Healthcare Property Trust

Continuous Disclosure Notice

6 January 2021

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 30 September 2020 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 28.04% as at 30 September 2020 (26.12% as at 30 June 2020 based on the Trust's audited 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 Trust 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 - 45%. 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 30 September 2020 was 6.64 times (6.31 times for the 12 months to 30 June 2020 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 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. 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 Trust from ordinary operations divided by the net interest[1] expense) 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 30 September 2020	
Borrowing facility drawn amount	$651.90 million
Borrowing facility limit	$740.00 million
Borrowing facility maturity tranche A, B and C ($640 million)	January 2023
Borrowing facility maturity tranche D ($100 million)	January 2025
Borrowing facility Loan to Value Ratio covenant limit	50.00%
Trust Loan to Valuation Ratio calculated in accordance with borrowing facility definition	35.02%
Amount by which value of assets must decrease before a borrowing facility covenant is breached	29.97%
Borrowing facility Interest Cover Ratio[1] covenant limit	1.75 times
Trust Interest Cover Ratio[1] calculated in accordance with borrowing facility definition	7.65 times
Amount by which the operating cash flow must decrease before a borrowing facility covenant is breached	77.12%
Borrowing facility interest rate (inclusive of borrowing margin, line fees and interest rate hedges)	2.70% p.a.
% of borrowings hedged	62.59%
Weighted hedge expiry	2.54 years

1. The borrowing facility Interest Cover Ratio calculation definition excludes capitalised interest in respect of debt relating to the development of the Surgical, Treatment and Rehabilitation Service ('STARS').

The Trust is required to refinance $640 million of its $740 million facility by January 2023 with the remainder by January 2025. The Trust is compliant with the lenders' covenant and facility limit requirements. We anticipate 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 are not any 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(s), 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 very complex 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 30 September 2020 the mark-to-market value of interest rate derivatives were $7.79 million. 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 capitalises interest on 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, companies that mainly hold healthcare property, and may, from time to time invest in loans, for example to assist with funding the fitting out of the Trust's properties.

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.

At 30 September 2020 the Trust had $68.69 million (2.95% of the gross assets of the Trust) exposed to listed REIT's.

The Class A Units

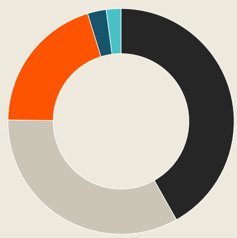
The Class A Units each hold segregated cash assets, which do not form part of the assets for the Wholesale Units and Retail Units.

Key portfolio statistics

(as at 30 September 2020)

Geographic allocation (by value)

QLD	19 assets	41.86%
VIC	18 assets	33.34%
NSW	19 assets	20.03%
WA	2 assets	2.67%
SA	2 assets	2.10%



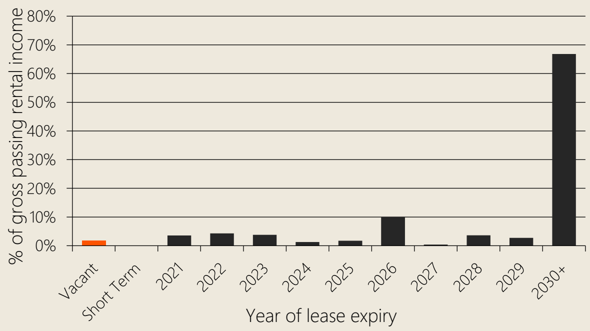
Property sector allocation (by value)

■	Hospital	14 assets	37.71%
■	Medical Centre or Medical Office	21 assets	30.35%
■	Development Site	18 assets	23.70%
■	Aged Care	7 assets	8.24%

Top 5 tenants (by income)

■	Ramsay Health	21.60%
■	Healthe Care	19.13%
■	Infinite Care	9.76%
■	Healius	8.15%
■	Queensland Government	7.38%

Property lease expiry profile (by income)



