

Investec Australia Property Fund



Highlights

Interim distribution of
4.03 cpa
pre WHT – growth of 6.7%

Rights offer
AUD120m
fully subscribed

Accretive deployment of
IPO capital
65%
portfolio growth since listing*

Significant headroom for growth –
gearing reduced to
0%
post rights offer

0% vacancy and long wale of
6.7 years
strong underlying
property fundamentals

All-in cost of funding of
4.7%
favourable interest rates
locked in

Average gearing of
23%
during the period

**Includes completed acquisitions post the rights offer
All amounts are in Australian dollars unless otherwise stated*

Consolidated statement of profit or loss and comprehensive income

AUD'000	Note	Reviewed six months to 30 September 2014	Audited period from 12 December 2012 to 31 March 2014	Unaudited six months to 30 September 2013
Revenue, excluding straight-line rental revenue adjustment		8 691	10 129	2 288
Straight-line rental revenue adjustment		783	1 051	274
Revenue		9 474	11 180	2 563
Property expenses		(1 197)	(1 498)	(305)
Net property income		8 277	9 682	2 257
Fair value adjustments – investment property		(2 123)	(18)	–
Other operating expenses		(1 104)	(941)	(209)
Operating profit		5 050	8 723	2 048
Finance costs		(1 409)	(1 388)	(792)
Finance income		43	152	30
Other income		–	6	–
Profit and total comprehensive income for the period		3 684	7 493	1 286
Cents				
Basic and diluted earnings per unit for the period	2	2.74	13.10	5.85

Consolidated statement of financial position

AUD'000	Note	Reviewed as at 30 September 2014	Audited as at 31 March 2014
ASSETS			
Non-current assets		180 289	154 381
Investment property		180 289	154 354
Financial instruments held at fair value	3	–	17
Current assets		3 396	6 657
Trade and other receivables		981	287
Cash and cash equivalents		2 415	6 370
Total assets		183 685	161 038
EQUITY AND LIABILITIES			
Contributed equity		131 025	131 025
Retained earnings		(708)	1 033
Total unitholders' interest		130 317	132 058
Non-current liabilities		44 479	22 185
Borrowings		44 095	22 185
Financial instruments held at fair value	3	384	–
Current liabilities		8 889	6 795
Trade and other payables		3 464	2 193
Distributions payable		5 425	4 602
Total equity and liabilities		183 685	161 038

Condensed consolidated statement of cash flows

AUD'000	Reviewed six months to 30 September 2014	Audited Period from 12 December 2012 to 31 March 2014	Unaudited six months to 30 September 2013
Cash flows from operating activities			
Cash generated from operations	6 908	9 543	1 884
Finance income received	43	135	30
Finance costs paid	(949)	(1 329)	(622)
Distribution to unitholders	(4 602)	(1 858)	–
Net cash flow from operating activities	1 400	6 491	1 292
Net cash flow used in investing activities	(27 265)	(153 331)	–
Net cash flow from financing activities	21 910	153 210	–
Net (decrease) increase in cash and cash equivalents	(3 955)	6 370	1 292
Cash and cash equivalents at the beginning of the period	6 370	–	2 149
Cash and cash equivalents at the end of the period	2 415	6 370	3 441

Condensed consolidated statement of changes in equity

AUD'000	Note	Reviewed six months to 30 September 2014	Audited period from 12 December 2012 to 31 March 2014	Unaudited six months to 30 September 2013
At the beginning of the period		132 058	–	22 744
Profit for the year		3 684	7 493	1 286
Total comprehensive income		3 684	7 493	1 286
Transaction with unitholders in their capacity as unitholders:				
Issue of ordinary units		–	131 025	–
Distributions paid/payable to unitholders		(5 425)	(6 460)	–
Balance at the end of the period		130 317	132 058	24 030
Cents				
Distribution per unit (pre withholding tax)	1	4.03	3.42	–
Distribution per unit (post withholding tax)	1	3.82	3.20	–

