Property Income Fund

Fund Update
31 December 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.

Edith Cavell Building, Hertson, QLD

Fund Facts as at 31 December 2020

December Quarter Distribution	Unit Price	Gross Asset Value
1.2500 cents per unit (CPU) (1.2500 CPU September 2020 quarter)	**$0.9016** exit price (cum distribution)	**$275.99 m** ($257.40m at 30 September 2020)

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

Ratings / Awards

Recommended
Lonsec Research

Performance as at 31 December 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	1.48	7.25	10.27	8.91	8.51	8.00	8.24
Growth return	5.04	(9.43)	(3.40)	(0.73)	1.13	0.67	(0.51)
Total return	6.52	(2.18)	6.87	8.18	9.64	8.67	7.73
Benchmark return	6.08	(0.71)	5.38	7.49	9.31	9.44	8.36

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 31 December 2020

Asset allocation (by value)

Asset class	$m	Portfolio %
Listed A-REITs	101.37	36.73
Direct Property	104.17	37.74
Unlisted Property	44.13	15.99
Cash and other*	26.32	9.54
Total	275.99	100.00

* Includes cash and cash equivalents.

Exposure to A-REITs

Holding	$m
Australian Unity A-REIT Fund	85.07
Australian Unity Office Fund	8.06
Carindale Property Trust	2.34
Elanor Retail Property Fund	2.86
Vitalharvest Freehold Trust	3.05
Total	101.37

Unlisted property portfolio

Holding	$m
Australian Unity Diversified Property Fund	9.27
Planum Footscray Fund	9.26
Australian Unity Healthcare Property Trust	8.51
Australian Unity SAF	7.74
Australian Unity Specialist Disability Accommodation Fund	6.27
Elanor Waverley Gardens Syndicate	3.08
Total	44.13

Financials

	$m
Gross assets	275.99
Total debt	0.00
Other liabilities^	5.30
Net assets	270.69

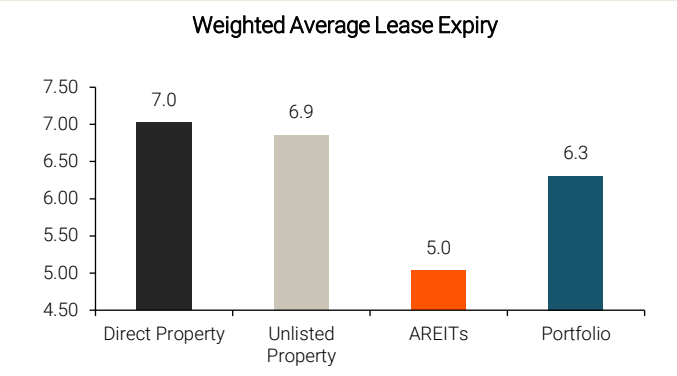
^ Other liabilities include a provision for the distribution.

Debt

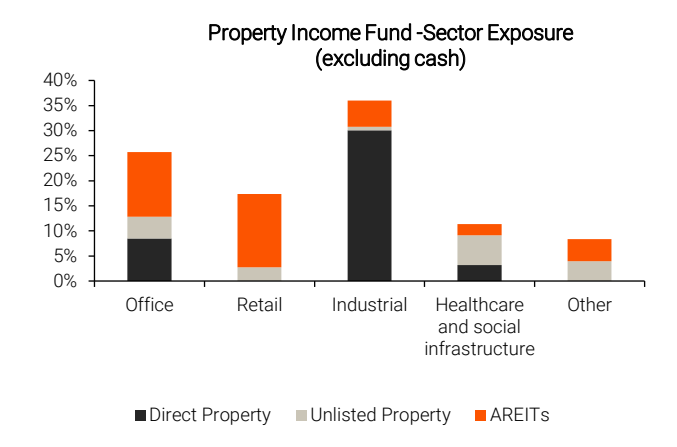
The Fund has no direct borrowings.

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

Markets in the final quarter of 2020 were buoyed by hope, optimism and increased confidence, spurred on by the announcement of several newly created Covid-19 vaccines and anticipation of the associated rollout of mass vaccinations, a precursor to a return to normal life. Hope of an economic recovery, hope that 2021 will be better than 2020 and hope that the pandemic is nearing its end are feelings many of us universally ascribe too.

Central banks around the world have resorted to combating the economic fallout created by the pandemic by fashioning in an era of low interest rates to reduce the debt burden for those in need while doubling up as a stimulant for those willing to borrow to fund growth initiatives. Whether it be from cash deposits, equities, property or bonds, the realisation that yield relative to history has become harder to come by in today's environment has set in for many investors seeking to supplement their incomes. The yield dynamic is leading investors to re-assess their investment strategies and investment allocations accordingly, with property yields relative to other asset classes faring well.