Portfolio composition as at 30 September 2020

Property Details			Tenancy Details				Valuation Details			
Address	Note	Lettable Area (sqm)	Major Tenant	Number of Tenants	Occupancy Rate (% by income)	WALE (years by income)	Current Valuation ($m)	Valuation Date	Capitalisation Rate (%)	Book Value ($m)
Direct Properties										
Hospitals										
Peninsula Private Hospital, Langwarrin, VIC	-	27,886	Ramsay Health	1	100.0	29.9	206.00	May-20	5.25	206.22
Mulgrave Private Hospital, Dandenong North, VIC	6	16,605	Healthe Care	1	100.0	27.2	132.50	Jun-20	5.75	132.50
Beleura Private Hospital and Clinic, Mornington, VIC	4	10,414	Ramsay Health	1	100.0	13.8	97.00	Apr-20	5.60	97.12
Brisbane Waters Private Hospital, Woy Woy, NSW	-	8,351	Healthe Care	1	100.0	22.3	52.30	May-20	5.75	52.30
Brunswick Private Hospital, Brunswick, VIC	-	8,000	Healthe Care	1	100.0	8.9	43.75	May-20	5.75	43.91
Robina Private Hospital, Robina, QLD	-	5,854	Healthe Care	1	100.0	20.9	40.90	Jun-20	5.50	40.96
Western Hospital, Henley Beach, SA	-	9,655	Western Hospital	1	100.0	23.1	29.40	May-20	6.50	33.81
Sunshine Day Surgery and Clinic, St Albans, VIC	5	2,432	Fresenius Medical Care	9	100.0	3.4	32.50	May-20	6.00	32.52
Tuggerah Lakes Private Hospital, 645 and 647 Pacific Highway, Kanwal, NSW	-	3,413	Healthe Care	1	100.0	18.3	26.40	May-20	5.75	26.40
Townsville Private Clinic, Townsville, QLD	-	4,897	Healthe Care	1	100.0	17.6	20.85	Feb-20	6.00	23.25
North Shore Specialist Day Hospital, Greenwich, NSW	-	2,190	IVF Australia	1	100.0	2.0	22.75	May-20	6.38	22.92
Hunters Hill Private Hospital, Hunters Hill, NSW	-	2,678	Ramsay Health	1	100.0	15.1	22.50	Apr-20	5.75	22.54
Berkeley Vale Private Hospital, Berkeley Vale, NSW	-	4,146	Ramsay Health	1	100.0	15.1	20.20	Apr-20	6.00	20.25
Figtree Private Hospital, Figtree, NSW	-	7,277	Ramsay Health	1	100.0	15.1	16.85	Apr-20	6.25	16.86
Sub total										**771.56**
Under Development										
Herston Quarter - STARS, Herston, QLD	7	N/A	MNHHS	1	100.0	20.0	440.00	Sep-20	5.25	440.00
Sub total										**440.00**
Medical Centres and Aged Care Facilities										
RPAH Medical Centre, Newtown, NSW	-	7,205	S & K Car Park	60	98.7	2.8	94.00	Apr-20	6.50	94.69
15 Butterfield St, Herston, QLD	-	11,261	Queensland Health	4	100.0	4.9	94.00	Aug-20	6.00	94.52
8 Herbert Street, St Leonards, NSW	-	10,595	Stryker Australia	3	100.0	7.0	69.50	May-20	5.63	69.52
103 Victoria Parade, Collingwood, VIC	-	8,975	Sonic Healthcare	1	100.0	7.5	52.75	Feb-20	5.25	52.76
310 Selby Road North, Osborne Park, WA	-	4,997	Clinipath Pathology	1	100.0	12.5	41.00	Feb-20	6.00	41.43
Manningham Medical Centre, Templestowe Lower, VIC	-	4,940	MMC General Practice	16	91.3	4.8	39.65	Feb-20	6.00	40.84
Primary Greensborough Medical Centre, Greensborough, VIC	-	3,529	Healius	1	100.0	12.5	33.30	Feb-20	5.75	33.30
Edge Hill Orchards Aged Care Facility, QLD	-	11,959	Infinite Care	1	100.0	24.2	31.10	May-20	6.50	31.11
Campus Alpha Building, 2 Investigator Drive, Robina QLD	-	4,423	Horizon Housing	5	55.5	<1	27.00	Feb-20	6.75	27.08
Caravonica Aged Care Facility, QLD	-	8,181	Infinite Care	1	100.0	24.2	24.85	May-20	6.50	24.85
Edmonton Gardens Aged Care Facility, QLD	-	8,687	Infinite Care	1	100.0	24.2	24.85	May-20	6.50	24.85
Mount Lofty Aged Care Facility, QLD	-	8,211	Infinite Care	1	100.0	24.3	23.90	May-20	6.25	23.90
Cornubia Aged Care Facility, QLD	-	8,045	Infinite Care	1	100.0	24.3	23.75	May-20	6.25	23.75
Constitution Hill Aged Care, Northmead, NSW	-	8,668	Australian Unity Care Services	1	100.0	8.2	23.00	Apr-20	7.00	23.16
HIS Diagnostic Imaging Centre, Richmond, VIC	-	1,227	Healius	1	100.0	15.2	21.00	Apr-20	5.25	21.01
2 Short Street, Southport, QLD	-	2,343	Ramsay Health	8	100.0	2.4	17.30	May-20	6.25	17.36
Ipswich Aged Care Facility, QLD	-	4,963	Infinite Care	1	100.0	24.3	17.00	May-20	6.25	17.01
Primary Robina Medical Centre, 1 Campus Crescent, Robina, QLD	-	1,553	Healius	1	100.0	12.7	17.00	Jun-20	5.50	17.00

