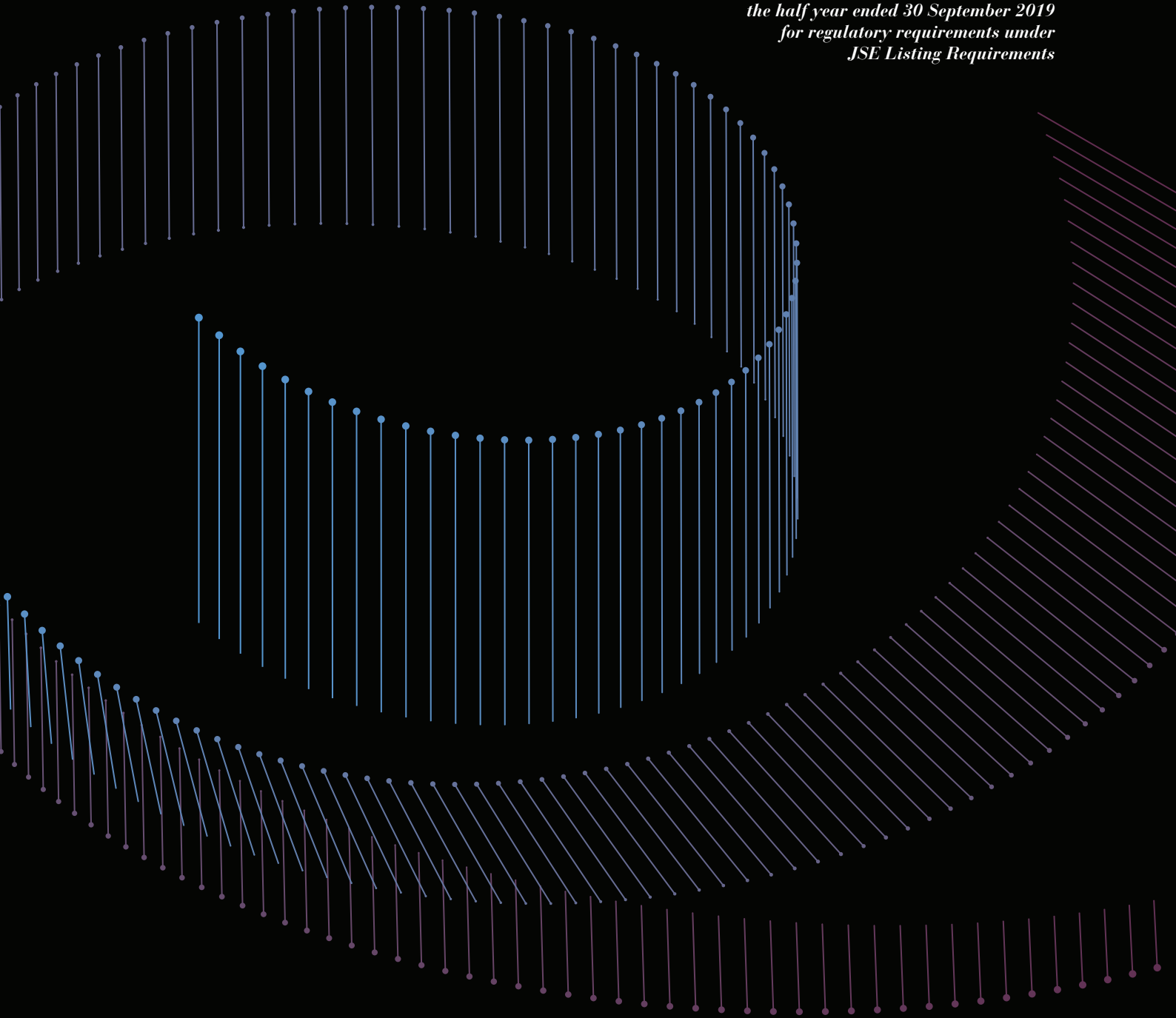


INTERIM | 2019
REPORT

**INVESTEC AUSTRALIA
PROPERTY FUND**

*Condensed interim financial report for
the half year ended 30 September 2019
for regulatory requirements under
JSE Listing Requirements*



DIRECTORS' REPORT

The directors of Investec Property Limited (ABN 93 071 514 246), the responsible entity ("**RE**") of Investec Australia Property Fund ("**IAPF**" or "**the Fund**"), present their report together with the condensed consolidated financial statements of the Fund for the half-year ended 30 September 2019.

The Fund is an Australian-domiciled REIT which is registered as a managed investment scheme in Australia under the *Corporations Act 2001* (Cth) and is subject to regulatory oversight by ASIC. The manager of the Fund is Investec Property Management Pty Limited (ABN 63 161 587 391), which is a wholly owned subsidiary of Investec Bank plc.

The Fund was listed on the Johannesburg Stock Exchange ("**JSE**") on 23 October 2013 under the "Real Estate Holdings Development" sector. The Fund was listed on the Australian Securities Exchange ("**ASX**") on 28 May 2019 and following this the Fund is dual primary listed on the ASX and JSE. The unit code on both the JSE and the ASX is "IAP" and the ISIN is AU0000046005. Units in the Fund are quoted on both the JSE and the ASX and can be moved between the South African register and the Australian register. Unitholders can elect where their units are traded by holding their units on either the South African register or the Australian register.

