Core Property
Fund Research & Ratings
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Unlisted Property Fund Report

Australian Unity Diversified Property Fund

June 2018

Diversified property fund offering ~6.8% distributions with upside potential from development opportunities

Australian Unity Diversified Property Fund

Contents

About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research cover sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

IMPORTANT NOTICE

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For further information, please refer to the Disclaimer & Disclosure notice at the end of this document.

Australian Unity Diversified Property Fund

June 2018

Recommended

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable Funds and not across all products

The Australian Unity Diversified Property Fund ("the Fund") is an open-ended property fund that invests primarily in a diversified portfolio of direct commercial properties, supported by investments in listed and unlisted property trusts. The Fund was established in August 2006 and, since 30 September 2010, has been managed by Australian Unity Property Limited as the Manager and Responsible Entity ("Manager", "RE").

The Fund's objective is to deliver a stable income stream that is at least 1% p.a. above the average Commonwealth Government 10-year bond yield on a rolling five-year basis, and a total return above the Mercer/IPD Australia Unlisted Wholesale Property Fund Index.

As an open-ended fund, investors can purchase units at the daily price. The Entry Price is based on the net asset value of the Fund plus a 0.5% spread to cover costs.

The Fund has a target portfolio allocation to Direct Properties (70% - 100%), Listed Australian REITs (0% - 15%), Unlisted Property Trusts (0% - 20%) and Cash and Other Assets (0% - 20%). The current portfolio is valued at $343.3M with 90.1% in Direct Properties, 6.2% in a listed A-REIT, 1.1% in an unlisted property fund and 2.6% in cash.

The Direct Properties include 3 retail, 2 office and 3 industrial sites, with an average occupancy of 98.9%, a portfolio capitalisation rate of 7.02%, and a WALE of 3.8 years at 31 March 2018. Over the next few years the Fund will be looking at major development opportunities at its Busselton WA (shopping centre) and Carlton, Vic (office) properties, which would require additional capital and be expected to provide potential valuation upside to the portfolio.

The Fund is targeting an annual distribution yield of 6.5% - 6.9% for the 12 months to March 2019. Distributions are paid quarterly, and the Manager has initiated a quarterly Withdrawal Facility of up to 2.5% of the Net Asset Value of the Fund.

Fees currently charged by the Fund are competitive, and at the low end of the market.

Core Property estimates that for every $1.00 invested, unitholders can expect to receive a total return of $1.46 over an estimated five year period. This consists of $0.34 per unit in distributions and a capital gain of $0.12 per unit, assuming the Direct Properties portfolio capitalisation rate remains at 7.02%.

Core Property estimates the pre-tax equity IRR to be between 6.8% - 11.0% (midpoint 9.0%) over an estimated five-year period, based on the current portfolio (see *Financial Analysis* section). The analysis includes the potential that investors may receive a capital gain or loss, based on market conditions, and does not include any returns from the potential developments. The Fund is open ended and Core Property is unable to assess the impact of any acquisitions or disposals that may impact the Fund over its term.

Investor Suitability

In Core Property's opinion this product would be best suited to investors who seek an income focus backed by a suite of diverse commercial property assets. Capital growth is expected to be supplemented by development activity at select properties in the short term.

Core Property considers the Fund to offer limited liquidity with the Manager offering a withdrawal facility of up to 2.5% p.a. of the Fund's net asset value every quarter in normal operating conditions. This facility is discretionary, and the Manager is not obliged to offer it each year, however the Manager has provided a capped liquidity each year for the past seven years since taking over as RE. Core Property believes investors should consider unlisted property funds to be generally illiquid.

Fund Details

Offer Open:	Open
Offer Closes:	No close date
Min. Investment:	$5,000
Unit Entry Price:	$0.9999 (1 June 2018)
Unit Exit Price:	$0.9899 (1 June 2018)
Liquidity:	Up to 2.5% of NAV each quarter[1]
FY19 Forecast Distributions:	6.80 cpu
Distribution Frequency:	Quarterly
Fund Investment Period:	Open

1. The withdrawal offer is at the discretion of the responsible Entity and is subject to the financial capacity of the Fund.

