DHA RESIDENTIAL PROPERTY FUND NO. 1 ARSN 163 921 640

ANNUAL REPORT

PERIOD ENDING 30 JUNE 2015

DHA
Investment
Management

Dear Investor

On behalf of DHA Investment Management Ltd, I am pleased to present the annual report for the year ended 30 June 2015, for the DHA Residential Property Fund No. 1 (Fund).

This report provides a summary of the performance of the Fund for the twelve months from 1 July 2014 to 30 June 2015.

Notification has been received from Centric Capital on behalf of the Centric DHA Residential Property Fund, the sole unitholders in the Fund, of their decision to divest out of the residential property market. The Board will work with them to achieve an orderly disposal process. Details are yet to be finalised but it is envisaged that the Fund will be wound up and capital returned to unitholders during the 2015-16 financial year.

Thank you for your continued support over the past year. The Board remains focused on maintaining quality assets, duly supported by a strong corporate governance structure to maximise returns for investors.

The residential property market in Australia has been both challenging and rewarding, strongly influenced by factors specific to each region. With the Fund having a diversified portfolio and a contracted annual rental increase, it has delivered financial returns consistent with the investment strategy and objectives of the Fund when it was established. The total revaluation gain on the property portfolio of the Fund, since inception in September 2013, is 11.76%

Yours faithfully

CHolley.

Carol Holley
Chair
DHA Investment Management Limited

Fund particulars

DHA Residential Property Fund No. 1
ARSN: 163 921 640
ABN: 38 256 918 058

Responsible Entity

DHA Investment Management Limited
26 Brisbane Ave
Barton ACT 2600
ACN: 161 662 255
ABN: 59 161 662 255

Custodian

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Sydney NSW 2000

Registered Office

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Directors of the Responsible Entity

Carol Holley (Chair and Non-Executive Director)
Peter Howman (Executive Director)
Jon Brocklehurst (Executive Director)

Solicitors to Responsible Entity

Norton Rose Fulbright Australia
Lvl 18, Grosvenor Place
225 George Street
Sydney NSW 2000

Compliance Committee

Penny James (Independent Chair)
Graeme MacLaren (Independent Member)
Jon Brocklehurst

Auditors to the Fund

Ernst & Young
121 Marcus Clarke Street
Canberra ACT 2601

Secretary

Ross Jordan

Unit Registry

White Outsourcing
Lvl 3, 99 Bathurst St
Sydney NSW 2000

Portfolio highlights

- Underlying Profit of the Fund for the period 1 July 2014 to 30 June 2015 was $4.7m, representing a 10.04% return on investment for the year.
- The revaluation of the portfolio at 30 June 2015 reported an uplift in property valuations of $3.31 million representing an annual increase of 7.14%;
- All 79 properties received a 4.25% rental increase from 1 January 2015, in accordance with the lease agreements, representing over a threefold increase from what could have been expected if market based.
- Gross rental yield for the 2015 calendar year is expected to be 5.55% based on the last rental increase and utilising the cost base of the properties purchased.
- The Cum-Distribution Unit Price for each unit held at 30 June 2015 is $1.0585 (30 June 2014: $0.9895), an increase of 6.97% during the year reflecting the uplift in the valuations of the portfolio at 30 June 2015.
- Quarterly cash distributions were paid on 5 November 2014, 2 February 2015, 2 May 2015, and 16 August 2015 in respect of the financial year. For the full financial year this represents a total distribution of 3.36 cents per unit (3.36%).

Portfolio summary

As at 30 June 2015, the portfolio consisted of 79 properties. The composition of the portfolio of properties is shown in Table 1:

Table 1: Property portfolio

State	No. of property	Portfolio market value (as at 30 June 2015) A$	Portfolio market value (as at 30 June 2014) A$
ACT^	12	7,045,000	6,900,000
NSW	23	19,405,000	16,885,000
NT	5	3,840,000	3,925,000
QLD	14	7,190,000	6,945,000
SA	5	1,930,000	1,870,000
VIC	10	5,055,000	4,805,000
WA	10	5,185,000	5,010,000
Total	**79**	**49,650,000**	**46,340,000**

^ Includes Queanbeyan and Jerrabomberra properties that border the ACT but are actually located in NSW.