Notes to the reviewed interim condensed consolidated financial results

AUD'000	Note	Reviewed six months to 30 September 2014	Audited period from 12 December 2012 to 31 March 2014
1. Distribution reconciliation			
Profit and total comprehensive income for the period		3 684	7 493
<i>Less:</i> Straight-line rental revenue adjustment		(783)	(1 051)
<i>Add back:</i> Fair value adjustments – investment property		2 123	18
<i>Add back:</i> Fair value adjustments – derivatives		401	–
Distributable earnings		5 425	6 460
<i>Less:</i> Pre-listing distribution		–	(1 858)
Distribution pre withholding tax		5 425	4 602
Withholding tax to be paid to the Australian Taxation Office		(275)	(290)
Distribution post withholding tax		5 150	4 313
Number of units			
Units in issue at the end of the period		134 685	134 685
Weighted average number of units in issue for the period		134 685	57 214
Cents			
Distribution per unit (pre withholding tax)		4.03	3.42
Distribution per unit (post withholding tax)	a	3.82	3.20
Basic and diluted earnings per unit for the period		2.74	13.10
Headline earnings per unit for the period		4.31	13.13
<p>a) The interim distribution will include the antecedent distribution associated with the rights offer which was completed in October 2014. The antecedent distribution is treated as a return of capital from an Australian tax perspective and as such is not subject to withholding tax in Australia. As the antecedent amount is not subject to withholding tax in Australia, the effective rate of withholding tax on the distribution will be reduced for the period. The effect of this will be an increase in the distribution per unit post withholding tax from 3.82 cents per unit to 3.92 cents per unit (as set out in the distribution declaration).</p>			
2. Headline earnings reconciliation			
Profit and total comprehensive income for the period		3 684	7 493
<i>Add back:</i> Fair value adjustments – investment property		2 123	18
Headline earnings		5 807	7 512
Headline earnings per unit for the period (cents)		4.31	13.13
3. Financial instruments			
<p>Financial instruments held at fair value consist of interest rate swaps, which are classified as level 2 in the fair value hierarchy. These are valued using valuation models which use market observable inputs such as quoted interest rates. No other financial instruments are carried at fair value.</p>			

Condensed segmental information

for the six months to 30 September 2014

AUD'000	Office	Industrial	Total
Statement of comprehensive income extracts			
Revenue, excluding straight-line rental revenue adjustment	6 329	2 362	8 691
Straight-line revenue adjustment	548	235	783
Property expenses	(937)	(260)	(1 197)
Segment results	5 940	2 337	8 277
Fair value adjustments – investment property	(1 888)	(235)	(2 123)
Total segment results	4 052	2 102	6 154
Other operating expenses			(1 104)
Net finance costs			(1 366)
Profit for the period			3 684
Statement of financial position extracts at 30 September 2014			
Investment property opening balance	105 254	49 110	154 364
Net additions, acquisitions and disposals	27 265	(0)	27 265
Straight-line rental revenue receivable	548	235	783
Fair value adjustment	(1 888)	(235)	(2 123)
Investment property as at 30 September 2014	131 179	49 110	180 289
Other assets not managed on a segmental basis			3 396
Total assets as at 30 September 2014			183 685

for the period from 12 December 2012 to 31 March 2014

AUD'000	Office	Industrial	Total
Statement of comprehensive income extracts			
Revenue from external customer, excluding straight-line rental	4 208	5 921	10 129
Straight-line rental revenue adjustment	311	740	1 051
Property expenses	(824)	(674)	(1 498)
Segment results	3 695	5 987	9 682
Fair value adjustments – investment property	(480)	462	(18)
Total segment results	3 215	6 449	9 664
Other operating expenses			(941)
Net finance costs			(1 236)
Other income			6
Profit for the period			7 493
Statement of financial position extracts at 31 March 2014			
Investment property opening balance	–	–	–
Net additions, acquisitions and disposals	105 423	47 908	153 331
Straight-line rental revenue receivable	311	740	1 051
Fair value adjustment	(480)	462	(18)
Investment property at 31 March 2014	105 254	49 110	154 364
Other assets not managed on a segmental basis			6 674
Total assets as at 31 March 2014			161 038

Commentary

Introduction

Investec Australia Property Fund ("the Fund") is the first inward-listed Australian REIT on the JSE. The Fund aims to maximise sustainable returns to unitholders by investing in quality office, industrial and retail properties in Australia, giving unitholders exposure to the Australian real estate market and the Australian Dollar.

