be up to 4.4% of the total issue price of \$A1.00 per Unit (inclusive of GST) payable by the Responsible Entity to advisers out of the Application Monies. Your adviser may receive all or part of this 4.4% and may rebate part or this entire amount to you. Please note that this fee is separate from the Trust Establishment Costs explained below.

OPERATIONAL MANAGEMENT FEE

The Manager will be paid a fee of 1.925% per annum (inclusive of GST) of the Trust Net Asset Value or the total nominal value of Units issued to Unit Holders in the Trust (including uncalled capital) whichever is the greater. The fee will be payable monthly in advance,

at a guaranteed minimum of \$A577,500 per annum (inclusive of GST). The auditor will determine the Trust Net Asset Value at the end of each financial quarter during the life of the Trust, and calculate the Operational Management Fee for each following quarter, and adjust the fee for the previous quarter.

OPERATIONAL MANAGEMENT PERFORMANCE FEE

In order to provide an incentive to the Manager to increase the return to Unit Holders, the Manager will be entitled to a fee. The fee is only payable once the Unit Holders receive:

- a) the whole of their capital returned; and,
- b) a return equal to the Hurdle Amount.

Once the amounts in (a) and (b) have been paid then the fee is 20% of the balance of monies held by the Trust. Unit Holders will be entitled to the other 80%.

THE TRUST ESTABLISHMENT COSTS

A one off lump sum amount of \$A600,000 (inclusive of GST) to establish the Trust will be paid to the Responsible Entity out of the Trust property. This amount is consequently paid to the Manager.

RESPONSIBLE ENTITY FEE

The Responsible Entity is paid a fee of \$A132,000 per annum (inclusive of GST) quarterly in advance subject to annual CPI increases.

PROFESSIONAL FEES

The Responsible Entity is entitled to be reimbursed for legal, audit, accounting and valuation work performed for the Trust. These are estimated to be \$A104,500 per annum (inclusive of GST) subject to annual CPI increases.

The Responsible Entity is entitled to be reimbursed for costs associated with custodial services at \$A16,500 per annum (inclusive of GST) subject to annual CPI increases.

THE TRUST OPERATING COSTS

The Responsible Entity is entitled to be reimbursed for costs associated with operating the Trust including costs for storage, insurance, the Committee, curatorial and investor relations.

THE CURRENT ART COLLECTION AND EXISTING RENTAL BUSINESS

In 1997 a group of private Investors established the Australian Art Investment Trust (AAI) and since then have built its collection to 958 works by 119 artists (as at 30th June 2007). The works are all Australian contemporary, with most purchased direct from the artists.

AAI's collection is diverse in terms of artist, genre, medium and price bracket, and includes some of the leading names in contemporary Australian art such as Charles Blackman, Arthur Boyd, John Coburn, Brian Dunlop, Frank Hodgkinson, Ken Johnson, Robert Juniper, John Olsen, Tim Storrier, Imants Tillers and Brett Whiteley.

The first purchase the Trust will make will be some or all of the collection of AAI.

Significantly, although the AAI investors were not assisted by the high calibre Committee which will be integral to the Trust operation, the art which they purchased has performed well, as seen by the price appreciation of a selection of its art assets below.

Additionally, AAI collection has already proved its success in the art rental market. As at 30th June 2007 of its 958 works of art, approximately 50% are rented to approximately 60 client companies in Sydney and Melbourne on terms ranging from between one to three years.

The Trust will build on these foundations. It will diversify from and add Australian art from earlier periods - works from the colonial, traditional and early modern periods - as well as Indigenous art, contemporary photography and contemporary decorative arts to this excellent existing contemporary collection.

BLACKMAN

BOYD

COBURN

HODGKINSON

JUNIPER

OLSEN

TILLERS

EXAMPLES OF WORKS OF ART HELD IN THE AAI COLLECTION



ARTIST JOHN COBURN (B.1925)

TITLE ARGYLE LANDSCAPE

DESCRIPTION OIL ON CANVAS

PURCHASE PRICE \$16,000

CURRENT VALUATION* \$70,000

QUOTE "... NOW HE IS SEEN AS A SERIOUS FORCE IN THE MARKET..." ROGER DEDMAN - THE AUSTRALIAN ART MARKET REPORT



ARTIST GRAHAM FRANSELLA (B.1950)

TITLE HEADS

DESCRIPTION OIL ON CANVAS

PURCHASE PRICE \$4,200

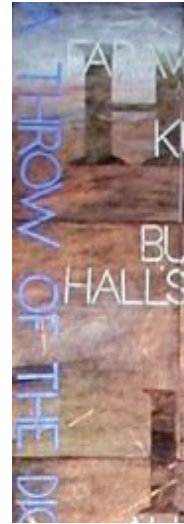
CURRENT VALUATION* \$9,000

QUOTE "A LEADING PRINTMAKER, THERE IS OFTEN A STRONG ELEMENT OF WHIMSY AND HUMOUR IN HIS WORK WHICH SHOWS FINELY BALANCED COMPOSITION." SUSAN MCCULLOCH - THE NEW MCCULLOCH'S ENCYCLOPEDIA OF AUSTRALIAN ART

THE CURRENT ART COLLECTION AND EXISTING RENTAL BUSINESS



ARTIST ANDREW ROGERS (B.1947)
TITLE LEADING 1
DESCRIPTION SCULPTURE
PURCHASE PRICE \$4,770
CURRENT VALUATION* \$25,000
QUOTE "HIS LARGE OUTDOOR SCULPTURE HAS RANGED FROM METAL ABSTRACTS FOR PUBLIC BUILDINGS ...TO HUGE CONSTRUCTS IN DESERT LOCATIONS..." SUSAN MCCULLOCH - THE NEW MCCULLOCH'S ENCYCLOPEDIA OF AUSTRALIAN ART



ARTIST IMANTS TILLERS (B.1950)
TITLE FARAWAY
DESCRIPTION OIL ON BOARDS.
PURCHASE PRICE \$10,909
CURRENT VALUATION* \$30,000
QUOTE "MORE THAN ANY OTHER ARTIST TILLERS HAS OPENED UP A BROAD FIELD OF ENQUIRY INTO THE NATURE OF REGIONAL ART AND IDENTITY." ART CRITIC JOHN McDONALD



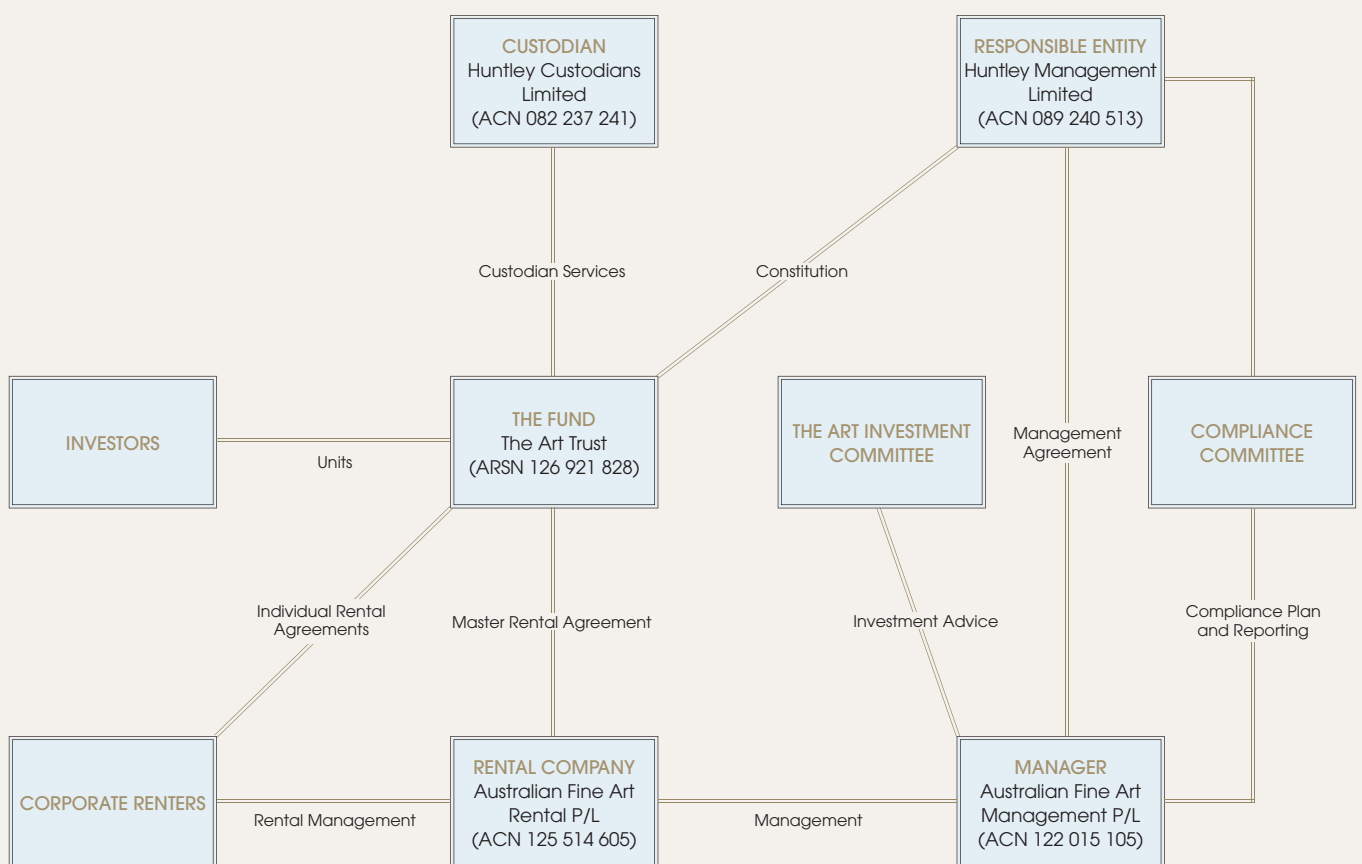
ARTIST ARTHUR BOYD (1920-1999)
TITLE FLAME TREE AND RED DOG X 4
DESCRIPTION COLLOGRAPHIS
PURCHASE PRICE \$4,340
CURRENT VALUATION* \$15,000
QUOTE "BOYD'S PLACE AS ONE OF AUSTRALIA'S MOST SIGNIFICANT PAINTERS OF THE 20TH CENTURY WAS BASED ON A PRODIGIOUS TALENT AND EFFERVESCENT, IF OFTEN BLEAK, IMAGINATION." SUSAN MCCULLOCH - THE NEW MCCULLOCH'S ENCYCLOPEDIA OF AUSTRALIAN ART



ARTIST PETER D COLE (B.1947)
TITLE SYMBOLS OF RELIGION
DESCRIPTION SCULPTURE
PURCHASE PRICE \$16,667
CURRENT VALUATION* \$26,000
QUOTE "HE HAS HELD 14 SOLO EXHIBITIONS 1969-2003 ... OF PASTELS AND SCULPTURE WITH A MIRO-LIKE SIMPLICITY." SUSAN MCCULLOCH - THE NEW MCCULLOCH'S ENCYCLOPEDIA OF AUSTRALIAN ART

*All works were valued by independent, authorised valuers, McWilliam and Associates in 2006.

THE CORPORATE STRUCTURE



THE PEOPLE

THE RESPONSIBLE ENTITY

The Responsible Entity for the Trust is Huntley Management Limited ACN 089 240 513 which holds an Australian Financial Services Licence No. 229754 which authorises it to act as responsible entity for the Trust (the Trust).

The Responsible Entity is responsible for managing the Trust in accordance with the Trust Constitution, the *Corporations Act 2001* and general legal obligations. Independent of the Manager, the Responsible Entity is responsible for safeguarding the interests of the Unit Holders.

