Continuous Disclosure Notice

31 May 2018

Australian Unity Healthcare Property Trust

The Australian Securities & Investments Commission ('ASIC') requires responsible entities of unlisted property schemes in which retail investors invest to provide a statement addressing six benchmarks and eight disclosure principles. These benchmarks and disclosure principles are contained in ASIC Regulatory Guide 46: Unlisted property schemes – Improving disclosure for retail investors. The Property Council of Australia ('PCA') and the Property Funds Association ('PFA') have issued their supplement to Regulatory Guide 46 in the form of their RG46 Voluntary Practice Note.

This document has been prepared by Australian Unity Funds Management Limited ('AUFM') as the Responsible Entity of the Australian Unity Healthcare Property Trust ('Trust') to update investors on the information relevant to the benchmark and disclosure principles. This document should be read in conjunction with the latest Annual Report for the Trust, available from our website australianunity.com.au/wealth. Alternatively, you can call us on 13 29 39 for a free copy.

The financial information in this document is extracted from the Trust's accounting and property management records as at 31 March 2018 and is based on unaudited financial records unless stated otherwise.

The Trust's composition and diversity will change over time as assets are acquired or disposed and tenancies are re-let.

Gearing ratio and policy

Disclosure principle 1 – Gearing ratio

The gearing ratio of the Trust, calculated as total interest-bearing liabilities divided by total assets, was 13.66% as at 31 March 2018 (15.73% as at 31 December 2017 based on the Trust's reviewed financial statements).

The gearing ratio shows the extent to which the Trust's total assets are funded by interest bearing liabilities and gives an indication of the potential risks investors face in terms of external liabilities that rank ahead of them. The only interest-bearing liability of the Fund is the borrowing facility. Refer to the borrowings note in the audited financial statements and the details set out in Disclosure Principle 3 – Scheme (Trust) Borrowings.

Gearing magnifies the effect of gains and losses on an investment. A higher gearing ratio means greater magnification of gains and losses and generally greater volatility compared to a lower gearing ratio.

The gearing ratio above is calculated in accordance with the ASIC disclosure principles formula and is at the Trust level. The loan to valuation ratio (which is a measure of the borrowing facility amount drawn as a proportion of the value of assets under the borrowing facility security arrangement) is shown under the heading 'Trust borrowing'.

Benchmark 1 – Gearing policy

The Responsible Entity maintains and complies with a written policy that governs the level of gearing at an individual credit facility (borrowing facility) level.

The Trust meets this benchmark. AUFM monitors and manages the Trust's borrowings at an individual borrowing facility level on an ongoing basis in accordance with its Gearing and Interest Cover Policy. The Gearing and Interest Cover Policy outlines record keeping, monitoring and reporting requirements.

The Trust has a single borrowing facility and generally aims to operate within a gearing ratio range between 30 - 50%. The maximum gearing ratio for the Trust under the Gearing and Interest Cover Policy is 60%. These parameters may change from time to time.

The Trust continues to comply with AUFM's Gearing and Interest Cover Policy. For further information or to obtain a copy of the Gearing and Interest Cover Policy please contact us.

Interest cover ratio and policy

Disclosure principle 2 – Interest cover

The Trust's interest cover ratio for the 12 months to 31 March 2018 was 5.90 times (5.64 times for the 12 months to 30 June 2017 based on the Trust's audited financial statements).

Interest cover indicates the ability of the Trust to meet interest payments from earnings. It is an indicator of the Trust's financial health and is a key indicator to assessing the sustainability of, and risks associated with, the Trust's level of borrowing. For example, an interest cover ratio of two times, means that the level of earnings is twice that of interest costs on borrowings, meaning that there is surplus earnings after interest payments which can be used to pay distributions to investors.

An interest cover ratio of one times means that Trust earnings are only sufficient to pay interest on borrowings and any distributions would either need to be funded from investor capital or alternatively suspended.

Generally, the closer the Trust's interest cover ratio is to one, the higher is the risk of the Trust not being able to meet interest payments from earnings. To mitigate some of this risk, property fund managers may hedge against rises in interest rates to provide greater certainty for the Trust's interest expenses.

In addition, asset management strategies that attract high quality tenants on longer lease terms and tenant diversity aims to ensure that the Trust's level of earnings remains stable and predictable.

The interest cover ratio is calculated in accordance with the ASIC disclosure principles formula below and is at a Trust level.

$$\text{Interest cover ratio} = \frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest expense}}$$

In the audited financial statements EBITDA is equivalent to 'Profit before finance costs attributable to unitholders' adding back borrowing costs and amortisation. Unrealised gains/losses include property revaluations, straight-lining of rental income and unrealised gains/losses on derivatives and listed property trusts. Interest expense is equivalent to 'Borrowing costs' less amortisation of debt establishment costs.

However, capitalised interest expenses (if any) are excluded from this calculation (see Benchmark 3 – Interest Capitalisation).

The interest cover ratio relevant to the borrowing facility covenant is calculated differently from the ASIC formula and is shown under the heading 'Trust borrowing'.

Benchmark 2 – Interest cover policy

The Responsible Entity maintains and complies with a written policy that governs the level of interest cover at an individual credit facility (borrowing facility) level.