Fund Contact Details

Nikki Panagopoulos
Fund Manager
npanagopoulos@australianunity.com.au
Phone: 03 8682 4442

Note: This report is based on the Australian Unity Diversified Property Fund Product Disclosure Statement dated 6 February 2018, together with other information provided by Australian Unity.

Key Considerations

Experienced Management: The Fund is managed by the Australian Unity Group which currently has over $3.2B of Funds Under Management and manages over 75 properties across Australia. Core Property considers the management team to be well regarded, sufficiently resourced, with a good track record of performance since 1998. Fund returns have been strong and comfortably exceeding the Fund's benchmark during Australian Unity's management of the Fund (commencing in 2010).

Open ended unlisted Fund with a diversified portfolio: The Fund is open ended and currently has a portfolio of eight direct property assets, plus two smaller investments in an unlisted and a listed property fund (both of which are managed by Australian Unity). The portfolio is subject to change, which may impact overall returns investors for investors.

Investment Portfolio: The Fund's strategy is to invest primarily in direct properties (70% - 100%), supplemented by listed property investments (0% - 15%), unlisted property investments (0% - 20%) and cash (0% - 20%). The Fund currently invests 90.1% of its portfolio in eight properties with a book value of $309.3M, with a portfolio occupancy of 98.9% and weighted average lease expiry of 3.8 years. The properties are diversified across the retail, office and industrial sectors in WA, VIC, QLD and NSW. The Dog Swamp Shopping Centre at Yokine, WA recently completed an extension and the Fund is currently looking at development opportunities at its Busselton Central Shopping Centre, WA and its office property at 200 Victoria St, Carlton Vic, which have the potential to add value to the portfolio and would require additional capital funding. The Fund also invests around 6.2% of its portfolio in the ASX listed Australian Unity Office Fund (ASX: AOF); 1.1% of the portfolio is in the unlisted Australian Unity Rockdale Property Fund, and 2.6% is held in cash.

Distributions: Based on the Manager's assumptions of the current portfolio, distributions are estimated at around 6.8 cents p.a. during FY19.

Fees: Core Property considers the fees charged by the Fund to be low, compared to its peers in the industry (see Figure 4: Fees in Perspective).

Total return profile: Core Property estimates the pre-tax equity IRR to be between 6.8% - 11.0% (midpoint 9.0%) over an estimated five-year period, based on the Fund's sensitivities to debt and capitalisation rates (see the *Financial Analysis* section). Investors may receive a potential capital gain or loss, depending on market conditions.

Leverage: The Fund has a debt facility of up to $155M and has drawn $138.8M with an LVR of 45.1% against a bank covenant of 55%. Core Property calculates the properties will need to fall by around 18.1% before the bank LVR covenant is reached. Around 64.8% of debt is hedged until April 2023 at an all-in cost of debt of 4.25% (FY19).

Partial Liquidity: The Manager has initiated a Capped Withdrawal Facility of up to 2.5% p.a. of the Net Asset Value of the Fund each quarter. The offer is subject to the financial capacity of the Fund and may be withdrawn or suspended at the discretion of the Manager. As such, investors should consider the Fund as offering limited liquidity as there is a risk that investors may not be able to access the withdrawal offer during the investment timeframe (deceased estates may seek a full withdrawal, see *"Liquidity/exit strategy"*)

Related party transactions: The Fund has $24.9M invested in two property funds which are also managed by Australian Unity (the ASX listed Australian Unity Office Fund and the unlisted Australian Unity Rockdale Property Trust). The Fund also draws upon the services from other Australian Unity entities for the management of the Fund. Core Property notes that the pricing of these services are undertaken on an arms-length commercial basis and reviewed by an independent compliance committee.

Investment Scorecard

Investment Scorecard	
Management Quality	★★★★★
Governance	★★★★☆
Portfolio	★★★★☆
Income Return	★★★★☆
Total Return	★★★★☆
Gearing	★★★☆☆
Liquidity	★★★☆☆
Fees	★★★★★

Fund Structure

An open ended unlisted property fund investing in a diversified portfolio of direct properties, unlisted and listed property funds and cash. The Fund has a daily unit pricing and currently offers a quarterly withdrawal facility.

Management

Experienced and well-respected property fund manager, part of the Australian Unity Group with over $3.2B of funds under management.