Directors of the RE

The following persons were directors of the RE during the period from 1 April 2019 up to the date of this report:

Richard Longes	Independent Non-Executive Director and Chairperson
Sally Herman	Independent Non-Executive Director, Lead Independent Director and Chairperson of the Audit and Risk Committee
Stephen Koseff	Non-Executive Director
Graeme Katz	Executive Director
Sam Leon	Non-Executive Director
Hugh Martin	Independent Non-Executive Director
Georgina Lynch	Independent Non-Executive Director (Appointed 1 July 2019)

Directors of the manager

The following persons were directors of the manager during the during the period from 1 April 2019 up to the date of this report:

Graeme Katz	Executive Director
Zach McHerron	Executive Director
Kristie Lenton	Executive Director

Company secretary

The company secretary of the RE during the period from 1 April 2019 up to the date of this report was Paul Lam-Po-Tang.

DIRECTORS' REPORT

(continued)

Operating and financial review

Fund objectives and investment philosophy

The Fund's strategy is to invest in office, industrial and retail properties in major metropolitan cities or established commercial precincts in Australia and New Zealand.

The objectives of the Fund are to:

- deliver income and capital returns to unitholders over time;
- grow and diversify its asset base; and
- maintain a strong corporate governance framework.

The Fund's investment philosophy focuses on making investment decisions based on sound underlying property fundamentals, enhancing the quality of the property portfolio and identifying opportunities to unlock additional value through active asset management. The Fund adheres to this philosophy by utilising the skills of an experienced and well-connected management team with a presence in the Fund's key geographies of Sydney, Melbourne and Brisbane and through a commitment to sound balance sheet management.

Financial result

The following table summarises the statutory profit for the half-year ended 30 September 2019 and provides a comparison to the half-year ended 30 September 2018.

AUD'000	1H FY20	1H FY19
Revenue, excluding straight-line rental revenue adjustment	47 169	43 606
Straight-line rental revenue adjustment	746	1 374
Property expenses	(10 329)	(9 177)
Net property income	37 586	35 803
Other operating expenses*	(8 563)	(3 327)
Net finance costs	(7 022)	(7 058)
Other income	3	152
Fair value adjustments	20 769	4 198
Total comprehensive income attributable to unitholders	42 773	29 768

*Other operating expenses in 1H FY20 includes AUD4.5 million of transaction costs in relation to the ASX listing process included within the condensed consolidated statement of profit or loss and other comprehensive income.

As at 30 September 2019, the Fund's net assets attributable to unitholders was AUD1.33 (30 September 2018: AUD1.30).

Funds from operations

The RE targets distributions of between 80% and 100% of the Fund's funds from operations ("FFO") each year, and will report distributions as a percentage of FFO and adjusted FFO ("AFFO")

FFO is calculated in accordance with the Property Council Guidelines, determined by adjusting statutory net profit (under Australian Accounting Standards ("AAS")) for non-cash and other items such as property revaluations, derivative mark-to-market impacts, amortisation of tenant incentives, gain/loss on sale of investment properties, straight-line rental revenue adjustments, non-FFO tax expenses/benefits and other unrealised and one-off items.

AFFO is calculated in accordance with the Property Council Guidelines, being FFO adjusted for maintenance capital expenditure, cash and cash equivalent incentives (including rent free incentives) given to tenants during the period and other one-off items which have not been adjusted in determining FFO.

DIRECTORS' REPORT

(continued)

A reconciliation of the statutory profit to FFO and AFFO is set out below for the half-year ended 30 September 2019. A comparison to the half-year ended 30 September 2018 is not included due to the Fund operating under a different distribution policy prior to listing on the ASX in May 2019.

The previous distribution policy was to distribute all of the Fund's distributable income, which comprised the higher of statutory net profit under AAS (subject to certain adjustments), and taxable income. Under AAS, statutory net profit includes certain non-cash items which are adjusted to determine distributable income, being straight-line rental revenue and fair value adjustments (including adjustments on investment property, interest rate swaps and foreign currency). Distributions, as well as items such as tenant incentives and maintenance capital expenditure, were funded from a combination of the Fund's free cash flows and debt.

AUD'000	1H FY20
Total comprehensive income attributable to unitholders	42 773
Adjusted for:	
Fair value adjustments	(20 769)
Straight-line rental revenue adjustment	(746)
Amortisation of incentives	711
Other one-off items*	4 490
FFO	26 459
Maintenance capex	(816)
Leasing fees and cash incentives	(243)
AFFO	25 400
Weighted average units	531 766

*Transaction costs in relation to the ASX listing process included within other operating expenses in the condensed consolidated statement of profit or loss and other comprehensive income.

	1H FY20
Half year earnings per unit	8.04
Half year FFO (cents per unit ("cpu"))	4.98
Half year AFFO (cpu)	4.78

As a result of the Fund listing on the ASX part way through a distribution period, a special distribution was paid to unitholders for the period 1 April 2019 to 27 May 2019 (as disclosed in the Product Disclosure Statement issued in May 2019 as part of the ASX listing ("PDS")). The special distribution paid for the period 1 April 2019 to 27 May 2019 was 1.59 cpu, for a total of AUD7.6 million as outlined in the Fund's Annual Report for the year ended 31 March 2019 and the PDS. This distribution was paid under the Fund's previous distribution policy.

The interim distribution to be paid to unitholders is for the period 28 May 2019 to 30 September 2019, as outlined in the distribution declaration released on the same day as this report. The interim distribution details for the period 28 May 2019 to 30 September 2019 are as follows:

	28 May 2019 to 30 September 2019
FFO (AUD'000)	18 616
AFFO (AUD'000)	17 759
Distribution declared (AUD'000)	17 759
Distribution declared (cpu)	3.20
Distribution as a percentage of FFO	95%
Distribution as a percentage of AFFO	100%

Further details on the distribution and its components are available in the distribution declaration announcement on the Fund's website www.iapf.com.au.

