

Property Income Fund

Fund Update
30 June 2020

For more than 20 years, the Australian Unity Property Income Fund (Fund) has blended direct properties and unlisted property trusts with listed A-REITs and cash to provide investors with relatively consistent income distributions and the potential for capital growth.



40 Scanlon Drive, Epping, VIC

Fund Facts as at 30 June 2020

June Quarter Distribution	Unit Price	Gross Asset Value
2.7126 cents per unit (CPU) (1.4000 CPU March 2020 quarter)	\$0.8720 exit price (cum distribution)	\$261.00 m (\$254.11m at 30 March 2020)

Gearing Ratio	Liquidity
The Fund has no direct borrowings	The Fund offers daily liquidity.

Ratings / Awards



Performance as at 30 June 2020

	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception % p.a.
Distribution return	3.29	6.99	10.07	8.89	8.46	7.98	8.27
Growth return	2.73	(12.23)	(5.15)	(1.24)	(0.30)	0.05	(0.77)
Total return	6.02	(5.24)	4.92	7.65	8.16	8.03	7.50
Benchmark return	4.37	(7.34)	4.86	7.10	8.29	8.93	8.12

Inception date for performance calculations is 31 May 1999.

Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

The benchmark return is a composite index currently comprising: 60% MSCI/Mercer Australian Core Wholesale Property Fund Index, 35% S&P/ASX 200 A-REIT Accumulation Index, 5% Bloomberg AusBond Bank Bill Index.

Key Portfolio statistics as at 30 June 2020

Asset allocation (by value)

Asset class	\$m	Portfolio %
Listed A-REITs	81.01	31.04
Direct Property	120.97	46.35
Unlisted Property	35.46	13.59
Cash and other*	23.56	9.03
Total	261.00	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	\$m
Australian Unity A-REIT Fund	69.03
Australian Unity Office Fund	7.94
Carindale Property Trust	1.85
Elanor Retail Property Fund	2.18
Total	81.01

Unlisted property portfolio - top 5

Holding	\$m
Australian Unity Healthcare Property Trust	7.76
Australian Unity Diversified Property Fund	8.99
Planum Footscray Fund	9.09
Waverley Gardens Syndicate	3.41
Australian Unity Specialist Disability Accommodation Fund	6.22
Total	35.46

Financials

	\$m
Gross assets	261.00
Total debt	0.00
Other liabilities [^]	9.90
Net assets	251.10

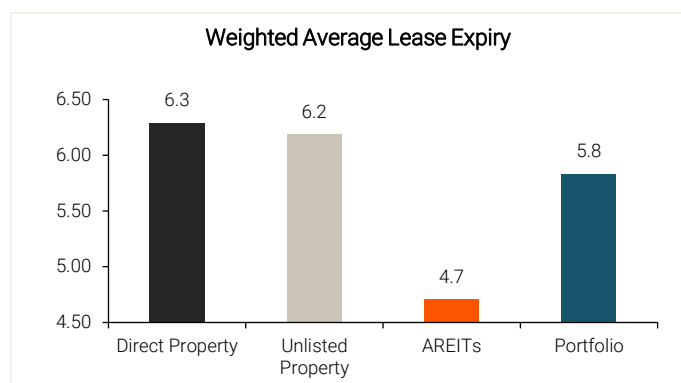
[^] Other liabilities include a provision for the distribution.

Debt

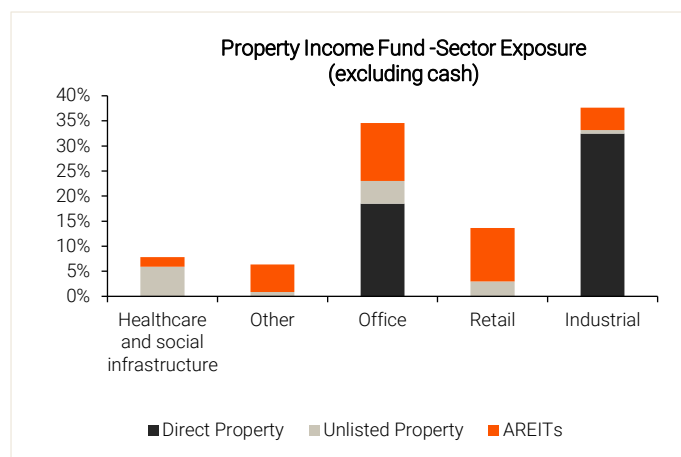
The Fund has no direct borrowings.