31 March 2018	Direct Property	Listed Property Funds	Unlisted Property Funds	Cash	Total Portfolio
Target allocation:	70-100%	0-15%	0-20%	0-20%	100%
Actual Allocation:	90.1%	6.2%	1.1%	2.6%	100%
Holdings:	8 properties	1 Fund	1 Fund	Cash	
Book Value:	$309.3M	$21.3M	$3.6M	$9.1M	$343.3M
Property Location:	NSW, QLD, WA, VIC	NSW, SA, VIC, QLD, ACT	NSW	NA	NSW, QLD, WA, VIC, SA, ACT
Property Sector:	Office, Retail, Industrial	Office	Retail	NA	Office, Retail, Industrial
Key Tenant:	Coca-Cola	Telstra	Fitness First	NA	Coca Cola
Occupancy	98.9%	94.4%	100%	NA	
WALE:	3.8 years	4.5 years	6.5 years	NA	

Return Profile

Forecast Distribution:	FY19: 6.8 cents per unit FY20: 6.8 cents per unit
Distribution Frequency:	Quarterly, in arrears
Tax advantage:	est. 55% tax deferred distributions
Estimated Levered IRR (pre-tax, net of fees):	6.8% - 11.0% (midpoint 9.0%)
Investment Period:	The Fund is open-ended, but is typically suited to investors who have at least a five year investment outlook.

Risk Profile

Property/Market Risk:	Capital at risk will depend on a portfolio of eight properties in NSW, Qld, WA and Vic. Investors will be exposed to a potential capital gain or loss, based on market conditions.
Interest Rate Movements:	Interest rates have been hedged for 64.8% of the debt in the Fund. Any change in the cost of borrowings may impact the distributable income in the remaining term of the Fund.
Property Specific Risks:	Property investments are exposed to a change in vacancy rates, prevailing market rents, and economic supply and demand.

For a more detailed list of the key risks, refer to the "Risk of managed investment schemes" section of the Product Disclosure Statement.

Fees Paid

Fees charged by the Fund are at the low end of what Core Property has seen in the market (see Figure 4: Fees in Perspective).

Entry Fees:	Nil
Exit Fees:	Nil
Property Acquisition Fee:	1% of the purchase price
Property Disposal Fee:	Nil
Management Fees:	Portfolio Management Fee is currently ~0.33% of the Gross Asset Value (GAV)[1] of the Fund (0.25% - 0.40% p.a. depending on asset class)
Expense Fees:	Est. 0.49% p.a of GAV.
Performance Fee:	20.0% of the Fund's outperformance over the Fund's benchmark, multiplied by GAV (subject to recovering underperformance for prior periods. Performance fee is capped at 1.00% p.a. of GAV p.a.)

[1]The Manager is entitled to charge up to 1.00% p.a. of the GAV of the Fund, however currently charges the following fees: Initial Properties (0.25% p.a. of GAV); Other Properties (0.40% p.a. of GAV); Property Securities (0.30% p.a. of GAV) and Other Assets (0.40% p.a. of GAV).

Debt Metrics

Initial Debt / Facility Limit:	$138.8M / $155M
Loan Period:	$105M (due June 2019) $50M (due June 2020)
LVR / Loan Covenant:	45.1% / 55% (as at Mar 2018)
ICR / ICR Covenant:	3.4x / 1.6x (as at Mar 2018)

Legal

Offer Document:	Product Disclosure Statement, 6 February 2018
Wrapper:	Unlisted Property Fund
Manager & Responsible Entity:	Australian Unity Property Limited (AFSL Lic No 234455)
Significant Investor Visa (SIV):	The Fund is a complying" fund for investment in "Balancing investments" under the SIV framework. Contact Manager for details.

Fund Overview

The Australian Unity Diversified Property Fund ("the Fund") is an open ended diversified property fund originally established in August 2006 by Westpac Banking Corporation. Since 30 September 2010, the Fund has been managed by Australian Unity Property Limited, which is the responsible entity and investment manager ("the Manager").

The Fund aims to provide a total return (income and capital growth) above the Mercer/IPD Australia Unlisted Wholesale Property Fund Index, while providing a steady level of income that is at least 1% p.a. above the average Commonwealth Government 10-year bond yield, calculated on a rolling basis over the previous five-year period.

