

Westpac Diversified Property Fund

ARSN 119 620 674



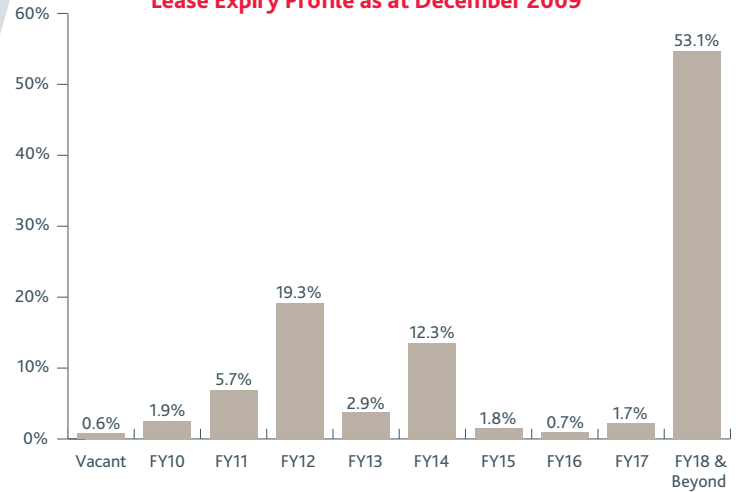
Your Investor Update

Six months to 30 December 2009
Issued March 2010

Westpac Funds Management Limited
ABN 28 085 352 405 / AFS Licence No 233718
L16 90 Collins St Melbourne Vic 3000

Your fund at a glance

Lease Expiry Profile as at December 2009



Top 10 Tenants by Rental Revenue at December 2009

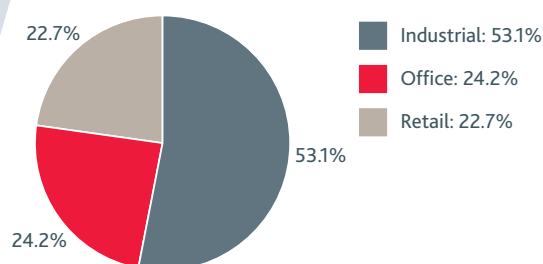
Tenant	%
Metcash	28.5%
Australian Tax Office	15.0%
Coca Cola Amatil*	6.2%
Printlinx	5.3%
Westpac Banking Corporation	5.2%
Myer*	4.3%
Woolworths	4.0%
Telstra	3.5%
ANZ	2.9%
Fitness First	2.6%
Other	22.5%
	100.0%

WDPF Debt at a Glance	Fund Position as at 31 December 2009	Loan Covenant ¹
Gearing Ratio	57.5%	N/A
Loan to Value Ratio (LVR)	59.2%	Max 70%
Interest Cover Ratio	1.97x	Min 1.50x
Debt Maturity	100% at May 2011	N/A
Proportion of Debt Hedged	98.3%	N/A
Hedged Duration	3.02 years	N/A

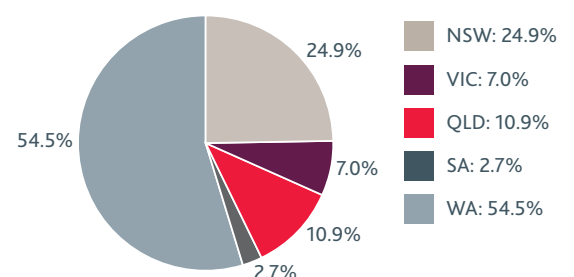
1. WDPF remains in compliance with its loan covenants.

*Head lease to Metcash

Diversification by Sector at December 2009



Diversification by Location at December 2009



Welcome to your 31 December 2009 half year investor update for the Westpac Diversified Property Fund (WDPF or the Fund)

Operating Highlights

- Net asset value (NAV) rose 2.1% during the six month period, underpinned by an increase in portfolio valuations between 30 June and 31 December 2009.
- WDPF outperformed the Fund's total return Benchmark¹ over six and 12 months (6.7% and 6.4% respectively) to 31 December 2009.
- Over the past three years the Fund has consistently outperformed comparable diversified unlisted property funds that delivered an average -47.1%² total return for the year to 31 December 2009.
- The Fund paid a distribution of 3.05 cents per unit for the first half of the 2010 financial year and has revised the full year distribution guidance down 5% to 5.80 cents per unit.