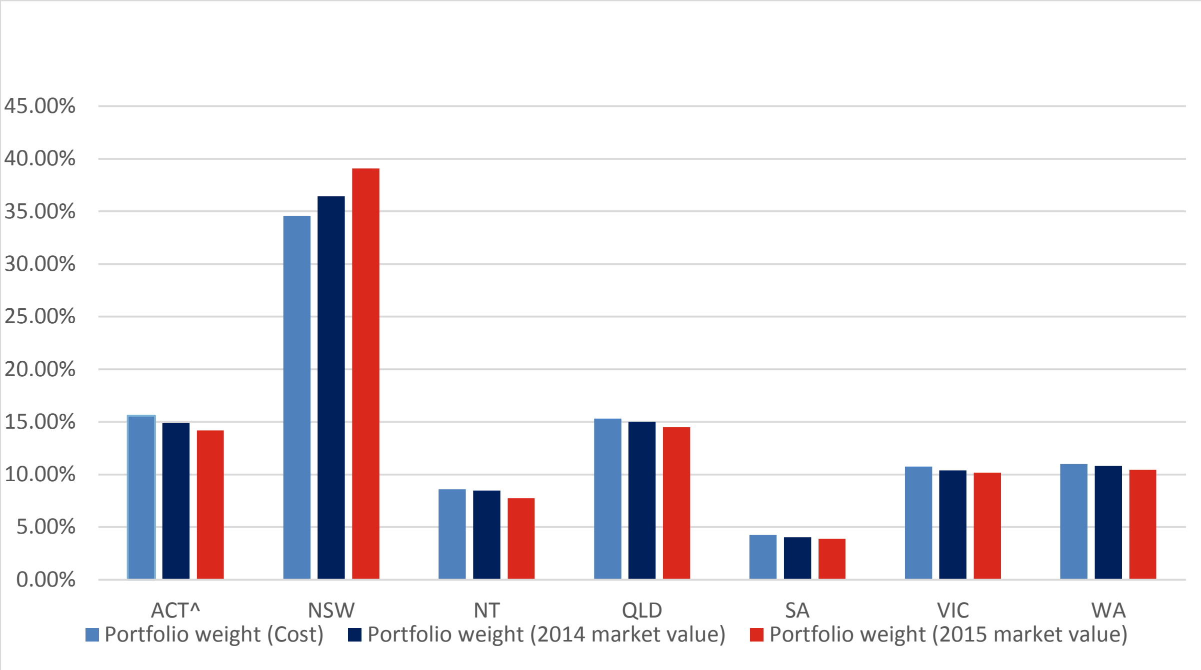
The above portfolio value is based on the valuation of the properties as at 30 June 2015. In line with the Valuation Policy, new valuers of the Fund properties were appointed for the annual valuation process, for a term of 2 years. The new valuers, Propell National Valuers, were appointed consistent with the following criteria:

- Certified Practising Valuers are to be appointed by and reporting to the relevant fund manager.
- Appointed valuers must be a member of the Australian Property Institute (in the relevant State or Territory in which the Property is located).
- Appointed valuers must have professional indemnity insurance which includes cover for kerbside/restricted valuations.
- Shall provide a valuation in writing, in the form of a valuation certificate and will be substantiated by the valuer by appropriate supporting evidence.
- The selected valuer should not have any conflict of interest which would preclude them from undertaking the valuation.

The 30 June 2015 valuation results changed the State by State weighting of the property portfolio, reflecting largely the growth of the Sydney market relative to other capital cities in Australia. The Portfolio weighting remains consistent with the PDS.