DIRECTORS' REPORT

(continued)

Property portfolio

At the date of this report, the Fund's portfolio comprised 31 properties valued at AUD1 180.2 million¹. The portfolio is geographically diversified with properties located in key markets across Australia and New Zealand. The majority of the Fund's exposure is to New South Wales, Victoria and Queensland, which represent 71% of the portfolio².

a. Acquisitions

On 26 September 2019 the Fund entered into contracts for sale to acquire three industrial properties for a total purchase price of AUD81.0 million ("Acquisitions"). The properties are located at 103 Welshpool Road, Welshpool WA; 46–70 Grand Trunkway, Gillman SA and 16 Dawson Street, East Arm NT. The Acquisitions settled on 10 October 2019, post the reporting date.

b. Leasing

At the date of this report, the Fund's portfolio is 99.9% occupied and has a weighted average lease expiry of 4.6 years with 54.1% of leases by income expiring after five years^{1,3}. During the period from 1 April 2019 up to the date of this report the Fund entered into leases in respect of 18 456m², with a further 14 463m² subject to signed heads of agreement.

c. Valuations

Six properties were externally valued as at 30 September 2019. These were 165 Newton Road, Wetherill Park NSW; 54 Miguel Road, Bibra Lake WA; 66 Glendenning Road, Glendenning NSW; 36–42 Hydrive Close, Dandenong South VIC; 21–23 Solent Circuit, Baulkham Hills NSW and 2 Richardson Place, North Ryde NSW. Combined, these valuations have resulted in an increase in property value of AUD23.5 million since the last reported value on 31 March 2019. Other properties in the portfolio were internally valued with a net increase of AUD15.5 million. The total increase in property value for the six months to 30 September 2019 was AUD39.0 million.

Outlook and guidance

The distribution guidance for the full year ended 31 March 2020 is expected to be maintained at 8.88 cpm on an annualised basis, as disclosed in the PDS.

The information and opinions contained above are recorded and expressed in good faith and are based upon sources believed to be reliable. No representation, warranty, undertaking or guarantee of whatever nature is made or given concerning the accuracy and/or completeness of such information and/or the correctness of such opinions.

Any reference to future financial information included in this report has not been reviewed or reported on by the Fund's independent auditors.

Events subsequent to reporting date

The Fund entered into the contracts for sale in respect of the Acquisitions on 26 September 2019. The Acquisitions were disclosed to the market on 26 September 2019 and were settled on 10 October 2019, post the reporting date.

The Fund undertook a fully underwritten institutional placement on 26 September 2019 raising approximately AUD84 million at an issue price of AUD1.52 per unit. The settlement and allotment of the new units occurred on 1 October 2019 on the ASX and 2 October 2019 on the JSE.

The Fund has commenced an expressions of interest campaign in relation to 757 Ann Street, Fortitude Valley, QLD. Once the campaign is concluded in mid-November, a decision in relation to the disposal of the property will be made.

There is no other item, transaction or event of a material and unusual nature likely from the end of the interim period to the date of this report, in the opinion of the RE, to affect significantly the operations of the Fund, the results of these operations, or the state of affairs of the Fund, in future financial years.

Significant changes in state of affairs

The Fund was listed on the ASX on 28 May 2019 and following this the Fund is dual primary listed on the ASX and JSE. Units in the Fund are quoted on both the ASX and JSE and can be moved between the South African register and the Australian register. Unitholders can elect where their units are traded by holding their units on either the South African register or the Australian register.

There have been no other significant changes in the nature of the Fund's activities during the half-year ended 30 September 2019.

¹ Includes the Acquisitions which settled on 10 October 2019, post the reporting date.

² Weighted by property value.

³ Weighted by gross property income.

DIRECTORS' REPORT

(continued)

Indemnification

Under the Fund's constitution the RE, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Fund.

The Fund has not indemnified any auditor of the Fund.

Insurance premiums

No insurance premiums are paid out of the Fund's assets in relation to insurance cover for the RE, its officers and employees or the auditors of the Fund.

Environmental regulation

The Fund's operations are not subject to any significant environmental regulation under Commonwealth, State or Territory legislation.

Rounding off

The Fund is of a kind referred to in ASIC Class Order 2016/191 dated 24 March 2016 and in accordance with that ASIC Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Review conclusion

These reviewed interim condensed consolidated financial results for the period ended 30 September 2019 have been reviewed by KPMG Inc, who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the RE's registered office.

The auditor's report does not necessarily report on all of the information contained in these financial results. Unitholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's review report together with the accompanying financial information from the RE's registered office.

Additional interim financial report

As a result of the Fund being dual primary listed on both the JSE and ASX, the Fund's financial report for the half year ended 30 September 2019 is required to be reviewed by auditors in both Australia and South Africa to meet the regulatory requirements in both jurisdictions. Due to the varying reporting requirements in Australia and South Africa, two sets of financial statements have been prepared, where the differences in the two are largely presentation driven. Both copies of the financial statements are on the Fund's website www.iapf.com.au.

Signed in accordance with a resolution of the directors of Investec Property Limited.