December 2009 may prove to have been a turning point for the property market and an end of the devaluation cycle triggered by the Global Financial Crisis. The fundamentals that drive rental growth have continued to improve over the half year period against the backdrop of moderate supply levels and an increasing confidence surrounding the outlook for the Australian economic recovery.

The Limited Liquidity Facility (LLF) remains suspended. Westpac Banking Corporation (Westpac) continues to review the LLF quarterly. A positive outlook for property markets and a level of confidence surrounding the inflow of new equity applications are prerequisites to reinstatement of the LLF. We anticipate that the stabilisation of the NAV at 31 December 2009 and emerging confidence around the market having reached a low point move the Fund closer to reinstatement of an exit mechanism. We are hopeful that this will happen during this calendar year, however this should be interpreted as a guide only.

During this time, management remains focused on delivering long term outcomes for your investment. Importantly, the portfolio continues to receive near capacity rental income with 99.4% of all available space leased for an average portfolio lease term of 7.8 years.

Over the half year period two major tenants, Metcash and Westpac, agreed to extend their leases over tenancies that represent 33.5% of portfolio income resulting in material added value to the portfolio. Conversely, at 121-125 Henry Street, Penrith, the Australian Taxation Office (ATO) confirmed its intention to vacate the building at lease expiry in December 2011. Management is exploring risk mitigation options, including sale options or strategies to reposition the leasing profile of the property should we determine it to be in investor's best interest to hold for the long term.

Active asset management remains the cornerstone of our strategy. Our goal is to optimise security and growth of earnings to deliver stable income and the opportunity for capital growth over the long term.

Westpac is undertaking a strategic review of Westpac Funds Management Limited (WFML), including the investigation of potential value-enhancing opportunities proposed by third parties. There is no certainty that the strategic review will lead to a proposal that the directors of WFML will recommend to unitholders. The Fund continues to explore all opportunities to create unitholder wealth.

Thank you for your ongoing support and we will continue to update investors and their advisors on Fund performance and our initiatives in support of the strategy.

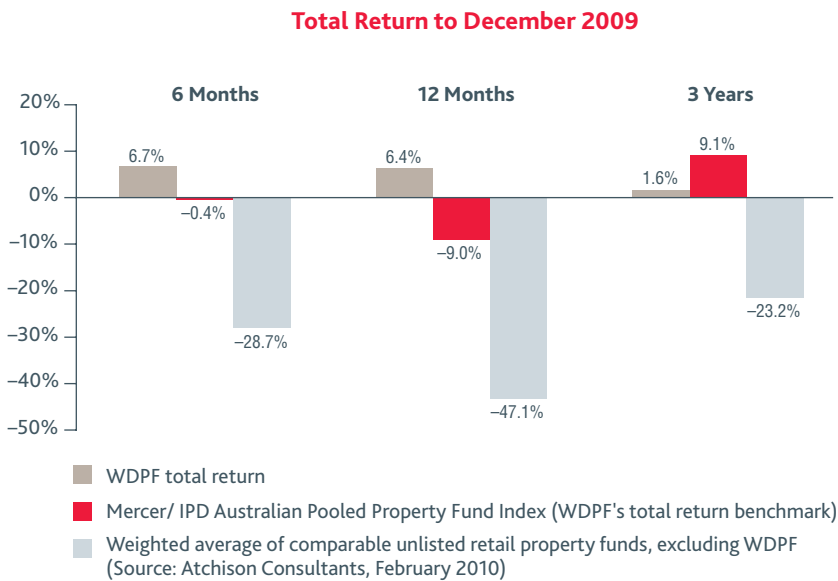


Yours faithfully,
John Bucknell Fund Manager

1. Mercer/ IPD Australian Pooled Property Fund Index.
2. Atchison Consultants, February 2010.

Fund exceeds benchmark

The chart below illustrates the Fund's relative outperformance against the total return benchmark³, over six months and 12 months to 31 December 2009. WDPF has also consistently outperformed comparable unlisted diversified property funds for retail investors.