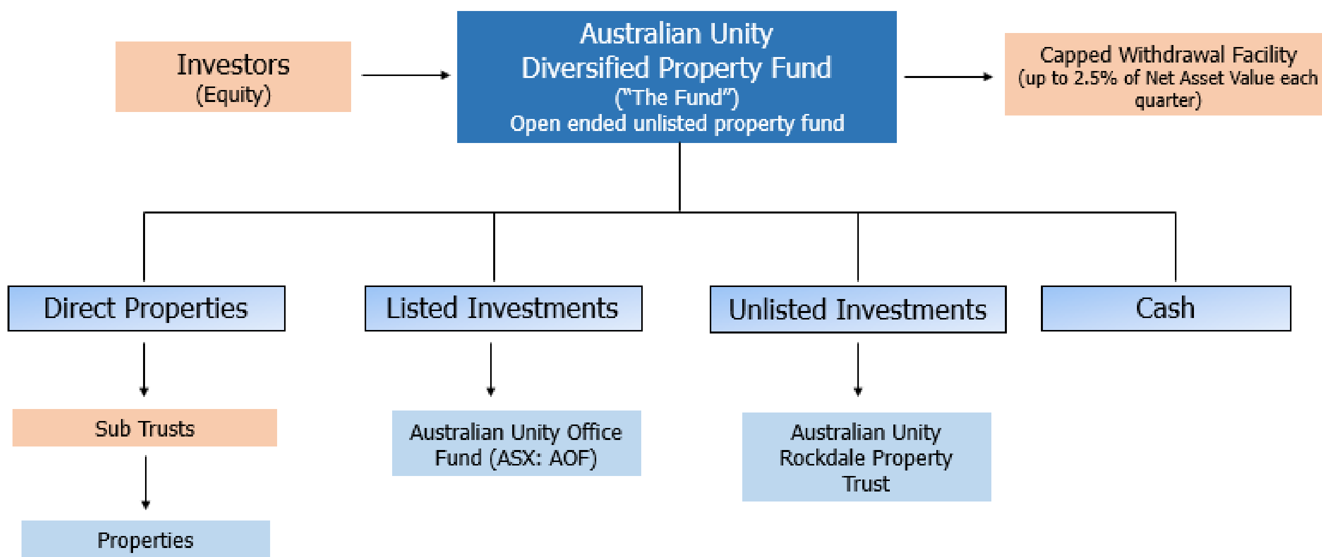
The Fund's returns are primarily delivered from its investment in direct property assets (with a target 70% - 100% allocation), supplemented by unlisted property investments (0% - 20% allocation) as well as listed Australian REITs (0% - 15% allocation). The current portfolio consists of $343.3M in assets, with 90.1% in direct properties, 1.1% in an unlisted investment, 6.2% in a listed REIT and 2.6% in cash (as at 31 March 2018).

The Fund has a current entry price of $0.9999 per unit, with the Manager expecting a distributions yield of around 6.8% p.a in FY19.

The Fund has delivered a steady income since inception, with a total of $0.827 in distributions over the 11.6 years to March 2018, equivalent to 8.23% p.a. assuming the reinvestment of distributions. During Australian Unity's tenure as Manager, the Fund has delivered total distributions of $0.481, equivalent to an 8.1% p.a. yield on a straight line basis, with an increase in the Entry Price of 25.8% (from $0.7951 (ex-distribution) at Sept 2010 to $0.9999 at 1 June 2018.)

The Fund offers redemptions (at the Manager's discretion), with the current intention to offer withdrawal opportunities on a quarterly basis up to a limit of 2.5% of the Fund's prevailing net asset value.

Figure 1: Fund structure



Source: Core Property

The Offer

The Fund is open ended and investors may purchase units in the Fund at the prevailing entry price, which is calculated from the net assets of the Fund plus a Buy/Sell spread of 0.5%. As at 1 June 2018, the entry price was $0.9999 and the exit price was $0.9899.

Investors should note that the Fund is not a fixed term property fund and there is no current intention to wind up the Fund. As such, investors who wish to redeem their investments can only do so by way of participation in the withdrawal facility, which is limited to 2.5% of the net assets of the Fund every three months. Depending on the ability of the Fund to pay withdrawals, the withdrawal facility is at the discretion of the manager. To date, the manager has consistently made liquidity available based on the terms and frequency of withdrawal offers at that time, in additional to withdrawal payments for deceased estates.