Richard Longes
Chairperson

30 October 2019



Graeme Katz
Chief Executive Officer

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2019

AUD'000	Notes	Six months to 30 September 2019	Six months to 30 September 2018
Revenue, excluding straight-line rental revenue adjustment		47 169	43 606
Straight-line rental revenue adjustment		746	1 374
Revenue	2	47 915	44 980
Property expenses		(10 329)	(9 177)
Net property income		37 586	35 803
Other operating expenses		(8 563)	(3 327)
Operating profit		29 023	32 476
Fair value adjustments	3	20 769	4 198
Finance costs		(7 075)	(7 099)
Finance income		53	41
Other income		3	152
Total comprehensive income attributable to unitholders		42 773	29 768
Units in issue at the end of the period		555 726	478 802
Weighted average number of units on issue for the period		531 766	478 802
Basic and diluted earnings per unit (cents)	5	8.04	6.22

The Notes on pages 13 to 22 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2019

AUD'000	Notes	30 September 2019	31 March 2019
ASSETS			
Non-current assets		1 110 802	1 069 211
Investment property	6	1 099 155	1 062 767
Financial instruments held at fair value	10	11 647	6 444
Current assets		14 799	14 200
Cash and cash equivalents	8	5 377	7 792
Trade and other receivables	7	9 422	6 408
Total assets		1 125 601	1 083 411
EQUITY AND LIABILITIES			
Unitholders' interest		737 360	621 477
Contributed equity		613 703	515 203
Retained earnings		123 657	106 274
Non-current liabilities		362 199	401 614
Long-term borrowings	9	315 168	375 163
Trade and other payables		5 042	5 265
Financial instruments held at fair value	10	41 989	21 186
Current liabilities		26 042	60 320
Borrowings	9	–	28 635
Trade and other payables		7 173	6 898
Distributions payable		18 869	24 787
Total equity and liabilities		1 125 601	1 083 411
Units in issue ('000)		555 726	478 802
Net asset value per unit (AUD)*		1.33	1.30

* Net asset value per unit is calculated by dividing net assets by the number of units in issue.

The Notes on pages 13 to 22 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019

AUD'000	Contributed equity	Retained earnings	Total unitholder's interest
Balance at 1 April 2018	515 203	102 160	617 363
Total comprehensive income attributable to unitholders	–	29 768	29 768
Issue of ordinary units	–	–	–
Distributions paid/payable to ordinary unitholders	–	(24 196)	(24 196)
Balance at 30 September 2018	515 203	107 732	622 935
Balance at 1 April 2019	515 203	106 274	621 477
Total comprehensive income attributable to unitholders	–	42 773	42 773
Issue of ordinary units	98 500	–	98 500
Distributions paid/payable to ordinary unitholders	–	(25 390)	(25 390)
Balance at 30 September 2019	613 703	123 657	737 360

The Notes on pages 13 to 22 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

AUD'000	Six months to 30 September 2019	Six months to 30 September 2018
Cash flows from operating activities		
Rental income received	51 689	43 982
Property expenses	(15 035)	(10 335)
Fund expenses	(5 176)	(3 317)
Security deposits received	–	763
Cash generated from operations	31 478	31 093
Finance income received	53	41
Finance costs paid	(6 814)	(7 601)
Distribution paid to unitholders	(31 649)	(24 120)
Net cash used in operating activities	(6 932)	(587)
Cash flows from investing activities		
Investment property acquired	–	(20 683)
Deposit on investment property acquired	(4 050)	–
Acquisition cost and capital expenditure	(1 133)	(2 156)
Net cash outflow used in investing activities	(5 183)	(22 839)
Cash flows from financing activities		
Borrowings raised	18 500	34 658
Repayment of loans	(107 300)	(10 500)
Proceeds from issue of units	98 500	–
Net cash inflow from financing activities	9 700	24 158
Net (decrease)/increase in cash and cash equivalents	(2 415)	732
Cash and cash equivalents at beginning of the period	7 792	7 218
Cash and cash equivalents at end of the period	5 377	7 950

The Notes on pages 13 to 22 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED SEGMENTAL INFORMATION

The Fund has the following operating segments:

- office properties; and
- industrial properties.

The above segments are derived from the way the business of the Fund is structured, managed and reported to the chief operating decision-makers.

The Fund manages its business in the office and industrial property sectors where resources are specifically allocated to each sector in achieving the Fund's stated objectives.

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2019

AUD'000	Office	Industrial	Total
Revenue, excluding straight-line rental revenue adjustment	36 466	10 703	47 169
Straight-line rental revenue adjustment	838	(92)	746
Revenue	37 304	10 611	47 915
Property expenses	(9 022)	(1 307)	(10 329)
Net property income	28 282	9 304	37 586
Fair value adjustments – investment property	30 331	8 806	39 137
Fair value adjustments – foreign currency revaluation	(176)	–	(176)
Total segment results	58 437	18 110	76 547
Other operating expenses			(8 563)
Fair value adjustment on interest rate swaps			(15 600)
Fair value adjustment on foreign currency			(2 592)
Finance costs			(7 075)
Finance income			53
Other income			3
Profit for the period			42 773

Condensed statement of profit or loss and other comprehensive income

For the six months ended 30 September 2018

AUD'000	Office	Industrial	Total
Revenue excluding straight-line rental revenue adjustment	28 675	14 931	43 606
Straight-line rental revenue adjustment	179	1 195	1 374
Revenue	28 854	16 126	44 980
Property expenses	(6 701)	(2 476)	(9 177)
Net property income	22 153	13 650	35 803
Fair value adjustments – investment property	4 250	1 467	5 717
Fair value adjustments – foreign currency revaluation	(88)	–	(88)
Total segment results	26 315	15 117	41 432
Other operating expenses			(3 327)
Fair value adjustment on interest rate swaps			360
Fair value adjustment on foreign currency			(1 791)
Finance costs			(7 099)
Finance income			41
Other income			152
Profit for the period			29 768