WDPF's strong relative performance can be attributed to:

1. Early refinancing of debt averting the worst of the credit market dislocation.
2. Conservative capital management initiatives including a focus on sustainable distributions and active debt reduction.
3. Construction of a well diversified portfolio of high quality assets.
4. Active asset and development management to deliver sustained high occupancy, strong earnings growth and the extension of the portfolio's lease expiry profile.

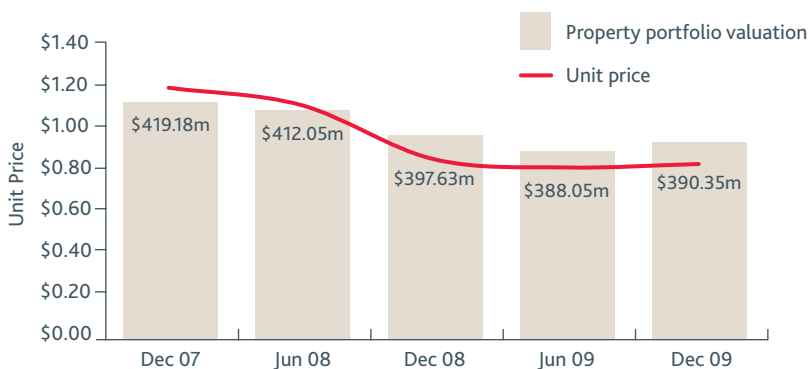
3. Mercer/IPD Australian Pooled Property Fund Index.

Net asset value stabilising

WFML elected to obtain independent valuations for the entire portfolio as at 31 December 2009 to ensure the assets are represented at fair value. Overall the portfolio recorded a moderate 0.6% increase over the 30 June 2009 valuations. The combined effect of the positive movements in the portfolio valuation and mark to market of interest rate swaps partially offset the fall in the value of listed property securities. Overall, for the first half of the 2010 financial year, the NAV increased 2.1% to 0.8123 cents per unit before distributions

Since December 2007 the portfolio value has fallen 6.9%⁴ against -14.8% for the Australian Property⁵ sector. The Fund's more moderate fall in value reflects the Fund's high occupancy, strong earnings growth and the extension of the portfolio's lease expiry to 7.8 years as at 31 December 2009.

Movement in WDPF's unit price and property portfolio valuation



Key Points:

- WDPF's unit price has now stabilised.
- Property portfolio valuation fell 7.4% between December 2007 and June 2009.
- Portfolio valuation increased by 0.6% between June and December 2009.

4. to December 2009.

5. PCA/IPD Composite property index – data to December 2009.

Asset management initiatives

Management has continued to focus on delivering long term value at the individual asset level. The more significant outcomes over the first half of the 2010 financial year included:



56–60 Talavera Road, Macquarie Park, NSW: Emphasis on tenant retention was rewarded with terms agreed with Westpac for the surrender of the current lease due to expire in November 2014 and grant of a new 15 year lease over the entire 11,323 sq.m facility. Westpac's lease represents 5.1% of portfolio income.



218 Bannister Road, Canning Vale, WA: Sole tenant, Metcash has extended its lease from nine to 14 years with lease expiry now in December 2023. This property contributes 28.4% of portfolio income. As part of the lease extension agreement, WDPF will fund a 15,000sq.m warehouse extension for approximately \$12.5 million. Metcash will procure construction of the extension with the Fund bearing no risk of escalation of construction costs.



121–125 Henry Street, Penrith, NSW: Following a review of long term requirements, the Australian Taxation Office (ATO) confirmed plans to relocate upon lease expiry in December 2011. The risk that the ATO will vacate in 2011 has been reflected in the 31 December 2009 independent valuation and consequently the Fund's unit price. The property will be offered for sale in March 2010, but held for re-leasing in the event that a satisfactory sale outcome cannot be secured.