The Fund listed on the JSE on 23 October 2013. The initial capital raised on listing was AUD 112.68mn. On 20 October 2014 the Fund raised AUD 121.50mn from existing investors by way of a fully subscribed rights offer.

The Fund currently comprises 12 properties in Australia with a total gross lettable area ("GLA") of 72 847m² independently valued at AUD 254mn (including the acquisitions completed subsequent to period end).

Financial results

The board of directors of Investec Property Limited ("IPL") is pleased to announce the interim distribution of 4.03 cents per unit pre withholding tax ("WHT") and 3.92 cents per unit post withholding tax for the six months ended 30 September 2014. This represents annualised growth of 6.7% pre WHT and 11.0% post WHT.

This performance is underpinned by the accretive acquisitions made since the listing, fixed escalations built into the base portfolio, cost containment and the Fund's efficient capital and interest rate management. One acquisition was completed during the period at an attractive yield (7.84%) utilising the Fund's debt facilities. The Fund's average gearing during the six-month period ending 30 September 2014 was 23.6% and as such the Fund has significantly benefited from the positive spread of property yields over its fixed borrowing costs. The Fund also benefited from no vacancies over the period and no arrears. The Fund has a high quality tenant base and a long lease expiry profile which will underpin future performance.

The distribution includes the antecedent distribution associated with the rights offer which was completed in October 2014. As the antecedent amount is not subject to withholding tax in Australia, the effective rate of withholding tax on the distribution has been reduced for the period.

Subsequent to the 30 September 2014 period end the Fund's gearing has again been paid down to zero from the proceeds of the successful rights offer. The fund's long term objective however is to be geared at its target gearing levels of between 35% – 40% in order to enhance portfolio growth through the positive gearing effect.

The results presented cover the period from 1 April 2014 to 30 September 2014. IAS 34 requires the Fund to show the prior interim period as comparatives, which in this case is from 1 April 2013 to 30 September 2013. As this period precedes the listing it is not relevant to unitholders. This comparative period has not been reviewed or audited. The full period results presented cover the 15-month period from 12 December 2012 (being the date the Fund was established) to 31 March 2014, however the period relevant to unitholders is from the listing date to 31 March 2014. Therefore the comparatives of the unaudited prior period half year results as well as the audited 15-month period results are limited in their comparability with the current interim results.

Properties

The Fund is now anchored by a core portfolio of 12 quality well located properties. The strength of the property fundamentals is evidenced by a long dated WALE of 6.7 years with 67% of leases expiring after five years. The portfolio currently has no vacancies, strong tenant covenants and attractive average rental escalations of approximately 3.7% per annum.

Acquisitions

Since 31 March 2014 the Fund has acquired three properties (one during the reporting period and two after the reporting period) for a combined consideration of AUD 104mn (including transaction costs). These acquisitions were made at a combined yield of 8.2% (pre transaction costs). The properties are of high quality, are well located and have strong tenant covenants. They also reflect our strategic focus and our ability to unlock off-market transactions through the Investec network in a very competitive market.

Yields have tightened across all market sectors over the period which is reflected in our recent acquisitions. Therefore the extent of the positive yield accretion has been diluted. This has been mitigated by downward pressure on borrowing costs. The weighted average yield of the portfolio is now 8.34% (31 March 2014: 8.44%; on listing: 8.59%).

The current portfolio value at the date of this announcement is AUD 254mn, up 65% from the prior year-end. The successful rights offer provided the Fund with AUD 160mn of capacity to acquire further assets.