CONDENSED CONSOLIDATED SEGMENTAL INFORMATION

(continued)

Condensed statement of financial position extracts

At 30 September 2019

AUD'000	Office	Industrial	Total
Investment property balance at 1 April 2019	822 867	239 900	1 062 767
Foreign currency revaluation on property	(4 002)	–	(4 002)
Acquisition costs and capital expenditure	594	52	646
Straight-line rental adjustment	835	(92)	743
Fair value adjustments	30 196	8 805	39 001
Investment property at 30 September 2019	850 490	248 665	1 099 155

Condensed statement of financial position extracts

At 31 March 2019

AUD'000	Office	Industrial	Total
Investment property balance at 1 April 2018	770 922	215 774	986 696
Acquisitions	29 750	19 450	49 200
Foreign currency revaluation on property	2 515	–	2 515
Acquisition costs and capital expenditure	7 004	1 186	8 190
Straight-line rental adjustment	375	635	1 010
Fair value adjustments	12 301	2 855	15 156
Investment property at 31 March 2019	822 867	239 900	1 062 767

The Notes on pages 13 to 22 are an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 September 2019

1. Basis of preparation

The condensed consolidated interim financial statements for the half-year ended 30 September 2019 have been prepared in accordance with International Financial Reporting Standard, IAS 34 Interim Financial Reporting, the SAICA Financial Reporting Guide as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council.

This condensed consolidated interim financial report does not include all the notes and information normally included in a set of annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial statements for the year ended 31 March 2019 and any public announcements made in respect of the Fund during the reporting period.

The consolidated interim financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value; and
- investment property is measured at fair value.

The financial statements have been prepared on a going concern basis which contemplates realisation of assets and settlement of liabilities in the ordinary course of business. The Fund is in a net current liability position of AUD11 million as at 30 September 2019 (31 March 2019: AUD46 million). The net current liability position is principally due to the interim distribution declared. It is anticipated that it will be paid from the undrawn debt under the current loan facility (refer to Note 9 Borrowings). The Fund manager has prepared a cashflow forecast 12 months from issuance of the financial statements which indicates that the fund is expected to have positive ongoing cashflows. Therefore notwithstanding the current liability position at 30 September 2019, the Fund considers the going concern assumption to be appropriate and is confident that the Fund will be able to pay all liabilities as and when they become due and payable.

The significant accounting policies have been consistently applied in the current financial period and the comparative period, unless otherwise stated.

The financial statements of controlled entities are included in the condensed consolidated financial statements from the date on which control commences until the date on which control ceases. All subsidiaries are 100% owned trusts and controlled by the group with no restrictions.

This condensed consolidated financial statements are presented in AUD, which is IAPF's functional currency. IAPF is of a kind referred to in ASIC Class Order 2016/191 dated 24 March 2016 and in accordance with that ASIC Class Order, all financial information presented in AUD has been rounded to the nearest thousand unless otherwise stated.

New accounting standards adopted by the Fund

The Fund applied one new accounting standard that became mandatory for the first time during the reporting period.

IFRS 16 Leases

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

IFRS 16 introduces a single on-balance sheet lease accounting model for lessees and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payment.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Fund has applied the modified retrospective approach to implement the new accounting standard of IFRS 16, and has selected to "grandfather" its previous assessment of existing contracts. The Fund operations involve leasing of investment properties. All rental agreements are operating leases. The impact to IAPF upon adoption of IFRS 16 is nil.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

2. Revenue

AUD'000	Six months to 30 September 2019	Six months to 30 September 2018
Contracted rental income	41 051	37 749
Recoverable outgoings	6 118	5 857
Revenue, excluding straight-line rental revenue adjustment	47 169	43 606
Straight-line rental revenue adjustment	746	1 374
	47 915	44 980

3. Fair value adjustments

AUD'000	Six months to 30 September 2019	Six months to 30 September 2018
Fair value adjustments – investment property	39 137	5 717
Fair value adjustments – interest rate swaps	(15 600)	360
Fair value adjustments – foreign currency revaluation	(2 768)	(1 879)
Total fair value adjustments	20 769	4 198

4. Distribution to unitholders

	Half year					
	2020 AUD'000	2020 units in issue ('000)	2020 CPU	2019 AUD'000	2019 units in issue ('000)	2019 CPU
1 April 2019–27 May 2019	7 631	478 802	1.59	–	–	–
28 May 2019–30 September 2019	17 759	555 726	3.20	–	–	–
1 April 2018–30 September 2018	–	–	–	24 196	478 802	5.05

5. Headline earnings reconciliation

AUD'000	Six months to 30 September 2019	Six months to 30 September 2018
Total comprehensive income for the period	42 773	29 768
Less: Fair value adjustments	(20 769)	(4 198)
Headline earnings	22 004	25 570
Basic and diluted earnings per unit (cents)	8.04	6.22
Headline earnings per unit (cents)	4.14	5.34

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

6. Investment property

AUD'000	30 September 2019	31 March 2019
Cost	938 225	941 582
Accumulated fair value adjustment	149 517	110 516
Investment properties	1 087 742	1 052 098
Straight-line rental revenue receivable	11 413	10 669
Carrying value	1 099 155	1 062 767
Movement in investment properties		
Opening balance	1 062 767	986 696
Acquisitions	–	49 200
Foreign currency revaluation on property	(4 002)	2 515
Acquisition costs and capital expenditure	646	8 190
Fair value adjustment on revaluation of investment properties	39 001	15 156
Straight-line rental revenue adjustment	743	1 010
Carrying value at end of the year	1 099 155	1 062 767

Property to the value of AUD1 099.2 million (31 March 2019: AUD1 062.8 million) is held as security under the ANZ and Westpac debt facility currently drawn down to a value of AUD316.6 million.