Property	Major Tenant	Valuation		Movement	
		31.12.09	30.06.09	\$	%
Industrial					
218 Bannister Rd, Canning Vale, WA	Metcash	\$116.00m	\$113.00m	\$3.00m	2.65%
278 Orchard Rd, Richlands, QLD	Metcash	\$42.50m	\$42.50m	–	–
706 Lorimer St, Port Melbourne, VIC	Printlinx	\$27.30m	\$27.30m	–	–
10 Clarke St, O'Connor, WA	Metcash	\$13.10m	\$13.10m	–	–
7 Geddes St, Balcatta, WA	Metcash	\$8.50m	\$8.50m	–	–
Office					
20 Smith St, Parramatta, NSW	ANZ	\$32.50m	\$32.75m	–\$0.25m	–0.76%
121–125 Henry St, Penrith, NSW	Australian Tax Office	\$29.00m	\$37.00m	–\$8.00m	–21.62%
56–60 Talavera Rd, Macquarie, NSW ⁶	Westpac	\$22.25m	\$17.50m	\$4.75m	27.14%
22 Henley Beach Rd, Mile End, SA	Telstra	\$10.60m	\$10.60m	–	–
Retail					
Woodvale Shopping Centre, WA	Woolworths	\$23.80m	\$23.75m	\$0.05m	0.21%
Dog Swamp Shopping Centre, WA	Woolworths	\$23.25m	\$22.15m	\$1.10m	4.97%
Busselton Shopping Centre, WA	Action Supermarket	\$22.75m	\$20.70m	\$2.05m	9.90%
295 West Botany St, Rockdale, NSW	Fitness First & Repco	\$13.60m	\$13.20m	\$0.40m	3.03%
Busselton Target, WA	Target	\$3.95m	\$4.50m	–\$0.55m	–12.22%
19 Prince St, Busselton, WA	Rivers	\$1.25m	\$1.50m	–\$0.25m	–16.67%
Total		\$390.35m	\$388.05m	\$2.3m	0.59%

6. The Fund holds a 50% interest in the property.

Distributions

The Fund paid 3.05 cents per unit in distributions for the first half of the 2010 financial year. Capital works are planned on a number of the Fund's properties to optimise long term revenue prospects. As previously advised, a proportion of the 2010 financial year earnings is being reserved to fund this capital expenditure and to provision for forecast lease income shortfalls from lease expiries.

Based on current estimates, the forecast distribution for the full year to 30 June 2010 is 5.80 cents per unit, down slightly (5%) from initial guidance provided in the September 2009 Investor Update. Consequently, forecast distributions, for the second half of 2010 financial year is estimated to be 2.75 cents per unit.

Limited liquidity facility

The Limited Liquidity Facility (LLF) was suspended in September 2008. Westpac continues to review the LLF on a quarterly basis and we are hopeful a level of liquidity will be reinstated this calendar year. This should be interpreted as a guide only.

A positive outlook for property markets and a level of confidence surrounding the inflow of new equity applications are pre-requisites to re-instatement.

It is important to note that property is a long term investment and over time we expect market fundamentals to improve. We anticipate the stabilisation of the NAV at 31 December 2009 and emerging confidence around the market having reached a low point may move the Fund closer to reinstatement of an exit mechanism.

Outlook for the Fund

Confidence surrounding the outlook for the Australian economy has lifted materially since March 2009. Australia avoided a technical recession with economic growth forecast to recover to trend levels during 2010.

Sales volumes for investment property improved over the first half, but remain below normal levels with finance expensive and difficult to access. In 2009 the major banks supported refinancing of existing debt facilities for many major property owners and equity markets provided over \$13 billion to recapitalise the A-REIT sector of the property market.

Reduced pressure from lenders to sell assets, a return to "at weight" positions for institutional investors allocations to the property asset class and the improved domestic economic outlook have combined to slow the pace of price correction for property over the six months to December 2009. This was particularly the case for higher quality, well leased, well located property. We expect recovery in investment demand to be gradual and linked to the thawing of credit markets globally. The Head of Westpac Property Markets Research, Frank Allen, provides a more comprehensive market outlook in his report on page 5 of this Investor Update.

Westpac is undertaking a strategic review of WFML, including the investigation of potential value-enhancing opportunities proposed by third parties. There is no certainty that the strategic review will lead to a proposal that the directors of WFML will recommend to unitholders. The Fund continues to explore all opportunities to create unitholders wealth.