Background of the Fund

The Fund was established by Westpac Banking Corporation in August 2006 as the Westpac Diversified Property Fund. The initial portfolio included Metcash properties which were acquired by the Fund under sale and leaseback arrangements. The management of the Fund was acquired by Australian Unity on 30 September 2010 and the Fund was renamed the Australian Unity Diversified Property Fund.

Since taking over management of the Fund, the Manager has undertaken:

- Regular six monthly and quarterly withdrawal offers to provide liquidity for investors wishing to redeem their units.
- Restructured the portfolio with the sale of $191M in direct properties and the purchase of $60M in properties.
- Improved diversification with roughly a third of the properties in the retail, office and industrial sectors, and improved diversity of tenants.
- Maintained Income Distributions with an average yield of around 8.1% p.a.

Between September 2010 and June 2017, Australian Unity has boosted the liquidity of the Fund by providing investors with withdrawal offers totalling approximately $109.6M.

In June 2016, Australian Unity issued $39M of newly created Class A units which receive the same distributions and voting rights as existing units however cannot be redeemed until June 2018 when they are converted into ordinary units. The new Class A units were issued at a 5% discount to the net asset value per unit.

In February 2018 the Manager announced that it would provide a Capped Withdrawal Facility of up to 2.5% of the net asset value of the Fund each quarter (see Liquidity/exit strategy below). Prior to this, the Fund provided a withdrawal facility at 2.5% of the net asset value on a six monthly basis.

Sources & Application of funds

The Fund is open ended and investors are able to apply for units at any time at the prevailing entry price. Capital raised will generally be used by the Fund as follows:

1) If a specific use cannot be found, the capital will be used to pay down debt in the short term. Where additional cash is required to fund new investments, the Fund will draw back on the debt to fund its requirements.
2) Payment for property capital expenditures and developments.
3) Acquisition of new properties
4) Cash reserves to support the withdrawal facilities.

Unit Pricing

Unit prices are calculated on a daily-basis by taking the net asset value of the Fund (assets minus liabilities) and dividing by the total number of units.

Net asset values of the properties take into account yearly revaluations as well as amortisation of acquisition costs.

A buy/sell spread of 0.5%/0.5% is applied to the unit price to determine the Entry/Exit price for units, to reflect the potential buying and selling costs. The buy/sell spread has reduced since 1 November 2013.

Up to September 2008, the prior Manager, Westpac offered a limited liquidity facility for withdrawals at a cost of 2.0%. Between September 2008 and September 2010 the Fund was frozen to withdrawals during the GFC. Australian Unity assumed control as Manager from September 2010 and incorporated the 2.0% costs into the buy/sell spread was previously nil/2.0% before Australian Unity reduced this to 0.5%/0.5% on 1 November 2013.

Debt Facility & Metrics

The Fund has a loan facility on its direct property portfolio with a limit of $155.0M. The loan facility does not cover the purchase of units in the unlisted or listed securities in the Fund.

At 31 March 2018 the Fund has drawn $138.8M of the debt facility with an LVR of 45.1% against a bank covenant of 55%. Core Property calculates that at current levels the assets may withstand a 18.1% fall in value before the LVR covenant is breached. The ICR is well supported at 3.4x against a 1.6x covenant and requires a 53.4% reduction in operating cash flow before it is breached.

Around $90M (or 64.8%) of the debt is hedged until April 2023 and the Manager intends to increase this to over 70% in the next two years.

Figure 2: Debt Metrics

Details	Metric
Bank	Westpac and NAB
Security	First ranked mortgage secured against the directly owned properties.
Debt Facility Limit	$155M
Drawn Amount	$138.8M
Loan Period	Tranche A: $105M expiring 30 June 2019 Tranche B: $50M expiring 30 June 2020
% Hedged	64.8% ($90M)
All-in cost of Debt	4.25% (FY19)
LVR / Peak LVR	45.1% (Mar 2018) / 48.3%
LVR Covenant	55%
Initial interest covered ratio / Lowest ICR	3.4x / 3.1x
ICR Covenant	1.6x
Amount by which valuation will have to fall to breach LVR covenant	18.1%
Amount by which income will have to fall to breach ICR covenant	53.4%

Source: Core Property, Australian Unity

Liquidity / exit strategy

The Fund should be considered partially liquid as investors can only withdraw in response to a withdrawal offer made by Fund. As a result, investors are encouraged to view the Fund as a long-term investment of at least 5 years.