All of the investment properties located in New South Wales, Victoria, South Australia, Queensland, Western Australia and New Zealand are held under freehold interests. All of the properties located in the Australian Capital Territory are held under leasehold interests terminating in 2101 with no obligation of lease payment.

Gains and losses recorded in the consolidated statement of profit or loss and other comprehensive Income for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to AUD39.0 million (31 March 2019: AUD15.2 million) and are presented in the line item "fair value adjustments".

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

Property Portfolio AUD'000	Latest external valuation		Consolidated carrying value
	Date	Valuation	30 September 2019
Industrial Portfolio			
47 Sawmill Circuit, Hume ACT	30-Sep-18	11 400	11 400
57 Sawmill Circuit, Hume ACT	30-Sep-18	10 350	10 350
24 Sawmill Circuit, Hume ACT	30-Sep-18	9 900	9 900
44 Sawmill Circuit, Hume ACT	30-Sep-18	11 300	11 300
2-8 Mirage Road, Direk SA	30-Sep-18	9 250	9 250
30-48 Kellar Street, Berrinba QLD	30-Sep-18	8 350	8 650
165 Newton Road, Wetherill Park NSW	30-Sep-19	25 500	25 500
24 Spit Island Close, Newcastle NSW	30-Sep-18	10 000	10 000
67 Calarco Drive, Derrimut VIC	30-Sep-18	9 700	9 900
66 Glendenning Road, Glendenning NSW	30-Sep-19	29 300	29 300
85 Radius Drive, Larapinta QLD	30-Sep-18	18 000	18 000
54 Miguel Road, Bibra Lake WA	30-Sep-19	31 000	31 000
24 Rodborough Road, Frenchs Forest NSW	30-Sep-18	21 000	21 615
6-8 & 11 Siddons Way, Hallam VIC	30-Sep-18	22 350	22 000
36-42 Hydrive Close, Dandenong South VIC	30-Sep-19	20 500	20 500
Office Portfolio			
449 Punt Road, Cremorne VIC	31-Mar-19	57 000	59 000
35-49 Elizabeth Street, Richmond VIC	31-Mar-19	93 000	97 200
2404 Logan Road, Eight Mile Plains QLD	30-Sep-18	20 000	19 800
186 Reed Street, Greenway ACT	30-Sep-18	28 200	28 200
757 Ann Street, Fortitude Valley QLD	30-Sep-18	85 000	85 000
21-23 Solent Circuit, Baulkham Hills NSW	30-Sep-19	62 500	62 500
266 King Street, Newcastle NSW	30-Sep-18	75 000	77 000
113 Wicks Road, Macquarie Park NSW	30-Sep-18	26 500	27 650
324 Queen Street, Brisbane QLD	30-Sep-18	75 500	79 250
20 Rodborough Road, Frenchs Forest NSW	30-Sep-18	61 000	62 785
2 Richardson Place, North Ryde NSW	30-Sep-19	102 000	102 000
100 Willis Street, Wellington NZ	30-Sep-18	123 397	120 355*
24 Wormald Street, Symonston ACT	08-Feb-19	29 750	29 750
Total Investment Properties			1 099 155

* Converted at spot rate of 1.0778 at 30 September 2019

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

(A) VALUATION BASIS

The basis of the valuation of investment properties is fair value. The fair values are based on market values, being the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

The Fund's policy is to value properties at each reporting period, with independent valuations performed on a rotational basis to ensure each property is valued as least every 24 months by an independent external valuer (in compliance with the Fund's debt facility). At other times where directors' valuations are performed, the valuation methods include the discounted cash flow ("DCF") method and income capitalisation method.

Revaluations were performed at half-year end with reference to independent external valuations and directors' valuations. In aggregate, revaluations contributed AUD39.0 million to the value of the portfolio.

The Fund determines a property's value within a range of reasonable fair value estimates and in making this assessment, considers information from a variety of sources including:

- current prices for comparable investment properties
- discounted cash flows based on estimates of future cash flows
- capitalised income projections based on estimated net market income, and a capitalisation rate based on market analysis

The key assumptions used are as follows:

%	30 September 2019	31 March 2019
Capitalisation rate	6.45%	6.59%
Discount rate	7.42%	7.50%
Rental growth rate	3.14%	3.32%

The above are weighted average rates based on fair value.

(B) UNCERTAINTY AROUND PROPERTY VALUATIONS

The fair value of investment property has been assessed to reflect market conditions at the end of the reporting period. While this represents the best estimate of fair value as at the balance sheet date, future changes in key assumptions may mean that if investment property is sold in the future the prices achieved may be higher or lower than the most recent valuations.

(C) CONTRACTUAL OBLIGATIONS/CAPITAL COMMITMENTS

At 30 September 2019 there were no significant contractual obligations or capital commitments relating to investment property (31 March 2019: Nil). The Fund has established that there will be a cost associated with the Aluminium Cladding Panel ("ACP") assessment and remediation at four properties in the portfolio. As there is still uncertainty in jurisdictions as to the remediation approval process, a reliable estimate cannot be made at this time, therefore a provision for these works has not been provided in the results to 30 September 2019.

(D) FAIR VALUE HIERARCHY – INVESTMENT PROPERTY

For all investment property that is measured at fair value, the current use of the property is considered the highest and best use.