The Responsible Entity has appointed the Manager to provide advice in relation to the purchase and subsequent sales of the works of art intended to make up the Trust Collection, as well as to advise on the ongoing management of the Trust Collection.

The Responsible Entity also provides – or manages the provision of – external support services. These include management of all back office functions such as safe custody of the Trust assets, investment accounting, taxation (both for GST and annual returns) investor registry and relations, the Trust audit and reporting, the Trust distributions, payments into and from the Trust accounts, and cash forecasting.

MEMBERS OF THE RESPONSIBLE ENTITY ARE:

DAVID MILLHOUSE CHAIRMAN

David is the founder of MillhouseIAG and of Corporation Builders. He has a quality academic background with degrees in science, business and law.

He is an expert in capitalisation planning for emerging growth companies, and is experienced in the raising of capital in the public and private equity markets in Australia and other countries, including Singapore, Germany and the United States.

He was Visiting Lecturer at the American Graduate School of International Management in Phoenix, USA. He was the Foundation General Manager of UniQuest Ltd, the technology commercialisation vehicle of the University of Queensland. He is a Certified Member of the Institute of Management Consultants in Australia and a Member of the Australian Institute of Company Directors.

He is one of the founding practitioners of venture capital in Australia and is an Australian member of the Asia Pacific Venture Capital and Private Equity Association, based in Singapore and Hong Kong.

He is also an experienced Company Director in several countries and a Trustee of the Bond University Foundation.

JOHN H KNOX MANAGING DIRECTOR

John is a Fellow of the Institute of Chartered Accountants. He practised for twenty years, specialising in the areas of business development, management and tax consultancy. Following the sale of his practice in 1978 John ventured into commerce. He established and took equity interest in companies in construction and property development as well as medical and pharmaceutical fields.

In 1983 John moved to England and subsequently was appointed as managing director of a specialist advertising group that was suffering financial problems. Following a successful restructure and restoration to profitability he moved to new assignments in Gibraltar and Spain. Upon returning to Australia in the mid 90s John has been involved in management consultancies, mainly assisting businesses in financial difficulties.

In 2002 he and Stephen Law established The Huntley Group which provides managed investment services to investors, developers and promoters of managed investments in Australia.

The Huntley Group holds an Australian Financial Services Licence and acts as responsible entity, custodian, trustee and/or manager for over 40 managed investment projects approved by the Australian Securities and Investments Commission and regulated by the Corporations Act.

STEPHEN LAW – DIRECTOR AND COMPANY SECRETARY

Stephen holds a Diploma of Law and is admitted as a solicitor to the Supreme Court of New South Wales. He is a Fellow of the Australian Insurance Institute.

He has had more than 20 years experience as a company secretary and corporate counsel specialising in corporate and

THE RESPONSIBLE ENTITY IS
RESPONSIBLE FOR MANAGING
THE TRUST IN ACCORDANCE
WITH THE TRUST CONSTITUTION,
THE *CORPORATIONS
ACT 2001* AND GENERAL
LEGAL OBLIGATIONS.
INDEPENDENT OF THE
MANAGER, THE RESPONSIBLE
ENTITY IS RESPONSIBLE FOR
SAFEGUARDING THE INTERESTS
OF THE UNIT HOLDERS.

administrative management of small to medium sized listed public companies. In addition to company secretarial functions, he has been widely involved in the development of managed investment schemes and the preparation of prospectuses for public offerings.

EMERITUS PROFESSOR GRAHAM SWAIN AM – NON EXECUTIVE DIRECTOR

Emeritus Professor Graham Swain AM is the retired Deputy Vice-Chancellor of the University of Western Sydney and Chief Executive Officer UWS Hawkesbury.

He was formerly Principal of the Hawkesbury Agricultural College; foundation Dean of Applied Science of Riverina College of Advanced Education; Associate Professor/Senior Lecturer in Agronomy at University of New England and Research Supervisor/Research Agronomist at Wollongbar Agricultural Research Station of NSW Department of Agriculture. He was a Fulbright Scholar at the University of Maryland.

Graham was appointed a Member of The Order of Australia (AM) in 1991 and a Fellow of the Australian Institute of Agricultural Science and Technology (FAIAST) in 1979. He is also a Fellow of the Australian Institute of Company Directors (FAICD). In May 2000 the University of Western Sydney conferred on him a Doctor of Letters Honoris Causa (Hon. D. Lit.). In 1993 he was the first to be awarded the title of Emeritus Professor by the Board of Governors of the University of Western Sydney. Since retirement he has served as a director of three agricultural production companies.

THE PEOPLE

THE MANAGER CONSISTS OF A TEAM OF BUSINESS AND FINANCE PROFESSIONALS WITH EXTENSIVE EXPERIENCE IN OPERATIONAL AND FINANCIAL MANAGEMENT.

THE MANAGER

The Responsible Entity has appointed Australian Fine Art Management Pty Limited (Manager) to manage the Trust operations.

The Manager will have responsibility for:

- Coordinating the Trust investment and sale strategy in conjunction with the curators and Investment Committee.
- Providing safe storage and insurance for the Trust Collection.
- Maintaining full inventory control of the Trust Collection.
- Providing suitable premises for showing works of art for sale and rental.
- Providing support for investor relations.
- Providing a business to support rental of the Trust Collection.
- Providing sufficient staff to support the above.
- Financial reporting of the Trust activities.

The Manager consists of a team of business and finance professionals with extensive experience in operational and financial management.



DAVID I S BAKER –
EXECUTIVE DIRECTOR

David has had more than 35 years' experience in accounting, stockbroking, banking and funds management both in Australia and the UK. After commencing in accounting in Melbourne, David spent 7 years in Sydney stockbroking prior to moving to London. After 6 years of banking with Natwest and Citibank in London David returned to Sydney with Citibank in 1980. In 1984 David was appointed HSBC's State Manager for Western Australia and then State Manager for Victoria.

Since 1990 he has been a principal and director of Baker & Weyhausen Pty Ltd (B&W), a company that has provided advice to foreign banks and companies operating in Australia. It has acted for European banks – BHF and Charterhouse, Nord LB and Bremers LB.

B&W was involved in the setup of the first major Australian wind farm at Codrington in Victoria. B&W set up and managed the Victorian arm of Challenger International's commercial property financing business (Howard Mortgage Trust) in Victoria for 5 years until 2003, culminating in annual transactions of AUD\$A170million being arranged in its final years.

Since 2003 B&W, through its associates, has continued to arrange commercial property financing.

David brings strong general management skills to the Trust.



LAURIE H TOOVEY –
EXECUTIVE DIRECTOR

Laurie is a Fellow of the Institute Chartered Accountants and he holds a Bachelor of Commerce from the University of Melbourne. He is also an Associate Fellow of the Australian Institute of Management and a Member of the Institute of Management Consultants. He was a partner of HLB Mann Judd Chartered Accountants for 20 years, including 10 years as Managing Partner.

Since 1997 Laurie has operated his own Business Consultancy (The Hillcrest Group) specialising in strategic planning, business development, business valuations, mergers and acquisitions and litigation support.

He co-founded the Australian Art Investment Trust in 1997 and remains a Director and Secretary of the trustee of this Trust. He also holds a number of directorships and advisory board positions.

Laurie brings a wide range of knowledge and skills to The Art Trust, not only from his 10 years experience as a director of Australian Art Investment Pty Limited, but also in the areas of operational management, and financial management, strategic planning, strategy implementation and business development.



BILL COADY –
NON EXECUTIVE DIRECTOR

Bill is a lawyer with 35 years experience in the practise of the law. Since graduating from Monash University in 1971, Bill has practised in the areas of commercial law relating to property and transport and has extensive litigation experience in commercial and criminal law.

He has been admitted to practise in Victoria, New South Wales and Tasmania. Bill brings legal and ethical strengths to the Trust.

THE PEOPLE



THE ART INVESTMENT COMMITTEE

The Committee, appointed by the Responsible Entity will assess and advise on all the Trust acquisitions and sales.

Members of this Committee are appointed on formal contracts for a minimum 24 months from the offer's closing date, with a view that their appointments will be extended for the life of the Trust.



DR ROGER DEDMAN

Roger Dedman, a Bachelor of Mathematics who also holds a doctorate in Fine Arts from the University of Melbourne, is a prominent Australian art market analyst.

His publications include the annual *The Australian Art Market Movement Handbook* which was published annually by Christie's Australia between 2002 and 2006, and currently by Deutscher Menzies. He is also a contributor to a quarterly magazine – *The Australian Art Market Report*.



GEOFFREY EDWARDS

Geoffrey was appointed Director of the Geelong Art Gallery in 1999. Prior to that he was a senior curator at the National Gallery of Victoria in charge of its collections of international and Australian sculpture and its world famous collection of ancient, antique and modern glass.

Geoffrey is a regular contributor to national and international art journals and is also the author of books on the art of glass and contemporary sculpture.

A former Churchill Fellow, he has been affiliated with numerous cultural committees and boards including the Visual Arts/Crafts Board of the Australia Council, Craft Australia and the International Council of Museums.



SUSAN MCCULLOCH

Susan is most widely known in the art industry as co-author of *"McCulloch's Encyclopedia of Australian Art"* – Australia's major reference for any information on Australian art and artists.

In addition Susan is regarded as one of Australia's leading experts on Australian Indigenous art and artists. In the past she has written on the arts for *The Bulletin*, *The Australian*, *the Melbourne Age* and *Melbourne Herald*.

THE COMMITTEE, APPOINTED BY THE RESPONSIBLE ENTITY WILL ASSESS AND ADVISE ON ALL THE TRUST ACQUISITIONS AND SALES.

THE CURATORIAL TEAM

THE CURATOR

The Responsible Entity has not yet appointed the Curator, and will confirm this position following the opening of the Trust. The Manager has discussed the position with a number of eminently qualified people who are all currently in full employment.

The Curator will be responsible to the Manager.

This is a senior position and requires formal qualifications in fine art management as well as many years experience in the art industry covering all disciplines relating to fine art management.

The appointee will be widely known, and well regarded, throughout the Australian art market, and have a very strong presence in the area of acquisitions and sales.

The Curator's role covers a wide range of responsibilities, from the management of the art assets of the Trust through to the acquisition and sale of works of art.

The responsibilities of the Curator will include the following:

- Instigation and maintenance of the record keeping systems that detail each work of art owned by the Trust.
- Instigation and maintenance of the storage and security systems that ensure the safekeeping of the works of art owned by the Trust.
- Seek out potential acquisitions from all sources. The sources will include:
 - From private and corporate ownership and collections.

- From a selected team of commercial art dealers and commercial galleries.
- From auction houses.
- From living artists direct.

- Compile detailed information on each potential acquisition or sale to enable the Investment Committee to make an informed decision.
- Negotiate the acquisition and sale price based on recommendations of the Investment Committee.

The position will be based on a minimum initial contract of 3 years.

The Curator will be supported by a registrar/junior curator also appointed by the RE.

THE ART MARKETS

GLOBALLY, ART
IS A GROWING
ALTERNATIVE
INVESTMENT
STRATEGY.

ART AS AN ATTRACTIVE ALTERNATIVE INVESTMENT

It is widely accepted that the key to creating wealth is through building a diversified portfolio of long term investments. Volatility in world markets, particularly in equities, has demonstrated the benefit of diversifying risk through alternative investments – especially those with a track record of long term capital appreciation.

Globally, art is a growing alternative investment strategy. The increasing activity of art auction houses since the 1980s has created an important secondary market with a high level of liquidity which has proved attractive to investors.