Having rapidly entered an official recession in the June quarter, the Australian economy exited the recession just as swiftly following the removal of pandemic restrictions coupled with the stimulatory response of the Government and Reserve Bank of Australia. In November, the unemployment rate was 6.8% flat compared to September, although the headline figures continue to be masked by various Government support measures.

The Reserve Bank of Australia (RBA) cut interest rates to 0.10% in November. The RBA board has stated it does not intend to increase interest rates until inflation is sustainably within the its target band of 2% to 3%, something that cannot be achieved until wage growth is materially higher than current levels and unemployment subsides. Finally, the RBA mentioned that it is prepared to provide further support as necessary.

Additional income from government stimulus, income tax cuts and central bank support boosted the NAB Business Conditions and Consumer Confidence indices which rose in November to levels above the previous corresponding period from a year earlier.

The Australian 10-year bond yield rose over the quarter to 0.97% from 0.79% in September, well down from a year ago of 1.37%. The enduring low interest rate environment is anticipated to remain supportive of the commercial property sector.

In September, we observed a growing disconnect between public and private property markets. Subsequently. the final quarter of 2020 heralded in a sustained uplift in listed property stocks (A-REITs), with S&P/ASX 300 A-REIT Index rising 13.3% for the quarter.

Preliminary quarterly data provided by Jones Lang Lasalle, suggests that major office property markets continue to experience slowing demand for accommodation with all markets apart from Perth and Canberra expected to experience falling occupancies. Large tenants are delaying leasing decisions as the market tries to picture the long-term implications of Covid-19. Future office developments are reducing in number and scale which should serve to keep the supply / demand dynamic broadly 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 property continues to remain strong. A supply response is underway with annual supply of 2.01 million square metres (sqm) of new completions in 2020, 73% higher than 2019 and the highest single year since 2008 (2.55m sqm). The pandemic induced acceleration of the e-commerce trend brought to the forefront just-in-time supply chain management and supplier concentration risks for corporates, with 2021 construction expected to remain elevated with 1.77 million sqm of new supply anticipated of which 62% is pre-committed.

Retail property leasing continued to improve throughout the December quarter with more deals executed, albeit rent reductions are generally playing out across the retail property sub-markets. Anecdotally, some neighbourhood shopping centers continue to experience rising rents depending on their catchment. CBD retail has been the hardest hit shopping format with vacancy across all CBDs (excluding Melbourne) at low to mid double digits. Neighbourhood shopping centres, the stalwart of the retail formats continues to buck the trend performing sturdily accounting for 65% of retail supply additions and 40% of the transaction volume in 2020. Investor appetite for larger malls and big box large format centres, particularly those with excess land, increased over the December quarter.

As the States learn to manage outbreaks more effectively and border restrictions are eased we anticipate the operating metrics of many a landlord to continue to improve.

For the quarter ending 31 December 2020, the Australian listed property sector, as measured by the S&PASX 200 A-REIT Accumulation Index, returned 13.3% marginally underperforming the broader equities market as measured by the S&P/ASX 200 Accumulation Index which returned 13.7%. Over the past twelve months, the A-REITs returned negative 4.6% underperforming the broader equities market which returned 1.4%.

Retail landlords led the market up higher this quarter with Scentre Group (SCG) and Vicinity Group (VCX) posting returns of 26% and 19% respectively. Unibail-Rodamco-Westfield (URW) which owns large malls in Europe, UK and US posted a standout return of 111% for the quarter. Mirvac Group (MGR) and Charter Hall Group (CHC) both achieved strong returns over the period. The laggard over the quarter was Industrial property giant and developer, Goodman Group (GMG) recording a 6% return.

Portfolio activity for this quarter

Revaluations

No assets were revalued during the December quarter.

Asset Transactions

11 International Square, Tullamarine, VIC was acquired for $4.02m (excluding transaction cost) leased to Synergy Group for 10 years. This asset, coupled with leasing deals with same tenant on other assets owned by the Fund (10 International Square and 65 Beverage Drive, Tullamarine VIC), highlights a strong relationship with this multinational tenant.

The Fund divested 65 Beverage Drive, Tullamarine VIC for $8.5m, a 26.9% premium to book value after re-leasing the asset for 5 years to Synergy Group. The active management and strategy executed on the Tullamarine assets enhanced the overall lease duration of the Fund.