Properties are valued under the income capitalisation method and DCF method.

Under the income capitalisation method a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate.

Under the DCF method a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This involves the projection of a series of cash flows and to this an appropriate, market-derived discount rate is applied to establish the present value of the income stream.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

As at 30 September 2019 AUD'000	Measured at fair value			Total gain or (loss) in the period in profit or loss
	Level 1	Level 2	Level 3	
Investment property				
Office	–	–	850 490	30 331
Industrial	–	–	248 665	8 806
Total non-financial assets measured at fair value			1 099 155	39 137

As at 31 March 2019 AUD'000	Measured at fair value			Total gain or (loss) in the period in profit or loss
	Level 1	Level 2	Level 3	
Investment property				
Office	–	–	822 867	12 301
Industrial	–	–	239 900	2 855
Total non-financial assets measured at fair value	–	–	1 062 767	15 156

Fair value adjustments are processed through "fair value adjustments" in the condensed consolidated statement of profit or loss and other comprehensive income.

a. Details of changes in valuation techniques

There have been no significant changes in valuation techniques during the year under review.

b. Significant transfers between Level 1, Level 2 and Level 3

There have been no transfers between hierarchy levels.

All gains and losses recorded in the consolidated statement of profit or loss and other comprehensive income for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at the end of the reporting.

(E) SENSITIVITY OF THE FAIR VALUE MEASUREMENT

Significant inputs	Fair value measurement sensitivity to significant increase in input	Fair value measurement sensitivity to significant decrease in input
Gross market rent	Increase	Decrease
Adopted capitalisation rate	Decrease	Increase
Adopted discount rate		

The adopted capitalisation rate forms part of the income capitalisation approach and the adopted discount rate forms part of the discounted cash flow approach. The mid-point of the two valuations is then adopted.

DCF approach

When assessing a discounted cash flow, if there is an increase (softening) in the adopted discount rate, there is an expected decrease impact on the fair value measurement and where there is a decrease (tightening) in the adopted discount rate, there is an expected increase on the fair value measurement.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

Income capitalisation approach

When calculating income capitalisation the net market rent has a strong interrelationship with the adopted capitalisation rate. This is because the methodology involves assessing the total net market income receivable from the property and capitalising this in perpetuity to derive a capital value. In theory, an increase in the net market rent and an increase (softening) in the adopted capitalisation rate could potentially offset the impact to the fair value. The same can be said for a decrease in the net market rent and a decrease (tightening) in the adopted capitalisation rate. If the net market rent increases but the capitalisation rate goes down (or vice versa), this may magnify the impact on fair value.

7. Trade and other receivables

AUD'000	30 September 2019	31 March 2019
Prepaid expenses	3 818	2 384
Sundry debtors	5 604	4 024
	9 422	6 408

8. Cash and cash equivalents

AUD'000	30 September 2019	31 March 2019
Cash held on call account	5 377	7 792
Total cash and cash equivalents	5 377	7 792

9. Borrowings

AUD'000	Tranche expiry date	Interest rate	30 September 2019	31 March 2019
Loans – secured – bank debt				
ANZ Facility – Tranche G	30-Jun-22	BBSY + 1.3500%**	20 000	20 000
ANZ Facility – Tranche H	01-Dec-22	BBSY + 1.3500%**	75 000	75 000
ANZ Facility – Tranche I	07-Mar-23	BBSY + 1.4500%**	25 000	19 000
Westpac Facility – Tranche M	28-Sep-21	BBSY + 1.3500%**	50 000	50 000
Westpac Facility – Tranche N	28-Mar-23	BBSY + 1.4500%**	98 940	101 740
ANZ and Westpac Facility – Tranche O	28-Sep-23	BBSY + 1.5000%**	47 674	111 039
ANZ Facility – Tranche P*	12-Mar-20	BBSY + 1.1000%**	–	28 635
Total long-term borrowings – secured			316 614	405 414
Capitalised loan establishment costs			(1 446)	(1 616)
Total value of interest-bearing borrowings			315 168	403 798

* Tranche cancelled.

** Varies based on gearing level.

The Fund's LVR was 28.77% as at 30 September 2019 (31 March 2019: 38.14%).

At 30 September 2019 the approved facility limit of the loan facility was AUD391.7 million (31 March 2019: 431.7 million) with AUD75.1 million (31 March 2019: AUD26.3 million) undrawn.

The Fund's policy is to hedge at least 75% of interest rate risk. At 30 September 2019, 99.2% (31 March 2019: 77.5%) of borrowings were hedged using interest rate swaps, locking in a blended rate (including margin and line fees) of 3.83% (31 March 2019: 3.75%) for a weighted average 3.2 (31 March 2019: 3.6) year term.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

10. Financial instruments

The financial instruments of the Fund consist mainly of cash and cash equivalents, including deposits with banks, borrowings, derivative instruments, trade and other receivables and trade and other payables. The Fund purchases or issues financial instruments in order to finance operations and to manage the interest rate risks that arise from these operations and the source of funding.

Derivative financial instruments

Derivative instruments are used in the normal course of business in order to hedge the Fund's exposure to fluctuations in interest and currency rates in accordance with the Fund's financial risk management policies. Interest rate hedging instruments are valued based on broker quotes and are tested for reasonableness by discounting future cash flows using an observable market interest rate curve at the dates when the cash flows will take place. The gain or loss from re-measuring the interest rate and cross currency swaps at fair value is recognised in the consolidated statement of profit or loss and other comprehensive income.