The Trust meets this benchmark. AUFM monitors and manages the Trust's interest cover at an individual borrowing facility level on an ongoing basis in accordance with its Gearing and Interest Cover Policy. The Gearing and Interest Cover Policy outlines record keeping, monitoring and reporting requirements.

The minimum interest cover ratio for the Trust under the Gearing and Interest Cover Policy is 1.25 times (calculated as the EBITDA of the Fund from ordinary operations divided by the net interest expense[1]) which is different to the minimum interest rate cover ratio covenant under the borrowing facility of the agreement, (which is 1.75 times). The calculation method for the interest cover ratio under the borrowing facility is different from the calculation method adopted by ASIC in Disclosure Principle 2.

The Trust continues to comply with AUFM's Gearing and Interest Cover Policy. For further information or to obtain a copy of the Gearing and Interest Cover Policy please contact us.

[1] Net interest means interest expense less interest income.

Trust borrowing

Disclosure Principle 3 – Scheme (Trust) borrowings

The Trust borrows to finance new and existing assets, to develop, refurbish and maintain those assets, and to provide liquidity for operating purposes and managing working capital.

Generally, interest expenses relating to the borrowings which are not capitalised (see Benchmark 3 – Interest Capitalisation) will be met from the earnings of the Trust prior to the payment of distributions to investors.

The Trust has one borrowing facility that is secured by a number of the Trust's assets and is summarised in the following table:

Borrowing details as at 31 March 2018	
Borrowing facility drawn amount	$211.80 million
Borrowing facility limit	Tranche A: $220 million Tranche B: $320 million Tranche C: $100 million Tranche D: $100 million
Borrowing facility maturity tranche A, B, C Borrowing facility maturity tranche D	22 January 2023 22 January 2025
Borrowing facility Loan to Valuation Ratio covenant limit	50.00%
Trust Loan to Valuation Ratio calculated in accordance with borrowing facility definition	19.22%
Amount by which value of assets must decrease before a borrowing facility covenant is breached	61.57%
Borrowing facility Interest Cover Ratio[1] covenant limit	1.75 times
Trust Interest Cover Ratio[1] calculated in accordance with borrowing facility definition	5.90 times
Amount by which the operating cash flow must decrease before a borrowing facility covenant is breached	70.34%
Borrowing facility interest rate (inclusive of borrowing margin, line fees and interest rate hedges)	4.18% p.a.
% of borrowings hedged	70.80%
Weighted hedge expiry	3.60 years

[1] The borrowing facility Interest Cover Ratio calculation definition excludes capitalised interest in respect of debt relating to the development of the Specialist Public Rehabilitation Hospital.

The Trust is required to refinance $640 million of its $740 million facility by January 2023 with the remainder by January 2025. We are within the current lenders' covenant and facility limit requirements, and as such, are confident that the borrowing facility will be refinanced prior to maturity. With most refinancing activity there is a risk that the lenders may choose not to refinance the facility.

If this occurred, the Trust would need to find alternate lenders which may be more costly than the existing lenders. In extreme situations if the Trust cannot find alternate lenders, the Trust may lose value from selling assets in poor market conditions in order to repay the borrowed amount.

Our approach is to actively manage the Trust's borrowings in conjunction with the lenders to manage this risk. To the best of AUFM's knowledge, there have been and are no breaches of loan covenants as at the date of this document.

All amounts owed to lenders and to other creditors will rank before each investor's interest in the Trust. The Trust's ability to pay interest, repay or refinance the amount owed upon maturity and its ability to meet all loan covenants under its borrowing facility is material to its performance and ongoing viability.

Under the terms within the borrowing facility, provided the Trust obtains the prior written consent of the lender, there are no terms that may be invoked as a result of investors exercising their rights under the Trust's Constitution. If such consent is not obtained, however, there may be terms which are triggered or consequences that follow under the borrowing facility, including possible cancellation of the borrowing facility and early repayment of amounts owing under the borrowing facility.

AUFM maintains a hedging policy that governs the level of hedging for the Trust and controls the risks associated with the use of derivatives. All hedging strategies implemented are also subject to formal approval by the Chief Investment Officer. Borrowings relating to some development activities are required to be fully hedged under the terms of the borrowing facility.

AUFM monitors and manages the Trust's hedging position on a mark-to-market basis. Hedging is a very complex area and is generally done to fix some or all of the interest rate relating to the borrowing facility. Whilst hedging is put in place to reduce the volatility of earnings and therefore distributions, hedging generally has the effect of increasing the volatility of the Trust's unit price given that the pricing of the underlying interest rate derivatives change daily.

At 31 March 2018 the mark-to-market value of interest rate derivatives were $0.77 million, compared to $1.02 as at 31 December 2017 based on the Trust's reviewed 31 December 2017 financial statements. If held to maturity, the value of the interest rate derivatives in the Trust's balance sheet will reduce to zero.

Interest capitalisation

Benchmark 3 – Interest capitalisation

The interest expense of the Scheme is not capitalised.

The Trust does not meet this benchmark. The Trust currently has not capitalised interest expenses, but intends to do so for borrowings relating to some development projects. .

Capitalised interest expenses increases the borrowing facility drawn amount, and therefore may increase borrowing risk.

Borrowing risk is managed through maintaining prudent levels of drawn debt, the use of interest rate hedging instruments and active management of the asset portfolio. The estimated amount of interest to be capitalised for any particular project is generally incorporated into the assessment of feasibility of that project

The Trust is expected to meet its repayment obligation for capitalised interest expenses through its normal operating activities.