Notification has been received from Centric Capital on behalf of the Centric DHA Residential Property Fund, the sole unitholders in the Fund, of their decision to divest out of the residential property market. The Board will work with them to achieve an orderly disposal process. Details are yet to be finalised but it is envisaged that the Fund will be wound up and capital returned to unitholders during the 2015-16 financial year.

Chart 1: Portfolio weighting per State – Cost vs market value



^ Includes Queanbeyan and Jerrabomberra properties that border the ACT but are actually located in NSW.

As per the lease agreements, rent increased by 4.25% on each property in the portfolio from 1 January 2015. As a result of the rent increase, the gross rental yield is currently 5.55% based on the property acquisition cost base, and 4.97% based on market value.

The Fund has paid a total distribution of 3.36 cents per unit to investors, paid in four equal instalments for the 2014-15 financial year.

Portfolio performance

The performance of the Fund is intrinsically linked to the capital growth and rental return generated from the Fund properties. The second capital valuations since the establishment of the Fund were performed as at 30 June 2015 and impacts of capital revaluations were accounted for within the financial statements for the financial year ended 30 June 2015 and is included in the financial results.

The financial year ended 30 June 2015, is the first full year of operations for the Fund, which resulted in 10.04% return on investment for the year, after taking into account net profit, and including an adjustment for revaluation of the property portfolio.

Table 2: Key metrics

	30 June 2015	30 June 2014
Profit for the year (including capital growth)	$4,729k[1]	$410k
Gross Rental Yield	5.55%[2]	5.32%
Cum – Distribution Unit Price	1.0585	0.9895
Cash Distribution	$1,583k	$1,187k
Total Distribution/unit	3.36%	2.52%
Net Rental Profit Margin	68.78%[3]	68.11%
Return on Investment	10.04%	0.85%
Property Portfolio Capital Growth	7.14%[4]	4.31%

[1] Underlying Profit is a non-IFRS measure that is determined to present, in the opinion of the Directors, the ongoing operating activities of DHA Residential Property Fund No. 1 in a way that appropriately reflects its underlying performance. Underlying Profit is the basis on which distributions are determined and does not include any impact from unrealised market revaluation.

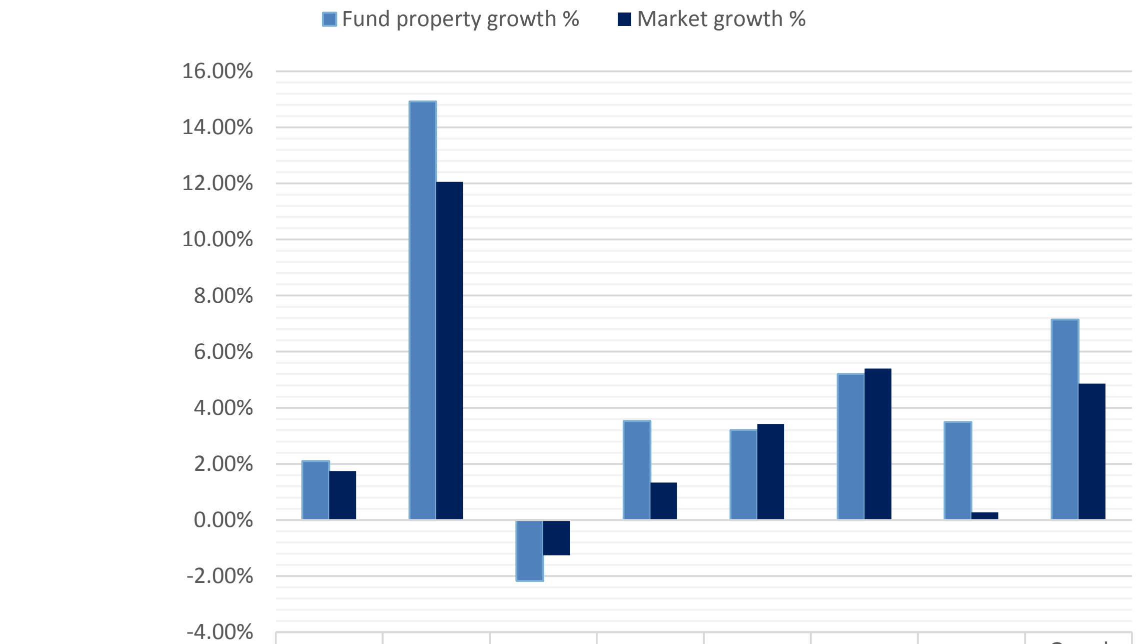
[2] Gross Rental Yield is a measure that shows January rental income (to show the impact of the annual 4.25% increase) extrapolated out over twelve months divided by the purchase price (not including capitalised transaction costs) of the property held at reporting date.

