Fund Update

Retail Property Fund – Retail Securities

31 March 2019

The Fund comprises a quality portfolio of retail properties, collectively with approximately 200 retail tenancies, including many of Australia's successful retail brands. The Fund aims to deliver a stable income distribution over the long term, as well as capital growth.

Fund manager of the Year finalists announced
Money Management and its research partner Lonsec have named Australian Unity's **Retail Property Fund** as a finalist in their 2019 Fund Manager of the Year Awards.

Caltex Twin Service Centres Sydney to Newcastle (F3) Freeway, NSW

Fund Facts as at 31 March 2019

March Quarter Distribution	1.30 cents per security (CPS) (1.30 CPS December 2018 qtr)
Unit Price	$1.1251 exit price (cum distribution)
Gross Asset Value	$326.59m ($324.48m at 31 December 2018)
Portfolio Occupancy	93.54% leased by income
Weighted Average Lease Expiry (WALE)	8.43 years by base rental income
Gearing Ratio	35.58% (34.12% at 31 December 2018)

Forecast Distribution Range

(for the year to 31 March 2020)

4.3% – 4.6%

The distribution return range forecasts are for the full year to 31 March 2020 and are made on the basis of a number of assumptions and estimates. The assumptions and estimates are updated quarterly. The forecast distribution return ranges are not guaranteed and are provided only to indicate current distribution projections for the Fund.

We emphasise that investment decisions should not be based on forecast returns, past performance, distribution rate, or the ratings given by a ratings agency for the Fund, since these can vary, and are current only to the date of this publication. For more information on the basis for the Fund's forecast distribution return ranges, refer to the "Forecast distribution range" link on the Fund's webpage. You can find the Fund's webpage in the 'Find a Fund' section of our website – www.australianunity.com.au/wealth. If you do not have access to the internet, please call our Investor Services team and a printed copy can be provided to you.

This document is dated 24 April 2019. The financial information in this Fund Update is extracted from the Fund's accounting and property management records at 31 March 2019 and is based upon unaudited financial records unless stated otherwise. Past performance is not a reliable indicator of future performance.

Performance as at 31 March 2019 (Retail Securities)

	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	Since inception % p.a.
Distribution return	1.17	5.91	8.19	9.85	7.99
Growth return	(0.03)	18.69	13.69	7.91	1.06
Total return	**1.14**	**24.60**	**21.88**	**17.76**	**9.05**
Estimated benchmark return	1.08	5.14	8.17	9.43	8.72

Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance. Inception date for performance calculations is 31 August 2009. The benchmark return is the Property Council/IPD Australian Retail Property Index total return to 31 December 2018 and an estimate for the March 2019 quarter.

Attribution summary as at 31 March 2019

The relative contribution of major variables on growth returns over the last quarter and year is shown in the table below.

Period to 31 March 2019	Last 3 mths % change	Last 12 mths % change
Property revaluations	0.00	19.67
Interest Rate Swaps (realised and unrealised marked to market movements)	(0.07)	0.04
Unrealised gains/losses on investments in listed/unlisted trusts	0.12	0.75
Performance fee	0.00	(1.94)
Other	(0.08)	0.17
Growth return	**(0.03)**	**18.69**

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) and 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 31 March 2019

Property data	
Number of properties	3
Total number of tenants	195
WALE (by income)	8.43 yrs
Occupancy rate (by income)	93.54%
Valuations	
Valuations during the quarter	0
Debt	
Total debt	$116.20m
Gearing (RG 46 ASIC definition)	35.58%
Interest Cover Ratio (ICR) (RG46 ASIC definition)	2.53 times
Hedging (% of debt hedged)	60.24%
Top 5 tenants (by income)	
Caltex	31.65%
Woolworths	8.87%
Coles	6.69%
Target	2.63%
Kmart	2.56%
Others (excluding vacancy)	47.60%
Total	**100.00%**

Artist impression of Blackburn North Shopping Centre, VIC

Market commentary

The Reserve Bank of Australia (RBA) continues to leave the cash rate on hold at 1.50 percent for another quarter. As we have highlighted on previous occasions, the RBA remains firmly on hold until inflation and wages growth picks up and the unemployment rate reduces. In addition, recent tightening in bank lending conditions and a resulting residential housing slowdown coupled with an upcoming Federal election have added further cause to this thematic.