Portfolio diversification

Disclosure Principle 4 – Portfolio diversification

The Trust primarily invests in a diversified portfolio of healthcare property and related assets, including direct property, unlisted managed funds, listed REITs, property syndicates or companies that mainly hold healthcare property.

The Trust may also invest in similar international healthcare related assets in countries with healthcare systems and property markets with key attributes similar to Australia.

The Trust typically holds 75-95% of its assets in direct property and may hold up to 20% in listed or unlisted property investments. The balance of the Trust's assets is held in cash and similar investments.

At 31 March 2018 the Trust had $71.56 million (4.6% of the gross assets of the Trust) exposed to listed Australian REITs.

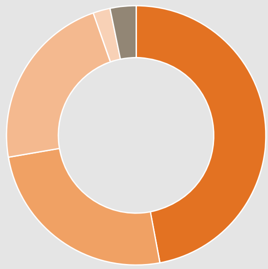
The Funding Units and Class A Units

The Funding Units and Class A Units each hold segregated cash assets, which do not form part of the assets for the Wholesale Units and Retail Units.

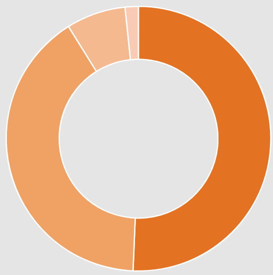
Key portfolio statistics

(as at 31 March 2018)

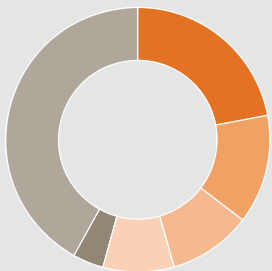
Geographic allocation (by value)		
VIC	17 assets	47.07%
NSW	15 assets	25.23%
QLD	9 assets	22.32%
SA	4 assets	2.14%
WA	1 asset	3.23%



Property sector allocation (by value)		
Hospital	13 assets	50.66%
Medical Centre or Medical Office	18 assets	40.45%
Development Site	14 assets	7.26%
Aged Care	1 asset	1.63%



Top 5 tenants (by income)	
Ramsay Health	22.05%
Healthe Care	13.33%
Queensland Health	10.18%
Sonic	8.71%
Stryker	3.77%
Others (excluding vacancy)	41.96%