GLOBAL ART MARKETS

2006 was a bumper year for fine art sales globally, with increased investment in a range of genres, and with new records set for many artists at private sales and auctions held worldwide.

At the top of the apex was the private sale of Gustav Klimt's *Golden Adele* which fetched a world record for any painting of \$A181.8 million in June 2006.

In May, Picasso's 1941 painting, *Dora Maar au chat*, sold at Sotheby's New York auction for \$A102.4 million.

In New York in March 2007, Sotheby's' *Contemporary Art Asia: China, Japan, Korea* auction, brought a total \$A17.822 million, establishing many auction records for Asian art, while in Dubai in May, Christies' held its first ever Middle Eastern International Modern and Contemporary Art auction.

The hard evidence of general art market trends is revealed by the turnovers of the world's art auction houses, and the average prices paid.

For example, according to *Art Market Trends 2006*, based on the Artprice Global Index and accessed through the website, Artprice.com, the estimated turnover for the world's art auction houses in 2006 rose to \$A7.7 billion from \$A4.15 billion in 2005.

Further, prices achieved for works which were sold for \$A2,500 or more in 2005 were 25.4% above those achieved in 2005.

For art, this continues an unbroken trend of price rises for the past ten years. During 2006, there was some evidence that the increased prices reduced the supply constraints that had been evident in the major art auction houses over the past few years.



GUSTAV KLIMT'S *GOLDEN ADELE*

This painting fetched a record price for any painting in the world when it was sold privately to Ronald S Lauder for \$A181.8 million in June 2006.

AUSTRALIAN ART MARKET

Art sales through Australian auction houses totaled \$A104 million in 2006, and have already reached \$A114 million to end August 2007, (Australian Art Sales Digest), and an estimated further \$A100 million through commercial galleries. In addition there is an indeterminate level of sales through private treaty and secondary dealers.

It is estimated that the total potential market for Australian works of art of investment grade, held both in private and corporate hands, is in the range of \$A3 billion to \$A4 billion.

The 2007 version of the annual Australian Art Market Movements Handbook compiled by Roger Dedman* advises that the annual increase in the AMI (See chart below) averaged 11.5% between 1996 and 2002.There was a slight setback in 2003, but the market recovered in 2004, and has increased by 20% over the past 2 years. The chart below shows that prices have increased by an average of 9.3 % per annum (compounded) over the ten years to the end of 2006. This compares with the Australian All Ordinaries Index which has risen by 7.3% per annum (compounded) over the same period.

A key factor has been an expansion in demand from private collectors, institutions and museums against a dwindling supply of quality Australian art product.

Other factors include ongoing media attention and promotion of the arts at state and federal government levels. The past two and a half decades have also witnessed unprecedented state and regional gallery

THE ART MARKETS

building programmes, expanding museum display areas and significantly increasing attendance numbers.

One of the most credible studies of the Australian art market was made by Professor Andrew Worthington and Helen Higgs from the School of Economics and Finance at the Queensland University of Technology in 2004.

Their study, *'Financial returns and price determinants in the Australian art market, 1973-2003'* was based on information recorded by Ted Craig in his annual Australian Art Auctions Records between March 1973 and June 2003.

These academics analysed 37,605 transactions of works of art by 60 leading Australian artists over 30 years at auction, selecting the artists after discussion with art auctioneers, curators and dealers about the most sought after and frequently traded works.

The study reflects the trends by periods, schools and genres. Some of their observations included:

ON THE ART MARKET COMPARED WITH FINANCIAL MARKETS

- "It goes without saying that art markets differ from financial markets. Art works are not very liquid assets, almost never divisible, transaction costs are high, and there are lengthy delays between the decision to sell and actual sale. *Investing in art typically requires substantial knowledge of art and the art world and a large amount of capital to acquire the work of well-known artists.*"
- "...perhaps the main distinguishing feature between art markets and financial markets is that *the expected return from art investment consists not only of price rises but also the psychic return of art works: through their aesthetic qualities, possible through their social characteristics, and in the case of pieces acquired by museums for their cultural significance, even public-good attributes.*"
- "At first impression, art markets appear to have little in common with financial markets. Most art markets are characterized by product heterogeneity, illiquidity, market segmentation, information asymmetries, behavioral abnormalities, and almost monopolistic price setting. *However, in recent years, it has been widely accepted that art markets have moved closer to the ideals set by financial markets.*"
- "The results show that (the) low correlation found between returns in the art market and those in the stock market are also suggestive of the benefits of portfolio diversification through Australian art investment".

ON MARKET SEGMENTATION

"Many *private collectors* are not profit orientated and are prone to the anomalies of the 'endowment effects' (an art object owned is valued more highly than one that is not)."

"...*corporate collectors* undertake their investments solely on the basis of financial returns" and

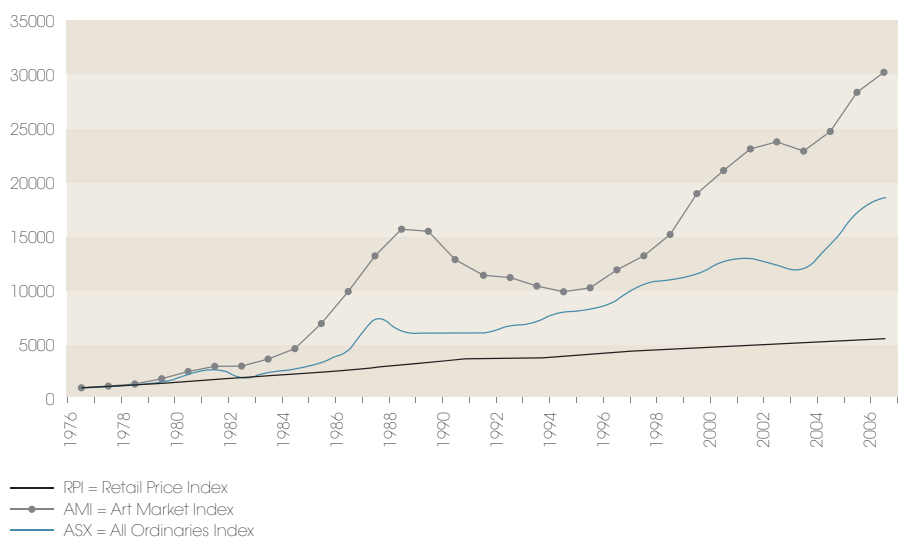
"*public museums* are important buyers of art. Once art works are acquired it is rare for these organisations to be either willing or able to dispose of works in the market..."

"It is generally accepted that there are many more buyers and sellers of art active in these markets than in the past."

The Australian Art Market Index.

The chart below, prepared by Dr Roger Dedman, shows the correlation between equities and art markets from 1975 until 2006.

AMI vs All Ords



RISK

Despite the above, past performance is never a guaranteed determinant of future performance. The Responsible Entity and the Manager give no assurances that the investment performance of the works of art selected for the Trust will correspond with the historical performance of the Australian art market, or with relevant sectors within it.

THE ART MARKETS

RECENT SALE OF AUSTRALIAN ART



JOHN BRACK *THE BAR*

This painting fetched a record auction price for any Australian painting at Sotheby's Australia in April 2006 when it was auctioned for \$A3.12 million, \$800,000 more than any other Australian artwork at auction.



BRETT WHITELEY *OPERA HOUSE*

This painting was sold for \$A2.88 million at Sotheby's auction in May 2007.



JOHN BRACK *THE OLD TIME*

This painting was sold for \$A3.36 million at Sotheby's auction in May 2007.



EUGENE VON GUERARD *VIEW OF GEELONG 1856*

(COLLECTION: GEELONG GALLERY PURCHASED THROUGH THE GEELONG ART GALLERY FOUNDATION WITH THE GENEROUS SUPPORT OF THE VICTORIAN GOVERNMENT, THE AUSTRALIAN GOVERNMENT, THE CITY OF GREATER GEELONG AND NUMEROUS COMMUNITY AND OTHER DONORS, 2006).

This painting was acquired from Andrew Lloyd Webber for \$A3.8 million.



CLIFFORD POSSUM TJAPALTJARRI *WARLUGULONG 1977*

This painting was sold for \$A2.4 million at Sotheby's auction in July 2007.

THE INVESTMENT POLICY

The Trust objective is to seek a return through the price appreciation of a diversified portfolio of Australian paintings, sculpture, photography, decorative arts and other collectables. (Trust Collection).

While appropriate investment opportunities are being sought, the Trust will invest any cash in an interest bearing account or short term interest bearing instruments.

The Manager anticipates that the Trust will outperform standard Australian art market returns through active management of a diverse portfolio.

It may earn additional revenue through sale of works of art and through renting items from the Trust Collection.

It may also earn additional revenue through the purchase and leaseback of corporate and private collections.

The Trust will invest in Australian works of art across a diverse range of categories as determined by the Manager, supported by the Committee and the curatorial staff.

Conversely, the Manager, with the Committee's guidance, has the discretion to sell works at times they consider to be opportune.

The Trust will invest predominantly in Australian works of art, mostly paintings and also in sculpture, photography, and the decorative arts such as glass, ceramics and metalwork.

The Responsible Entity expects the experience of the Committee and the curatorial staff is such that they have the ability to identify investment opportunities by detecting emerging trends before they become overly exposed in the marketplace.

The Committee will develop and review regularly investment guidelines in relation to maximum amounts which should be invested in individual artists and within specific genres.

What is purchased – and when – will depend on a sufficient availability of works of art considered suitable for investment in each selected category.

To minimise risk through diversity, the Committee will maintain category and genre weightings and review them according to art market trends. The initial intended weightings are set out in the chart on page 18 – "Split of Completed Investment Collection – Based on Cost".

In addition to monitoring the Trust activities according to these weightings, the Responsible Entity will determine financial caps for single works of art and individual artist representation within the Trust Collection.

These caps will remain in force unless the Committee recommends otherwise to the Responsible Entity, which accepts the recommendations subject to its duty to act in the best interests of the Trust Investors.

Initially, it is intended that no single work of art, based on its purchase price, will represent more than 10% of the total investment in the Trust or total Trust Collection value, whichever is the greater.

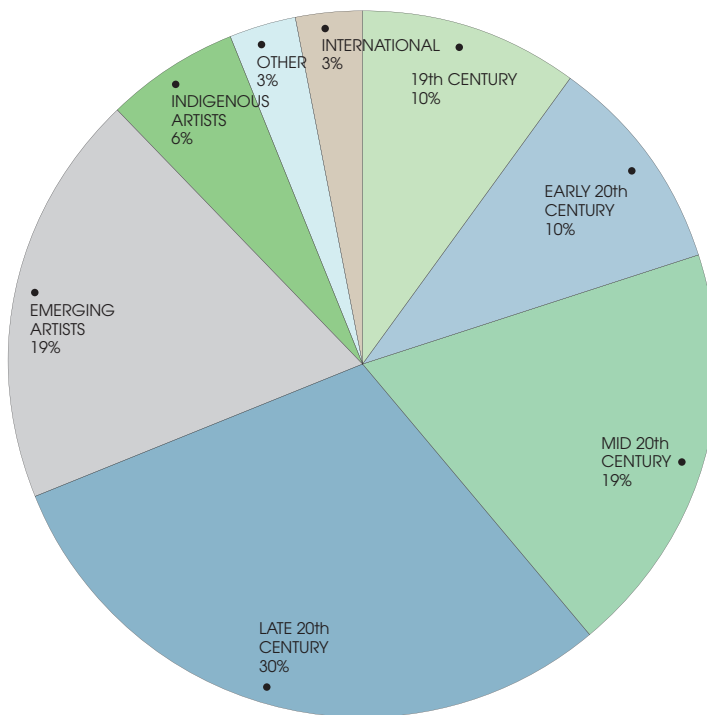
Initially, it is intended that no works by a single artist, based on their combined purchase prices, will represent more than 15% of the total investment in the Trust, or the total Trust Collection value, whichever is the greater.