Property Details			Tenancy Details				Valuation Details			
Address	Note	Lettable Area (sqm)	Major Tenant	Number of Tenants	Occupancy Rate (% by income)	WALE (years by income)	Current Valuation ($m)	Valuation Date	Capitalisation Rate (%)	Book Value ($m)
Direct Properties										
Medical Centres and Aged Care Facilities cont.										
Primary Corrimal Medical Centre, 46-50 Underwood Street, Corrimal, NSW	-	1,496	Healius	1	100.0	11.3	15.90	Jun-20	5.75	15.90
Gosford Private Medical Centre, North Gosford, NSW	-	1,830	Sonic Healthcare	5	77.4	3.4	15.00	May-20	6.75	15.00
Ipswich Medical Centre and Day Hospital, QLD	-	2,780	Ipswich Day Surgery	10	92.5	2.4	14.50	May-20	7.00	14.51
Victoria House Medical Centre, WA	-	2,647	IPN Medical Centres	1	100.0	4.3	12.88	Apr-20	6.00	13.26
Mackay Medical Centre and Day Hospital, Mackay, QLD	8	2,458	Queensland Fertility Group	7	96.9	2.9	13.15	May-20	6.75	13.18
14 Highfields Circuit, Port Macquarie, NSW	-	1,084	Healius	1	100.0	13.3	11.80	May-20	6.00	11.80
1 & 3 Addison Road, Pennington, SA	-	1,137	Healius	1	100.0	12.6	9.10	Feb-20	5.75	9.10
80-82 Bridge Road and 3 & 5 Rotherwood Street, Richmond, VIC	9	-	Healius	1	100.0	<1	8.30	Feb-20	5.25	8.33
Eureka Medical Centre, Ballarat, VIC	-	1,504	Healius	1	100.0	4.9	8.00	Apr-20	6.25	8.01
7 Vidler Avenue, Woy Woy NSW	-	387	Luckstar	1	100.0	5.2	2.40	May-20	6.00	2.40
Sub total										**789.63**
Assets Held Pending Development										
38-40 Orth Street, 1-5 Hargrave Street & 26 Somerset Street, Kingswood, NSW	-	N/A	Private Tenants	5	83.4	N/A	9.23	Jun-20	N/A	9.91
566 Olsen Avenue Molendinar, QLD	18	N/A	N/A	1	100.0	9.7	8.00	Mar-20	N/A	8.82
Herston Private Hospital, Herston, QLD	15	N/A	N/A	0	-	N/A	6.57	Feb-20	N/A	6.59
1, 1A, and 1B President Road, Kellyville, NSW	-	N/A	N/A	1	100.0	10.0	4.05	Jul-20	N/A	4.34
34 Investigator Drive, Robina, QLD	14	N/A	N/A	0	-	N/A	4.24	Feb-20	N/A	4.25
Lot 907, Oceanside Health Hub, Birtinya QLD	17	N/A	N/A	0	-	N/A	3.60	Sep-20	N/A	3.60
70 Moreland Road, Brunswick, VIC	16	N/A	N/A	0	-	N/A	1.20	May-20	N/A	1.20
93 Davies Street, Brunswick, VIC	16	N/A	N/A	0	-	N/A	0.91	May-20	N/A	0.91
101 Herbert Street, Mornington, VIC	10	186	Ramsay Health	1	100.0	5.0	0.78	Apr-20	N/A	0.78
24 Gillon Court St Albans, VIC	13	N/A	N/A	0	-	N/A	0.75	May-20	N/A	0.75
99 Herbert Street, Mornington, VIC	10	N/A	Private Tenant	1	100.0	<1	0.68	Apr-20	N/A	0.68
103 Herbert Street, Mornington, VIC	10	N/A	Private Tenant	1	100.0	<1	0.68	Apr-20	N/A	0.68
105 Herbert Street, Mornington, VIC	10	N/A	Private Tenant	1	100.0	<1	0.68	Apr-20	N/A	0.68
15 Dwyer Avenue, Woy Woy, NSW	12	N/A	Private Tenant	1	100.0	<1	0.58	May-20	N/A	0.58
651 Pacific Highway, Kanwal, NSW	11	N/A	N/A	0	-	N/A	0.57	May-20	N/A	0.57
3 Wiowera Street, Kanwal, NSW	11	N/A	N/A	0	-	N/A	0.35	May-20	N/A	0.35
1 Wiowera Road, Kanwal, NSW	11	N/A	N/A	0	-	N/A	0.34	May-20	N/A	0.34
Sub total										**45.03**
Direct Properties Total										**2,046.22**
Listed property										
Arena REIT										68.69
Total Listed property										**68.69**