Portfolio composition as at 31 March 2018

Property Details			Tenancy Details				Valuation Details[1]			
Address	Note	Lettable Area (square metres)	Major Tenant	Number of Tenants	Occupancy Rate (% by income)	WALE (years by income)[2]	Current Valuation ($m)	Valuation Date	Capitalisation Rate (%)[10]	Book Value ($m)
Hospitals										
Peninsula Private Hospital, Langwarrin, VIC	-	19,355	Ramsay Health	1	100%	22.4	146.4	Aug-17	6.00%	146.35
The Valley Private Hospital, Dandenong North, VIC	15	15,738	Healthe Care	1	100%	29.7	121.4	Dec-17	6.00%	121.42
Beleura Private Hospital and Clinic, Mornington, VIC	-	10,165	Ramsay Health	1	100%	16.3	81.0	Aug-17	6.50%	81.06
Brisbane Waters Private Hospital, Woy Woy, NSW	-	5,845	Healthe Care	1	100%	18.8	36.4	Aug-17	6.50%	43.64
Brunswick Private Hospital, Brunswick, VIC	-	8,000	Healthe Care	1	100%	11.4	37.9	Feb-18	6.25%	37.93
Robina Private Hospital, Robina, QLD	-	5,854	Healthe Care	1	100%	23.4	35.9	Nov-17	6.25%	35.90
Sunshine Day Surgery and Clinic, St Albans, VIC	13	2,452	Fresenius Medical Care	11	100%	3.9	33.0	Feb-17	6.50%	35.64
North Shore Specialist Day Hospital, Greenwich, NSW	-	2,190	IVF Australia	1	100%	4.5	20.1	Nov-17	6.75%	20.11
Berkeley Vale Private Hospital, Berkeley Vale, NSW	-	4,132	Ramsay Health	1	100%	17.6	19.7	Nov-17	7.00%	19.70
Figtree Private Hospital, Figtree, NSW	-	7,277	Ramsay Health	1	100%	17.6	19.2	Aug-17	6.75%	19.26
Hunters Hill Private Hospital, Hunters Hill, NSW	-	2,678	Ramsay Health	1	100%	17.6	18.8	Aug-17	6.75%	18.80
Townsville Private Clinic, Townsville, QLD	-	4,897	Healthe Care	1	100%	19.1	18.0	Feb-18	6.75%	18.00
Calvary Rehabilitation Hospital, Walkerville, SA	-	3,799	Calvary Health	1	100%	1.3	13.3	Aug-17	8.50%	13.25
Sub total										611.05
Hospitals Under Development										
Tuggerah Lakes Private Hospital, Kanwal, NSW	9	-	Healthe Care	1	100%	20.0	4.4	Feb-18	N/A	4.88
Sub total										4.88
Medical Centres and Aged Care Facilities										
15 Butterfield St, Herston, QLD	-	11,254	Queensland Health	4	100%	2.4	81.5	Aug-17	7.15%	81.50
RPAH Medical Centre, Newtown, NSW	-	7,212	S & K Car Park	50	97%	2.2	79.4	Feb-18	7.25%	79.37
103 Victoria Parade, Collingwood, VIC	-	8,975	Sonic Healthcare	1	100%	10.0	47.0	Nov-17	5.50%	47.00
8 Herbert Street, St Leonards, NSW	-	10,556	Stryker Australia	4	100%	1.8	45.0	Aug-17	7.25%	45.00
310 Selby Road North, Osborne Park, WA	-	4,997	Clinipath Pathology	1	100%	13.0	39.0	Nov-17	6.25%	39.00
Manningham Medical Centre, Templestowe Lower, VIC	-	4,925	MMC General Practice	15	95%	1.5	36.0	Aug-17	6.75%	36.06
Campus Alpha Building, 2 Investigator Drive, Robina QLD	-	4,423	State Government of QLD	10	100%	2.1	27.4	Nov-17	7.25%	27.45
9-13 Flintoff Street, Greensborough, VIC	-	3,529	Primary Health	1	100%	15.0	22.4	Feb-18	6.25%	22.85
HIS Diagnostic Imaging Centre, Richmond, VIC	-	1,124	Primary Health	1	100%	17.9	19.8	Feb-18	6.00%	19.75
Constitution Hill Aged Care, Northmead, NSW	-	8,668	Australian Unity Care Services	1	100%	10.7	19.6	Nov-17	7.00%	19.60
46-50 Underwood Street, Corrimal, NSW	-	1,496	Primary Health	1	100%	13.8	15.1	Aug-17	6.50%	15.10
Gosford Private Medical Centre, North Gosford, NSW	-	1,830	Sonic Healthcare	4	67%	4.3	14.1	Nov-17	7.00%	14.10
Ipswich Medical Centre and Day Hospital, QLD	-	2,783	Ipswich Day Surgery	10	70%	3.0	13.6	Nov-17	8.00%	13.64
Mackay Medical Centre and Day Hospital, Mackay, QLD	3	2,458	Queensland Fertility Group	6	91%	2.0	11.3	Nov-17	7.75%	11.30
17-19 Fullarton Rd, Kent Town, SA	-	2,563	Sonic Healthcare	1	100%	1.1	11.2	Feb-17	7.50%	11.00
Eureka Medical Centre, Ballarat, VIC	-	1,504	Primary Health	1	100%	2.5	7.6	Jul-17	6.50%	7.60
80-82 Bridge Road, Richmond, VIC	7, 12	-	Primary Health	1	-	-	6.5	Aug-17	5.75%	6.50
Figtree Consulting Suites, Figtree, NSW	-	427	Shelley & Sumbut Namcharon	2	61%	0.1	1.6	Aug-17	-	1.56
Sub total										498.37
Assets Held Pending Development										
Specialist Rehabilitation Public Hospital, Herston, QLD	11	N/A	MNHHS	1	100%	20.0	N/A	N/A	N/A	68.63
Lot 1, Campus Crescent, Robina, QLD	7	N/A	Primary Health	1	-	15.0	3.9	Aug-17	-	9.14
34 Investigator Drive, Robina, QLD	8	-	N/A	0	-	-	3.7	Feb-18	N/A	3.70
15 Highfields Circuit, Port Macquarie, NSW	7	N/A	Primary Health	1	100%	15.0	1.9	Feb-18	N/A	1.91
4 Ginifer Court, St Albans, VIC	6	N/A	Private Tenant	0	-	N/A	0.8	Aug-17	N/A	1.40
2 Ginifer Court, St Albans, VIC	6	N/A	N/A	0	-	-	0.7	Sep-17	N/A	1.27
95 Herbert Street, Mornington, VIC	5	191	Private Tenant	1	100%	<1	1.1	Aug-17	N/A	1.10
12 View Road, Walkerville, SA	4	N/A	Private Tenant	1	100%	<1	0.9	Aug-17	N/A	0.85
101 Herbert Street, Mornington, VIC	5	186	Ramsay Health	1	100%	2.6	0.8	Aug-17	N/A	0.80
15 Dwyer Avenue, Woy Woy, NSW	15	N/A	Vacant	0	-	N/A	0.7	Dec-17	N/A	0.77
10 North East Road, Walkerville, SA	4	N/A	Vacant	0	-	N/A	0.7	Aug-17	N/A	0.68
3 Wiowera Street, Kanwal, NSW	14	N/A	N/A	0	-	N/A	0.5	Jul-17	N/A	0.54
105 Herbert Street, Mornington, VIC	5	N/A	Private Tenant	1	100%	<1	0.5	Aug-17	N/A	0.51
103 Herbert Street, Mornington, VIC	5	N/A	Private Tenant	1	100%	<1	0.5	Aug-17	N/A	0.51
Sub total										91.80
Total direct property										1,206.10

Continued overleaf ...