"ONE OF THE VERITIES OF ART INVESTMENT IS THAT WORKS OF THE HIGHEST QUALITY BY A GIVEN ARTIST WILL ALWAYS OUTPERFORM MORE PEDESTRIAN EXAMPLES."

ROGER DEDMAN, COMPILER OF THE ANNUAL AUSTRALIAN AMI (ART MARKET INDEX), WRITING IN ART MARKET MAGAZINE

THE INVESTMENT MIX

SPLIT OF COMPLETE INVESTMENT COLLECTION – BASED ON COST



AS WITH ANY INVESTMENT, HAVING A DIVERSIFIED PORTFOLIO IS IMPORTANT IN ORDER TO REDUCE FINANCIAL EXPOSURE TO ANY SINGLE ELEMENT OF AN EVER-CHANGING MARKETPLACE.

As with any investment, having a diversified portfolio is important in order to reduce financial exposure to any single element of an ever-changing marketplace.

The Trust intends to diversify from its existing base – that is, the AAI contemporary art collection – by broadening the range of the works of art represented in its stable.

(These are preliminary only as figures are still to be finally determined by the Investment Committee that will meet at least monthly).

The art periods defined as 19th Century, Early 20th Century, mid 20th Century, Late 20th Century, is each comprised of a recognised and representative group of artists. These are as follows:

19th CENTURY Artists including Glover, Martens, McCubbin, Roberts, Streeton and von Guerard.

EARLY 20th CENTURY Artists including Buckmaster, Cumbræ-Stewart, Heyesen, Lindsay, Preston and Wakelin.

MID 20th CENTURY Artists including Blackman, The Boyds, Dobell, Nolan, Smart, Tucker and Williams.

LATE 20th CENTURY Artists including Arkley, Brack, Coburn, Dunlop, Kelly, Larter, Olley and Whiteley.

For Emerging and Indigenous art categories, the artists that may be represented are less definitive than those categories above.

THE RENTAL BUSINESS

THE ACQUISITION OF
THE EXISTING RENTAL
COLLECTION DELIVERS
THE NEW ART TRUST WITH
AN ART RENTAL INCOME
STREAM WHICH WILL
HELP REDUCE FUTURE
MANAGEMENT COSTS
OF THE TRUST.

As previously outlined on page 8, the first acquisition that the Trust will make is some or all of the current collection of contemporary works of art of AAI. The works selected will be determined by the Responsible Entity in conjunction with the views of the Committee and at prices set by the independent valuation of McWilliam & Associates.

The Responsible Entity is confident the prices paid will provide the Trust with a solid base of art assets. Further, the acquisition will include all the existing Art Trust's art rental relationships, marketing connections and goodwill.

When AAI was formed in 1997, it had two major objectives:

1. to purchase works of art of selected artists at the best possible price (mostly direct from the artists) and achieve capital gain for the Unit Holders, and
2. to rent some of the works of art to reputable corporate clients to achieve income for the Trust.

As at 30th June 2007, 557 works were rented to 62 reputable client companies in Sydney, and Melbourne on terms of one to 3 years. All the works of art are insured by the client, with the appropriate insurance documentation provided to AAI.

The acquisition of the existing rental collection delivers the new Art Trust with an art rental income stream which will help reduce future management costs of the Trust.

Since the first rentals were made in 1997, Australian Art Resources Pty Ltd has managed AAI's art rental business through its offices in Sydney and Melbourne.

The Responsible Entity has appointed AFAR to manage the operations and administration of rental business involving the Trust collection available for rent.

Rental rates charged are generally between 15% p.a and 20% p.a of the market value of the work of art, payable in advance. The Trust will be entitled to $\frac{3}{8}$ of the gross income, with $\frac{5}{8}$ being passed on to AFAR. The $\frac{3}{8}$ for the Trust equates to an income of between 5.6% and 7.5% p.a., for no cost, and indeed rental alleviates the Trust of certain costs relating to storage and insurance.

The Responsible Entity and AFAR believe this rental business can grow strongly over the life of the Trust. When commercially viable, AFAR will expand from Sydney and Melbourne to other mainland capitals such as Brisbane, Perth and Adelaide.

One of the objectives of the Trust is to source corporate and private collections with a view to offering a purchase and rent-back opportunity. It is anticipated that these transactions would be major off-market transactions, not negotiated by AFAR. These would therefore fall outside the rental agreement between the Responsible Entity and AFAR. The Trust would receive all rental income, with no payment to AFAR.

As with the AFAR general rental transactions above, these major acquisitions and rent backs will provide additional income to offset costs and fees.

THE INVESTMENT BENEFITS

THE TRUST OFFERS AN OPPORTUNITY TO GAIN EXPOSURE TO ART INVESTMENT AND TO ENHANCE INVESTMENT RETURNS THROUGH EXPERT ART SELECTION.

It is now generally accepted that a portion of any investment portfolio should include 'alternate assets', that is, assets other than fixed interest, equities and property.

The Trust provides all the elements of a viable alternate asset investment.

OPPORTUNITY

The Trust offers an opportunity to gain exposure to art investment and to enhance investment returns through expert art selection.

RETURNS

The Trust will aim to deliver a return for Investors through the price appreciation of a diversified portfolio of Australian art over the period from six to eight years.

RENTING WORKS OF ART FROM THE TRUST COLLECTION

A major source of income for the Trust will emanate from the rental of works from the Trust Collection. This income, after rental management costs, will go to offsetting some of the costs of managing the Trust's assets.

PROFILE

Through the curator and with the support of the Committee, the Trust will develop a respected profile within the Australian art industry as a major investor in quality Australian art.

EXPERT SELECTION

The curatorial staff will use its extensive knowledge and network of dealers and other contacts to source appropriate works of art for the Trust. Owning Units in the Trust will be one of the only ways many Investors can access works of art of this calibre.

PRIVILEGED PURCHASING POWER

By combining Investors' funds, the Trust may be offered opportunities to purchase works of art which may not be available to individual collectors.

LOWER RISK THROUGH DIVERSIFIED PORTFOLIO

A diversified approach to investment in art means that investor's risks are spread over different works of art and artists. This seeks to limit the impact of unfavorable movements in prices of particular works of art or artists.

ECONOMIES OF SCALE

The size of the Trust will enable the Manager to negotiate arrangements with art dealers and art auction houses which reduce transaction costs, when buying or selling, in comparison with those normally charged to individual collectors. The Trust will also enjoy savings compared to an individual investor with other costs associated with holding works of art, including insurance and storage.

QUARTERLY NEWSLETTER

In addition the statutory reports available to all Investors, the Manager intends to issue a quarterly newsletter that will detail the progress of the Trust and show any major items that have recently been purchased.

ONLINE ACCESS TO THE TRUST INFORMATION.

The Trust website will have a secure entry area for all Investors where information on the Trust and the Trust Collection will be made available.

INVESTOR EVENTS

The Trust – its Manager, its Committee members and its curator – will deepen its relationships with artists and others in the Australian visual arts community. It is intended there will be investor events from time to time such as special presentations of an artist's work or talks from art experts.

ADDITIONAL BENEFITS FOR INVESTORS

ART RENTAL

Investors in the Trust will have the ability to rent selected items from the Trust Collection. Given the nature of the items to be rented some strict guidelines will be adhered to.

The portfolio of works of art that is available for rental will be displayed on the Trust website.

ART PURCHASE

All Investors will be able to buy selected works of art from the Trust without paying commission.

A listing of works for sale will be made available on the Trust website.

KEY RISKS

IT IS ANTICIPATED THAT THE PRIMARY RETURN TO INVESTORS FROM THE TRUST WILL BE FROM THE SALE OF WORKS OF ART FROM THE TRUST COLLECTION, WHICH IS EXPECTED TO OCCUR BETWEEN SIX AND EIGHT YEARS AFTER THE TRUST HAS BEEN ESTABLISHED.

All investment involves varying degrees of risk.

An investment in the Trust involves a number of risks which Investors should carefully consider prior to making an investment decision. These risks may have a negative impact on the value of the capital you invest in the Trust or affect the prospect for income. Here we describe some of the risks of investing in the Trust.

While we will maintain an investment management process that seeks to ensure that the underlying investment assets remain appropriate to current market conditions, we cannot protect the value of your investment from all risks. The summary below details some of the major risks you should be aware of when investing in the Trust.

GENERAL INVESTMENT RISKS

General factors such as inflation, movements in interest rates, government policies and legislation, taxation, changes in the economy and confidence may have an impact on the Trust and the value of its investments. The Responsible Entity has no control over general risks that may have a broad influence on business conditions and on property markets. We do not anticipate that these risks will have any greater or lesser effect on the Trust than on any other similar investment.

ART MARKET RISKS

MARKET RISK

Market risk refers to the risk that the art market moves in an unfavorable direction or begins to display signs of volatility such that art Investors lose confidence in the market. This may affect the value of the Trust Collection.

MEDIUM TO LONG – TERM INVESTMENT

It is anticipated that the primary return to Investors from the Trust will be from the sale of works of art from the Trust Collection, which is expected to occur between six and eight years after the Trust has been established.

Investors should expect to hold their Units for the full term of the investment – that is, for at least five years.

However, should Investors need to sell or redeem their Units prior to the final maturity date, the Responsible Entity will consider a request subject to receiving 6 months written notice.

As the basic premise of the Trust is an investment of five to eight years, the Responsible Entity will be under no obligation to accept any redemption, but may assist with the sale of Units.

LIQUIDITY RISK

Art investment should be considered an illiquid investment. The Trust may not be able to buy and sell works as desired.

VALUATION RISK

Valuations of works of art are matters of opinion and are not guarantees that certain prices will be realized on sale.

There is a risk that the valuations, relied upon when making investment decisions, do not accurately reflect the value of the asset, as is or on completion. Valuation risk may affect the recoverability of moneys invested and lead to principal or interest losses where the security held by the Trust is insufficient to meet the borrower's obligations.

However we will only use recognized art valuers who hold professional indemnity insurance.

INSURANCE RISK

Insurance covers many events of losses involving works of art. However, it may not cover all events of loss. Standard industry exclusions will apply to insurance policies. The ability of the Trust to recover in case of a loss will also depend on the solvency of the chosen insurer. In addition, insurance cover may not insure the full value of the Trust Collection because of an 'excess' or deductible arrangement in the policy.

DAMAGE OR DESTRUCTION OF WORKS OF ART

Works of art represent items of unique physical property which cannot be replaced in their exact form if damaged or destroyed. For this reason any works of art which are not subject to rental agreements, will be maintained in a secure environment for storage of art save where displayed in which case they must be displayed in a secure environment. Insurance will also be maintained against the risks referred to above.

FRAUD

Works of art which are purchased by the Trust may be fraudulent copies or representations of other valuable Artists or Works of art. Fraudulent copies of Works of

KEY RISKS

art are unlikely to be worth the money initially invested to purchase these Works of art and may result in loss to Investors. However, the Trust internal procedures regarding provenance etc. are specifically designed to this minimise risk in this area.

THE TRUST/RESPONSIBLE ENTITY RISKS

LACK OF PAST PERFORMANCE

The Trust and Manager as distinct entities have no record in investing in the Australian Art Market. While the Australian Art Market has historically performed positively, this is a first Trust of a kind which has been formed specifically to invest in the Australian Art Market. Historical performance of the Australian Art Market is not necessarily an indication of how the Trust will perform in the future.

RISK IN ASSET SELECTION

Asset selection will be based on advice given to the Manager by the Committee. There is a risk that the Assets selected to form part of the Trust Collection will depreciate, or will not appreciate as well as other works of art.

