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DNZ PROPERTY FUND LIMITED

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Dear Argosy Unitholder

The Board of DNZ Property Fund ("DNZ") is taking the unusual step of contacting you directly regarding a number of resolutions that you will be asked to consider at a Special Meeting of Argosy unitholders.

DNZ and a number of our fellow institutional unitholders have requested that Argosy Property Management Limited (the "Manager") convene a meeting of unitholders as soon as possible but in any event prior to 1 August 2011. This meeting is to be held, in advance of the Argosy annual meeting scheduled for 8 August 2011, to consider various resolutions which require the Independent Directors of the Manager of the Argosy Property Trust to undertake an open and robust process to consider all alternatives to the proposal to internalise the management of Argosy ("Internalisation Proposal").

As unitholders we have taken this step because we are concerned about the approach taken by the Manager and believe our current Independent Directors are not giving Argosy investors enough information about potential alternatives to the Internalisation Proposal. Without that information about alternatives we cannot be certain that the current internalisation proposal is in our best interests, a concern that is shared by enough fellow unitholders to force a Special Meeting.

We also believe the Independent Directors' relationship with the Manager may affect their judgment in choosing to only pursue the internalised management proposal at a considerable cost to Argosy unitholders.

As a separate matter three highly regarded New Zealand institutional funds that are fellow Argosy unitholders (Accident Compensation Corporation, The Guardians of New Zealand Superannuation, Westpac Banking Corporation and BT Funds Management (NZ) Ltd) have also requested a meeting of unitholders to consider resolutions to remove Argosy Property Management Limited as the Manager of our Trust.

In the requisition released by these institutions they stated that the proposal to pay \$32.5 million to the Manager is far too high and that unitholders already have the right to remove the Manager for no cost.

In another recent announcement, the Independent Directors reaffirmed their commitment to the internalisation proposal, but indicated they are looking to renegotiate the price they are willing to pay.

Alternatives to the Internalisation Proposal

The Independent Directors have publicly referred to receiving alternative offers to the Internalisation Proposal but have stated they continue to focus solely on the Internalisation Proposal. We do not believe that the Independent Directors have properly evaluated all options that could provide a better outcome for Argosy unitholders and appear determined to consider just a single option – internalising the management contract.

While DNZ has suggested a merger proposal¹, there are other alternatives available. We believe under the principles of good and proper governance that these alternatives should be evaluated in an

¹ ***If at any future point the DNZ merger is able to be progressed, Argosy unitholders would be provided with a Simplified Disclosure Prospectus. This would be part of the information provided to unitholders prior to seeking the approvals for any merger proposal. At this time no DNZ shares are available for subscription by any Argosy unitholders and, for the avoidance of doubt, at this time no money is currently being sought and no applications for DNZ shares will be accepted or money received.***

independent report provided to unitholders so all unitholders make a decision on an informed basis. Any decision about the future of Argosy should be informed – not just based on one option advanced by the Manager to terminate its contract in exchange for payment.

The Argosy Independent Directors believe “internalisation would place Argosy control firmly in the hands of unitholders, preventing the sale of the management rights to a third party”. This is not a good reason to rush into a decision - as unitholders we already have that control in being able to dismiss the Manager at a unitholder meeting.

A robust review process

In a short period of time we have gathered sufficient support from Argosy unitholders to require the Manager to call a special meeting to consider and pass the resolutions (see below). These resolutions include a direction to the Manager of Argosy to engage co-operatively on other credible alternatives that may be in the best interests of unitholders, rather than just push through the Internalisation Proposal and termination payment.

When the resolutions are passed at the meeting, the Independent Directors will be directed to run an open and robust process to fully explore the options available.

This process will also reduce concerns around the clear potential conflicts of interest. There is a close relationship between a number of parties involved with the internalisation proposal – an open and robust process will ensure that all matters are fully aired.

