Childcare Property Fund

Fund Update
30 June 2024

Collage of pictures: 343 Milne Road, Redwood Park SA. Play equipment and loose furniture are typically tenant property.

Fund facts as at 30 June 2024

Quarter Distribution	Unit Price	Gross Asset Value	LVR
0.6055 cents per unit	$1.0154 (based on NAV, ex-distribution)	$88.21 million	35.32%[1]

Number of properties settled	Number of Operators	Portfolio Occupancy	Weighted Average Lease Expiry (WALE)
15 Properties $87.15million[2]	7	100%	14.5 years by base rental income

1. Calculation based on drawn bank debt against accounting book value of properties as at the date of this Fund update.
2. Accounting book value of properties as at the date of this Fund update.

Performance as at 30 June 2024

	3 Months %	6 Months %	1 Year %	Since Inception %p.a.
Distribution return	0.59	0.95	2.40	2.60
Growth return	-0.10	-1.50	-1.42	0.54
Total Return	**0.49**	**-0.55**	**0.98**	**3.14**

Inception date for performance calculations is 3 September 2021.
Performance figures are calculated after fees and expenses and assume the reinvestment of distributions (in accordance with FSC Standard No. 6). Past performance is not a reliable indicator of future performance.

Contribution summary as at 30 June 2024

The relative contribution of major variables on growth returns over the last quarter and year.

Contributor	3 Months %	1 Year %
Property revaluation	0.17	-0.99
Other*	-0.27	-0.43
Growth Return	**-0.10**	**-1.42**

* Other may include all movements in the period relating to net profit including net property income, interest income, borrowing costs, interest expense, management fees, valuation fees and all other scheme-related expenditure. Past performance is not a reliable indicator of future performance.

Key direct property statistics as at 30 June 2024

Portfolio: summary

State	No. of Operating Centres	No. of Centres in Development	%[1]
QLD	6		36
SA	3		23
WA	2	1	20
VIC	1		9
ACT	1		7
TAS	1		6
Total	14	1	100%

Debt

LVR[2]	35.32%
Interest Cover Ratio (ICR)[3]	2.19x
Hedging (% of debt hedged)	-

Financials

Asset Type	Total $ millions
Property assets[4]	87.15
Cash & other assets	1.06
Total assets	88.21
Total liabilities[5]	31.92
Net Assets	**56.29**

1. Calculation based on book value.
2. Calculation based on drawn bank debt against accounting book value of properties as at the date of this Fund update.
3. Calculation based on Fund's Lender definition as at the date of this Fund update.
4. Accounting book value as at the date of this Fund update.
5. Liabilities consist of; bank borrowings, property lease security, bonds, accrued expenses and provision for the June 2024 distribution.

The financial information in this Fund update extracted from the Fund's accounting and property management records as at 30 June 2024. Past performance is not a reliable indicator of future performance.

Introduction

Management is pleased to report on the Fund's activities for the June 2024 quarter.

During this quarter, the Fund continued the annual revaluation of assets. The asset which was valued remained relatively stable, providing incremental growth to the unit price reflecting the annual increase in value.

Management has noticed a continued "flight to quality" in the childcare investment market with premium assets retaining value and secondary stock not achieving the same value throughout Australia.

As noted in the March 2024 update, agents have identified an uplift in enquiries for childcare assets. May 2024 sales figures represent the first time since December 2021 where national sales of childcare assets exceeded $100 million.[6] Analysis of these sales confirm a separation of yields between metropolitan and regional assets.[6]

Childcare market update

The market for childcare centres has remained relatively stable with increased sales activity supporting the investment grade yields in the sector. The forecast stability in the sector is underpinned by an anticipated 6.2% revenue growth for the 2023/2024 financial year and forecast growth of 3.1% for the next 5 years to an estimated revenue of $20.3billion in 2028/29.[7]

Management has noted a stabilisation within the sector as wider economic drivers stabilise. These factors include construction costs, interest rates, inflation and economic confidence. This return in confidence is reflected in the improved sales figures in the month of May 2024.[6]

The Australian childcare sector is experiencing stable growth, driven by increased federal funding, population increases, and rising participation rates. With more government investment, the industry is expanding and improving the quality of care. This coupled with the ongoing rise in participation of women in the workforce is highlighting the need for reliable and accessible childcare options.[7]

Recent childcare property sales suggest investment yields have reacted differently to the turbulence of recent years in different regions across Australia. Queensland has proven to be one of the best performing states in recent years with yields softening of only 15 basis points since 2023. Premium assets in Queensland have recently achieved sub 5% yields in the June quarter[6]. This bodes well for the Fund which has six assets situated in Queensland.

