

Healthcare Property Trust – Retail Units

Fund Update
30 September 2020



Victoria House Medical Centre, East Victoria Park, WA

Fund Facts as at 30 September 2020

September Quarter Distribution	Unit Price	Gross Asset Value	Gearing Ratio
2.0250 cents per unit (CPU) (2.0800 CPU June 2020 quarter)	\$1.9596 exit price (cum distribution)	\$2,324.67 m (\$2,195.95m at 30 June 2020)	28.04% (26.29% at 30 June 2020)

Portfolio Occupancy	Weighted Average Lease Expiry (WALE)	Number of Tenants
98.3% leased by income	14.6 years by base rental income	172

Ratings / Awards



Performance as at 30 September 2020

	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception % p.a.
Distribution return	1.08	4.36	4.87	5.49	5.97	6.29	7.55
Growth return	3.33	4.60	4.57	6.43	5.47	3.65	3.17
Total return	4.41	8.96	9.44	11.92	11.44	9.94	10.72

Inception date for performance calculations is 30 June 1999.

Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.

Contribution summary as at 30 September 2020

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

Contributor	3 mths %	1 yr %
Property revaluations	2.47	4.55
Interest Rate Swaps (realised and unrealised marked to market movements)	(0.04)	(0.45)
Unrealised gains/(losses) on investments in listed/unlisted trusts	0.86	(0.13)
Other	0.04	0.63
Growth return	3.33	4.60

Return calculations are based on actual distributions reinvested, which may vary slightly to the performance table illustrated above. Past performance is not a reliable indicator of future performance. Property revaluations are calculated in accordance with accounting standards and includes capital expenditure, lease incentives and/or commissions (both of which are amortised). Represents the increase/decrease from the property book value immediately prior to valuation. 'Other' may include: retained earnings during the period, swap break costs, estimated gains distributed, realised gains/losses on property, distributions from prior period retained earnings, realised gains/losses from unlisted property trusts and non-material movements.

Key direct property statistics as at 30 September 2020

Geographical allocation (by value)

State	No. assets	%
VIC	18	33.35
QLD	19	41.85
NSW	19	20.03
WA	2	2.67
SA	2	2.10
Total	60	100.00

Sector allocation (by value)

Sector	No. assets	%
Hospital	14	37.71
Medical Centre or Medical Office	21	30.35
Development Site	18	23.70
Aged Care	7	8.24
Total	60	100.00

Top 5 tenants (by income)

Tenant	%
Ramsay Health	21.60
Health Care	19.13
Infinite Care	9.76
Queensland Government	7.38
Healius	8.15
Total	66.02

Property data

Number of properties	60
Total number of tenants	172
WALE (by income)#	14.6 yrs
Occupancy rate (by income)	98.3%

Excludes assets under development.

Financials

	\$m
Gross assets	2,324.67
Total debt	651.90
Other liabilities [^]	37.13
Net assets	1,635.64

[^] Other liabilities include a provision for the distribution.

Debt

Gearing (RG 46 ASIC definition)	28.04%
Loan-to-Value Ratio (LVR) (Financier's definition)	35.02%
Interest Cover Ratio (ICR) (RG ASIC definition)	6.64 times
Hedging (% of debt hedged)	62.59%

Valuations

Valuations during the quarter	3
Change in total direct property book value*	3.72%
Change in book value of the properties revalued*	14.44%

* Change in book value over the quarter includes revaluation impacts along with capital expenditure and other minor variations but excludes acquisitions and disposals.

Market commentary

The past six months of 2020 can best be described as a roller coaster, as investment markets along with everyone's emotions were dragged along for the ride. There appears to be a growing divergence between properties based on quality and income security, with buyers placing a greater level of importance on strong tenant covenants and lease duration.