Internalisation Proposal

We have significant concerns around some of the financial analysis provided by the Independent Directors to justify their proposal - particularly around their anticipated costs of managing the business – and the way in which they will pay for the management termination price. Some of the concerns include:

- Additional financing costs of \$1.2 million were disclosed, implying a 3.7% cost of funding on the \$32.5 million payment. This does not reflect the long-term cost of internalising to Argosy unitholders, as it is assumed to be funded using unsustainable short term debt. The benefits of internalisation are far less (if any) when long term costs are used;
- The Independent Directors have recognised that the proposed internalisation will increase gearing to the unsustainable level of ~46%, from ~43% currently and well above the 40% target. They have stated that it will ultimately be funded by selling assets to repay debt. If assets were divested at book value to fund the internalisation payment and return gearing to the ~43% it is currently, the \$3.0 million pre-tax benefits disclosed to the market would be mostly wiped out.

While the Internalisation Proposal has been outlined by the Independent Directors to apparently provide material financial benefits to unitholders, in DNZ’s view these are clearly unsustainable and may only be achievable for a short period.

DNZ’s view is that the benefits available to Argosy unitholders are more material under other alternatives that should be properly evaluated.

Unitholder Resolutions

We believe it is the right of every Argosy unitholder to be fully informed about the present arrangements for management (there is some doubt as to whether all relevant information has been disclosed to us as unitholders) and to be given every possibility to assess the alternatives before making a decision.

In summary the resolutions seek to

- 1) Ensure that any resolutions which are passed at the meeting that has been requisitioned by unitholders are binding on the Trustee and the Manager;
- 2) Requiring the Manager to give due consideration to any credible alternatives to the Argosy Internalisation Proposal that have the potential to be in unitholders’ best interests;

- 3) Direct the Trustee to appoint an independent adviser to report back to the Trustee and unitholders on the merits of any alternatives, including comparative analysis of the merits of the alternatives and to request the Trustee to consider acting on the recommendations in the report;
- 4) Direct the Trustee to appoint an independent adviser to report back to the Trustee and the unitholders on whether it is in the interest of the unitholders that the Manager should cease to hold office as Manager of the Trust and whether the Trustee should certify the same;
- 5) Direct the Manager to refrain from convening a meeting of unitholders to consider the Argosy Internalisation Proposal until it can put before unitholders (a) full information in relation to any alternatives that may be in the best interests of unitholders; and (b) for their vote at the same meeting to progress the Internalisation Proposal or to progress such alternatives;
- 6) Direct the Manager to disclose to the Trustee and unitholders details of the exclusivity arrangements with OnePath in relation to the Internalisation Proposal and any voting arrangement which the Manager or any of its associates has entered into with any unitholder in relation to the Argosy Internalisation Proposal and full copies of all arrangements relating to the management of its properties and all related management or other charges.

The process from here

As a result of the meeting requisition and resolutions we expect the Manager will shortly write to you to provide you with a notice of meeting and a formal copy of the resolutions.

We have requested this meeting be held as early as 15 July 2011 but no later than 1 August 2011 so that matters are considered and the independent report and information is available prior to the AGM when the Manager says it will put its own resolutions to finalise the Internalisation Proposal.

It is important to note that the resolutions are not seeking support for the DNZ merger alternative², but simply seeking unitholder support to ensure that the Independent Directors undertake an open and robust process to allow you as a unitholder to consider all alternatives to the Internalisation Proposal that may be in your best interests. We would encourage you to carefully consider the resolutions.

Yours faithfully
DNZ Property Fund Limited



Tim Storey
Chairman

² *If at any future point the DNZ merger is able to be progressed, Argosy unitholders would be provided with a Simplified Disclosure Prospectus. This would be part of the information provided to unitholders prior to seeking the approvals for any merger proposal. At this time no DNZ shares are available for subscription by any Argosy unitholders and, for the avoidance of doubt, at this time no money is currently being sought and no applications for DNZ shares will be accepted or money received.*