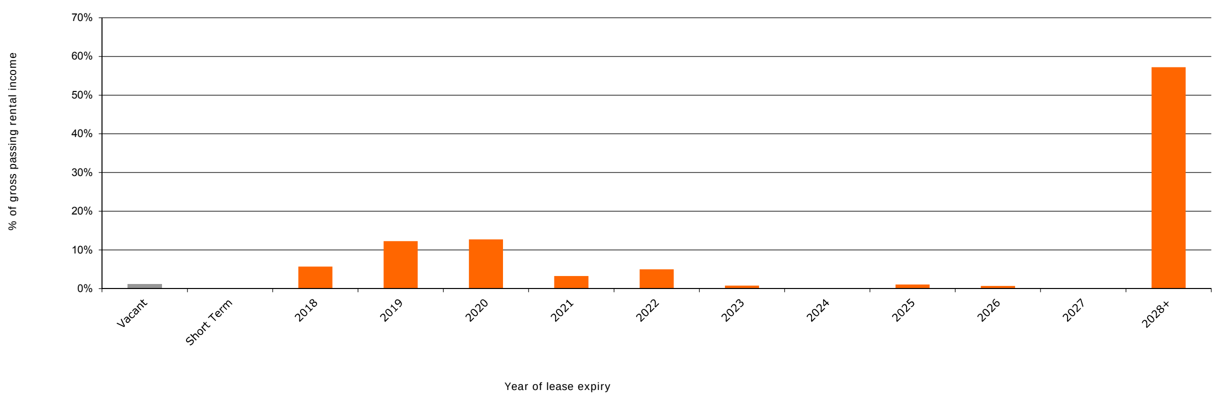
Portfolio composition as at 31 March 2018 (continued)

			Tenancy Details				Valuation Details[1]			
Address	Note	Lettable Area (square metres)	Major Tenant	Number of Tenants	Occupancy Rate % (by income)	WALE (years by income)[2]	Current Valuation ($m)	Valuation Date	Capitalisation Rate %[12]	Book Value ($m)
Listed Australian REITs										
Arena REIT										71.56
Sub total										71.56
Cash and other assets										
Funding Unit cash pool										160.00
Other										11.54
Cash and other assets										55.09
Class A cash reserve										46.63
Cash and other assets										273.26
Total (T) / Weighted Average (A)				146 (T)	98.93 (A)	11.05 (A)	1,119.94 (T)		6.56% (A)	1,550.92 (T)

Notes

1. Regular valuation of underlying property assets is an important aspect of managing the Trust. Valuations are conducted by qualified independent valuers in accordance with industry standards. We have a policy of generally obtaining independent valuations on direct properties each year. Additionally, as part of our active management approach, we may test asset values on market. At times we may enter arrangements at arm's length with third parties which may impact the value of assets within the portfolio including, but not limited to, put and call options in respect of all or part of an asset within the portfolio. If the value of an asset is impacted in this way, the value may replace the last independent valuation obtained. The direct property information in this table is current as at 31 March 2018. Please refer to the Trust's announcements page available from our website australianunity.com.au/wealth for full details on any changes to the Trust's direct property portfolio post this date.
2. Weighted Average Lease Expiry by base rental income. Vacancies are valued at market income.
3. Includes a parcel of vacant land, 1-3 Discovery Lane, North Mackay valued at $0.60 million as at November 2017.
4. Properties adjoining Calvary Rehabilitation Hospital, Walkerville, SA.
5. Properties adjoining Beleura Private Hospital, Mornington, VIC.
6. Property adjoining Sunshine Day Surgery and Clinic, St Albans, VIC. This property is earmarked as future development space.
7. Development site subject to pre-commitment from Primary Health.
8. Development Site, no pre-commitment.
9. Subject to a 20 year lease to HealtheCare from practical completion.
10. Portfolio Capitalisation Rate is the weighted average of those properties valued using the capitalisation of income methodology. A market capitalisation rate is the rate, expressed as a percentage that reflects the likely yield a property will generate over the medium term. It has regard to a property's unique characteristics and is a measure of the property's risk/return profile with higher rates reflecting higher risk and its function is to convert a property's income into value. The market capitalisation rate is assessed by the independent valuer by dividing the average net property income of the property or a portfolio of properties by the assessed valuation of the property or portfolio, excluding costs of acquisitions and fees.
11. Development site with pre-commitment from MNHHS.
12. Capitalisation Rate 'on completion'.
13. Value includes three (3) adjacent residential properties that are earmarked as future development space. Valued on a project related site value basis.
14. Land held for future expansion of Tuggerah Lakes Private Hospital.
15. Property adjoining Brisbane Waters Private Hospital carpark.

Lease expiry profile by income as at 31 March 2018



Property development

The Trust can enhance its existing properties and add further value to investors through selective exposure to property development. Property development means the construction of a new building, significant increases to the lettable area of a building or significant changes to the configuration, nature or use of the property. In managing the Trust's property portfolio, we may refurbish or redevelop properties from time to time as required. Material property developments will only be undertaken where, in our view, substantial pre-commitments to lease are in place and development risk is appropriately mitigated.

One of the risks of property development is construction risk. Construction projects carry a risk that the costs of the project might be higher than budgeted, the project may take longer than expected to complete or the project may not be finished.

We endeavour to mitigate construction risks by negotiating a capped arrangement with builders and/or tenants whereby any costs incurred above this amount will be the responsibility of the builder/tenant as the case may be.

The Trust has a development pipeline of approximately $550 million. Some of the more significant developments are detailed below:

Specialist Rehabilitation Public Hospital, Herston, QLD

The Trust will develop a specialist public hospital, as part of the proposed $1.1 billion development at Herston Quarter in Brisbane.

The development of the specialist public hospital is on a different contractual basis to the approach usually adopted by the Trust as this is a Public Private Partnership. The development risks, where possible, are transferred to the design and construction contractor.