We are witnessing a growing disconnect between public and private markets at present, with many 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. In terms of listed Healthcare, the opposite is true with high demand for these income generating assets. Arena REIT (ARF) has a small allocation to medical properties, with the balance of its assets predominantly childcare properties and Vital Healthcare (VHP), listed in New Zealand is the owner of a substantial portfolio of Australian hospital and medical properties, both listed stocks are currently trading at around 20% premiums to June asset backing.

Australia's economy officially entered its first recession in almost 30 years. In August, unemployment was 6.8% after posting unemployment at 7.5% in July, undoubtedly masked by government stimulus such as the JobKeeper program.

The Reserve Bank of Australia (RBA) maintained interest rates at 0.25% into September while there is an expectation it is to remain on hold in the near term. Some economists are now calling for further cash rate cuts to as low as 0.10%. Markets seem to be responding by also pricing in an additional RBA cut with the 3-year Government Bond rate moving to around 15 basis points. Fiscal and monetary policy actions initiated in response to the COVID-19 carnage continue to support the Australian financial and economic systems in the near term.

The stimulus packages provided by the State and Federal Governments appear to have contributed positively to sentiment. NAB Business Conditions and Consumer Confidence fell sharply in March and April before recovering later in the year although more recently the lockdown in Melbourne has had an impact on sentiment.

The Australian 10-year bond yield declined slightly over the quarter to 0.79%, well down from a year ago of 1.02%. The enduring low interest rate environment is anticipated to remain supportive of the commercial property sector. However, the Australian dollar has continued to appreciate versus the US dollar potentially reducing the attractiveness of Australian assets to offshore investors.

Portfolio activity for this quarter

Property Valuations

Three independent valuations were undertaken during the September 2020 quarter resulting in a net increase of \$38.16 million or 7.76% from the properties book value immediately prior to the valuation. These valuations included:

- **15 Butterfield Street, Herston, QLD** – The property's value increased by \$12.44 million or 15.3% from the book value prior to valuation. This increase is the result of the re-signing of a

five-year lease renewal with the anchor tenant, Queensland Health, and the tightening of the property's capitalisation rate.

- **Surgical Treatment and Rehabilitation Service (STARS), Herston, QLD** – STARS reached technical completion during the quarter resulting in the property's valuation increasing by \$26.09 million or 6.3% from the book value prior to valuation and \$69.0 million or 18.6% from the previous independent valuation. The increase in valuation is primarily due to development expenditure and the capitalisation rate firming 25 basis points.
- **Lot 507 corner Eccles and Florey Boulevards, Birtinya, QLD** – The property's value decreased by \$405,342 or -10.1% from the book value prior to valuation. The decline against book value represents the write-off of acquisition costs

Approximately 83% of the Trust's direct asset portfolio was independently valued during the June 2020 quarter. The Trust intends to independently value 23% of the direct property portfolio during November 2020 in line with our normalised rotation of property valuations.

Acquisitions

During the quarter, the Trust exchanged or settled on the following properties:

- **38 – 40 Orth Street, 26 Somerset Street and 1 – 5 Hargrave Street, Kingswood, NSW** – On 19 August 2020, the Trust settled the acquisition of a number of residential land parcels located opposite Nepean Public Hospital for \$9.225 million (plus acquisition costs). The properties will be consolidated and developed for a healthcare related use.
- **39–43 Orth Street, Kingswood, NSW** – During September, contracts were exchanged to acquire a site, comprising 3 land titles, located opposite Nepean Hospital for \$4.65 million (plus acquisition costs). Settlement is anticipated in October 2020
- **Victoria House Medical Centre, 734 Albany Highway, East Victoria Park, WA** – on 17 September 2020, the Trust acquired a two-storey medical centre, fully leased to IPN Medical Centres Pty Ltd (a member of the Sonic Healthcare Group) for \$12.63 million (plus acquisition costs).
- **1A & B President Road, Kellyville, NSW** – On 29 September 2020, the Trust acquired a 3,593 square metre land parcel for \$4.05 million (plus acquisition costs). The site will be subject to a future development.