Property name	Geography	Effective date	Sector	Value (AUD'000)	GLA m2	Yield (%)*	WALE (GLA)
Acquisitions							
186 Reed Street, Greenway	ACT	15/05/2014	Office	25 925	5 403	7.8	9.0
757 Ann Street, Fortitude Valley	QLD	10/11/2014	Office	65 500	9 125	8.3**	7.8
30 – 48 Keller Street, Berrinba	QLD	31/10/2014	Industrial	8 200	4 070	8.3	5.0

* Before transaction costs

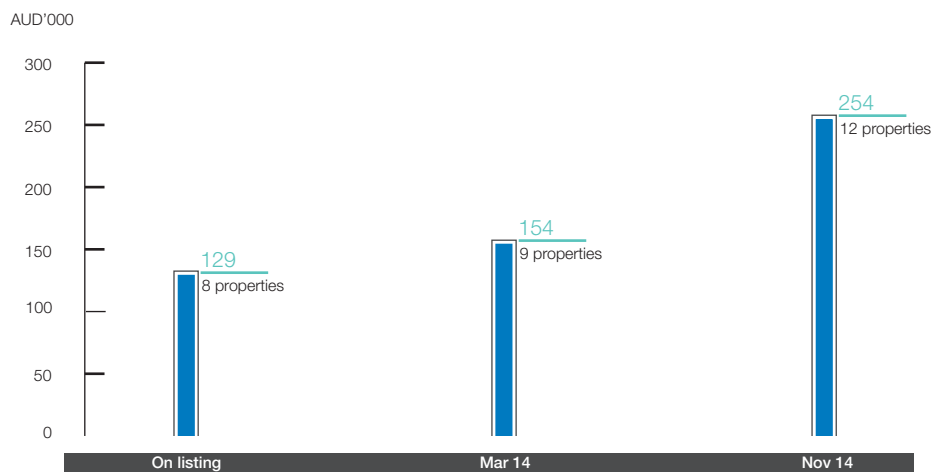
** 7.9% post contingent consideration

The acquisitions complement the existing property portfolio and contribute to the strength of the existing property fundamentals.

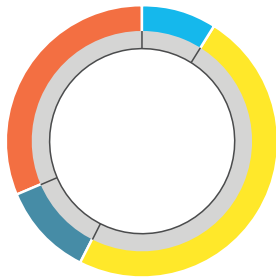
The newly acquired Ann Street and Keller Street properties were off-market transactions and were sourced through Investec's network. These acquisitions further illustrate the Fund's ability to secure quality properties in a highly competitive environment.

The Fund is pursuing an attractive pipeline which, if concluded, is expected to be earnings accretive and will complement the profile of the existing property portfolio.

Asset growth

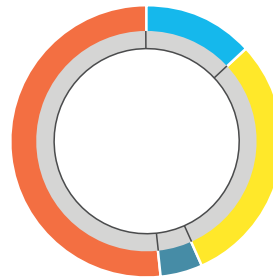


Geographic spread by GLA (%)



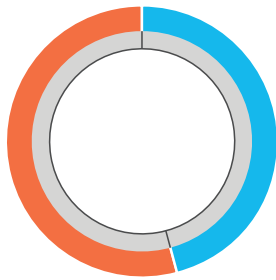
QLD	10%
ACT	48%
SA	11%
VIC	31%

Geographic spread by revenue (%)



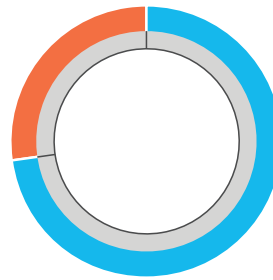
QLD	13%
ACT	30%
SA	6%
VIC	51%

Sectoral spread by GLA (%)



Office	46%
Industrial	54%

Sectoral spread by revenue (%)