[3] Net Rental Profit Margin is determined by dividing the net profit from rental operations by rent received.

[4] Weighted Average.

Chart 2 compares the capital growth based on June 2015 valuations to market growth based on CoreLogic RP Data Postcode Indices (Postcode Indices) data. The Postcode Indices has been utilised for comparison purposes as it is more specific to the portfolio and therefore more relevant than capital city growth or Australia Bureau of Statistics data, which encapsulates a broader region. The postcode of the properties held within the Fund has been compared to the respective Postcode Indices. When comparing the Postcode Indices to actual property growth for the total holding period of the properties since Fund inception in 2013, the market growth is 11.15% compared to 11.76% for the Fund properties. For the financial year ended 30 June 2015 the Fund properties have experienced capital growth of 7.14% compared to the benchmarked market growth of 4.87% (refer to Chart 2).

Chart 2: 12 Months fund property growth vs market growth at 30 June 2015



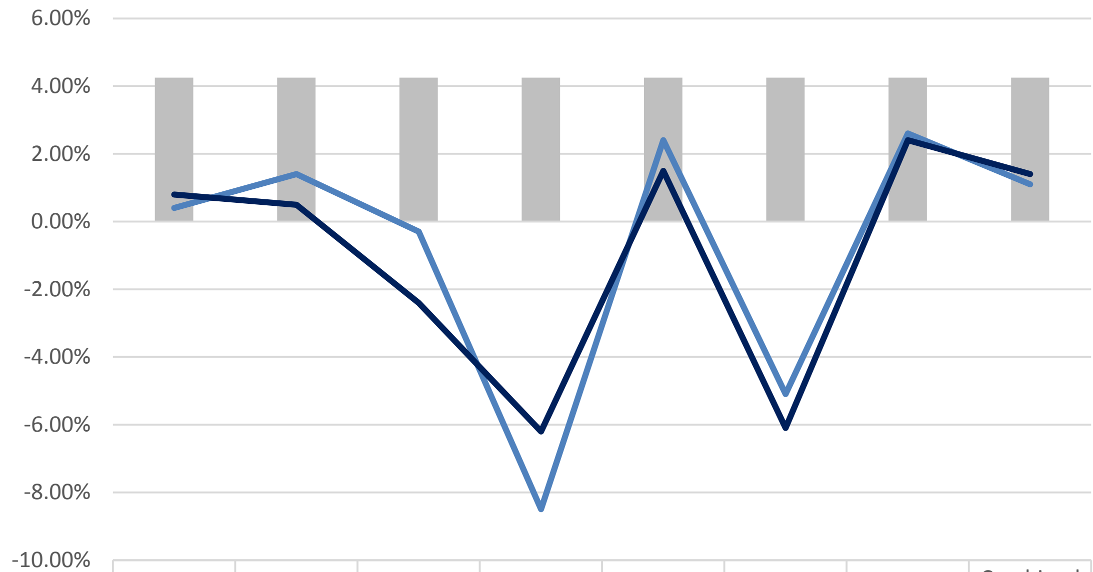
	ACT	NSW	NT	QLD	SA	VIC	WA	Grand Total
Fund property growth %	2.10%	14.92%	-2.17%	3.53%	3.21%	5.20%	3.49%	7.14%
Market growth %	1.74%	12.05%	-1.26%	1.34%	3.42%	5.40%	0.27%	4.87%

Note: Market growth is based on data from CoreLogic RP Data Postcode Indices from May 2014 to May 2015.