WORKS OF ART NOT HELD BY CUSTODIAN

Because of the nature of the asset, works of art will not be held by the Custodian although the Custodian will hold documents evidencing title and have access to the place of secure storage when stored. Limited works of art from the Trust Collection may also be held from time to time by Public or Commercial Galleries, or by those who may rent works of art from time to time. The Custodian will maintain an audit trail to trace the location of the works of art. There will also be a means of identification retained with the records of the Trust.

OPERATIONAL RISK

Operational risk refers to the risk that the business processes and procedures (internal controls) designed to record and safeguard Assets of the Trust (particularly the works of art) break down. This may lead to a misstatement of Investor's or the business' financial position.

KEY PERSONNEL RISK

It is possible that key persons identified in this PDS may not be able to perform their designated duties for the life of the Trust. If this is the case, the Responsible Entity will seek to replace these key persons with suitable alternatives.

RENTAL RISK

A number of potential risks may arise for Investors because of the Master Rental Agreement between the Responsible Entity and AFAR to lease works of art. These risks may include (but are not limited to):

- Financial obligation – AFAR may not be able to make any payments that may be due under the Master Rental Agreement.
- Security – AFAR may fail to provide adequate security for the lease.
- Condition of the work of art – AFAR may not provide a suitable environment for any leased work of art.
- Insurance – while the Responsible Entity would require AFAR to ensure adequate insurance to cover losses as a result of damage or loss of certain works of art while being leased, they may fail to do so.
- Return of works of art – if AFAR does not return a work of art on termination of the lease, the Responsible Entity may incur costs in enforcing its right to take possession of the work.

While the Responsible Entity will endeavour to address each of these risks with suitable procedures and policies being incorporated into any leasing programme, the Trust may suffer a loss.

TAX RISK

Comments made in this PDS in relation to taxation are based on the Responsible Entity's understanding of tax laws as at the date of this PDS. If Australian laws change with respect to direct or indirect taxes, this could affect Investor's distributions. Investors should seek the advice of their own tax advisor in respect of their personal circumstances and the consequences of an investment in the Trust.

COMPLIANCE RISK

The Trust is a Managed Investment Scheme which means that the Responsible Entity is subject to strict regulatory and compliance arrangements under the *Corporations Act 2001* and ASIC policy. If the Responsible Entity does anything to jeopardise its Australian Financial Services Licence, then ASIC may take action to suspend or revoke its licence which in turn could impact adversely on The Trust. However we have a compliance regime in place, including engaging a full-time compliance officer, in order to manage and minimise this risk.

LIQUIDITY RISK

Liquidity is the extent to which an asset is easily bought or sold. You may not be able to sell or redeem your investment promptly or at all. This risk exists because there is no established secondary market for Units and there is no right of withdrawal or redemption in relation to your investment.

ECONOMIC, POLITICAL AND SOCIAL RISK

The Australian economy has experienced a long period of economic growth. An economic downturn could adversely affect business in general, and may affect the ability of the Trust to buy or sell the art forming part of the scheme property.

Changes in government policy or social instability or other similar developments could adversely affect the Trust investments.

Changes in laws and regulations, and/or in their interpretation, cannot be anticipated and as such may have consequences which adversely affect the Trust or investments of the Trust.

REVIEW OF RISK

The Responsible Entity will regularly assess the risks and controls in place which seek, where possible, to mitigate the risks associated with the Trust Collection. These risks and controls will be updated as required to reflect any changes to the business/environment. In addition, there will be a formal review of the risks on an annual basis by the board of the Responsible Entity.

IMPORTANT NOTE:

Neither the performance of this investment, the repayment of capital or income or any particular rate is guaranteed by the Responsible Entity, directors of the Responsible Entity, the Committee, the Manager or the Custodian. The investment, as with many alternative investments, is by its nature speculative. No guarantee is or can be given that there will be a gain arising out of this investment or that the art in the Trust Collection will not decrease in value.

DISCLOSURE OF FEES AND EXPENSES OF THE TRUST

Government regulations require us to include the following standard consumer advisor warning. The information in the consumer advisory warning is standard across all product disclosure statements and is not specific to information on fees and costs in the Trust.

CONSUMER ADVISORY WARNING

DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.

For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example, reduce it from \$100,000 to \$80,000).

You should consider whether the features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and management costs where applicable. Ask the fund or your financial advisor.

TO FIND OUT MORE

If you would like to find out more, or see the impact of the fees based on your own circumstances, the **Australian Securities and Investments Commission (ASIC)** website (www.fido.asic.gov.au) has a managed investment fee calculator to help you check out different fee options.

The table (on the following page) shows fees and other costs that you may be charged. These fees and costs may be deducted from your money, from the returns on your investment or from the Trust Property as a whole. Taxes are set out in another part of this document.

The costs of establishing the Trust, such as the production of this PDS, is borne by the Responsible Entity.

You should read all of the information about fees and costs because it is important to understand their impact on your investment.

All fees and charges in this table are inclusive of GST and take into account expected reduced input tax credits in respect of the GST component of the fee.

TYPE OF FEE OR COST	AMOUNT	HOW AND WHEN PAID
Fees when your money moves in or out of the fund		
ESTABLISHMENT FEE (1) The fee to open your investment	Up to 4.4% of the total issue price of each Unit (inclusive of GST)	Deducted from your Application Monies
CONTRIBUTION FEE The fee on each amount contributed to your investment – either by you or your employer	N/A	N/A
WITHDRAWAL FEE The fee on each amount you take out of your investment	Nil	Not applicable
TERMINATION FEE The fee to close your investment	Nil	Not applicable
Management costs		
The Trust Establishment Costs	\$A600,000.00 (inclusive of GST)	The fee is paid out of the Trust Property once minimum subscription is reached as a one-off lump sum amount
Operational Management Fees	1.925% per annum (inclusive GST) of the Trust Net Asset Value, or the nominal value of Units issued to Unit Holders, whichever is the greater, subject to a guaranteed minimum of \$A577,500 per annum (inclusive of GST)	The fee is paid out of the assets of the Trust Property each month in advance
Operational Management Performance Fees	20% of the balance remaining in the Trust after payment of the following amounts to Unit Holders: – return of the paid up amount on their Units; and – the Hurdle Amount	The fee is paid out of the Trust Property
Responsible Entity Fees	\$A132,000 per annum (inclusive of GST) plus an annual increment of CPI	The fee is paid out of the Trust Property quarterly in advance
Professional Fees	Determined when amount incurred – estimated to be \$A104,500 per annum (inclusive of GST) plus an annual CPI increment	The fee is paid out of the Trust Property as incurred
Custodian Fees	\$A16,500 per annum (inclusive of GST) plus an annual CPI increment	The fee is paid out of the Trust Property as incurred
The Trust Operating Costs	\$A506,000 per annum (inclusive of GST) subject to annual increments	The fee is paid out of the Trust Property as incurred
TYPE OF FEE OR COST	AMOUNT	HOW AND WHEN PAID
Service fees		
INVESTMENT SWITCHING FEE The fee for changing investment options	Not Applicable	Not Applicable

(1) THIS FEE INCLUDES AN AMOUNT PAYABLE TO AN ADVISER (SEE "ADVISER REMUNERATION" UNDER THE HEADING "ADDITIONAL EXPLANATION OF FEES AND COSTS")

ADDITIONAL EXPLANATION OF FEES AND COSTS

ADVISER REMUNERATION/ESTABLISHMENT FEE

Adviser Remuneration will be agreed between us and the advisers. We may pay up to an amount of 4.4% (inclusive of GST) of the Application Monies depending on the agreement we reach with the advisers. The actual commission paid to any adviser engaged by you will be disclosed to you by that adviser in the Statement of Advice provided by that adviser to you.

For example if you invest \$A50,000 in the Trust we may pay to the adviser an amount equal to \$A2,200 which will be paid out of the amount of your investment.

The commission is negotiable between 0 and 4.4% as between us and the adviser and may be rebated by agreement between you and the adviser.

OPERATIONAL MANAGEMENT PERFORMANCE FEES

The Management costs in the table on page 24 include Operational Management Performance Fees.

Operational Management Performance Fees are an effective way to align interests of Investors with those of Manager.

The Operational Management Performance Fee structure is designed such that the Manager is rewarded only after Investors have received the amount of their initial investment i.e. the total Application Monies they have paid plus a return on those Application Monies equal to the Hurdle Amount.

The maximum amount payable to the Manager by way of Operational Management Performance Fees is 20% of the amount remaining within the Trust after all of the initial Application Monies and the Hurdle Amount have been paid to all Unit Holders.

WORKED EXAMPLE

The following is a worked example but does not mean this will be the actual amount payable.

If 500,000 \$A1 Units were invested and the final value on distribution was \$A2.50 per Unit i.e. a total capital value of \$A1.25m the payments would be as follows:

- 1) *Firstly, Unit Holders would be repaid the capital invested (\$A500,000),*
- 2) *Secondly, Unit Holders would be paid the Hurdle Amount (see definition in Glossary) which would be the equivalent of interest on the 5 year bond rate (say 6% p.a.) +2% p.a. on the capital invested (compounded annually) until date of initial capital repayment (\$A500,000x 8%p.a. for 6 years = about \$A800,000. Therefore, \$A300,000 interest),*
- 3) *The residue of \$A450,000 would be split 80% investor (\$A360,000), 20% Manager (\$A90,000) as the operational management performance fee.*

TRANSACTIONAL AND OPERATIONAL COSTS

The only transactional and operational costs payable are those listed in the table on page 24. Any other transactional or operational costs must be met by the Manager out of the fees received, as set out in the table on page 24.

PROFESSIONAL FEES

This is the actual costs and expenses incurred by the Responsible Entity for legal, audit, accounting and valuation work performed for the Trust.

TAX AND INSURANCE COSTS

The position regarding tax is set out on page 27 of this PDS. In summary the Trust is subject to income tax at 30%. Investor Distributions will be franked at the fullest rate possible.

There are no additional fees for insurance. The Responsible Entity effects the insurances out of the Responsible Entity Fees referred to in the table on page 24.

NEGOTIATED FEES OR COSTS

There are no negotiable fees or costs. The only fees and costs are as set out in the table on page 24.

INCIDENTAL FEES

There are no incidental fees payable. The only fees and costs are as set out in the table on page 24.

FEE CHANGES

The Fees may not be changed unless the Constitution is amended. This would require a special resolution of members of the Trust.

You should note that Responsible Entity Fees subject to automatic increases in accordance with the CPI as set out in the table on page 24.

The Professional Fees are charged as incurred and therefore may vary according to the amount incurred.

Flexible Charging Structure.

There is no flexible Charging Structure for the Trust.

INDIRECT COST RATIO (ICR)

The ICR for the Trust is the ratio of management costs not deducted directly from your investment against the average net assets of the Trust. The ICR excludes management costs directly as well as other discrete fees or costs.

The ICR for the 12 months from the date of this PDS is 2.775% p.a. (inclusive of GST).

EXAMPLE OF ANNUAL FEES AND COSTS FOR MANAGED INVESTMENT PRODUCTS

This table gives an example of how fees and costs for this product can affect your investment over a one year period. You should use this table to compare this product with other managed investment products.

Example		Balance of \$50,000
Establishment Fees	4.4%	For a balance of \$50,000 you put in, you will be charged \$2,200.
PLUS Management Costs*	2.775%	And , for every \$50,000 you have in the Trust, you will be charged \$1,388 each year.
EQUALS Cost of fund		If you had an investment of \$50,000 at the beginning of the year, you would be charged fees of from: \$3588 What it costs you will depend on the fees you negotiate with your financial adviser.