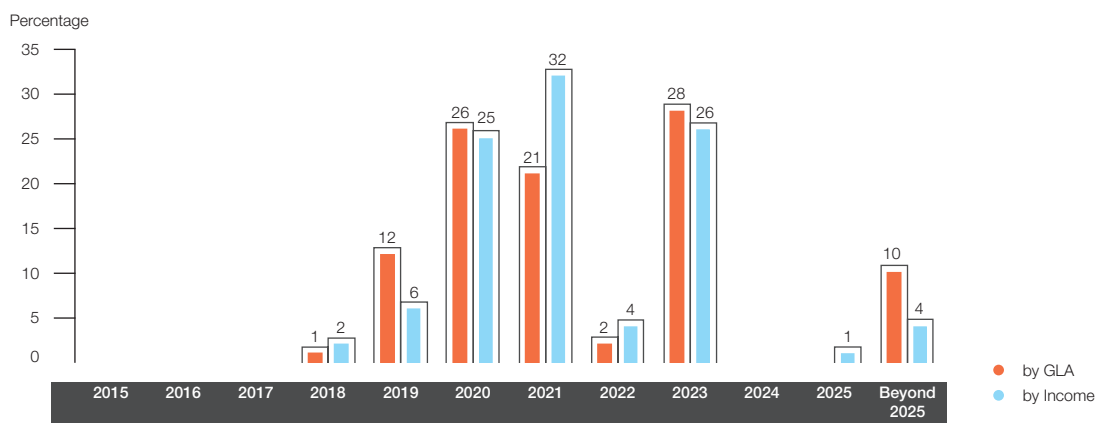


Office	73%
Industrial	27%

Vacancy levels

At 30 September 2014, the property portfolio had no vacancy with the small vacancy at Elizabeth Street (which was covered by a rent support) leased during the period. Nothing has become vacant during the period.

Lease expiry profile (including support arrangements)



The lease expiry profile reflects the quality and sustainability of the Fund's net property income.

Fair value adjustment of investment property

The Fund's policy is to value investment properties at year-end, with independent valuations performed on a rotational basis to ensure each property is valued at least every 18 months by an independent external valuer (in compliance with the Fund's debt facility). Where directors' valuations are performed, the valuation methods include using the discounted cash flow model and the capitalisation model.

Independent external valuations were obtained for all of the Fund's investment properties in February and March 2014. An independent valuation was also obtained for the Greenway property when it was acquired in May 2014. Revaluations were not undertaken at period-end as the directors are not aware of any factors which would materially affect the valuation of the properties. A fair value adjustment was recorded on the Reed Street acquisition which occurred during the period. This represents the write off of the transaction costs associated with the acquisition which primarily comprise stamp duty.

Capital funding

In October 2013 the Fund raised AUD 112.69mn of capital by way of a private placing of 112,685,000 units. The Fund was then listed on the JSE. In October 2014 the Fund raised a further \$121.50mn by way of a renounceable rights offer of 111,896,298 units at a price of R10.70 per unit in the ratio of 83.08 units for every 100 units held. The Fund now has 246,581,298 units in issue. The rights offer price included the accrued distribution for the period from 1 April 2014 to 30 September 2014 and the period from 1 October 2014 to 19 October 2014, which will be distributed to Unitholders when the Fund makes its interim distribution during December 2014 and final distribution during June 2015.

The proceeds of the rights offer have been used to acquire the Ann Street Property and to repay the debt of AUD 44.24mn on the statement of financial position prior to the rights offer.

At the Fund's target gearing ratio of up to 40%, this would give the Fund circa AUD 160mn in debt capacity to pursue acquisitions using the Fund's existing Westpac facility. The long-term strategy of the Fund is to be geared at its targeted gearing levels of between 35% and 40%. Gearing will be utilised in executing on the Fund's pipeline of acquisitions.

The Westpac debt facility has a current limit of AUD 48.24mn which can be increased to AUD 125mn subject to financier approval and other conditions being met. The facility is for a 3 year term from April 2014 at a rate of BBSW + 150bps. The Fund will hedge at least 75% of its interest rate exposure.