Rent received for the period from 1 July 2014 to 30 June 2015 was $2,415,727, with a net profit from rental operations of $1,657,309. As per the lease agreements in place where DHA assumes all vacancy risk, all properties in the Fund have received rent for the whole period 1 July 2014 to 30 June 2015, including 4.25% increase from 1 January 2015.

In accordance with the leasing contract with DHA, the Fund properties receive a 4.25% rent increase, effective for the January rent each year for the first five years. The market annual percentage change in rents as at June 2015, is shown in Chart 3. The 4.25% increase is over three-times what the combined capitals actual market increase is showing if houses and units are represented by one figure.

Chart 3: Rental growth - 12 months to June 2015



	Adelaide	Brisbane	Canberra	Darwin	Melbourne	Perth	Sydney	Combined Capitals *
Portfolio growth	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
Market growth houses #	0.40%	1.40%	-0.30%	-8.50%	2.40%	-5.10%	2.60%	1.10%
Market growth units ^	0.80%	0.50%	-2.40%	-6.20%	1.50%	-6.10%	2.40%	1.40%

Portfolio growth   Market growth houses #   Market growth units ^

4 Bedroom House
^ 2 Bedroom Unit
* All houses/units included, irrespective of no. of bedrooms

Source: CoreLogic RP Data

Portfolio outlook

Independent market commentary and property market outlook

As part of the valuation process for 30 June 2015, Propell National Valuers have provided the following commentary on their view of the current state of the markets where Fund properties are located.

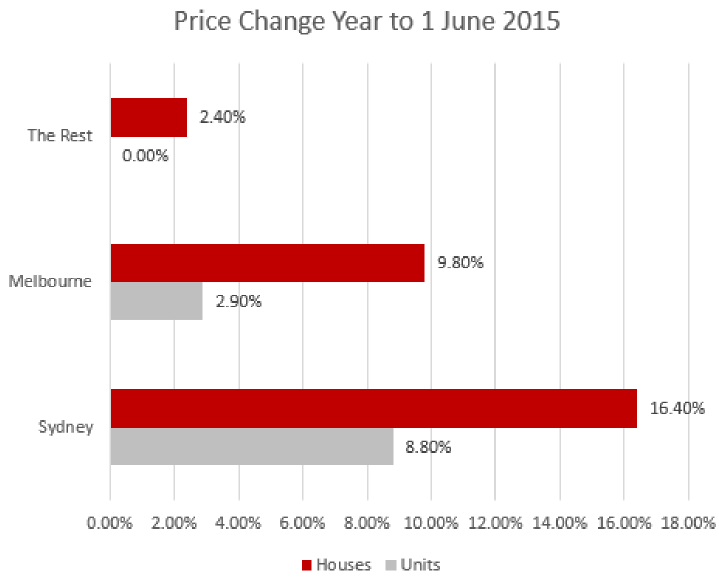
"Residential markets over the past year have been booming in Sydney, grown strongly in Melbourne, but growth has been modest elsewhere with some declining (e.g. mining centric locations, Perth and Darwin). This comes, despite the RBA cutting the cash rate.

In May, the RBA cut the cash rate another 0.25%, to 2.00% with the prospect of another cut later in 2015. The RBA has a balancing act to do: stimulate the economy, or keep the lid on Sydney house prices. The imposition of further macroprudential controls may limit house price growth, but demand outstrips supply in Sydney and price rises are likely to continue regardless.

Economic growth continues to weaken and is now closer to 2.25% than to the federal forecast of 2.75% needed to sustain the economy. Commodity prices fell dramatically in late 2014 but have stabilised and recovered some ground in the past months, though the outlook remains mixed and market concerns about the Eurozone and growth in China continue to weigh on forward estimates.