Positively, the unemployment rate has edged lower to 4.95 per cent. This reading has led the RBA to remain largely positive for now on the jobs front. It appears though that labour market lead indicators are showing signs of slowing. The growth in jobs being advertised is easing, implying employment growth is likely to slow in the period ahead. Additionally, house price falls plus a reduction in new residential commencements is also likely to impact employment growth going forward. A Mexican standoff appears at hand between the RBA's current read on the economy and the markets' perception.

Economic commentators are now anticipating likely RBA rate cuts in the second half of the year. The NAB business survey recorded a soft reading in February, with the business confidence index falling from +4 to +2 and business conditions falling from +7 to +4. The Westpac consumer confidence index fell from 103.80 in February to 98.80, also showing signs of weakness. Underlying inflation and domestic growth as measured by gross domestic product remains lacklustre with global trade also recently slowing.

Market perceptions on the direction of the domestic economy plus global headwinds (such as US and China trade tensions and Brexit) has resulted in the 10 year bond yield tapering off to 1.80 percent from 2.30 percent over the quarter.

The retail sector has become somewhat more interesting of late as a divergence between the pricing of good and ordinary assets is clearly evident. Retail assets in good catchments displaying solid fundamentals continue to attract tenants, remain fully occupied and continue to grow sales and foot traffic. Lesser quality retail offerings have begun to see their market position eroded, although even these secondary retail properties are finding favour amongst more entrepreneurial investors prepared to shrink the retail footprint and unlock the value in the underlying land.

Of note during the quarter Coles has entered into an exclusive partnership with specialist online retail group Ocado to gain access to Ocado's technology for online retail sales fulfilment. This move is significant because it highlights to the market that Coles (and for that matter Woolworths) are unlikely to sit by and watch international and online competitors take market share from them without a strong response. This tie up with Ocado is anticipated to add to Coles' home delivery capability and improve profit margins. Ocado is a UK based online grocery retailer established over 16 years ago.

Also during the quarter, Woolworths announced 30 Big W store closures within its network. This represents 16 percent of its overall store count. Stores to be closed are yet to be announced, although it is stating the obvious that the most unprofitable or poorly performing stores are to close. This store rationalisation was a long time in the making and suggests Woolworths' management team is focused on the long term viability of the Big W business. From a landlord's perspective the hand back of space for some will be beneficial allowing them to capture greater value by carving up the low rent paying Big W space.

Portfolio activity during the last quarter

Property divestments

Investors were informed in October 2018 that negotiations for the sale of Waurn Ponds Shopping Centre in Victoria were continuing with a number of parties. The intention is to continue negotiations to maximise returns for investors in the Fund.

The Waurn Ponds Shopping Centre is a strong performing, dominant sub regional shopping centre in Victoria. It is anchored by leading retailers Kmart, Target, Woolworths, Coles and Reading Cinemas, offering the superior consolidation of these retailers across the total trade area following the redevelopment of the property in 2014.

The Centre has a strong patronage within the total trade area, currently receiving approximately 8 million visits from customers each year and over $300 million in turnover.

Property development

North Blackburn Shopping Centre, Blackburn, VIC – We have lodged a Development Application with the City of Whitehorse to redevelop the Centre and continue to work with the City of Whitehorse to satisfy the development application requests for information. We anticipate a development approval in the first half of 2019. The redevelopment will see a full refurbishment of the 50 year old neighbourhood centre, including upgrading the existing amenity to include additional community services, such as medical, a food and beverage entertainment precinct and a newly refurbished and expanded national supermarket offering.

The Centre redevelopment for the major works are programmed to commence once the Development Application is received. Early works to relocate and reconfigure a number of existing specialties have commenced in accordance with new lease agreements.

Outlook

Despite retail development pipeline moderating, landlords continue to reposition and enhance amenity to generate increased retail sales and rental growth. Physical retail remains a critical aspect in the Australian economy and creating unique spaces and different retail offers, such as entertainment experiences, food and beverage and events, will continue as necessary initiatives to create a point of difference for customers to continue to enjoy the physical experience at shopping centres.

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