Liquidity

The Fund offers daily liquidity.



Note: excludes assets held for sale.



Note: "Other" includes residential developers, self-storage and other listed investments. Sector weights are on an equity accounting basis.

Market commentary

The second quarter of 2020 will be one that is remembered and talked about for many years to come. The COVID-19 pandemic inspired health crisis led to unprecedented restrictions of movement across Australia. Quarantine was imposed on all travellers coming or returning from overseas. Work from home was highly encouraged or mandatory for much of the quarter with social venues closed including pubs, restaurants, theatres and even local parks. Not since the Spanish Flu in 1919 has Australia witnessed the closure of State borders.

Australia's economy was dealt a crude knock as economic growth, measured by gross domestic product (GDP), turned negative. The economy is now on course for a first official recession in almost 30 years. At last glance, unemployment was 7.1% with peak forecasts pleasingly moderating from double digits expectations earlier in the crisis to around 8% anticipated by late 2020.

Underemployment jumped to 13.1%, up from 8.5% a year ago. Underemployment provides a better gauge of the employment pulse, as it takes into consideration people on lesser hours who are technically still employed but underutilised.

The Reserve Bank of Australia (RBA) maintained interest rates at 0.25% into July and is expected to remain on hold in the near term. Fiscal and monetary policy actions were swift and sizeable, supporting and stabilising the Australian financial and economic systems.

The stimulus packages provided by the State and Federal Governments appear to have contributed positively to sentiment. The Federal Government followed earlier announced stimulus packages with the HomeBuilder scheme designed with the hope of stimulating the housing construction industry and to keep people employed, with some State Governments promising additional housing grants of their own. We saw NAB Business Conditions and Consumer Confidence fall sharply in April before responding significantly in May.

The Australian 10-year bond yield remained relatively flat over the quarter at 0.9%, compared to a year ago at 1.3%. The enduring low interest rate environment is anticipated to remain supportive of growth assets in general, including the commercial property sector.

Preliminary quarterly data provided by Jones Lang Lasalle, suggests that major office markets are likely to see rising vacancy levels from their current historical lows, as demand for accommodation shows signs of abating. Future office developments are likely to reduce in number and scale which should serve to keep the supply/demand dynamic in check. It is possible metropolitan office markets may benefit in the current environment in attracting and retaining tenants, as being able to drive and park becomes increasingly attractive.

Demand for industrial assets continues to remain strong. The pandemic has caused an acceleration of the e-commerce trend and brought to the forefront just-in-time supply chain management and supplier concentration risks for corporates. Demand appears to be higher in Melbourne than Sydney due to a greater availability of serviced land and relatively cheaper rents.

Retail has been one of the property sectors most impacted by the onset of the pandemic and the resultant measures employed to combat COVID-19. One of the larger shopping centre owners, Vicinity (VCX), reported foot traffic for April down 50% from the prior year. By May, with the easing of restrictions, foot traffic had recovered to be 74% of the prior year. Its stablemate, Scentre Group (SCG) the other larger shopping centre landlord, announced that by late May approximately 80% of its Australian stores had

re-opened while customer visitation had also returned to 80% of what it had been a compared to a year earlier.

Incidentally, both of these stocks recorded some of the highest share price returns over the quarter in the A-REIT sector at over 33%. At times the listed market tends to overreact when uncertainty reigns, with these wild swings a case in point. Overall, neighbourhood shopping centres have remained rather resilient during the pandemic, due to their focus on essential spend consumables while the larger centres weighted toward more discretionary retailing have worn the brunt of the lockdown shock.

Over the June 2020 quarter, the listed property market as measured by the S&P/ASX 300 A-REIT Index, gained 19.9%, strongly rebounding after previously recording the sharpest quarterly decline on record. The enormous uncertainty of the previous quarter gave way to greater clarity fuelling the rebound.