The headlines have been all about Sydney houses, but the price increase there has not really been the result of lower mortgage rates. There have been a number of factors at work:

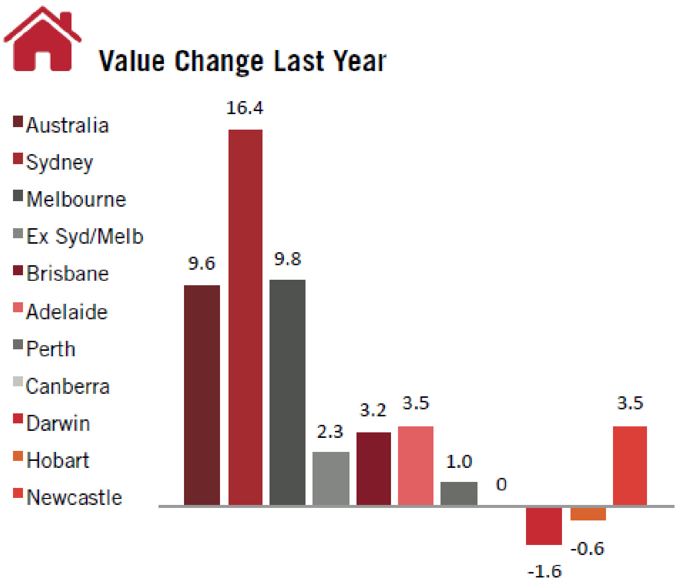
- *The NSW economy underperformed over the past decade taking house prices with it. The start of a recovery there has seen a catch-up in house prices.*
- *Sydney has become a global city, viewed in the same light as Hong Kong, Shanghai, New York and London. Even at present prices, Sydney is reasonably priced in international terms, i.e. it is no longer being priced by the domestic market.*
- *In US$ terms, Sydney prices have increased by only 7.70% in the past five years, so it remains attractive to foreign purchasers. It is frustrating for the RBA, but any moves to lower the A$ exchange rate further just makes Sydney even more attractive to foreign purchasers, driving prices higher still.*
- *In the Sydney metropolitan area, demand exceeds supply.*

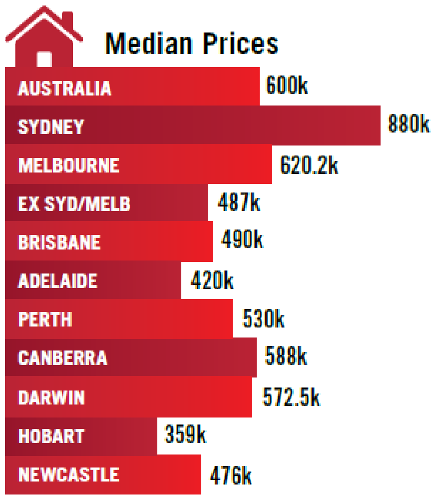


Melbourne has shared some of these characteristics, except that supply exceeds demand, so that price rises have been good, but not as strong as for Sydney. In US$ terms, Melbourne prices have actually fallen by 8% in the past five years.

Outside of Sydney and Melbourne, prices have barely changed in real terms. Darwin is looking expensive as it comes down from the heady days of the mining boom. Sentiment in Canberra is improving, with prospects for price increases in the year ahead, though it is still relatively expensive compared to Melbourne. Brisbane offers good value but the Queensland markets in general have been held back by the end of the mining boom and higher unemployment.