Property Development

- **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 is expected in early November 2020 upon which time, rent commencement and transition of control will be handed to Metro North Hospital and Health Service (MNHHS).
- **Beleura Private Hospital, Mornington, VIC** – 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 expected 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** – During the quarter, an amended planning permit was lodged with council with approval expected by mid-December 2020. Tender documentation has also been issued to a select group of builders with submissions expected by late October 2020. User group meetings have been established to finalise design. Leasing negotiations and agreements for lease are underway.
- **Townsville Private Clinic, Townsville, QLD** – 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** – 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 \$3.3million 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** – 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 with early works and demolition to occur in late November 2020, tendering of the building contract and construction to commence by late March 2021.

In addition to the above developments, the Trust continues to progress planning and design for recently acquired sites at Birtinya (QLD), Meadowbrook (QLD), Kingswood (NSW) and Molendinar (QLD). In conjunction with our hospital operators, master planning for future expansion at Peninsula Private Hospital (VIC), Tuggerah Lakes Private Hospital (NSW) and Robina Private Hospital (QLD) will be progressed over the year.

Other Activity

Over the September 2020 quarter, the lease to QLD State Government was renewed at 15 Butterfield Street, Herston, QLD resulting in the WALE extending to 4.9 years. Terms have also been agreed with Health Care Australia Pty Ltd to extend the Hospital lease at Brunswick Private Hospital, Brunswick, VIC. Lease documentation is currently being finalised and will be reflected in the December 2020 Fund Update pending its execution.

We continue to monitor potential impacts of the COVID-19 pandemic particularly across our Victorian portfolio. Where appropriate, the Trust has in place a number of COVID-19 rental assistance packages which may include a combination of rental deferral, waiver or lease extensions.

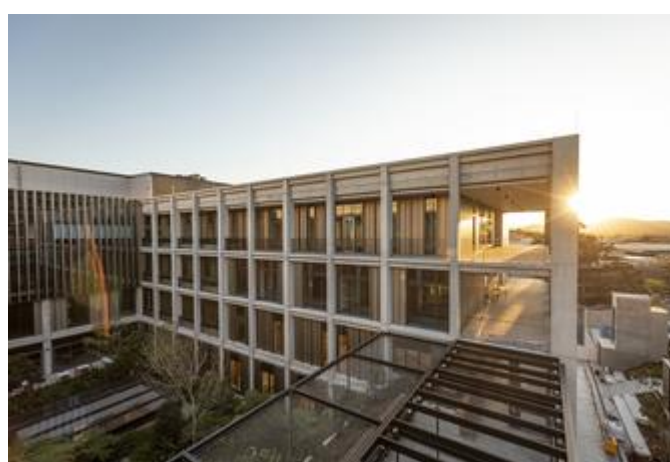
Outlook

The healthcare property sector has not been immune to the impacts of the COVID-19 pandemic however with the exception of Victoria, elective surgeries have resumed with caps expected to progressively ease for Victorian operators over the last quarter of 2020.

Over the long term, a continuation of pent up demand for allied health services and elective surgery which will ultimately underpin increased revenues and profits to practitioners and hospital operators in the coming months.



15 Butterfield Street, Herston, QLD



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

Fund portfolio 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	Health 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	Health Care	1	100.0	22.3	52.30	May-20	5.75	52.30
Brunswick Private Hospital, Brunswick, VIC	-	8,000	Health Care	1	100.0	8.9	43.75	May-20	5.75	43.91
Robina Private Hospital, Robina, QLD	-	5,854	Health 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	Health Care	1	100.0	18.3	26.40	May-20	5.75	26.40
Townsville Private Clinic, Townsville, QLD	-	4,897	Health 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	Healio	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	Healio	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	Healio	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										789.65
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										45.01
Direct Properties Total										2,046.23
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	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)
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Notes

- 1 Valuation Policy - Regular valuation of underlying property assets is an important aspect of managing the Fund. 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.

Contact us

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Important Information

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