The bounce was led by retail property stocks, with Scentre Group (SCG) and Vicinity Centres (VCX) outperforming the market by double digit percentage points. Stockland Group (SGP) and Charter Hall (CHC) also produced stellar outperformance while Goodman Group (GMG) outperformance was more muted. Dexus (DXS), Mirvac Group (MGR), GPT Group (GPT) and Unibail-Rodamco-Westfield (URW) underperformed the Index.

Valuations for some of the listed retail landlords showed signs of weakness since the pandemic arrived, with valuations circa 2% - 15% lower than pre-pandemic. Unsurprisingly essential spend neighbourhood centers appear to be markedly outperforming discretionary spend focused malls. In comparison, office and industrial listed properties fared substantially better, with valuations remaining largely flat.

Portfolio activity for this quarter

Property valuations

As at 30 June, all directly owned properties, except Canberra which is held for sale, were independently revalued. Valuations were stable compared to the prior aggregate carrying book value.

The Fund's investment in the Planum Footscray Fund, owner of 90 Maribyrnong Street, Footscray, a multi-tenanted office property located in metropolitan Melbourne, was independently valued as at 30 June and experienced a 4.3% increase on the original purchase price.

Distribution

We are delighted to announce a distribution of 2.7126 CPU for the quarter ending 30 June 2020.

The key messages for the Fund are as follows:

- The Property Income Fund continues to display its resilience due to its overall diversification across various property and tenant types;
- The Fund currently has liquid assets in excess of its minimum thresholds. Further liquidity will come from the sale of 40 Allara Street, ACT, sold for \$23 million, with settlement due to complete in July;
- The Fund has maintained its distribution frequency and remains open for investment and divestment as per the terms outlined in the Product Disclosure Statement;
- The Fund's directly owned property tenants are paid up;
- Most of the Fund's directly owned properties are industrial, leased to corporates that continued to trade throughout the

pandemic induced lockdowns;

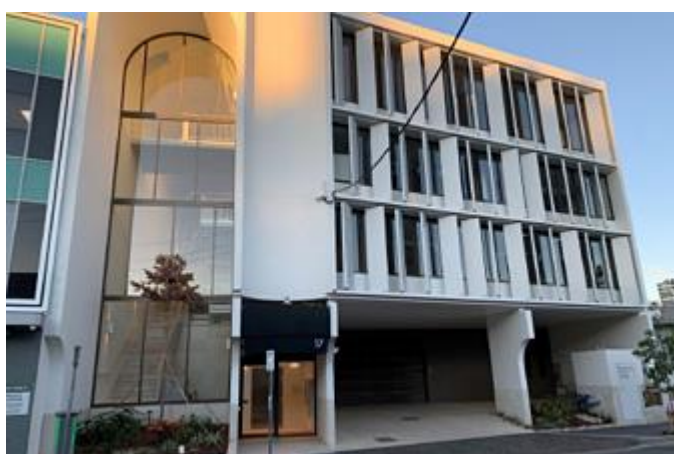
- Independent valuations in relation to the Fund's directly owned properties are usually conducted annually, although under current market conditions conducted with greater regularity;
- Of note, the Fund does not have borrowings at the Fund level, meaning all directly owned physical properties are unencumbered; and
- The Fund's property sector weightings are skewed to industrial, office, healthcare and social infrastructure, with revenue exposed to Government, listed and other corporates. The Fund's retail exposure is weighted towards convenience retail at the expense of non-essential spend retailing and weighted more toward listed retail stocks that have been subjected to repricing by the listed market.

Outlook

In general, we continue to retain a supportive view of the Australian commercial property sector as the market transitions through current pandemic inspired headwinds. Through its well diversified, actively managed portfolio, the Fund is well positioned to provide investors with a consistent, sustainable level of distribution income over the medium to longer term.



Planum, Footscray VIC



17 Byres Street, Newstead QLD

Key direct property statistics as at 30 June 2020

Geographical allocation (by value)

State	No. assets	%
VIC	6	57.37
ACT	1	19.01
SA	1	8.68
QLD	3	14.94
Total	11	100.00

Sector allocation (by value)

Sector	No. assets	%
Industrial	8	63.67
Office	2	17.32
Total	10	80.99

Note: excludes assets held for sale.