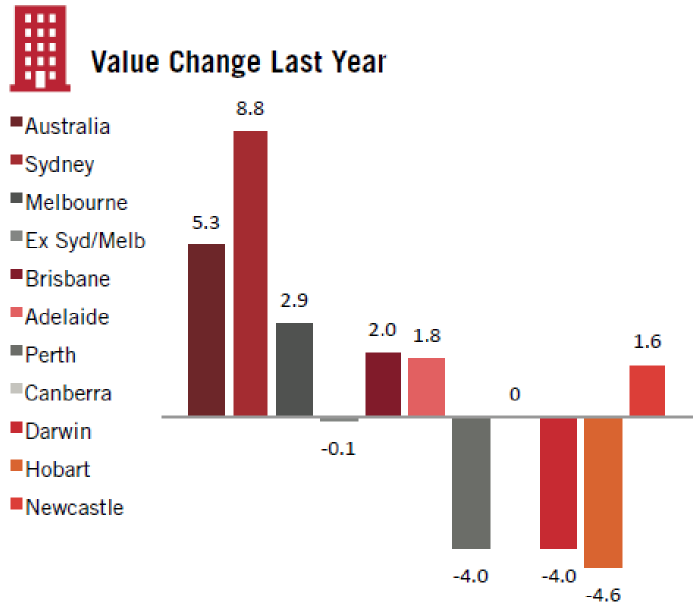
Market Statistics - Houses

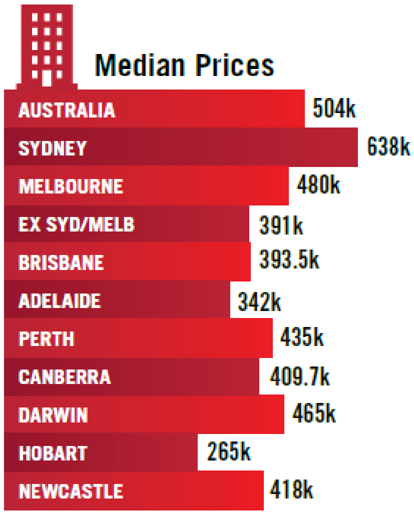




The market for apartment units has been much weaker than for houses, except for premium inner city apartments in Sydney. Over the past year unit prices fell in Perth, Hobart and Darwin. They were unchanged in Canberra and showed only modest price adjustments elsewhere.

Market Statistics - Units





Median prices in most housing markets, and some apartment markets, are projected by Propell to increase further in 2015-16 though the pace of growth is easing. In May, median prices fell in most markets despite the cut in the cash rate, but June saw a rally in prices. There are reasons to believe that we are entering a new trend period in the residential market. While Propell is not expecting a price collapse, we may well see converging growth in the headline markets of Sydney and Melbourne, with little change elsewhere.

The above comments apply to the house market. The unit market looks like it is at the start of a correction period, with an oversupply of units in many capital cities weighing on the consciousness of buyers. Additionally, the macro prudential controls imposed in the first half of 2015 are now having an effect, particularly on the availability of mortgages for investment properties. The interest rate discount for investment mortgages has disappeared, and most banks are now requiring a deposit of at least 10% on investment properties. It can be expected that this will reduce purchases of investment properties with an impact on prices. However, at the bottom end of the market this is good news for embattled first home buyers, who may see an increase in choice."

Below is BIS Shrapnel data, summarised, of each of the major capital cities outlook and risks to the market to 2018. This data focuses on the capital cities where the majority of the Fund properties are held.