Cash and other assets						
Cash and cash equivalents						16.97
Class A cash reserve						40.52
Loan receivables[19]						128.13
Other						24.13
Total Cash and other assets						**209.75**
Total (T) / Weighted Average (A)	**172 (T)**	**98.3 (A)**	**14.6 (A)**	**0.0 (T)**	**5.75 (A)**	**2,324.67 (T)**

Notes

1 Valuation Policy - 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 Fund direct properties each year and, for assets under development, within an 18-month period. 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.
2 Weighted Average Lease Expiry (WALE) by base rental income. Vacancies are valued at market income. Assets under development excluded.
3 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 stabilised 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.
4 Beleura Hospital now includes property formerly known as 95 Herbert Street following amalgamation of titles for future redevelopment. Lettable area includes 1560 Stumpy Gully Rd Moorooduc.
5 Valued on a project related site value basis. Property now reflects consolidation of land holdings formally referred to as 2, 4 Ginifer Court, St Albans and 13,15 Gillon Court, St Albans.
6 Property formally known as The Valley Private Hospital.
7 Development site with pre-commitment from MNHHS, cap rate on completion.
8 Includes a parcel of vacant land, 1/3 Discovery Lane, North Mackay valued at $0.75 million as at May 2020.
9 Development site subject to pre-commitment from Healius.
10 Properties adjoining Beleura Private Hospital, Mornington, VIC.
11 Land held for future expansion of Tuggerah Lakes Private Hospital.
12 Property adjoining Brisbane Waters PH carpark.
13 Property adjoining Sunshine Day Surgery and Clinic, St Albans, VIC. This property is earmarked as future development space.
14 Development site.
15 Leasehold site for proposed Herston Private Hospital.
16 Property adjoining Brunswick Private Hospital.
17 Development site earmarked for future Medical facility
18 Property purchased for development of Healthcare-related asset.
19 From time to time, the Trust may invest in loans, for example to assist with funding the fit out of aged care facilities. These loans are made on an arm's length basis.

Property development

The Trust seeks to enhance its existing properties 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.

Some of the more significant developments are detailed below:

Surgical, Treatment and Rehabilitation Service (STARS), Herston, QLD

Construction work on the STARS development reached Technical Completion on 26 August 2020. Commercial Acceptance and Stage Completion was achieved on 4 November 2020 upon which time, rent commencement and transition of control was handed to Metro North Hospital and Health Service (MNHHS).

Beleura Private Hospital, Beleura, VIC
Estimated cost to complete: $22.0 million

The $22.0 million brownfield expansion is progressing well although slightly behind schedule due to workforce construction site caps put in place during Victoria's COVID-19 lockdown. Completion of consulting suites is occurred in November 2020 with the balance of the works anticipated to reach completion by late July 2021.