The Trust, through a special purpose subsidiary trust, is developing a specialist public hospital. This includes the relocation of existing services, demolition of the former Children's Hospital on the site, development of the associated carpark and the provision of new public space to link the new hospital to external and adjacent areas. The cost of the ancillary works is recoverable through the rental for the specialist public hospital and a payment for the carpark.

When constructed, the specialist public hospital will be operated by the Metro North Hospital and Health Service ('MNHHS'), a Queensland Health division responsible for providing public health services in the northern suburbs of Brisbane.

Work on site for the new hospital commenced in February 2017 and, when complete, the hospital will be leased to MNHHS for an initial term of 20 years by the Trust, and will be developed on land within the Health Precinct also occupied by the Royal Brisbane and Women's Hospital which is one of two tertiary public hospitals in Queensland. When constructed, the specialist public hospital is expected to be valued at approximately $380 million and will provide seven operating theatres, three procedure rooms and in-patient accommodation of up to 172 patients.

Tuggerah Lakes Private Hospital, NSW

In January 2018, the Trust commenced construction of a new day hospital at Kanwal, New South Wales. The development includes a 2 theatre day hospital, 20 overnight beds, consulting suites and car park. Practical completion is targeted for December 2018.

Sunshine Private Hospital, VIC

An Expression of Interest campaign to source a private hospital operator to build and operate a new hospital will be launched in April 2018. The campaign closes in late May 2018. Town planning, design and development is currently underway. A preferred partner is expected to be selected in mid-late 2018.

The Valley Private Hospital, Mulgrave, VIC

Practical completion of development works for an $18.8 million expansion of the hospital was reached in December 2017. The new building incorporates an ICON Cancer Centre and additional car parking.

Brisbane Waters Private Hospital, Woy Woy, NSW

Development works for a $10.8 million expansion of the hospital comprising a 24 bed rehabilitation ward, gymnasium, hydrotherapy pool and additional car parking is materially complete. Second stage works of approximately $1.0 million to reconfigure and refurbish older sections of the hospital to accommodate a mental health unit is currently underway with completion anticipated to be in May 2018.

Greensborough Medical Centre, VIC

Development works for the $20.4 million conversion of an existing council building to a large scaled, multi-disciplinary medical centre providing dental, radiology, day surgery and general practitioner services was completed in late March 2018.

Robina Medical Centre, QLD

In July 2017 works commenced on the $9.8 million development of a 1,500 sqm multi-disciplinary medical centre to be leased to Primary Health Care Limited. Target completion date is late May to early June 2018.

In addition to these, the Trust is actively pursuing further developments at the Herston Quarter, Brisbane, QLD; Peninsula Private Hospital, Langwarrin, VIC; Beleura Private Hospital, Mornington, VIC; Tuggerah Lakes Private Hospital, Kanwal, NSW, and the HIS Diagnostic Imaging Centre, Richmond, VIC.

Valuation policy

Benchmark 4 – Valuation policy

The Responsible Entity maintains and complies with a written valuation policy that requires:

- *a valuer to:*
  - *be registered or licensed in the relevant state, territory or overseas jurisdiction in which the property is located (where a registration or licensing regime exists), or otherwise be a member of an appropriate professional body in that jurisdiction; and*
  - *be independent.*
- *procedures to be followed for dealing with any conflicts of interest;*
- *rotation and diversity of valuers;*
- *valuations to be obtained in accordance with a set timetable; and*
- *for each property, an independent valuation to be obtained:*

- *before the property is purchased:*
  - for a development property, on an 'as is' and 'as if complete' basis; and
  - for all other property, on an 'as is' basis; and
- *within two months after the directors form a view that there is a likelihood that there has been a material change in the value of the property.*

The Trust meets this benchmark and complies with AUFM's Valuation Policy. For further information or to obtain a copy of the Valuation Policy please contact us.

Regular valuation of underlying property assets is an important aspect of managing the Trust in the best interests of investors. In addition to the above requirements, the Valuation Policy also requires that:

- independent external valuations for new properties must be completed no more than three months prior to exchange of contracts;
- independent external valuations for existing properties must generally be conducted at least once in a financial year;
- where there are multiple properties in a portfolio, the valuations are to be staggered through the year; and
- where a property has been contracted for sale, the contracted sale price may be adopted instead of the independent external valuation.

Additionally, as part of our active management approach, we may test asset values on market. At times, we may enter arrangements at arm's length with third parties which may impact the value of assets within the portfolio including, but not limited to, put and call options in respect of all or part of an asset within the portfolio. If the value of an asset is impacted in this way, the value may replace the last independent valuation obtained.

Related party transactions

Benchmark 5 and Disclosure Principle 5 –

Related party transactions

The Responsible Entity maintains and complies with a written policy on related party transactions, including the assessment and approval processes for such transactions and arrangements to manage conflicts of interest.

The Trust meets this benchmark and complies with AUFM's Related Party Policy.

Related party transactions carry a risk that they could be assessed and reviewed less rigorously than transactions with other parties.

Australian Unity has policies and guidelines in place to manage the risk of any actual or perceived conflict of interest as a result of a related party transaction. Related party transactions with Australian Unity Group entities are reviewed, approved and monitored by senior management with a clearly identified governance policy. Decisions in relation to conflicts of interest and related party transactions are documented.