Looking ahead the Fund remains well positioned. We are committed to actively managing the Fund's assets with the aim of optimising security and growth of earnings that underpin the objective of delivering stable income and opportunity for capital growth. With the expectation of continued market recovery, during 2010 we will be pursuing initiatives to position the Fund for refinancing of the syndicated debt facility scheduled to mature in May 2011.

Outlook for Australian property

January 2010

By Frank Allen,
Director, Westpac Property Markets

The economic outlook has continued to improve as the domestic economy held up far better than expected in the global recession . . .

Continued positive domestic and international economic data has led to continued optimism around the **Australian domestic economy** into 2010 and 2011. Over the final three months of 2009 employment levels rose by almost 95,000 jobs, with over 44,000 of these full time positions. The flow through to sentiment has been remarkable, with the Westpac-Melbourne Institute consumer sentiment survey rising by almost 6% in January 2010 to sit some 34 points higher than the low of February 2009. The latest survey was just below the recent high of October 2009, an impressive result given the unprecedented three consecutive interest rate rises in the final quarter of last year.

. . . Australia is now forecast to grow close to average levels over the next two years, helping boost the outlook for jobs.

The continued high level of sentiment and a stronger economic outcome than expected in 2009 has led to greater confidence in the outlook for the Australian economy. Forecasts from Westpac Economics suggest Gross Domestic Product (GDP) growth of 3.0% in 2010 and 3.2% in 2011. This is a return to around average levels far quicker than previously expected, particularly for one of the few developed economies to avoid a technical recession. Expectations of job growth have also picked up, with Westpac Economics now forecasting growth of 1.8% for the 2010 calendar year.

While sales activity has continued at low levels, considerations are that commercial property reached the bottom during the Q4 2009.

The availability of commercial property finance remains limited. Despite a consideration of some increase in availability of finance towards the end of 2009, commercial sales activity for 2009 fell to the lowest level since the mid 1990s, at just \$7.2 billion according to CBRE. However, the improving economy and economic outlook through 2H 2009 has led to the consideration that property values were starting to stabilise in Q4 2009. Should this prove to be the bottom of the market, nationally average values will have fallen by just over 12% in retail, 21% in prime offices and 25% in prime industrial properties since the 2007 peak. As this is average, some markets will have experienced greater falls, while others lesser falls.

With low supply, property markets should recover faster than following the 1990's recession.

Despite the improving economy, the construction market remains slow with few new construction starts around the country in the past 18 months. While there are pockets of potential oversupply, the generally low level of supply should be considered a positive, as it will not flood the market with additional space, as occurred in the 1990s downturn. Consequently, as the economy and tenant demand pick up, the time taken to lease excess stock should be less prolonged than in the last downturn of the early 1990s and thus the flow through to higher rents and values should start sooner.

Increases in office venues should slow, impacted mostly by new supply rather than falling demand.

Office market vacancy was 9.3% at January 2010 up from 8.5% in July 2009. However, as economic performance and confidence rose during the second half of the year it is expected that the rate of vacancy increase has slowed, if not reversed in some markets. The threat of falling occupancies through company failure is likely to have lessened in stronger economy, leaving future vacancy movement largely dependent upon the level of supply.

New office supply is generally low; certainly well below 1990s levels.

As at January 2010, moderate new supply was under construction or at site works, equating to 5.9% of existing stock. This is well below levels in the early 1990s where stock additions exceeded 20%. With buildings completed in 2H 2009, this level of construction is likely to have eased.

Outlook for Australian property

January 2010 *continued*

Office yields in general have stabilised, but some markets already posting falls.

Despite the limited level of sales evidence, office yields were considered to have risen to above their ten year average by the end of 2009. However, during Q4 2009 yields were considered to have firmed in some markets (Melbourne, North Sydney, Perth and Adelaide CBDs), as confidence improved. In an environment of an improving economy, these yields could well be considered attractive to some investors, ranging between 7.5% in Melbourne to 8.7% in Adelaide for prime CBD offices and 8.2% and above for most suburban offices. With limited new supply in most markets, falling rents and thus value, falls are expected to have ended.

Retail spending has been held ground despite the lack of handouts in 2H 2009.