*An Operational Management Performance Fee may also be incurred but it is not included in the table above because it is subject to variables. Your financial adviser may also charge an additional fee.

We are required to include the table above by law. However such a table is inappropriate for the annual fees and costs for this fund. The annual fees and costs are paid out of the Trust Property which are made up of the contribution of money you make into the fund and does not reduce the amount of your investment. An alternative table to the one above is set out below:

Example		Balance of \$50,000
Establishment Fees	4.4%	For every \$50,000 you put in, a fee of \$2,200 will be deducted from the Trust Property and paid to the Responsible Entity.
PLUS Management Costs*	2.775%	And , for every \$50,000 you have in the fund, \$1,388 will be deducted from the Trust Property and paid to the Responsible Entity.
EQUALS Cost of fund		If you had an investment of \$50,000 at the beginning of the year, \$3588 will be deducted from the Trust Property and paid to the Responsible Entity.

*Includes Operational Management Fees, Responsible Entity Fees, Professional Fees, and Custodian Fees.

INVESTOR DISTRIBUTIONS

THE KEY TO
SUCCESSFUL ART
INVESTMENT INVOLVES
KNOWING WHICH
ARTISTS TO INVEST IN,
AND WHEN TO BUY
AND SELL THEIR WORK.

Investors should not expect to receive significant distribution until the proceeds of sale of the Trust Collection are distributed. This is not expected to occur until after five years after Units in the Trust are first issued to Investors.

In addition, throughout the life of the Trust, income may be earned from other possible sources which include:

- Profits earned from opportunistic sale of certain works of art of the Trust Collection (sold within four and a half years from when Units in the Trust are first issued to Investors);
- Interest earned from the Trust cash on deposit; and
- Income that may be earned from the renting of selected works of art from the Trust Collection (see page 19).

To the extent that such income is available for distribution to Investors and after fees and expenses, and any related tax liabilities of the Trust have been allowed, such distributions may be made by the Responsible Entity at any time after the Units in the Trust are first issued to Investors and up until such time as the Trust is terminated.

The Responsible Entity will, subject to its duty to act in the best interests of Investors, make distributions at its absolute discretion. Investors should also note that the Responsible Entity has the discretion (and is likely to) reinvest the proceeds (not including any profits derived) from the opportunistic sale of works of art within four years from when Units in the Trust are first issued.

If the Responsible Entity chooses to make a distribution for a particular year, it will be made to Investors from the Investor Distribution Account within 45 days of 30th June or 31st December. Distributions may be in the form of a return of Investor's capital or in the form of a fully franked dividend.

Distributions in the form of a return of Investor's capital will reduce the cost base of Units held for capital gains tax purposes. Distributions will be paid to Investors by way of a cheque.

TAX

The following information included under the heading "Tax" has been prepared by William Buck for the specific purpose of inclusion in this PDS. William Buck has consented to its inclusion in this PDS and has not withdrawn that consent before the date of preparation of this PDS.

The Trust will be considered a "public trading trust" for the purposes of Division 6C of the ITAA 1936.

Accordingly, Responsible Entity, being The Trustee of the Trust, will be required to pay income tax on taxable income derived by the Trust. Income tax will apply at the corporate tax rate prevailing at the time (currently 30%). The payment of tax in the Trust will generate franking credits which may be distributed to Investors.

Where the Trust is in a net tax loss position for the year (capital or revenue), that tax loss cannot be distributed to the Investors. Instead the tax loss may be carried forward by the Trust and offset against the Trust taxable income in future years.

INCOME TAX POSITION

The Units in the Trust acquired by the Investors should be considered "equity" for income tax purposes. Consequently, any distribution of profits of the Trust will be treated as dividends for income tax purposes. As the Trust will be a "public trading trust", distributions will be able to be franked.

Investors will be required to include distributions, together with any relevant franking credits, in their assessable income for the income year in which they receive the distribution.

Franking credits distributed to the Investor may be used to offset the Investor's income tax liability for that income year. If the amount of franking credits exceeds the investor's income tax liability for an income year, the franking credits may be refundable.

For completeness, it should be noted that the availability of franking credits can be limited in various circumstances. We recommend that Investors seek advice from a professional tax adviser regarding the availability of franking credits in their particular circumstances.

CGT POSITION

REDUCTION OF COST BASE OF UNITS FOR CGT PURPOSES

As noted in the PDS, the Trust is contemplating returning capital to the Investors from the proceeds of the sale of the Trust Collection on termination.

A return of capital can result in a "CGT event" for income tax purposes. Specifically, CGT event E4 will apply to reduce the cost base of the Units held by the Investor in the Trust, by the amount(s) of capital returned. The cost base of the Unit at the relevant time will be the addition of all instalments paid, less reductions from any earlier application of CGT event E4.

To the extent that the return of capital exceeds the Investor's cost base in its Units, the investor will derive a capital gain equal to that excess amount. Any capital gain arising from CGT event E4 should also be eligible for treatment as a discount capital gain.

DISPOSAL OF UNITS

Although there is no secondary market for the Units there may be circumstances in the future that result in Investors disposing of their Units. Furthermore, cancellation of all Units will occur on termination of the Trust or may occur in the case of an instalment default.

Any disposition of the Units may have CGT implications. However, those implications will differ according to the individual circumstances of each investor. Therefore, it is recommended that specific advice is sought from a professional tax adviser, prior to the disposal of any Units.

Generally, the CGT provisions will apply where the ownership of the Units ends by way of sale, transfer or cancellation. A capital gain will generally arise where consideration for the disposal of the Units exceeds the Investor's cost base in those Units. As noted previously, the cost base may be reduced as a consequence of the Trust returning capital of the Trust to the Investors.

Where the Units have been held by Investors for at least 12 months, access to the discount capital gains tax concessions may be available. Where an individual makes a discount capital gain, only 50% of any net gain will be included in that individual's assessable income. In the case

of a complying superannuation fund, $\frac{2}{3}$ of the net capital gain is assessable. Any capital losses of current or prior years must be offset against these gains prior to applying the relevant discount.

A capital loss may be incurred by an Investor where the consideration received from the disposal of an investor's Units is less than the relevant cost base. Any capital losses of an Investor from the disposal of Units should only be available for offset against current or future year capital gains.

DEDUCTIBILITY OF INTEREST PAYMENTS

Investors using debt to acquire their Units in the Trust should note that where an Investor has an objective purpose of retaining Units in the longer term with a view to receiving assessable distributions from the Trust (excluding distributions of capital gains) in excess of any interest incurred, then the Investor should normally be entitled to deduct any interest in relation to the debt.

We recommend that investors consider obtaining their own taxation advice on this matter, specific to their own circumstances.

TAX LOSSES

Any tax losses incurred by the Trust are not able to be allocated to Investors. Subject to specific tax loss rules, the losses may be carried forward within the Trust and offset against future assessable income of the Trust.

GOODS AND SERVICES TAX

The issue and cancellation of Units in the Trust will not be subject to GST. Similarly, the distributions from the Trust to Unit Holders will not be subject to GST.

TAX FILE NUMBERS

An Investor need not quote a Tax File Number ("TFN") when applying for Units in the Trust.

However, if a TFN is not quoted, or no appropriate TFN exemption information is provided, withholding tax may be required to be deducted from any distribution.

ADDITIONAL INFORMATION

ACQUISITION COSTS ASSOCIATED WITH THE ACQUISITION OF WORKS OF ART FOR THE TRUST COLLECTION

Costs associated with building the Trust Collection will be paid by the Trust and intended to be included as part of the Trust Assets and therefore is included in the cost base of the Trust Property. These amounts will include:

- Payments to Art Consultants, Art Dealers and Art Auction Houses in association with acquisition and sale of the Trusts assets; and
- Associated freight costs and insurance of moving works of art from the place of purchase to the Trust storage facility.

RELATIONSHIP BETWEEN PARTIES

Laurie Toovey is an executive director of the company appointed by the Responsible Entity as the Manager of the Trust. Laurie Toovey is also an executive director of AAI – the Trustee for the Australian Art Investment Trust (AAIT).

It is intended that the Trust will purchase some or all of the art assets and business of AAIT at a price based on an independent valuation carried out by an accredited valuer appointed by the Responsible Entity.

There is no relationship between the Manager, AAI and AAIT other than the acquisition mentioned above.

REPORTING

At the end of each Financial Year, the Responsible Entity will provide a summary report to Investors of all income which has been earned by the Trust and all Investor distributions which have been made to Investors.

The Responsible Entity will also:

- confirm with Investors their initial transaction
- update Investors on developments in the Trust. This may include news on purchases, major loans or the sale of works of art; and
- On an annual basis an independent valuation of the Trust Collection will be forwarded to Investors. This will be a portfolio valuation and may not necessarily detail valuations of individual works. However, it is intended that all individual works of art with an acquisition cost of \$A250,000 or greater, and all single Artists for which combined works of art total more than \$A500,000 will be reported separately. The Responsible Entity has the discretion to vary these amounts from time to time.

The Responsible Entity will usually use email to report to Investors, however, Investors may choose to nominate otherwise in their Application Form.

It is likely that the scheme will be subject to regular reporting and disclosure obligations. Copies of documents lodged with ASIC in relation to the Trust may be obtained from, or inspected at, an ASIC office.

If you wish to obtain:

- the Trust annual financial report most recently lodged with ASIC;
- any half year financial report lodged by the Trust with ASIC after lodgement of the annual financial report and before the date of this PDS; or
- any continuous disclosure notices given by the Trust after lodgement of the annual financial report and before the date of this PDS;

please contact us and we will provide you with a copy free of charge.

CONSEQUENCE OF INVESTORS DEFAULTING ON A CALL FOR THE SECOND OR THIRD INSTALMENT.

An investment in the Trust is payable by instalments. When Investors make an application for Units, Investors are making a commitment to meet all instalment calls made by the Responsible Entity. If an Investor does not pay the subsequent call (if made) on the due date:

- the Responsible Entity will give the Investor a notice (no later than fourteen (14) days after the due date requiring payment of:
 - so much of the instalment as is unpaid; and
 - any interest calculated from the due date until payment of the instalment

by the time and date specified on the notice (being not earlier than 7 days from the date the Responsible Entity gives the Investor the notice);

- if Investors fail to pay in accordance with this notice, the Units in respect of which instalments have been called but are unpaid may be forfeited (forfeited Units). The Responsible Entity has the discretion to cancel forfeiture before sale – which the Responsible Entity may do for example if Investors were to pay the outstanding call;
- the Responsible Entity may charge interest on the outstanding called amount from the due date until payment of the instalment at a rate of 4% above the 90 Day Australian Bank Bills Swap Reference Rate;

- the Responsible Entity may then sell the forfeited Units, subject to identifying a buyer, at a price which is 75% of the price at which Units may be issued at that time;
- the Responsible Entity may deduct from the proceeds of sale of a forfeited Unit the amount of the Instalment owing at the date of forfeiture together with interest, and the expenses incurred by the Responsible Entity as a result of the administration of the default process (default process payments); and
- any remaining monies will be returned to the defaulting Investor.

If the Responsible Entity cannot effect a sale of the forfeited Units or the sale proceeds do not fully meet the default process payments, the defaulting Investors will remain liable to pay to the Responsible Entity all monies which at the date of forfeiture were payable in respect of the Units, including the costs associated with the forfeiture and all proceedings instituted by the Responsible Entity to recover the amount.

UNIT COOLING OFF

If at the time the Units are issued 80% or more of the Trust Assets are liquid assets then under the *Corporations Act 2001*, Investors have the right to return their Units in the Trust to the Responsible Entity and have the money they paid to acquire Units returned if they:

- exercise this right during the period of 14 days starting either 5 days after the day on which the Units were issued, or the date they received confirmation of the issue of Units from the Responsible Entity, whichever is the earlier;
- notify the Responsible Entity that they wish to exercise this right in writing or electronically.