Table 3: Capital city market outlook and risks

City	Outlook	Risks
Adelaide	• Median house value forecast to be $460,000 at June 2016; • Growth predicted at 2.9% for 2015 slowing to 2.2% in 2016 and falling back to 0% in 2017; • Dwelling oversupply is forecast to increase through to June 2018; • This will result in vacancy rate of 3% and minimal rental growth.	• Slowing population growth will suppress underlying demand; • Dwelling construction will peak in 2015/16 far above the level of underlying demand; • The real median house price at June 2018 is forecast to be 13% below its peak value at June 2010; • Closure of Holden plant and suppliers will result in job losses progressively through 2017.
Brisbane	• Detached housing completions are not forecast to be sufficient enough to erode the existing deficiency; • Median house value forecast to lift to $555,000 by June 2016; • Growth predicted at 5.3% in 2015, increasing to 6.7% in 2016 and slowing to 4.5% in 2017 • The level of expected median house price growth will be the strongest amongst all capital cities.	• Tapering off of the resource investment boom has diminished a major employment driver; • Although increased affordability advantage over Sydney & Melbourne, there is not sufficient employment growth to satisfy potential interstate migrators; • Therefore expected below-average migration.
Canberra	• The median house price forecast to be $560,000 at June 2016; • Growth predicted at 1.8% for 2015, decreasing to even for the next 2 years.	• Public sector cuts have already played through, therefore not expected to have the same negative impact; • High income levels makes Canberra one of the most affordable cities; • Median house prices forecast to remain flat over 2015/16 rising to $575,000 in June 2018; • Weakening migration and net interstate inflow reverting back to net outflow.
Darwin	• The median house price is forecast to be stagnant at $550,000 at June 2016; • Growth predicted at 1.2% for 2015 moving to 0% for 2016 and trending down to -1.8% in 2017.	• Economy set to suffer with engineering investment dropping off, and slowing growth of just 4%; • Economy wide growth falling by 34% in 2015/16; • With expected interest rate increases in 2016 and oversupply in dwellings is expected to cause prices to fall over 2016/17.
Melbourne	• New dwelling supply will remain strong; • Median house value forecast to lift to $690,000 at June 2016; • Growth predicted at 15.4% for 2015 slowing to 5.3% in 2016 and 0% for 2017; • Victoria's economic growth is expected to continue to improve in the short-term, although overall is expected to remain below the long-term average.	• Victoria will benefit from the expected gradual lift in non-mining investment and fall in the A$ going forward; • Closure of all 3 car manufacturing operations will effect employment levels especially in Melbourne's outer ring; • Sustained dwelling building will result in an oversupply of stock, concentrated in the unit market; • Along with a decline in both overseas and interstate net migration flows for the state.
Perth	• The median house price is forecast to decline to $570,000 by June 2016; • Growth is predicted to fall by 2.7%, 1.7%, 0.9 in the coming three years to 2017; • Affordability more attractive than the other 4 major capital cities, and to remain that way to June 2018.	• Economic conditions forecast to weaken further during the next 3 years; • New engineering construction is forecast to plummet by a substantial 55%; • Continual drop in net migration will see the existing dwelling deficiency continue to be rapidly eroded with an underlying excess forecast to emerge in 2017/18.
Sydney	• Growth predicted at 13.7% for 2015 slowing to 6.8% in 2016 and negative 2% for 2017; • Median house price forecast to lift to $1,025,000 by June 2016; • Prices are forecast to weaken over 2016/17 & 2017/18, with expected interest rate rises and the erosion of the dwelling deficiency; • The market currently experiencing solid tenant demand, tight vacancy rates and rising rents.	• The underlying dwelling deficiency is forecast to remain high in 2015/16; • Demand forecast to remain at 46,900 new dwelling per annum to 2017/18; • New dwelling commencements are now exceeding underlying demand, however completions are not expected to exceed demand until after 2015/16; • The magnitude of the rise in prices is causing affordability to steadily deteriorate.

Source: BIS Shrapnel Residential Property Prospects 2015 – 2018.

Unitholder information

Should you have any enquiries regarding your unitholding, you should contact White Outsourcing on (02) 8262 2800. If you have any questions regarding your investment in DHA Residential Property Fund No.1 you should speak to your financial advisor in the first instance or contact us on 139 342.

How to contact DHA Investment Management Limited:

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Disclaimer

This document was prepared by DHA Investment Management Limited (DHA IML) as the manager of DHA Residential Property Fund No.1. DHA IML is not licensed to provide financial product advice in relation to units in the Fund. Please refer to the product disclosure statement for further information about the DHA Residential Property Fund No.1. This document has been issued on the basis that it is only for the information and exclusive use of the particular person to whom it is provided. Past performance is not indicative of future performance. Any forecasts included are reasonably believed to be reliable on current information but due to our inability to predict future events they cannot be guaranteed. This document is of a general nature only.