Retail spending has been one of the main drivers of Australia's strong performance during the global recession, helped by the Fiscal Stimulus. Despite expectations that retail sales would fall in 2H 2009, as the Federal Government cash handouts ended, retail sales in the five months to November were some 0.8% higher than the previous five months. While this does not appear significant, the Federal Government handed out close to \$12 bn in 1H 2009, with \$8 bn given out in December 2008. With confidence remaining strong, retail sales growth is forecast at around 5% for 2010.

New supply is slowing and spread between different types of retail.

Some 941,000 sq.m. of retail space was under construction as at November 2009, down on the 1.1 million sq.m. in May. The type of centre being built is split evenly between neighbourhoods (26%) bulky goods (22%), Regional shopping centres (22%) and city centre (22%).

Retail yields stabilising.

Retail yield movements were mixed in the final quarter of 2009, with increases in the regional shopping centre sector, and flat or slight falls in many bulky goods markets. However, movement has been slight overall. Yields generally remained stable in Q4 2009, with some slight firming in some regional shopping centre markets, balanced out by slight easing in bulky goods centres.

Industrial supply continues to slow.

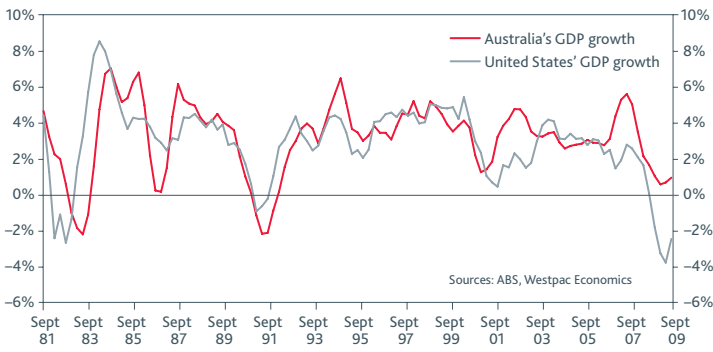
Industrial property construction has continued to slow into 2009. Some 643,000 sq.m. of industrial space was under construction around the country as at November, compared with just under 1 million sq.m. of industrial space in May 2009. Some 70% was underway in NSW and Victoria.

With stability appearing in Q4 for rents, yields and values.

Industrial rents had been falling since the end of 2007 for most markets, but some level of stability emerged in Q4 2009. With limited movement in yields, values were also stable. The major move was a fall of 1.6% in Perth prime industrial capital values during the quarter.

The improving outlook for the economy should flow through to industrial property during 2010. With value falls averaging 25% since the peak, the industrial market has been hardest hit by the recent downturn in property. However, it is unlikely that significant falls will continue and as industrial supply is slowing, the ability to lease up excess space in a stronger economy will help the market recover.

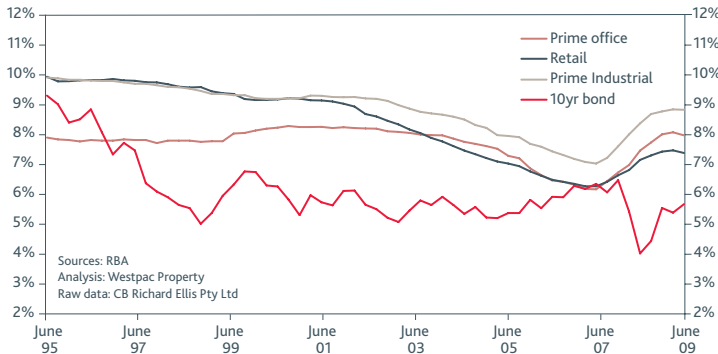
Australia decouples from economic weakness in the United States.



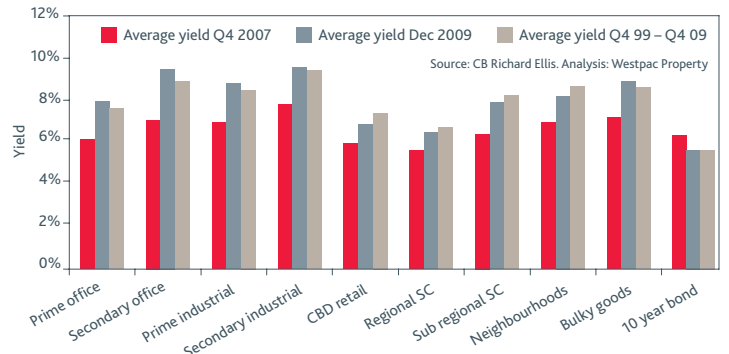
With minimal impact on employment.



