

## **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

("IAPF" or "the Fund")

### **ABRIDGED PRE-LISTING STATEMENT**

The pre-listing statement of IAPF dated 25 September 2013 ("**Pre-listing Statement**") is not an invitation to the public to subscribe for Investec Australia Property Fund units ("**Units**"). It is issued in compliance with the JSE Listings Requirements for the purpose of giving information to the public regarding the inward listing of IAPF ("**Listing**") and to provide information to selected investors ("**Invited Investors**") with regards to the Private Placing.

IAPF has been granted approval by the JSE to establish a primary listing under the Real Estate Holdings and Development sector of the JSE under share code IAP and ISIN AU60INL00018. As per other inward listed shares / units, the Fund has been classified as 'domestic' for the purposes of exchange control. Accordingly, South African institutional investors may invest in Units without affecting their permissible foreign portfolio investment allowances or foreign exposure limits.

IAPF will maintain a secondary listing on the Bermuda Stock Exchange.

Invited Investors must participate in the Private Placing for an amount of not less than R100,000 per institutional investor and not less than R1,000,000 per non-institutional investor.

This abridged pre-listing statement contains the salient features of the Fund, the Private Placing and the Listing and as such is not intended to be comprehensive. For a full appreciation of the Fund, the Private Placing and the Listing, the Pre-listing Statement should be read in its entirety.

## **1. INTRODUCTION**

### **1.1. Fund structure**

IAPF is an Australian real estate investment trust (REIT) which allows for the tax efficient flow-through of net rental income to Unitholders. The Fund is an uncapped and open-ended fund and existing and future Unitholders will hold a participatory interest in IAPF, 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.

IAPF is registered as a Managed Investment Scheme in Australia. The Fund is currently 100% owned by a wholly-owned subsidiary of Investec Bank (Australia) Limited ("**IBAL**").

### **1.2. Management**

In accordance with the Australian Corporations Act (Cth), a Managed Investment Scheme is required to be operated by a responsible entity, which in this instance is Investec Property Limited ("**Responsible Entity**"). A responsible entity is a company that holds an Australian Financial Services Licence that authorises it to operate a Managed Investment Scheme. The Responsible Entity is a wholly-owned subsidiary of IBAL and has the primary responsibility for the governance and operation of the Fund and is statutorily obliged to act in the best interest of the Fund's unitholders ("**Unitholders**").

Investec Property Limited has been managing third party funds and operating Managed Investment Schemes since 2005. Investec Property Limited is currently the responsible entity of

three unlisted funds with approximately AUD 400 million of gross assets under management. At their peak, gross asset under management in these funds exceeded AUD 720 million.

The Responsible Entity has entered into a management agreement with Investec Property Management Pty Limited, (“**Manager**”) pursuant to which the Manager will provide certain asset management and property management services to the Fund. The Manager is a wholly-owned subsidiary of IBAL. A summary of the services to be provided by the manager, the fees payable by the Fund in respect thereof and the terms of each of the Management Agreement are set out in the Pre-listing Statement.

The Responsible Entity has appointed Perpetual Corporate Trust Limited as independent custodian who will hold the assets of the Fund on behalf of the Responsible Entity.

FirstRand Bank Limited has been appointed by the Responsible Entity as an independent party to provide an oversight function over certain operations and ensure compliance with relevant regulations and legislation, as required by the Financial Services Board in South Africa in respect of the fiduciary duties to Unitholders

### **1.3. Key investment benefits**

IAPF is a unique investment opportunity, offering investors exposure to the direct Australian property market, amongst other benefits:

- Investment in the Fund offers South African Unitholders exposure to distributions in “hard currency” and benefit from long term depreciation of the rand through the trading of ZAR-based units on the JSE;
- Australian macroeconomic fundamentals are supportive of a robust property sector as interest rates and inflation are expected to remain low;
- The Australian property sector appears to be relatively attractively priced compared to South Africa. The persistent spread of listed property sector yields to bond yields indicates potential for capital uplift;
- The Fund will benefit from positive gearing of Australian debt vs. property yields, allowing for accretive acquisitions;
- The Fund will be managed by an experienced and entrepreneurial management team on-the-ground with access to broader the Investec network providing opportunities for growth; and
- The Fund offers a high-quality base portfolio with sustainable income and an attractive pipeline identified going forward.