Usage costs have also increased over the last 12 months, not just for new centres, but also older stock. Australia's largest listed childcare provider-G8 Early Learning has increased daily fees by 4.5% across their portfolio reflecting an average charge rate 15% above the national average.[6] Management believes this is in response to increased operating costs impacting the childcare sector and wider economy.

Despite the softening in yields in Western Australia, and the impact of this on the portfolio as reported in the March 2024 update, the Fund has seen positive valuations across other areas of the portfolio in this quarter, which has seen the Fund's asset value trend in the right direction.

Management remains positive about Western Australian assets due to Western Australia having the highest workforce participation in Australia and continued growth in usage of childcare assets of 69.5% and 3.2% respectively.[8] The continued growth should have a positive impact for the childcare sector.

Portfolio activity for this quarter

This quarter the Fund has provided a distribution of 0.6055 cents per unit contributing to a 1-year total return of 0.98%.

Administration for the Fund's annual property revaluations has been prepared with the engagement of JLL. Only one asset was revalued in the June 2024 quarter being Gorge Rd, Athelstone, South Australia. The revaluation had a slight positive impact on the unit price (0.10%) reflecting a market yield of 5.35%. Management believes this revaluation supports the decision to develop a geographical diversified portfolio providing stable value and growth to investors.

As mentioned in the previous updates, the Fund was invited to be rated by independent rating agency Lonsec. Management is pleased to announce that Lonsec has issued a "Recommended" rating for the Fund. To achieve such a rating after such a short period is a fantastic result, validating the decisions made in the curation of the existing portfolio. A copy of this rating is available to all investors.

With the establishment of the portfolio providing consistent distributions and growth, construction prices stablising and interest rates forecasted to reduce in 2025, Management is reviewing development opportunities to enhance returns to investors. Profits from developments can be used to improve distributions and accelerate unit price appreciation. Management's strategic analysis of risk/reward will continue as we explore these opportunities. The Fund has a new development opportunity for a centre which is currently in an exclusive due diligence period. CBA as financier for the Fund is supportive of the controlled, strategic move into development. The ability to undertake further developments will be limited to available equity, as Management believes it to be prudent to maintain the existing bank covenant including LVR and ICR.

As previously updated to investors, Management has also negotiated a reduced line fee of 35 basis points for borrowings from CBA. All benefits from the reduced borrowing cost will flow to investors in the form of enhanced distributions.

Distributions in the June 2024 quarter have been restrained by the delay in completion of the High Wycombe asset in Western Australia. The asset was originally due for completion in March 2024. Delays are due to supply chain issues, and the project has a revised completion date in July 2024. The delay has reduced income to the Fund, and hence restricted distributions. Management forecasts that upon completion and commencement of rent payable, distributions will increase due to elevated rental income.

Capital management

Management drew down funds from the CBA debt facility this quarter to help fund the construction of the High Wycombe, project. The undrawn facility balance is now $4.2 million which will provide ample funds to assist the Fund's daily operations.

The Fund's LVR secured against property assets is currently 35.32%, which is well within the Bank's maximum LVR of 50.0%.

All banking covenants are forecast to remain within covenanted limits.

ESG strategy

Management is focusing on growing the ESG contribution of the Fund beyond the $32.2 million in Community and Social Value (CSV)[9] delivered in 2023. In all Australian Unity Group contributed $1.76 billion in CSV. Further information detailing our efforts to deliver positive wellbeing and impact for our customers, members, employees, and the broader Australian Unity community is set out in the Australian Unity's Our Impact 2023 Report. This result for the Fund is an increase on last year's contribution of $29.6 million and is considered as a positive confirmation of the Fund's acquisition and refurbishment strategy to provide quality childcare real estate.

Fund forecast activity

In the quarter ahead, Management is looking forward to the completion of the High Wycombe asset and forecasts this will lead to increased income into the Fund and a subsequent boost to distributions.

Annual property revaluations will continue throughout the year and annual rental increases when applicable will flow through to investor returns as these are implemented.

The Fund is actively looking to raise capital to take advantage of the buying opportunities in the market at present.

ESG strategy work will continue with a focus on the necessary administration to gain utility consumption data at our properties.

6. JLL Monthly Child Care Bulletin June 2024.
7. Cushman and Wakefield – investing for the tomorrow 2024.
8. Colliers Childcare market update -Western Australia 2024.
9. Explanatory Note to the Australian Unity Our Impact 2023 Report.

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