Property data

Number of properties	11
Total number of tenants	16
WALE (by income)#	6.3 yrs
Occupancy rate (by income)^	92.5%

Excludes assets held for development/sale

^ Excludes assets held for sale

Top 5 tenants (by income)

Tenant	%
Flavour Makers Australia	19.49
Australian Government Dep.	14.87
Synergy Packaging	9.28
Specialist Wholesalers	8.07
Flinders Ports	7.90
Total	59.61

Valuations

Valuations during the quarter	10
Change in total direct property book value*	-0.30%
Change in book value of the properties revalued*	-0.37%

* Change in book value over the quarter includes revaluation impacts along with capital expenditure and other minor variations but excludes acquisitions and disposals.

Direct Property Assets as at 30 June 2020

Property Details			Tenancy Details				Valuation Details			
Address	Note	Lettable Area (sqm)	Major Tenant	Number of Tenants	Occupancy Rate (% by income)	WALE (years by income)	Current Valuation (\$m)	Valuation Date	Capitalisation Rate (%)	Book Value (\$m)
Asset held for sale										
40 Allara St, Canberra, ACT	5	5,857	Australian Government Dep.	3	70.8	<1	23.00	Dec-18	8.25	23.00
Sub total										23.00
Industrial										
223-227 Governor Road, Braeside, VIC	-	10,573	Flavour Makers Australia	1	100.0	14.3	23.20	Jun-20	5.50	23.20
40 Scanlon Drive, Epping, VIC	-	9,371	Gruma Oceania	2	100.0	4.0	13.60	Jun-20	6.00	13.60
2-10 Bliss Court, Derrimut, VIC	-	9,804	Specialist Wholesalers	1	100.0	2.9	11.20	Jun-20	6.00	11.20
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	14.2	9.75	Jun-20	5.50	9.75
65 Beverage Drive, Tullamarine, VIC	-	6,363	Synergy Packing	1	100.0	1.1	6.70	Jun-20	6.50	6.70
Lot 6 133 South Pine Rd, Brendale, QLD	-	3,796	-	0	-	-	6.30	Jun-20	6.50	6.30
10 International Square, Tullamarine, VIC	-	4,305	Synergy Packing	1	100.0	1.0	4.95	Jun-20	6.50	4.95
Lot 11 133 South Pine Rd, Brendale, QLD	4	N/A	N/A	-	-	N/A	1.32	Jun-20	N/A	1.32
Sub total										77.02
Office										
296 St. Vincent Street, Port Adelaide, SA	-	3,537	Flinders Port	3	95.4	6.3	10.50	Jun-20	6.75	10.50
17 Byres Street, Newstead, QLD	-	1,326	Construction Sciences	3	100.0	3.3	10.45	Jun-20	6.50	10.45
Sub total										20.95
Total (T) / Weighted Average (A)				16 (T)	86.4 (A)	4.5 (A)	120.97 (T)		6.41 (A)	120.97(T)
Total (T) / Weighted Average (A) (excluding 40 Allara St, Canberra, ACT)				13 (T)	92.5 (A)	6.3 (A)	97.97 (T)		5.98 (A)	97.97 (T)

Notes

- Valuation Policy - Regular valuation of underlying property assets is an important aspect of managing the Fund. Valuations are conducted by qualified independent valuers in accordance with industry standards. We have a policy of generally obtaining independent valuations on Fund direct properties each year and, for assets under development, within an 18-month period. Additionally, as part of our active management approach, we may test asset values on market. At times we may enter arrangements at arm's length with third parties which may impact the value of assets within the portfolio including, but not limited to, put and call options in respect of all or part of an asset within the portfolio. If the value of an asset is impacted in this way, the value may replace the last independent valuation obtained.
- Weighted Average Lease Expiry (WALE) by base rental income. Vacancies are valued at market income. Assets under development excluded.
- A market capitalisation rate is the rate, expressed as a percentage, that reflects the likely yield a property will generate over the medium term. It has regard to a property's unique characteristics and is a measure of the property's risk/return profile with higher rates reflecting higher risk and its function is to convert a property's income into value. The market capitalisation rate is assessed by the independent valuer by dividing the stabilised net property income of the property or a portfolio of properties by the assessed valuation of the property or portfolio, excluding costs of acquisitions and fees.
- Lot 11 133 South Pine Rd, Brendale, QLD is a vacant block of land to be developed in the future.
- Sold. Due to settle 16/7/20

Contact us

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