## **2. INVESTMENT STRATEGY**

IAPF’s strategy is to invest in high quality commercial real estate assets (office, industrial and retail) that are well located in major metropolitan cities or established commercial precincts in Australia and New Zealand.

The Responsible Entity has identified the following objectives for the Fund:

- to grow and diversify the Fund’s asset base with further investments offering attractive income and capital growth profiles which will also spread investment risk;
- to offer Unitholders sustainable growth in income and capital appreciation across a sectorally diversified portfolio; and
- to maintain a strong corporate governance framework to ensure the interests of Unitholders are protected.

To achieve these objectives, the Responsible Entity intends to pursue the following strategies:

- focus on property fundamentals;
- acquire quality commercial real estate with the following characteristics:
  - medium to long term lease profiles;
  - situated in well-located commercial precincts;
  - limited or no short-term capex requirements;
  - escalating rentals; and
  - sustainable income supported by strong tenant covenants;
- leverage off the Responsible Entity's on-the-ground presence in Australia and existing relationships with key players in the industry to source growth opportunities;
- maximise property performance through pro-active asset management, property management and leasing; and
- implement appropriate debt and equity funding strategies and adopt a prudent interest rate hedging policy.

### 3. OVERVIEW OF THE PROPERTY PORTFOLIO

The property portfolio immediately after listing will consist of 8 properties ("**Property Portfolio**"), the details of which are set out below:

#### 3.1. Property Portfolio

| Property name                    | Sector     | Independent valuation (AUD) | GLA (m <sup>2</sup> ) | Weighted average base rent per m <sup>2</sup> p.a. (AUD) | Property yield (%) |
|----------------------------------|------------|-----------------------------|-----------------------|--|--------------------|
| <b>POST-LISTING ACQUISITIONS</b> |            |                             |                       |  |                    |
| Punt Road Property               | Office     | 28,700,000                  | 6,384                 | 346.1  | 8.8%               |
| Elizabeth Street Property        | Office     | 54,500,000                  | 11,917                | 359.4  | 8.5%               |
| <b>WALKER PORTFOLIO</b>          |            |                             |                       |  |                    |
| 48 Hawkins Crescent Property     | Industrial | 3,500,000                   | 2,045                 | 156.5  | 8.8%               |
| 47 Sawmill Circuit Property      | Industrial | 8,800,000                   | 5,535                 | 127.4  | 7.6%               |
| 57 Sawmill Circuit Property      | Industrial | 8,200,000                   | 7,079                 | 102.1  | 8.4%               |
| 24 Sawmill Circuit Property      | Industrial | 8,500,000                   | 6,300                 | 113.9  | 8.1%               |
| 44 Sawmill Circuit Property      | Industrial | 8,600,000                   | 4,638                 | 178.5  | 9.2%               |
| 2-8 Mirage Road Property         | Industrial | 9,050,000                   | 6,783                 | 119.8  | 8.7%               |
| <b>Total Property Portfolio</b>  |            | <b>129,850,000</b>          | <b>50,681</b>         |  |                    |

#### 3.2. The Walker Portfolio

On 21 December 2012, the Fund acquired 6 industrial properties ("**Walker Portfolio**") for a total acquisition cost of AUD 47,878,110 (including transaction costs).

The purchase consideration for the Walker Portfolio was discharged as follows:

- 60% of the purchase price (excluding transaction costs), equating to AUD 26,732,640, was funded with senior debt funding provided by Westpac Banking Corporation; and
- the balance of AUD 21,145,470 was funded with equity contributed by a wholly-owned subsidiary of IBAL, which resulted in that entity (and indirectly, IBAL) holding a 100% interest in the Fund.

The Property Portfolio is balanced in terms of geographic diversification and has a high-quality tenant profile with an attractive weighted average lease expiry profile of 6.7 years with average annual escalations of 3.7%.

