Australian Unity A-REIT Fund

Fund Update
30 September 2020

The Fund invests in a portfolio of select Australian Real Estate Investment Trusts (A-REITs), aiming to deliver a total return, consisting of income and capital growth, above the S&P/ASX300 A-REIT Accumulation Index over the medium to long term.

Performance as at 30 September 2020

	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	Since inception % p.a.
Distribution return	0.42	2.27	14.29	13.67	12.91	12.63
Growth return	3.10	(25.02)	(13.84)	(10.11)	(6.18)	(2.62)
Total return	3.52	(22.75)	0.45	3.56	6.73	10.01
S&P/ASX300 A-REIT Accumulation Index	7.38	(15.81)	4.12	5.99	8.79	11.25

Inception date for performance calculations is 31 July 2011.
Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

How the listed property market performed

Listed property on the Australian Securities Exchange (ASX), which is known as the Australian Real Estate Investment Trust (A-REIT) sector, covers publicly listed companies that own retail, industrial and office property, as well as other specialist property assets.

For the quarter ending 30 June 2020, the Australian listed property sector, as measured by the S&PASX 300 A-REIT Accumulation Index, returned 7.4% outperforming the broader equities market as measured by the S&P/ASX 300 Accumulation Index which returned -0.1%. Over the past twelve months, the A-REITs returned -15.8% underperforming the broader equities market which returned -10.0%.

We are witnessing a growing disconnect between public and private markets at present, with numerous listed property stocks (A-REITs) trading at discounts to 30 June asset backing. A-REITs in general own properties with above average asset quality. At present, sentiment is unduly bearish toward office, especially if one is of the opinion cities will once again re-open. While retail malls have significantly been impacted by restrictions on trade and people movement, current retail property pricing for the larger mall landlords does not appear to appropriately distinguish between those landlords dominating their respective catchments or the substantial landbanks these malls reside on. Many traditional malls are located on large swaths of land in densely populated metro areas where there is an inherent underlying value in the land for commercial and/or residential use. It appears many malls have been tarnished with the same COVID-19 brush, although neighbourhood shopping centres have shown their resilience. COVID-19 has certainly disrupted equity pricing of various property types, at some point, this disconnect coupled with today's (and likely tomorrow's) low rate environment will see mergers and acquisitions once again prevail to close this gap.

Following a quarter of gains led by the retail landlords, the gains continued this quarter with Goodman Group (GMG) and Charter Hall (CHC) both leading the market higher with gains over 20%. Stockland Group (SGP) also delivered strong returns over the quarter after posting a better than expected outlook for their residential property market exposure. The balance of the index constituents were relatively flat over the quarter although Unibail-Rodamco-Westfield (URW) underperformed as the market reacted negatively to the "re-set" plan which outlined a deleveraging strategy including an equity raise, sale of assets and a decrease in dividends. In the smaller capitalisation space, fund managers performed strongly with the likes of Centuria Group (CNI) and PrimeWest Group (PWG) posting good returns. Defensive landlords with long lease durations also performed well with Charter Hall Long WALE (CLW) and service station landlords strong over the period.

The recent reporting season key themes:

- Cash collection: was of significant interest to investors with office landlords collecting 90% to 100% of their rent roll while retail landlords collected around 50% in the June quarter;
- Capital management: was of high importance with several listed landlords raising capital over the past six months, while some landlords elected to stay the course and opt for raising debt, reducing distributions or selling assets to manage liquidity requirements; and
- Sector and geographic location: were prominent, as focus was on sector type, covenant quality and lease tenure. As state handling of the pandemic diverged so too did the markets view of property type and geographic skew.

Listed landlords generally declined to provide an earnings outlook for the next financial period, however a few landlords did provide guidance around the distributions. As the methods of contact tracing and managing virus hotspots become more established and restrictions ease, clarity around earnings will become more forthcoming.

The A-REIT sector is trading at around a 3% premium to last stated Net Tangible Assets (NTA), this excludes Unibail-Rodamco-Westfield and Goodman Group; and A-REIT sector gearing sits at a manageable 24%.

Outlook

In general terms, returns over the past few years have been strongly influenced by substantial property yield compression and relative attractiveness to the long-term bond rate. In the short-term market volatility is likely to continue, however as the pandemic evolves returns shall increasingly be guided by underlying property fundamentals.

Top 10 A-REIT holdings

Stock	Portfolio %
Scentre Group Limited	10.26
Dexus	9.15
Stockland	7.86
Goodman Group	7.19
Mirvac Group	6.15
GPT Group	6.09
Charter Hall Retail REIT	4.20
Vicinity Centres	4.16
Charter Hall Group	2.98
Charter Hall Social Infrastructure REIT	2.79

Asset Allocation

Asset class	Portfolio %
Listed Property	98.75
Cash	1.25

Contact us

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Diversified Property Fund

Capital raise – Investment opportunity

Features of the Diversified Property Fund capital raise

Key features of this capital raise	Limited Base Management Fee Discount Offer We are offering investors a discount to the Base Management Fee* for a limited time, subject to satisfying certain conditions. The discount to the Base Management Fee* is 30% and will take into account the net asset value of your eligible investment amount and the fund's gearing ratio as outlined in the Product Disclosure Statement. The discount to the Base Management Fee is to be paid as a cash rebate annually and will be paid as two cash payments on or around the below dates: (a) for the calendar year ending 31 December 2021, one payment during January 2022; and (b) for the calendar year ending 31 December 2022, one payment during January 2023 Please note, the offer and the Base Management Fee* discount applies for a limited time and is subject to satisfying all the offer conditions set out in the Product Disclosure Statement.
Fund strategy	• Deliver on the existing $100 million development pipeline; • Acquire new direct property assets; • Further diversify geographic and sector allocation; • Further enhancement of the capital management strategy; and • Continue to deliver stable consistent returns to investors.

*Base Management Fee refers to the Base Management Fee as defined in the Product Disclosure Statement.

Why invest in the Diversified Property Fund?

An unlisted property fund that owns properties across Australia, diversified across convenience retail shopping centres, office and industrial sectors. The fund's tenant base is diverse and includes many of Australia's most successful companies and brands. The fund's diversification strategy aims to provide investors with stable and consistent income through periods of economic change.

Capital growth over time from value-add initiatives

Existing development pipeline in convenience retail centres provides an opportunity for further enhanced income and capital growth over time.

Actively managed and diversified

Diversified property portfolio with balanced sector and geographic allocations.

Further enhanced income returns

Delivering stable distribution income, potentially tax advantaged income, backed by an attractive Weighted Average Lease Expiry (WALE), high occupancy and quality tenants.

Base Management Fee Discount Offer

Limited offer for a 30% discount to the Base Management Fee for eligible investments.

Access to defensive income streams in an uncertain economic environment

72% of retail rental income derived from 'essential services and supermarket retail'. Minimal disruption to the fund's FY20 rental income due to COVID-19, with less than 1% of rent waived.

Apply now

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