The Responsible Entity may deduct from the monies to be returned to the Investor any tax or duty incurred, and reasonable administrative and transaction costs. Consequently, the amount returned to the Investor may be less than the amount initially invested.

Investors who qualify as 'wholesale' Investors as defined under the *Corporations Act 2001* do not qualify to have their monies returned during the 'cooling off' period.

However once minimum subscription is reached and the Application Monies raised are used to acquire the art, it is likely that less than 80% of the Trust Property will be liquid assets. Once this occurs interests in the Trust will be a managed investment product that is not liquid in accordance with section

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601KA of the *Corporations Act 2001* at the time that they are issued. As a result, pursuant to regulation 7.9.64(e) and section 1019A of the *Corporations Act 2001*, there is no cooling-off period applicable to the issue of Units in the Trust.

PRIVACY

The Responsible Entity may collect, hold, use and disclose personal information about Investors to process Investor Applications, and administer and manage the products and services that the Responsible Entity provides to Investors. This includes monitoring, auditing and evaluating those products and services, modeling data, data testing, communicating with Investors and dealing with any complaints or enquiries.

Investors need not give the Responsible Entity any of the personal information requested in the Application Form or in any other document or communication relating to the products or services that the Responsible Entity supplies to Investors. However, without this information, the Responsible Entity may not be able to process Investor applications or provide Investors with an appropriate level of service.

The Responsible Entity may disclose your personal information to Responsible Entity's service providers who provide services in connection with Responsible Entity's products and services, such as mail houses, and professional advisors.

If a financial advisor's stamp appears on the Application Form, the Responsible Entity will supply that financial advisor with information about that Investor's investment.

The Responsible Entity may also disclose an Investor's personal information:

- If, acting in good faith, the Responsible Entity believes that the law requires or permits the Responsible Entity to do so;
- If the Investor consents; and
- To any party proposing to acquire an interest in the business of the Responsible Entity.

The Responsible Entity may also use Investor's personal information to offer products or services that may be of interest to Investors in the Trust. Under the Privacy Act 1988 you may request access to your personal information that the responsible Entity holds by contacting the Responsible Entity.

Investors should inform the Responsible entity as soon as possible if changes are required to their personal details.

CUSTODIAN

Huntley Custodians Limited ACN 082 237 241 has been engaged as Custodian by the Responsible Entity for the Trust to hold the Trust Property. The Custodian will hold all cash balances of the Trust as well as the Income Distribution Account pending distribution on trust for the Investors. The Custodian will also hold the title documents to the art work. The Custodian fees are paid by the Responsible Entity.

LABOUR STANDARDS, ENVIRONMENTAL SOCIAL AND ETHICAL CONSIDERATIONS

The Responsible Entity does not take into account the labour standards, environmental, social and ethical considerations with respect to the selection, retention or realisation of an investment.

DISPUTE RESOLUTION

The Responsible Entity takes complaints seriously and aims to resolve them as quickly as possible. If you have a complaint, then you should notify the Responsible Entity in writing. The address for this notice is the Complaints Officer, Huntley Management Limited Suite 301, 3rd Floor 37 Bligh Street Sydney NSW 2000. The Responsible Entity will promptly acknowledge your complaint, investigate it and decide in a timely manner what action needs to be taken. We will notify you of our decision and any action we take to remedy your complaint. You will also be told what avenues of appeal you have against the decision. If you are not satisfied that your complaint has been properly handled by the Responsible Entity, then you should report your concerns to:

Financial Industry Complaints Service Limited
31 Queen Street
Melbourne VIC 3000.

Telephone: 1300 780 808
Email: fics@fics.asn.au

The Responsible Entity's membership number is 3433.

DISCLOSURE

The Trust may be a disclosing entity for the purposes of the *Corporations Act 2001*. As such, the Trust will be subject to regular reporting and disclosure obligations. Copies of documents lodged with the ASIC about the Trust may be obtained from, or inspected at, any ASIC office. If the Trust is a disclosing entity, then you will have the right to obtain

a copy of the following documents from the Responsible Entity:

- the annual financial report most recently lodged with the ASIC for the Trust;
- any half-year financial report lodged with ASIC for the Trust after the lodgement of that annual financial report and before the date of the PDS; and
- any continuous disclosure notices given by us after the lodgement of that annual report and before the date of this PDS.

ELECTRONIC PDS

This PDS may be accessed on the Internet through the Website at www.huntleygroup.com.au. Any person accessing the electronic version of this PDS for the purposes of investing in the Trust must only access this PDS from within Australia. The *Corporations Act 2001* prohibits any person from passing on to another person the Application Form unless it is accompanied by a hard copy of this PDS or accompanies a complete and unaltered electronic version of this PDS. Investors should read the PDS before completing the Application Form. During the offer period, any person may obtain a hard copy of this PDS on request and without charge by contacting the Responsible Entity. Applications will not be received by email or any other electronic means.

CONSENTS

The following have each consented to the statements being included in this PDS in the form and context in which they are included, such consents not having been withdrawn as at the date of preparation of the PDS:

- Dr Roger Dedman – page 15 of this PDS in relation to calculation methodology of the Australian Artists Index and
- William Buck – page 27 of this PDS in relation to the taxation effects of this investment. Tax advice relating to the Trust and its Investors has been provided by the national accounting firm, William Buck. William Buck has consented in writing to the inclusion of their taxation advice in this PDS in the form and context in which it appears and have not at the date of this PDS withdrawn that consent. William Buck takes no responsibility for any part of the PDS other than the taxation advice.
- Each of the directors of the Responsible Entity has consented to the issue of this PDS.

SUMMARY OF THE TRUST CONSTITUTION

The Trust is governed by the Constitution dated 3rd August 2007 and as amended from time

ADDITIONAL INFORMATION

to time. The Trust has been registered with ASIC as a managed investment scheme under Chapter 5C of the *Corporations Act 2001*. The rights and obligations of Investors and the Responsible Entity are determined by the Trust Constitution, the *Corporations Act 2001*, this PDS and the general law.

Some of the provisions of the Constitution are discussed elsewhere in this PDS. However, the general provisions of the Constitution provides for the following:

- Setting out the nature of Units and the ability of the Responsible Entity to issue different classes of Units;
- Setting out the Responsible Entity's powers (which are broad) and how and when they can be exercised;
- Allowing the Responsible Entity to select, invest in, dispose of or otherwise deal with the Trust Property in its absolute discretion;
- Providing for the convening of meetings, and who may attend and vote at any Investor meetings (including to allow the Responsible Entity to call a meeting of Investors or a class of Investors at any time);
- Providing for the Responsible Entity to retire or be removed in certain circumstances;
- Providing for when the Trust can be terminated (including by the Responsible Entity at any time, although notice will be given to Investors);
- Providing the procedure to be applied on termination of the Trust (Investors will receive a share of the net proceeds of sale of the Trust Property proportionate to their Unit holding (and adjusted for any amounts unpaid amounts on the Units), after payment of all liabilities, expenses and any performance or other fee to which the Responsible Entity is entitled);
- Allowing the Responsible Entity to vary the Constitution by supplemental deed if it reasonably considers that the amendments will not adversely affect Investor's rights. Otherwise Investors' approval at a meeting convened for that purpose and in accordance with the *Corporations Act 2001* is required;
- Subject to law, limit the Responsible Entity's liability in certain circumstances for the Responsible Entity's acts or omissions in performing its duties or functions as Responsible Entity of the Trust so long as it has acted properly and in good faith;
- Setting out procedures for the issue of Units in the Trust;
- Setting out the Application price and process of Application for Units in the Trust, including the fact that the Application price may be payable by instalments;

- Setting out procedures which apply in circumstances where an Investor fails to pay an instalment when due, including that any partly paid Units may be deemed to be forfeited by the Investor, and may be sold or otherwise disposed of by the Responsible Entity in various circumstances;
- Providing that the Responsible Entity does not have any obligation to redeem or sell the Units;
- Providing the circumstances in which Investors may transfer their Units;
- Providing that the Responsible Entity may determine valuation methods for the valuation of the Trust Assets and vary them from time to time;
- Setting out procedures for the calculation of Net Income and Investor Distributions and the options for payment of Distributions to Investors;
- Providing for the recovery of fees and expenses by the Responsible Entity as described on page 34 of this PDS.

Copies of the Constitution of the Trust are available free of charge on request. To obtain a copy, please use contact details for the Responsible Entity contained on page 3 of the PDS.

SUMMARY OF THE MASTER RENTAL AGREEMENT

The Responsible Entity, on behalf of the Trust, has entered into a Master Rental Agreement with AFAR. The major items in the agreement are as follows:

- AFAR will negotiate all rental agreements for the Responsible Entity;
- AFAR must obtain the approval of the Responsible Entity for rental of works of art in the Trust Collection above \$A50,000.00;
- AFAR will ensure rented works of art are insured by the renter;
- The negotiated rental agreements are executed by the Responsible Entity;
- The Responsible Entity, on behalf of the Trust will pay AFAR $\frac{5}{8}$ of the gross income received from rentals to cover costs of managing the rental business, and will retain $\frac{3}{8}$ for the Trust. Adjustments for GST will be made as required.

SUMMARY OF OPERATIONAL MANAGEMENT AGREEMENT

Key terms of the Operational Management Agreement include:

- The Responsible Entity will engage the Manager to undertake some of the obligations it has under the Trust Constitution.

- Core services to be provided by the Manager will be set out in an operational plan drawn up by the Manager and approved by the Responsible Entity. These services will be:

- to establish the Committee in accordance with the Operational Management Agreement;
- to provide (quarterly reports) on the sale and purchases of art works by the Manager for the Trust Collection including criteria by which Art Buyers will be selected and requirements that must be met before entering into any purchase or sale agreement with an Art Buyer;
- to provide advice and reports to the Responsible Entity the management of the Trust Collection;
- to provide information in relation to the Trust Collection to assist the Responsible Entity in preparation of reports required by law; and
- to give any information and assistance in relation to the Trust Collection reasonably required by the Trust auditor.

- The Manager represents and warrants that:

- it has and will continue to have the skills, knowledge, expertise and resources necessary to perform the services in a professional efficient and cost effective manner and in accordance with its obligations to the Responsible Entity.
- management of Trust Assets will be undertaken by competent and experienced staff, with expertise in the Trust management who will maintain close supervision of the investment management of the Trust's Collection;
- it will be the holder of all licences required by applicable legislation governing the activities of the Operational Manager; and
- that it will cooperate with the Responsible Entity and Custodian and perform services in accordance with the directions given under its agreement with the Responsible Entity and in accordance with the requirements of the *Corporations Act 2001*.

- The Manager is an independent contractor to the Responsible Entity and is not an agent or an employee of the Responsible Entity.
- The Manager's remuneration for providing its services including reimbursements for the relevant expenses.
- Circumstances the agreement may be terminated.

GLOSSARY

Terms and abbreviations used in the PDS have the following meaning:

APPLICANT

An individual company, trustee or other entity who completes the requirements in the Constitution and this PDS for making an Application.

APPLICATION

An application for Units in the Trust.

APPLICATION FORM

The Application Form attached to or accompanies this PDS in paper or electronic form.

APPLICATION MONIES

The monies payable by an applicant, being \$A1.00 per Unit.

ART AUCTION HOUSE

A commercial business established to provide a liquid secondary market for the sale of works of art.