### 3.3. The Post-listing Acquisitions

The Fund will acquire the Punt Road Property and the Elizabeth Street Property (“**Post-Listing Acquisitions**”) immediately following the Private Placing:

## 4. DIRECTORS

As the Fund has no directors of its own, the overall direction, supervision and management of the Fund will be the responsibility of the directors of the Responsible Entity (“**Directors**”).

The full names, ages, business addresses and capacities of the Directors are set out below:

| <b>Full name</b>                              | <b>Age</b> | <b>Capacity</b>                                 | <b>Business Address</b>  |
|---|------------|---|--|
| Richard Anthony Longes<br><i>(Australian)</i> | 68         | Chairman and independent non-executive director | Level 23, Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia |
| Graeme Anthony Katz<br><i>(Australian)</i>    | 50         | Executive director                              | Level 23, Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia |
| David Michael Gonski<br><i>(Australian)</i>   | 60         | Independent non-executive director              | Level 23, Chifley Tower, 2 Chifley Square, Sydney, NSW 2000, Australia |
| Sam Hackner<br><i>(South African)</i>         | 57         | Non-executive director                          | 100 Grayston Drive, Sandown, Sandton, 2196, South Africa               |
| Samuel Ronald Leon<br><i>(South African)</i>  | 63         | Non-executive director                          | 100 Grayston Drive, Sandown, Sandton, 2196, South Africa               |
| Sally Herman<br><i>(Australian)</i>           | 56         | Independent non-executive director              | Level 11, 139 Macquarie Street, Sydney NSW 2000, Australia             |
| Michael Crawford<br><i>(South African)</i>    | 70         | Independent non-executive director              | Stratford House, The Braes, Bryanston Drive, Bryanston, 2021           |

## 5. PROSPECTS

The Directors are of the opinion that the Fund’s investment strategy and the strength, experience and track record of the Responsible Entity and the Manager’s management team have placed the Fund and its investors in a strong position with attractive pipeline prospects.

The criteria applied in the selection of properties for the Fund has ensured that the Property Portfolio is composed of high-quality assets offering attractive yields underpinned by an appropriate tenant mix, coupled with low vacancies and medium- to long-term expiry profiles. These fundamentals

provide adequate stability for the creation of earnings and capital growth over the long term. The cash flows have been forecast with due regard for prevailing market conditions and all costs reasonably anticipated in respect of projected letting, capital and maintenance expenditure have been provided for.

The Directors are confident that the Responsible Entity and the Manager's management team have the necessary experience and ability to enhance portfolio value through active management of the Property Portfolio and the network to grow the portfolio through identification of and investment in further quality properties with a balanced geographical spread.

## 6. SALIENT FINANCIAL INFORMATION

The tables below set out the salient unaudited profit forecast of the Fund and should be read in conjunction with the unaudited financial information disclosed in the Pre-listing Statement. Such information has been prepared for illustrative purposes only and because of its nature may not accurately reflect the financial position and results of the Fund. The unaudited profit forecast and the *pro forma* statement of financial position are the responsibility of the Directors. The statement of comprehensive income has been shown for the current financial year being the 7 months ended 31 March 2014 and for the forecast the year ended 31 March 2015.

Based on a gearing scenario of 0%, the forecast statement of comprehensive income of IAPF for the 7 months ending 31 March 2014 and for the year ending 31 March 2015 is shown below.

|  | Unaudited forecast for the 7 months ending 31 March 2014 |                           |                          | Unaudited forecast for the year ending 31 March 2015 |                           |                          | % change y/y |
|--|--|---------------------------|--------------------------|--|---------------------------|--------------------------|--------------|
|  | Walker Portfolio   | Post-Listing Acquisitions | Total Property Portfolio | Walker Portfolio                                     | Post-Listing Acquisitions | Total Property Portfolio |              |
| <b>AUD</b>   |  |                           |                          |  |                           |                          | (%)          |
| Units on issue on listing ('000)                               | 48,407   | 86,278                    | 134,685                  | 48,407   | 86,278                    | 134,685                  |              |
| Normalised earnings per unit (cents)                           | 6.3  | 8.3                       | 7.6                      | 8.8  | 8.3                       | 8.5                      | 11.8%        |
| Normalised headline earnings per unit (cents)                  | 8.8  | 8.3                       | 8.5                      | 8.8  | 8.3                       | 8.5                      | -0.3%        |
| Normalised distribution per units pre-withholding tax (cents)  | 7.5  | 7.4                       | 7.4                      | 7.8  | 7.7                       | 7.7                      | 3.7%         |
| Normalised distribution per units post-withholding tax (cents) | 7.0  | 6.9                       | 7.0                      | 7.2  | 7.1                       | 7.2                      | 2.9%         |
| Normalised forward yield pre-withholding tax                   | 7.5%   | 7.4%                      | 7.4%                     | 7.8%   | 7.7%                      | 7.7%                     | 3.7%         |
| Normalised forward yield post-withholding tax                  | 7.0%   | 6.9%                      | 7.0%                     | 7.2%   | 7.1%                      | 7.2%                     | 2.9%         |