Distribution

We are delighted to announce a distribution of 1.25 cents per unit for the quarter ending 31 December 2020.

The Fund continues to display its resilience due to is its overall diversification across various property and tenant types. The Fund has liquid assets in excess of its minimum thresholds and does not

have borrowings at the Fund level, meaning all directly owned physical properties are unencumbered.

The Property Income Fund's property sector weightings are skewed to industrial, office, healthcare and social infrastructure, with revenue exposed to mix of listed and other corporates. The Fund's retail exposure is weighted towards convenience retailing and weighted more toward listed retail stocks that had been subjected to repricing by the listed market.

Outlook

In general, we continue to retain a supportive view of the Australian commercial property as the market transitions through current pandemic inspired headwinds. Through its well diversified, actively managed portfolio, we believe 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

Key direct property statistics as at 31 December 2020

Geographical allocation (by value)

State	No. assets	%
VIC	6	64.79
SA	1	10.26
QLD	4	24.95
Total	11	100.00

Sector allocation (by value)

Sector	No. assets	%
Industrial	8	72.10
Office	2	20.29
Healthcare and social infrastructure	1	7.61
Total	11	100.00

Note: excludes assets held for sale.

Property data

Number of properties	11
Total number of tenants	11
WALE (by income)#	7.0 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	28.82
Synergy Packaging	11.63
Flinders Ports	11.58
Specialist Wholesalers	8.93
Gruma Oceania	7.14
Total	68.09

Valuations

Valuations during the quarter*	0
Change in total direct property book value*	4.65%
Change in book value of the properties revalued*	0.00%

* 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 31 December 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)
Healthcare and social infrastructure										
Edith Cavell Building, Herston, QLD	6	1,533	N/A		-	N/A	N/A	Jul-20	N/A	7.93
Sub total										**7.93**
Industrial										
223-227 Governor Road, Braeside, VIC	-	10,573	Flavour Makers Australia	1	100.0	13.8	23.20	Jun-20	5.50	23.20
40 Scanlon Drive, Epping, VIC	-	9,371	Gruma Oceania	2	100.0	3.8	13.60	Jun-20	6.00	13.60
2-10 Bliss Court, Derrimut, VIC	-	9,804	Specialist Wholesalers	1	100.0	2.4	11.20	Jun-20	6.00	11.20
91-97 Woodlands Drive, Braeside, VIC	-	4,877	Flavour Makers Australia	1	100.0	13.8	9.75	Jun-20	5.50	9.75
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	10.0	5.80	Sep-20	5.50	5.80
Lot 8, 11 International Square, Tullamarine, VIC	-	2,200	Synergy Packing	1	100.0	10.0	4.01	Aug-20	5.25	3.93
Lot 11 133 South Pine Rd, Brendale, QLD	5	N/A	N/A		-	N/A	1.32	Jun-20	N/A	1.32
Sub total										**75.10**
Office										
296 St. Vincent Street, Port Adelaide, SA	-	3,537	Flinders Port	3	95.5	5.9	10.50	Jun-20	6.75	10.69
17 Byres Street, Newstead, QLD	-	1,319	Construction Sciences	3	100.0	2.9	10.45	Jun-20	6.50	10.45
Sub total										**21.14**
Total (T) / Weighted Average (A)				**11 (T)**	**92.5 (A)**	**7.0 (A)**	**96.1 (T)**		**5.71 (A)**	**104.17 (T)**

Notes

1 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.

2 Weighted Average Lease Expiry (WALE) by base rental income. Vacancies are valued at market income. Assets under development excluded.

3 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.

4 Total number of tenants represents unique tenants. The sum of all individual property tenant numbers may differ to the total, as some tenants have multiple properties, and these are not double counted in the total.

5 Lot 11 133 South Pine Rd, Brendale, QLD is a vacant block of land to be developed in the future.

6 Edith Cavell Building, Herston, QLD is an existing heritage property, located in an established healthcare precinct. Asset to be repurposed with completion of works expected in early 2022.

Contact us

australianunity.com.au/wealth

investments@australianunity.com.au

Investor Services

T 13 29 39 F 1300 856 685

Adviser Services

T 1800 649 033 F 1300 856 685

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~In times of abnormal operating or market conditions, or periods of excessive withdrawals, the Fund may take up to 180 days to pay withdrawals. Should the Fund cease to be liquid, as defined in the Corporations Act, daily withdrawals will cease. In that case, withdrawal from the Fund will be available in response to a withdrawal offer made to all investors from time to time, in accordance with the Corporations Act.