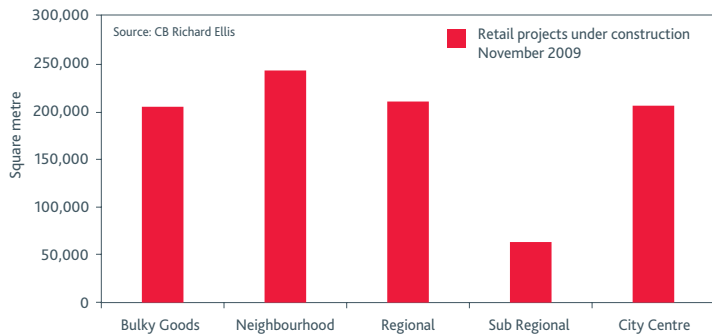
While property yields appear to have stabilised during the final quarter of the year . . .



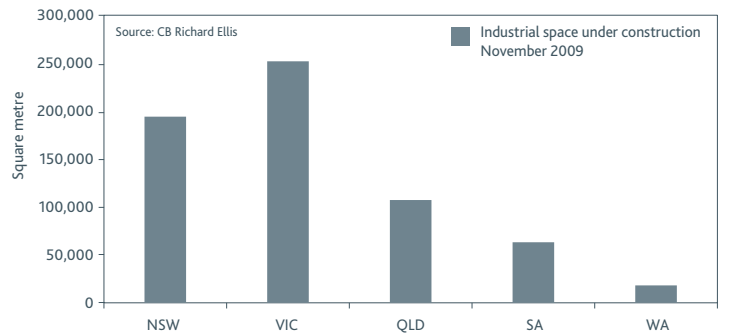
. . . they remain at levels generally above the 10 year average, retail excepted.



With retail supply under construction, low and evenly split between classes.



And industrial supply under construction is no longer significant and still dominated by major states.



Consolidated financial summary

for the half year ended 31 December 2009

Income Statement	2009 Actual (\$'000s)	2008 Actual (\$'000s)	Variance (\$'000s)	Notes
Rental Income	20,718	17,992	2,726	1
Interest Income	134	2397	(2,263)	2
Distribution Income	1,687	1,768	(81)	3
Net gain/(loss) – Securities	7,538	(25,040)	32,578	4
Net gain/(loss) – Investment Properties	(4,514)	(22,532)	18,018	5
Other Income	–	39	(39)	
Total income	25,563	(25,376)	50,939	
Rates, taxes and other property outgoings	(4,343)	(3,420)	(923)	
Responsible Entity Fees	(659)	(685)	26	6
Finance Costs	(9,059)	(15,300)	6,241	7
Other Expenses	(709)	(1,131)	422	
Total operating expenses	(14,770)	(20,536)	5,766	
Net operating profit before tax	10,793	(45,912)	56,705	
Tax expense	–	–	–	
Net operating profit after tax	10,793	(45,912)	56,705	
Distribution Summary				
Net Operating Profit	10,793	(45,912)	56,705	
Add/(Deduct) Non-Cash Items:				
Amortisation of Debt Establishment Costs	306	576	(270)	
A-IFRS Straight Line of Rental Income	(529)	(622)	93	
Net gain/loss – Investment Properties	4,514	22,532	(18,018)	
Net gain/loss – Securities	(7,538)	25,040	(32,578)	
Upfront payments on Swap	–	4,335	(4,335)	
(Retained cash earnings)/Capital Return	(1,135)	1,715	(2,850)	
Total cash distributions	6,411	7,664	(1,253)	
Cash distributions (cents per unit)	3.05	3.74	-0.69	8