Based on a gearing scenario of 45%, the forecast statement of comprehensive income of IAPF for the 7 months ending 31 March 2014 and for the year ending 31 March 2015 is shown below.

|  | Unaudited forecast for the 7 months ending 31 March 2014 |                           |                          | Unaudited forecast for the year ending 31 March 2015 |                           |                          | % change y/y* |
|--|--|---------------------------|--------------------------|--|---------------------------|--------------------------|---------------|
|  | Walker Portfolio   | Post-Listing Acquisitions | Total Property Portfolio | Walker Portfolio                                     | Post-Listing Acquisitions | Total Property Portfolio |               |
| <b>AUD</b>   |  |                           |                          |  |                           |                          | <b>(%)</b>    |
| Units on issue on listing ('000)                               | 27,493   | 49,002                    | 76,495                   | 27,493   | 49,002                    | 76,495                   |               |
| Normalised earnings per unit (cents)                           | 7.1  | 10.7                      | 9.4                      | 11.6   | 10.6                      | 11.0                     | 16.5%         |
| Normalised headline earnings per unit (cents)                  | 11.6   | 10.7                      | 11.0                     | 11.6   | 10.6                      | 11.0                     | -0.4%         |
| Normalised distribution per units pre-withholding tax (cents)  | 9.3  | 9.1                       | 9.2                      | 9.8  | 9.6                       | 9.7                      | 5.1%          |
| Normalised distribution per units post-withholding tax (cents) | 9.0  | 8.8                       | 8.9                      | 9.4  | 9.1                       | 9.2                      | 3.8%          |
| Normalised forward yield pre-withholding tax                   | 9.3%   | 9.1%                      | 9.2%                     | 9.8%   | 9.6%                      | 9.7%                     | 5.1%          |
| Normalised forward yield post-withholding tax                  | 9.0%   | 8.8%                      | 8.9%                     | 9.4%   | 9.1%                      | 9.2%                     | 3.8%          |

## 7. UNIT CAPITAL

The beneficial interest in the Fund is divided into Units, which will trade on the JSE. Immediately prior to the Private Placing and the Listing, the issued share capital of IAPF will comprise 22,000,000 Units.

Assuming 112,685,000 Units are issued in terms of the Private Placing, immediately after the Private Placement and the Listing, the issued share capital of IAPF will comprise 134,685,000 Units.

## 8. DIVIDEND AND DISTRIBUTION POLICY

The Directors anticipate that the first distribution payable to Unitholders post the Private Placing will be the distribution in respect of the period ending 31 March 2014 which is expected to be declared and paid by June 2014.

The Responsible Entity will declare and pay a distribution within three months after the end of each distribution period, being the last day of the 6<sup>th</sup> calendar month and year-end periods. Thus, half-yearly and final distributions are expected to be paid by December and June respectively, each year. Additional interim distributions may also be made on any such other date as the Responsible Entity may determine.

The Fund will declare distributions in AUD. The distribution declaration announcement will disclose the exchange rate at which the Fund will convert the AUD distribution to Rand. The Rand-denominated distributions will be transferred to the bank accounts of the various South African CSDPs and Unitholders will then receive the Rand equivalent of the AUD distributions.