As appropriate, we provide ongoing updates of material service engagements and financial benefits that are paid to related parties through the Fund Update and Continuous Disclosure Notice. The value of related party payments are reported yearly as part of the Trust's Annual Report.

For further information about the Related Party Policy please contact us. The latest Fund Update and Annual Report can be found on our website australianunity.com.au/wealth. Alternatively we can send you a free copy if you call us on 13 29 39.

Related party activity

Property management services

AUFM has appointed Australian Unity Property Management Pty Ltd ('AUPM') to provide some property management services to the Trust.

Australian Unity Property Management

AUPM is a property management business that may, under a written arrangement, provide some of the following services to the Trust as nominated from time to time:

- strategic advice on property acquisitions and sales or arranging the sale or acquisition of property assets;
- management of premises;
- debt arranging, debt structure advice, debt facility negotiation and debt management;
- valuation services;
- leasing services; and
- property management and project supervision.

The appointment of AUPM for these services is not exclusive and AUFM may engage external service providers to undertake these functions.

From 1 July 2017 to 31 March 2018 services to the value of $0.49 million have been provided by and paid to AUPM.

Herston Quarter redevelopment

The Trust has established a sub trust for the purpose of developing the Specialist Rehabilitation Public Hospital. The trustee for the sub trust, Australian Unity Investment Management Administration Pty Limited (AUIMA).

The Trust, through this sub trust, has entered into a number of agreements with Herston Development Company Pty Ltd ('HDC') to facilitate the redevelopment of a portion of the Herston Quarter, Herston, QLD.

From 1 July 2017 to 31 March 2018, HDC has been paid a consortium management fee of $0.39 million (excluding GST) for the development of the Specialist Rehabilitation Public Hospital.

Herston Development Company

The sub trust has reimbursed HDC for outsourced services in relation to consulting, legal and design costs associated with the tender for the Herston Quarter redevelopment.

From 1 July 2017 to 31 March 2018 the amount charged to the Trust was $1.41 million (excluding GST).

Loan receivables

The Trust provides loans to Herston Car Park Company Pty Ltd (HCPC) to provide funding for the development of the car park and a portion of the common area associated with the Herston quarter redevelopment. The loans are calculated based on the amount of relevant construction costs plus an interest component. The interest is calculated on a compound accruals basis. The repayment of the loan will occur after the relevant authority has issued an occupancy certificate with respect to the entire site subject of the Specialist Rehabilitation Public Hospital development works.

From 1 July 2017 to 31 March 2018 the loan balance was $4.10 million (excluding GST).

Other related party service providers

AUFM charges the Trust for administration expenses (including audit fees) as per the Product Disclosure Statement. We estimate these costs to be 0.30% p.a. of the gross asset value of the Trust.

From 1 July 2017 to 31 March 2018, the amount charged to the Trust was $2.93 million (excluding GST). This is made up of related party and non-related party expenses.

Relationship of related parties

The relationship of each of the related party entities described in this document is summarised as following:

Name of entity	ABN	Wholly owned by
Australian Unity Limited (AUL)	23 087 648 888	-
Australian Unity Funds Management Limited (AUFM)	60 071 497 115	AUL
Australian Unity Property Management Pty Limited (AUPM)	76 073 590 600	AUL
Australian Unity Property Limited (AUPL)	58 079 538 499	AUL
Australian Unity Property Funds Management Limited (AUPFML)	28 085 352 405	AUPL
Australian Unity Investment Management Administration Pty Limited (AUIMA)	76 115 442 969	AUPFML
Herston Development Company Pty Ltd (HDC)	53 617 139 009	AUL
Herston Car Park Company Pty Ltd (HCPC)	98 617 138 833	HDC

These entities form part of the Australian Unity Group.

Investments

AUL and its subsidiaries (related parties) may invest in the Trust and the Trust may invest in related parties from time to time.

As at 31 March 2018 related parties held interests in the Trust of $12,667,401 (0.95%) based on net assets.

Name of related entity	$ Value	% of the Trust's net assets
Federation Managed Accounts	84,289	0.01%
Pro-D High Growth Fund	535,606	0.04%
Pro-D Balanced Fund	2,668,311	0.20%
Pro-D Growth Fund	2,259,935	0.17%
Australian Unity Property Income Fund	7,119,161	0.53%

As at 31 March 2018 the Trust held investments in related parties of $92,574,864 (6.91%) based on net assets.

Name of entity	$ Value	% of the Trust's net assets
Australian Unity Wholesale Cash Fund	50,811,494.37	3.79%
Altius Enhanced Cash Fund	41,763,369.47	3.12%

Basis of related party investment terms

Investor approval is not required for the arrangements between the related party entities described in this document, as they have been made on commercial terms and conditions and on an arm's length basis.

The related party arrangements described in this document adhere to the Related Party Policy.

Distribution practices

Benchmark 6 and Disclosure Principle 6 –

Distribution practices

The Scheme will only pay distributions from its cash from operations (excluding borrowings) available for distribution

The Trust does not meet this benchmark.

The Trust aims to source and currently sources, all distributions from funds from operations ('FFO'). However, it is permitted to fund distribution payments from other sources, such as capital, if we consider it to be in the interests of investors (for example if rental income is suddenly reduced unexpectedly) and where payment from that source is expected to be sustainable given the circumstances.