The Fund is currently pursuing opportunities to increase the term of the debt facility and to reduce the margin.

The Fund has hedged 100% of its current interest rate exposure at a base rate of 3.2% for 3 years using interest rate swaps. The all in cost of funding is at period end was 4.7%. Whilst the debt has been repaid, the swaps remain in place. Australia continued to experience persistently low interest rates and the Fund will look to lock this in through conservative interest rate management.

Australian REIT structure

The Fund allows for the tax efficient flow-through of net income to unitholders. The Fund is an uncapped and open-ended fund and existing and future unitholders will hold a participatory interest in the Fund, which entitles unitholders to a pro rata share of the underlying income generated by the Fund and a pro rata beneficial interest in the assets of the Fund. The Fund is registered as a Managed Investment Scheme in Australia. The Fund is governed and operated by Investec Property Limited ("IPL") and managed by Investec Property Management Pty Limited ("IPML").

Unitholders

At 30 September 2014, Investec Property Fund Limited and Investec Bank Limited are the only unitholders holding in excess of 5% of the Fund's total issued units, holding 18.56% and 16.33% respectively.

Number of units in issue	134 685 000
Number of unitholders	2 339

Changes to the board

Michael Crawford passed away on 2 July 2014. Mr Crawford was an independent non-executive director of IPL and a member of the Audit and Risk Committee. Mr Crawford made an invaluable contribution to the board and board committees of IPL and to the listing and initial growth phase of the Fund.

Sam Hackner resigned as a non-executive director of IPL effective 7 July 2014.

Stephen Koseff was appointed as a non-executive director of IPL effective 7 July 2014.

Hugh Martin was appointed as an independent non-executive director of IPL effective 30 September 2014. Mr Martin is also a member of the Audit and Risk Committee.

Prospects

The Fund is well positioned to continue with the execution of its strategy outlined to investors on its listing on the JSE and on its recent capital raising. The property portfolio consists of well located properties which are 100% let. Income is underpinned by strong tenant covenants. The portfolio has a WALE of 6.7 years and embedded contractual escalations.

The growth experienced for the six month period ending 30 September 2014 is not expected to be repeated for the second six month distribution period due to the impact of the rights offer through the repayment of the debt to zero. Management maintains that a strategy of having unconditional funding capacity to transact in the current market and further take advantage of attractive acquisition opportunities is advantageous to unitholders. The extent of the growth in the second six-month period ending 31 March 2015 will be determined by the timing of the deployment of the available debt capacity into the Fund's pipeline of acquisition opportunities.

The strength of the underlying property portfolio allows management to focus on its pipeline of prospective acquisitions, which consist of both on and off market opportunities which in the current favourable interest rate environment can be funded at attractive pricing. The Fund's balance sheet is well capitalised to take advantage of these opportunities.

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.

The auditor's review report does not report on all of the information contained in this announcement. Any reference to future financial information included in this announcement has not been reviewed or reported on by the Fund's independent auditors.

On behalf of the board of Investec Property Limited as responsible entity for the Investec Australia Property Fund



Richard Longes
Chairman



Graeme Katz
Chief Executive Officer

20 November 2014

Basis of accounting

The reviewed interim condensed consolidated financial results for six months ended 30 September 2014 have been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards ("IFRS"), the presentation and disclosure requirements of IAS 34: *Interim Financial Reporting* as issued by the International Accounting Standards Board, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council.

The accounting policies applied in the preparation of the reviewed interim condensed consolidated financial results for the six months ended 30 September 2014 are in terms of IFRS and are consistent with those adopted in the audited financial statements for the period ended 31 March 2014, except for the following newly effective standards: IFRS 10 *Consolidated Financial Statements* and IFRS 12 *Disclosures of Interests in Other Entities*.

IFRS 10 introduces a single control model to determine whether an investee should be consolidated. IFRS 12 brings together in a single standard all the disclosure requirements about an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. These standards do not have a significant impact on the Fund.