Sunshine Private Hospital & Medical Centre, St Albans, VIC
Estimated cost to complete: $99 million

An amended planning permit was lodged with council with approval expected by mid-December 2020. An Early Contractor Involvement (ECI) tender has been completed with Built Pty Limited selected and approved for the design component. Leasing negotiations and agreements are continuing.

Townsville Private Clinic, Townsville, QLD
Estimated cost to complete: $0.30 million

Practical completion for the 13-bed mental health expansion occurred on 18 September 2020. Final progress payments and amended lease documentation is currently being finalised.

Western Hospital, Henley Beach, SA
Estimated cost to complete: $7.4 million

Works for the hospital's $7.4 million fourth operating theatre remain on track with practical completion anticipated in April 2021. These works will be rentalised at 7.0%. A $3.3 million increase to the cost cap for infrastructure works has also been approved and is underway simultaneously to the fourth operating theatre. The additional infrastructure works will be rentalised at 6.5%.

Kingswood Private Hospital, Kingswood, NSW
Estimated cost to complete: $38.0 million

Following settlement in October 2020, works will commence on a new 90 bed private hospital to be leased to Matilda Health Care for 30 years. Initial Project Control Meetings have been established to commence by late March 2021.

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 will generally be conducted once every 18 months if the property is in construction phase and otherwise, at least once in a financial year unless exceptional circumstances exist;
- 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 Management of Conflicts and Related Party Transactions Policy.

Related party transactions carry a risk that they could be assessed and reviewed less rigorously than transactions with non-related 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 quantum of related party payments is reported yearly as part of the Trust's Annual Report.

For further information about the Management of Conflicts and Related Party Transactions 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 other service providers to undertake these functions.

From 1 July 2020 to 30 September 2020, $0.13 million has been paid to AUPM for services provided.

Herston Development Company (HDC)

The Trust has established a sub trust for the purpose of developing the STARS. The trustee for the sub trust is 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.

The sub trust has reimbursed HDC for costs associated with the development of STARS. From 1 July 2020 to 30 September 2020 the amount charged to the Trust was $0.08 million (excluding GST).

Loan receivables

The Trust provides loans to Herston Car Park Company Pty Ltd ABN 98 617 138 833 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 comprised of construction costs and interest component. The interest is calculated on a compound accrual 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 STARS development works.

As at 30 September 2020 the loan balance was $42.20 million, including interest capitalised from 1 July 2020 to 30 September 2020 of $0.21 million.

Other related party service providers

AUFM charges the Trust for administration expenses (audit fees inclusive) as per the relevant Product Disclosure Statement. We estimate these costs to be 0.20% p.a. of the gross asset value of the Trust.

From 1 July 2020 to 30 September 2020, the amount charged to the Trust was $0.90 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	AUL

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 30 September 2020, related parties held interests in the Trust of:

Name of related entity	$ value (M)	% of Fund's assets
Australian Unity Property Income Fund	8.11	0.49%
Lifeplan Friendly Society	5.19	0.31%
Pro-D Balanced Fund	2.85	0.17%
Pro-D Growth Fund	1.74	0.11%
Pro-D High Growth Fund	0.65	0.04%

As at 30 September 2020 the Trust held investments in related parties of:

Name of related entity	$ value (M)	% of underlying fund
Australian Unity Wholesale Cash Fund	19.61	2.98%
Australian Unity Sustainable Enhanced Cash Fund	26.80	5.70%

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 Management of Conflicts and Related Party Transactions 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 twelve months ended 30 June 2020.

	Actual $(M)
Net profit	97.34
Valuation changes[1]	(43.28)
Interest rate derivative changes	(2.41)
Other[2]	12.65
Fund from operations	64.30
Distributions declared	67.32

1. Valuation changes include direct property revaluations, listed property trusts unrealised/realised valuation changes and rental straight-line adjustments.
2. Other includes interest rate derivatives / swaps break costs paid.

The distributions declared at 30 June 2020 exceeded the available FFO. The excess was funded from capital due to the temporary drop in income. The temporary reduction in income was a result of the active development of STARS, Herston not earning any income during the period. 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 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.

Withdrawal rights

Disclosure Principle 7 – Withdrawal rights

Retail and Wholesale Units

Under 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.

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.

Suspension of withdrawals

While the Trust is liquid, the Trust's Constitution allows up to 365 days to meet withdrawal requests for Retail 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 australianunity.com.au/wealth.

Contact us

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