FFO is a key determinant for the Trust when calculating and deciding the level of distribution to pay. To reconcile net profit to FFO and distributions the Trust may make adjustments to net profit for changes in investment properties, non-cash impairment of goodwill, non-cash fair value adjustments to financial instruments, amortisation on incentives, rental straight-line adjustments and other unrealised one-off items.

A reconciliation of the net profit to FFO and distributions is set out in the table below, in accordance with the PCA and PFA RG46 Voluntary Practice Note, for the nine months ended 31 March 2018.

	Actual $
Net profit	112,110,826
Valuation changes[1]	(71,917,021)
Interest rate derivative changes	549,936
Other[2]	6,236,476
Fund from operations	46,963,911
Distributions declared	45,610,707

1. Valuation changes include direct property revaluations, listed property trusts unrealised/realised valuation changes and rental straight-line adjustments.
2. Other includes $6.06 million partial payment of capital gains from the sale of Wakefield Private Hospital and Medical Centre in December 2017 for $50 million.

The distributions declared at 31 March 2018 did not exceed the available FFO. The Distribution Policy aligns with the ongoing earning capacity of the Trust. We expect an increase in FFO over the next 12 months, enabling the Trust to sustainably source distributions from FFO over this period.

Where the Trust makes distributions from capital, this will have the effect of reducing investors' equity. Where this occurs and the Trust has borrowings, the reduction in investor's equity will have the effect of increasing the gearing ratio and gearing related risks. Where a trust is close to its gearing related covenants, the risk of breaching these covenants is increased.

Funding Units

The Funding Units distributions comprises a combination of income from the Funding Units Cash Pool and the Trust's portfolio of healthcare-related property assets.

The amount of distribution funds sourced from the Trust's portfolio of healthcare-related property assets is dependent upon the extent that the Funding Units Cash Pool has been allocated for the purposes of the Trust.

Withdrawal rights

Disclosure Principle 7 – Withdrawal rights

Retail and Wholesale Units

In normal operating conditions Retail Unit and Wholesale Unit withdrawals from the Trust are paid quarterly. The maximum total amount available for withdrawals each quarter is 2.5% of the net asset value of the relevant class of units on issue (although we have the discretion to alter this amount). If this amount is exceeded, withdrawals may be met on a pro-rata basis.

Where a pro-rata payment occurs, investors will need to reapply in a subsequent withdrawal period if they wish to withdraw any further amount.

Investors written request must be received by 3:00 pm at our Melbourne office on or before the quarter end date (being 28 February, 28 May, 28 August and 28 November or the next business day if the 28th is a non-business day) to receive the withdrawal price as at the cut-off date. Otherwise, the withdrawal request will be processed in the following quarter.

Class A Units

In normal operating conditions Class A Unit withdrawals from the Trust are paid monthly. Monthly withdrawals will be met from the cash reserves held specifically for Class A Units.

In abnormal operating/market conditions the demand for withdrawals may exceed the amount of cash reserve held for Class A Units. Where this occurs, withdrawals will instead be met on a quarterly basis and will be subject to a quarterly cap of 2.5% of the net asset value of Class A Units (although we have the discretion to alter this amount). If this amount is exceeded, withdrawals may be met on a pro-rata basis. Where a pro-rata payment occurs, investors will need to reapply in a subsequent withdrawal period if they wish to withdraw any further amount. Quarterly withdrawals will be met from the Trust's general cash holding.

Investors written request must be received by 3:00 pm at our Melbourne office on or before the 28th of the month (or the next business day if the 28th is a non-business day) to receive the withdrawal price as at that cut-off date. Otherwise, the withdrawal request will be processed in the following month.

Funding Units

Funding Units do not have any rights to withdrawals. However, after the Exchange, Funding Unit holders will hold Wholesale Units and consequently will be able to access the associated withdrawal rights of the Wholesale Units.

All unit classes

Where we are required to sell property assets, it may take longer for investors to receive their withdrawal proceeds. In extreme cases it could take 12 months or longer for investors to receive their money.

While the Trust is liquid, the Trust's Constitution allows up to 365 days to meet withdrawal requests.

Suspension of withdrawals

While the Trust is liquid, the Trust's Constitution allows up to 365 days to meet withdrawal requests for Retails Units, Wholesale Units or Class A Units.

If we are of the view that we cannot sell property assets within 365 days to meet withdrawal requests, the Trust will become illiquid and withdrawals will be suspended. If this occurs, investors can only withdraw when we make a withdrawal offer available in accordance with the Trust's Constitution and law.

Substantial investor withdrawal requests

In order to ensure reasonable equity among investors, where any single investor requests a withdrawal from a class of units in excess of 5% of the total number of units on issue of that class during a withdrawal period, we may deem that request to be a single withdrawal request for 5% of the total number of units on issue of that class or such higher amount as we determine at our absolute discretion.

Net tangible assets

Disclosure Principle 8 – Net tangible assets

The Trust is an open-ended property scheme and as such this disclosure principle is not applicable. However, the current unit price for the Trust is available on our website.

Important information

Contact us

Australian Unity
114 Albert Road, South Melbourne VIC 3205

australianunity.com.au/wealth

Investor Services

investments@australianunity.com.au

13 29 39

03 8682 5057

Adviser Services

investments@australianunity.com.au

1800 649 033

03 8682 5057