Balance Sheet as at 31 December 2009	\$'000	Notes
	DR/(CR)	
Assets		
Cash and cash equivalents	8,482	
Receivables	2,239	
Investment property	368,100	
Other assets	686	
Securities (assets)	42,137	9
Total assets	421,644	
Liabilities		
Payables	(17,023)	10
Securities (liabilities)	(3,183)	11
Interest bearing liabilities	(229,906)	12
Other liabilities (including deferred income)	(376)	
Total liabilities	(250,488)	
Net assets	171,156	
NAV as at 31 December 2009 (\$ per \$1.00 unit)	0.8123	
No. Units on Issue	210,703,886	

Notes to the Financial Summary

- Rental income is recognised on a straight-line basis over the term of the lease and includes an A-IFRS adjustment to rent of \$0.5m. The increase is due to rental income uplift from market rent reviews.
- The interest income is made up of interest earned on the Fund's bank accounts and interest on financial derivatives. A fall in interest rates has reduced the interest received.
- Distribution income is derived from the investments in Westpac Office Trust, Stockland Direct Office Trust Number 2, Westpac Family Restaurants Trust and the Fund's 50% investment in the Macquarie Park property.
- The Fund has investments in unlisted and listed property Trusts, a 50% interest in the Trust holding the Macquarie Park property and interest rate swaps. The gain on the securities comprise a \$4.8 million increase in the Macquarie Park investment and a \$3.1 million increase in the value of the interest rate swaps.
- The change in Investment Properties reflects the revaluations of the portfolio at December 2009. Significant valuation movements include an \$8.0 million decrease at the Penrith property, a \$3.0 million uplift at Canning Vale, a \$2.05 million uplift at Busselton Shopping Centre and a \$1.1 million uplift at the Dog Swamp Shopping Centre. Full valuation movements are disclosed on page 3 of this investor update.
- The management fee is calculated based on the Fund's Gross Asset Value.
- The Finance Costs include the interest expense on the term facility, financial derivatives and other borrowing costs. The fall in interest rates has reduced the interest expense.
- The lower distribution is due to the Fund Manger's decision to retain cash earnings for future capital requirements.
- The Securities (assets) comprise \$22.7 million investment in the trust which holds the Macquarie Park property and \$19.4 million investment in listed and unlisted property trusts.
- The Payables include \$12.8 million of instalment receipts payable relating to the investments in listed and unlisted property trusts.
- The Securities (liabilities) are the interest rate swaps put in place to fix the interest payable on borrowings. The net liability position of interest rate swaps has resulted from market interest rates falling below the fixed rate established by the interest rate swap. The liability represents an unrealised loss, and if the swaps are held until expiry, as it currently intended, this position will revert to zero at expiry.
- The Fund has a syndicated debt facility with the Commonwealth Bank of Australia (CBA), National Australian Bank (NAB), and Westpac Banking Corporation (Westpac).
The WDPF Half Year Financial Statements for 31 December 2009 are available from the Fund's Investor Centre at www.westpacfunds.com.au.
Please note that the NAV per unit is not in any way indicative of the market value of each unit of the Fund. The NAV is based on historical valuations of the Fund's assets, conducted by the Fund Manager or externally, for accounting purposes. It is not necessarily a price at which investors can sell their units.



Westpac Diversified
Property Fund Infoline
1300 739 091
www.westpacfunds.com.au

Things you should know

Westpac Funds Management Limited ABN 28 085 352 405 (the "Responsible Entity") is the responsible entity of the Westpac Diversified Property Fund (the "Fund") and the issuer of units in the Fund. The Responsible Entity is not an authorised deposit taking institution for the purposes of the Banking Act 1959. Investments in the Fund are not investments, deposits or other liabilities of Westpac Banking Corporation ABN 33 007 457 141 ("Westpac"). None of the Responsible Entity, Westpac nor any other member of the Westpac Group gives any guarantee or assurance as to the performance of the Fund or the repayment of capital. The information contained in this investor update is general, is not financial product advice and does not take into account your investment objectives, financial situation or particular needs. You should obtain and consider the Product Disclosure Statement ("PDS") before deciding whether to acquire, continue to hold or dispose of interests in the Fund. A copy of the PDS and the Supplementary PDS for the Fund can be obtained by contacting your financial planner or visiting www.westpacfunds.com.au.

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