ART BUYER

A person selected by the Manager to make proposals to the Committee in relation to the purchase and sale of works of art within the Trust Collection. The Committee will provide Statements of Advice to the Manager in relation to the Trust Collection. The Statements of Advice may recommend art purchases by the Trust, if the Committee is satisfied that the proposed purchases represent fair and reasonable value and are consistent with the objective of the Trust. The Investment Committee consists of a chairman and three other members.

ART CONSULTANT

An individual or entity who advises on the acquisition and sale of works of art.

ART DEALER

An individual or entity who buys and sells art for itself or a client.

ARTISTS

People who produce works of art.

ASIC

Australian Securities and Investment Commission.

ASSETS

Assets of the Trust means all property, rights and income of the Trust including without limitation the Trust Portfolio, but does not include:

- any Application Monies;
- property in respect of which Units have not yet been issued;
- proceeds of redemption which have not yet been paid;
- income accrued but not distributed; or
- any amount of Distributable Income to be distributed to Unit Holders but not yet paid to Unit Holders not included in the amount of income accrued.

AUSTRALIAN ART MARKET

The primary and secondary market for all works of art which were produced in Australia.

AUSTRALIAN ART MARKET INDEX

A broad measure of the Australian Art Market covering the auction price history of a group of 100 Australian Artists since 1975. The index components and weightings, which are based on market turnover, were determined in 1995 and are recalculated every 5 years. The Index is compiled by Roger Dedman and is included in the Australian Art Market Movements Handbook which has been published annually.

COLLECTORS

Individuals or groups of people who build or invest in a collection of works of art.

COMMERCIAL GALLERY

A place where works of art are usually exhibited for sale.

CONSTITUTION

The Constitution of the Trust dated 3rd August 2007 and as amended from time to time.

CONTEMPORARY ART

In the context of the Trust, Australian Contemporary Art generally includes artists who work has been created since the 1980's.

CURATOR

An individual responsible for the administration and maintenance of a

GLOSSARY

collection of works of art. This may include cataloguing, storage, conservation, restoration, insurance and research.

DISTRIBUTION

Means Investor Distribution.

FINANCIAL YEAR

The period from 1st July to the following 30th June.

GST

Goods and services tax.

HURDLE AMOUNT

Hurdle Amount means the sum of:

- the amount calculated by multiplying the first instalment of Application Monies received by the Responsible Entity, by the Hurdle Rate, compounded annually from the date Units are first issued in the Trust to the date of calculation;
- the amounts calculated by multiplying each second and subsequent instalment of Application Monies received by the Responsible Entity, by the Hurdle Rate, compounded annually, from the due date for payment of the instalment to the date of calculation; and
- the amount calculated by multiplying any other application monies received by the Responsible Entity by the Hurdle Rate, compounded annually, from the date those monies were received, to the date of calculation.

HURDLE RATE

The five year Bond Yield (Australian – Domestic Rate) plus a Margin as at the time the Responsible Entity first issues Units in the Trust to Investors.

INVESTOR

A person who invests in the Trust.

INVESTOR DISTRIBUTION

means any amount determined by the Responsible Entity from time to time to be distributed to Unit Holders, including:

- the Net Income of the Trust;
- other Income of the Trust, and
- any amount of capital of the Trust.

INVESTOR DISTRIBUTION ACCOUNT

An account into which Investor Distributions are paid and which will be held by the Custodian.

ISSUE PRICE

Price at which Units in the Trust will be issued pursuant to this PDS, being \$A1.00 per Unit.

LICENSED FINANCIAL ADVISOR

A financial adviser or planner who is licensed under the *Corporations Act 2001*.

MANAGER

An individual or organisation appointed by the Responsible Entity from time to time to act as Manager in relation to the acquisition, holding, marketing and sale of work works of art which will form the Trust Collection.

MARGIN

2% per annum.

MODERN ART

In the context of the Trust, Australian Modern Art generally includes (Australian) Artists whose artistic works have largely been created post 1940 and up to 1980.

NET INCOME

Net Income means:

- net profits from the sale of Assets of the Trust;
- net proceeds from the sale of Assets of the Trust;
- any interest earned on Assets that are cash deposits, and
- any rental income earned on Assets.

After the deduction of fees except the Operational Management Performance Fee, but before the deduction of any tax other than GST.

OFFER

An invitation to Investors to apply for Units in the Trust, under the PDS.

OFFER CLOSING DATE

Being the date the offer made in this PDS closes.

PROVENANCE

The history of ownership of the works of art.

SPECIAL RESOLUTION

A resolution that has been passed at a meeting of Investors, by at least 75% of the votes cast by Investors entitled to vote on the resolution, where the value of each Investor's vote is proportional to the amount of their paid up capital in the Trust.

STATEMENT OF ADVICE

Is the physical evidence of a recommendation made by the Investment Committee to the Manager.

TRUST

The Art Trust. ARSN 126 921 828.

TRUST COLLECTION

The body of works of art in which the Trust invests.

TRUST NET ASSET VALUE

The Trust gross asset value less any liabilities in accordance with the provisions of the Constitution.

TRUST PROPERTY

Trust Property means all property which is paid to, received or held from time to time by the Responsible Entity (or its agent) or held on their behalf for the benefit of the Unit Holders under the provisions of the Constitution whether pending investment or not including without limitation:

- a) contributions of money or money's worth to the Trust Property;
- b) money that forms part of the Trust Property under the provisions of the *Corporations Act 2001*;
- c) money borrowed or raised by the Responsible Entity for the purposes of the Trust;
- d) property acquired, directly or indirectly with, or with the proceeds of, contributions or money referred to in paragraph (a), (b) or (c); and
- e) income and property derived, directly or indirectly, from contributions, money or property referred in paragraph (a), (b), (c) or (d) as the case may be.

UNITS

Units in the Trust issued to an Investor by the Responsible Entity in accordance with and as defined in the Constitution.

HOW TO APPLY

INSTRUCTIONS TO APPLICANTS

APPLICATIONS

Applications must be for a minimum of 25,000 Units.

APPLICATION FORM

Applications must be made on the Application attached to this PDS. Please complete all parts using block letters.

INDIVIDUALS

The Application must be personally signed by the Applicant.

JOINT APPLICANTS

In the case of joint applicants, each applicant must sign the Application.

COMPANY APPLICANTS

A company applicant must sign the Application and seal the document in accordance with its Articles of Association.

PAYMENT

The Application Form must be accompanied by a cheque as follows:

\$A12,500 for a minimum of 25,000 Units and \$A2,500 for each multiple of 5,000 Units, including GST.

Cheques are to be crossed "not negotiable" and made payable to:

**"Huntley Management Limited for
The Art Trust – Applications Account"**.

The second and third instalment payment must be made within 14 days of the first and second anniversary of the offer closing date respectively, in the same manner prescribed above (see heading 'Key Facts' for further details).

ACCEPTANCE OF APPLICATION

The Responsible Entity may in its absolute discretion reject the Application. Each Applicant will be notified in writing upon the Application being accepted. However, unless the accompanying cheques are returned within sixty (60) days of receipt, the Application will be considered accepted.

Signing and returning the Application Form constitutes a binding contract once the Application has been accepted.

**YOUR APPLICATION MAY BE DECLINED
WHERE THE PDS IS OVERSUBSCRIBED AND
THUS ACCEPTANCE OF THE AGREEMENT
IS CONDITIONAL ON THAT EVENT.**

LODGING OF APPLICATION

Application Forms should be sent to:

**HUNTLEY MANAGEMENT LIMITED
ACN 089 240 513**

Suite 301 3rd Floor
37 Bligh Street
SYDNEY NSW 2000

APPLICATION FORM

To **HUNTLEY MANAGEMENT LIMITED**
ACN 089 240 513

By completing and signing this form achieves four things:

- you apply to participate in the Art Trust to the extent nominated;
- you acknowledge that you have read and understood the PDS and attached legal documents;
- you confirm your payment method for the amounts due under the PDS and your commitment thereto.

PERSONAL DETAILS

Name(s): (For joint applications all names must be shown.)

(1) Surname/Corporate or Custodian Name (2) Surname/Corporate or Custodian

First Name(s) First Name(s)

Mailing Address

State Postcode

Telephone Fax E-Mail

TFN/ACN

APPLICATION

By completing and signing this form you apply for _____ Units
in the Art Trust and are thereby liable for a fee of \$_____.

You must attach to this form a cheque for the amount as follows:

\$_____ made payable to "Huntley Management Limited for
the Art Trust – Application Account". See Instructions to Applicants for details of payment.

ACKNOWLEDGMENTS

By signing this form, you acknowledge that:

- you have read and understood the PDS.
- the Responsible Entity is not bound to accept your application in whole or in part.
- participation in the Art Trust offered by this PDS is considered to be speculative and you have had the opportunity to seek independent legal, financial and taxation advice on the implications of investing in the Art Trust.
- Huntley Management Limited and/or any of their directors, employees or advisers, has not made any recommendation to you concerning participation in the Art Trust.

I/We have read the Application Form and hereby apply for Units in the Art Trust.

Dated this day of 200...

Applicant:

If Joint Applicant:

Signature Signature

Witness Witness

Or if a Company:

Signed by
in accordance with section 127 of the Corporations Act, 2001

DIRECTOR/SECRETARY DIRECTOR

APPENDIX I

We have inspected the records of the Australian Art Trust and visited the storage facilities of Australian Art Resources at City Road, Southbank, Victoria and Riley Street, Surry Hills, NSW and in our opinion the fair market value of the artworks contained within the Collection as at November 2006 is

THREE MILLION, TWO HUNDRED AND FOUR THOUSAND, ONE HUNDRED AND FORTY FIVE DOLLARS	\$3,204,145.00
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and in our opinion the fair market value of the artworks as a complete Collection as at November 2006 is

THREE MILLION, EIGHT HUNDRED AND TWENTY FIVE THOUSAND DOLLARS	\$3,845,000.00
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McWilliam & Associates Pty Ltd

THE AAI COLLECTION – SUMMARY OF VALUATION COMMENTARY

FAIR MARKET VALUE

Fair market value for private treaty purposes refers to the estimated amount for which an asset should exchange at the date of the valuation between a willing buyer and a willing seller in an arm's length transaction, after reasonable time and proper marketing, wherein both parties have acted knowledgeably, prudently and without compulsion.

The valuation is also subject to the following provisions:

- a) The value provided is the gross value and does not allow for any agent's commission and other sale costs
- b) The value assumes a private treaty method of sale
- c) The valuation does not refer to any other basis of valuation such as retail value, auction value, forced sale value, gross ordinary liquidation value
- d) The valuation does not include any additional benefits accruing to the value of the business, such as income stream or goodwill value

COLLECTION

In assessing the premium when viewing the artworks as a collection we have taken into consideration the availability of similar or identical (in the case of multiples) artworks.

FRAME COSTS

We have included the cost of frames in the valuation. We have based our opinion on our inspection of the framed works at the premises of Australian Art Resources.

GST

We have included GST in the valuation.

This valuation has been prepared using information contained within the Trust's database. We have relied upon the accuracy of this information. Details of the works in the Collection were, in many instances, incomplete. There were omissions of sizes, mediums and in a number of cases images were missing. Where no image or size existed for prints, it was possible in most cases to determine the information from our existing records. In some instances, when neither size nor medium were available we were unable to provide a fair market value. We have prepared a list of these items at the end of the report.

No responsibility is taken for changes in market conditions and no obligation is assumed to revise this report to reflect events or conditions, which occur subsequent to the date hereof.

We advise that this report is only for the attention of the parties to whom it is addressed or their professional advisers. We accept no liability to any third party unless previous written permission is obtained from ourselves. This report has been made only for the purpose stated and shall not be used for any other purpose. The valuation shall not be reproduced except in its entirety.

Date: 17th November 2006

Reference: M4136/hg