Details of the interest rate fixed for variable swap instruments are as follows:

Financial institution	Amount \$'000	Start date	End date	Fixed rate
30 September 2019				
Investec Bank plc	30 435	25-Jun-16	25-Feb-24	2.44%
Investec Bank plc	60 870	25-Jun-16	25-Feb-26	2.57%
Investec Bank plc	30 435	25-Jun-16	25-Feb-25	2.51%
Investec Bank plc	55 000	01-Dec-16	25-Dec-23	2.18%
Westpac Banking Corporation	20 000	01-Mar-17	01-Mar-22	2.35%
Australia and New Zealand Banking Group	25 000	20-Oct-17	20-Oct-24	2.46%
Australia and New Zealand Banking Group	12 500	20-Oct-17	20-Oct-25	2.54%
Australia and New Zealand Banking Group	12 500	20-Oct-17	20-Oct-27	2.68%
Westpac Banking Corporation	67 303	11-Dec-17	12-Dec-24	2.30%
Westpac Banking Corporation	55 000	25-Dec-23	25-Dec-25	2.38%
Westpac Banking Corporation	30 435	25-Feb-24	25-Feb-26	2.41%
Westpac Banking Corporation	30 435	25-Feb-25	25-Feb-27	2.53%
Westpac Banking Corporation	60 870	25-Feb-26	25-Feb-28	2.66%
Westpac Banking Corporation	20 000	01-Mar-22	01-Mar-24	2.00%
Westpac Banking Corporation	12 500	20-Oct-25	20-Oct-27	2.61%
Westpac Banking Corporation	25 000	20-Oct-24	20-Oct-26	2.49%
Westpac Banking Corporation	12 500	20-Oct-27	22-Oct-29	2.81%

Fair value hierarchy-financial instruments

In the case of financial instruments whose carrying amount is not the same as their theoretical fair value, the fair value has been calculated as follows:

- Cash and cash equivalents; trade and other receivables; trade and other payables are measured at amortised cost and approximate fair value. The fair value of "long term borrowings at amortised cost" has been estimated by discounting effective interest rate at each period end.
- Derivative financial instruments consist of interest rate hedging instruments carried at fair value, by valuation method. The measurement processes used are defined as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the assets and liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 – inputs for the assets and liabilities that are not based on observable market data (unobservable inputs).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

AUD'000 Fair value and carrying amount	Carrying amount	Fair Value			Total
		Level 1	Level 2	Level 3	
As at 30 September 2019					
Financial assets measured at fair value					
Interest rate swaps	11 647	–	11 647	–	11 647
	11 647	–	11 647	–	11 647
Financial liabilities not measured at fair value					
Trade and other payables	31 084	–	–	–	–
Long term borrowings	315 168	–	300 599	–	300 599
	346 252	–	300 599	–	300 599
Financial liabilities measured at fair value					
Interest rate swaps	41 989	–	41 989	–	41 989
	41 989	–	41 989	–	41 989
As at 31 March 2019					
Financial assets measured at fair value					
Interest rate swaps	6 444	–	6 444	–	6 444
	6 444	–	6 444	–	6 444
Financial liabilities not measured at fair value					
Trade and other payables	36 950	–	–	–	–
Long term borrowings	403 798	–	378 989	–	378 989
	440 748	–	378 989	–	378 989
Financial liabilities measured at fair value					
Interest rate swaps	21 186	–	21 186	–	21 186
	21 186	–	21 186	–	21 186

c. Details of changes in valuation techniques

There have been no significant changes in valuation techniques during the year under review.

d. Significant transfers between Level 1, Level 2 and Level 3

There have been no transfers between Level 1, Level 2 and Level 3 during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(continued)

11. Related party transactions

The Fund entered into the following related party transactions during the year with the Investec Group and its subsidiaries:

AUD'000	Six months to 30 September 2019	Six months to 30 September 2018
Payments to Investec Group and its subsidiaries:		
Investec Property Management Pty Limited – subsidiary		
Asset management fee	3 186	2 777
Property management fee*	693	669
Investec Bank Limited – parent company		
Sponsor fee	–	2
Capital raising fees and listing costs	215	–
Investec Australia Limited – subsidiary		
Interest on swaps	909	427

*Investec Property Management Pty Limited ("IPMPL") has been contracted to perform property management services on behalf of the Fund. IPMPL has sub-contracted certain of these services to third party property managers who are paid by IPMPL.

AUD'000	30 September 2019	31 March 2019
Amounts owing to related parties		
Investec Property Management Pty Limited – subsidiary		
Asset management fee payable	584	547

12. Subsequent events

On 26 September the Fund entered into contracts for sale to acquire three industrial properties for a total price of AUD81.0 million. The properties are located at 103 Welshpool Road, Welshpool WA; 46–70 Grand Trunkway, Gillman SA and 16 Dawson Street, East Arm NT. The Acquisitions were disclosed to the market on 26 September 2019 and were settled on 10 October 2019, post the reporting date.

The Fund undertook a fully underwritten institutional placement on 26 September 2019 raising approximately AUD84 million at an issue price of AUD1.52 per unit. The settlement and allotment of the new units occurred on 1 October 2019 on the ASX and 2 October 2019 on the JSE.

The Fund has commenced an expressions of interest campaign in relation to 757 Ann Street, Fortitude Valley, QLD. Once the campaign is concluded in mid-November, a decision in relation to the disposal of the property will be made.

There is no other item, transaction or event of a material and unusual nature likely from the end of the interim period to the date of this report, in the opinion of the RE, to affect significantly the operations of the Fund, the results of these operations, or the state of affairs of the Fund, in future financial years.

This page has been left intentionally blank.