## 9. DETAILS OF THE PRIVATE PLACING

### 9.1. Details of the Private Placing

The Fund will undertake a capital raising by way of a private placing ("**Private Placing**") to Invited Investors of a maximum value of AUD 112,685,000 of new Units, priced between AUD 0.95 and AUD 1.05 per Unit ("**Private Placing Price**").

The level of investor demand will determine the level of gearing utilised to fund the Post-listing Acquisitions. Assuming the Private Placing is fully subscribed, a maximum of 112,685,000 Units will be issued in terms of the Private Placing assuming a mid range Private Placing Price of AUD 1.00. The Units issued in terms of this Pre-listing Statement will rank *pari passu* with the existing issued Units. The consideration received for the Units issued in the Private Placing will accrue to the Fund.

### 9.2. Conditions to which the Listing and the Private Placing are subject

The Listing and Private Placing are conditional on:

- the achievement of a public spread of Unitholders acceptable to the JSE and thereby obtaining approval from the JSE for the Listing of all the issued Units on the JSE;
- the achievement of a public spread of Unitholders sufficient in order for the Fund to qualify as a Managed Investment Trust;
- a minimum of AUD 54,495,000 being raised in terms of the Private Placing; and
- favourable market conditions prevailing prior to the prospective date of Listing, which will be determined at the discretion of the Directors,

### 9.3. Major shareholders

Depending on the level of investor demand and the quantum of capital raised, Investec Bank (Australia) Limited will maintain a shareholder of between 16%-29% in IAPF.

### 9.4. Anticipated application of proceeds of Private Placing

The proceeds from the Private Placing will be utilised to facilitate the following:

- the acquisition of the Punt Road Property and the Elizabeth Street Property;
- payment of Fund establishment expenses and Listing costs; and
- repayment of debt.

Should the Private Placing be fully subscribed, the Fund will have a gearing ratio of 0%, providing it with capacity to pursue future debt-funded acquisitions going forward post Listing. The long term targeted gearing ratio of the Fund will be between 30%-40%.

### 9.5. Salient dates and times

The Fund will be listed on the Listing Date, being one Business Day prior to the issue of Units to South African investors on Thursday, 24 October 2013. On Listing Date, the 22,000,000 Units currently held by a wholly-owned subsidiary of IBAL will be listed on the JSE. Unitholders will be notified of their allocations on Friday, 11 October 2013 and these Units will be issued on Thursday, 24 October 2013, being the day after the Listing Date.

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|   | <b>2013</b>           |
|---|-----------------------|
| Pre-listing Statement available   | Monday, 30 September  |
| Opening date of the Private Placing (09:00)   | Monday, 30 September  |
| Abridged Pre-listing Statement published on SENS  | Monday, 30 September  |
| Abridged Pre-listing Statement published in the press   | Tuesday, 1 October    |
| Closing date of the Private Placing (12:00) by which date Invited Investors are required to submit their Application Forms to Investec in order to qualify for participation in the Private Placing | Thursday, 10 October  |
| Date upon which investors will be notified of their selection to participate in the Private Placing and the number of Units which they have been allocated  | Friday, 11 October    |
| Payment to be received from investors   | Friday, 18 October    |
| Notification of allotment in respect of Private Placing   | Monday, 21 October    |
| Listing Date (09:00) (Unit owned by a wholly-owned subsidiary of IBAL listed on the JSE)  | Wednesday, 23 October |
| Listing of remaining Units on the JSE   | Thursday, 24 October  |
| Accounts at CSDP or broker updated and debited in respect of Dematerialised Unitholders   | Thursday, 24 October  |

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1. These dates and times are South African dates and times and are subject to amendment. Any such amendment will be released on SENS and published in the press.
2. Investors may only receive Units in dematerialised form and must advise their CSDP or broker of their acceptance of the Private Placing in the manner and cut-off time stipulated by their CSDP or broker.
3. CSDP's effect payment on a delivery-vs.-payment basis.

## **10. COPIES OF THIS PRE-LISTING STATEMENT**

Copies of this pre-listing statement may be obtained in English only during normal office hours from the local representative office of the Fund, the Corporate Advisor and Bookrunner or the Transfer Secretaries from Monday, 30 September 2013 to Thursday, 24 October 2013.