Review conclusion

These interim condensed consolidated financial results for the six months ended 30 September 2014 have been reviewed by KPMG, who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at IPL's registered office.

Distribution

Notice is hereby given of a interim distribution declaration number 2 of:

- 4.02762 AUD cents per unit pre withholding tax; and
- 3.91642 AUD cents per unit post withholding tax;

for the six months ended 30 September 2014, payable to holders of the units as recorded in the register of unitholders of the Fund at the close of business on Friday, 12 December 2014. Withholding tax of 0.11120 cents per unit (2.76093%) will be withheld from the distribution paid to non-Australian unitholders and will be paid to the Australian Taxation Office. The distribution includes the antecedent distribution associated with the rights offer which was completed in October 2014.

The distribution amount declared from net rental income will be converted from AUD to ZAR at the spot rate on Friday, 28 November 2014. The distribution will be paid to unitholders in ZAR.

The salient dates relating to the distribution are as follows:

Distribution amount converted from AUD to ZAR at the spot rate	Friday, 28 November 2014
Last day to trade in order to participate in the distribution	Friday, 5 December 2014
Units to trade ex distribution	Monday, 8 December 2014
Distribution amount transferred to South Africa	Thursday, 11 December 2014
Record date	Friday, 12 December 2014
Distribution posted/paid to certificated unitholders	Monday, 15 December 2014
Accounts credited by CSDP or broker to dematerialised unitholders	Monday, 15 December 2014

Units may not be dematerialised or rematerialised between Monday, 8 December and Friday, 12 December 2014, both days inclusive. The above dates and times are subject to amendment. Any such amendment will be released on SENS and published in the press.

Number of units in issue at the date of the declaration: 246 581 298

The distributions, net of withholding tax, received by South African institutional and individual investors will constitute income and will be subject to income tax in South Africa at the investors' marginal tax rate. Individual investors will be able to claim a rebate against the withholding tax paid in Australia (0.11120 cents per unit). Non-tax paying institutional investors will not be taxed and will therefore not be entitled to claim a rebate. The effective withholding tax rate on the distribution is 2.76093%.

The above summary of the tax treatment of the foreign distribution does not constitute legal or tax advice and is based on taxation law and practice at the date of this announcement. Investors should take their own tax advice as to the consequences of their investment in the Fund and are encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.

By order of the board

Investec Property Limited
Company Secretary

20 November 2014

Directors of the Responsible Entity

Richard Longes# (*Non-executive chairman*)
Stephen Koseff (*Non-executive*)
Graeme Katz (*Executive*)
Samuel Leon (*Non-executive*)
Sally Herman# (*Non-executive*)
Hugh Martin# (*Non-executive*)
Independent

Directors of the Manager

Graeme Katz (*Executive*)
Zach McHerron (*Executive*)
Matthew Liston (*Executive*)
Jason Sandler (*Executive*)
Samuel Leon (*Non-executive*)

Investec Australia Property Fund

Registered in Australia in terms of ASIC (ARSN 162 067 736)
Registered in terms of the Collective Investment Schemes
Control Act No. 45 of 2003
Share code: IAP
ISIN: AU60INL00018

Company Secretary of the Responsible Entity

Paul Lam-Po-Tang (*BCom, LLB*)

Registered office and postal address of the Responsible Entity and date of establishment of the Fund***Australia***

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2 Chifley Square
Sydney
New South Wales
2000
Australia

Local representative office

2nd Floor
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Sandown
Sandton
2196

*Established on 12 December 2012 in Sydney, Australia.
Registered as a Managed Investment Scheme with ASIC
under the Corporations Act on 6 February 2013. On
23 August 2013 the Registrar of Collective Investment
Schemes authorised the Fund to solicit investments in the
Fund from members of the public in the Republic of South
Africa in terms of section 65 of the Collective Investment
Schemes Control Act, No. 45 of 2002, as amended.*

Responsible Entity

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Manager

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Transfer Secretaries

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