In February 2018 the RE announced that it will offer a Capped Withdrawal Facility of up to 2.5% of the Fund's net asset value (NAV) each quarter, with additional offers expected to be made in May, August and November. Prior to this, the Fund had offered six monthly withdrawal offers. The Capped Withdrawal Facility includes a Carry Forward Facility under which any unfulfilled part of a withdrawal request will be automatically carried forward to the next Capped Withdrawal Facility provided the investor grants the RE a limited power of attorney to do so.

Of note, subject to the Corporations Act and ASIC relief, representatives of deceased estates may be eligible to request a full withdrawal from the Fund as part of the Fund's Capped Withdrawal Facility, subject to the financial position of the Fund. Any amount payable to deceased estates will be in addition to the amount available under each Capped Withdrawal Facility.

Investors should be aware the Capped Withdrawal Offer is at the discretion of the Responsible Entity and is subject to the financial capacity of the Fund. There is no obligation to make the withdrawal offer. As a result, there is a risk that investors may not be able to access the withdraw offer during the investment timeframe. Australian Unity have confirmed that, since taking over management of the Fund, it has always paid the full amount of withdrawal offers made to investors.

Fees Charged by the Fund

Overall, Core Property considers the fees charged by the Fund to be at the low end of what has been seen in the market. The Fund has only two fees: a Management Fee (which averages at 0.33% p.a. of the Gross Asset Value of the portfolio) and a fee to recover expenses (estimated at 0.49% p.a. of GAV). The Manager has confirmed that it does not charge a Management Fee on the Fund's investments in related Australian Unity funds (Australian Unity Rockdale Property Trust and the Australian Unity Office Fund (ASX: AOF)), as a fee has already been received by Australian Unity in the underlying fund.

A Buy/Sell spread of 0.5% is incorporated in the Entry/Exit price for investors.

A summary of the fees charged by the Fund is presented below.

Figure 3: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry/Establishment Fee	Nil	
Exit Fee	Nil	
Property Acquisition Fee	1.0% of purchase price of the property.	Industry average is to charge 1.5% - 2.0% of the purchase price of the property.
Sale Fee (Disposal Fee)	Nil	Industry average is to charge 1.0% - 2.0% of the sale price of the property.
Management Fee	Under the Constitution, the Fund is able to charge up to a maximum of 1.0% p.a. for Base Management Fees, however has adopted the following: Total Management Fees of between 0.25% - 0.40% p.a. of the Gross Asset Value (GAV) of the Fund, consisting of: • 0.25% p.a. of GAV for Initial Properties in the Fund • 0.40% p.a. of GAV for Other Properties in the Fund • 0.30% p.a. of GAV for Property Securities in the Fund 0.40% p.a. of GAV for Other Assets in the Fund. Management Fees may be changed with up to 30 days written notice.	Core Property calculates the average Management Fee on the investment portfolio to be 0.33% p.a. This is well below the average of what we have typically seen in the industry (0.7% - 1.1% p.a. of GAV). However, including expenses the Management Expense Ratio (MER) is 0.82% of Gross Asset Value.
Day-to-day expenses	Estimated at 0.49% p.a. of the GAV of the Fund	
Performance Fee	20% of the Fund's outperformance over the Fund's benchmark, subject to any prior underperformance having been recovered. The maximum fee payable in any one year is 1.0% of the GAV of the Fund., any performance fee in excess of 1.0% will accrue in the Fund's unit price and subsequently paid in a year when it can be paid within the 1.0% limit.	Core Property considers the Performance Fee to be appropriate for the Fund.

Source: Australian Unity, Core Property

All-in fee analysis

Core Property has estimated the fees that will accrue to the Manager over an estimated five-year period as a percentage of all cash flow generated after deducting interest costs but before management fees payable. The calculation is based on the current portfolio at March 2018.

- Calculations assume a five-year Fund term to June 2023;
- Assumes the current portfolio remains in place and no Property Acquisition Fee is charged;
- A Performance Fee has not been included;
- Core Property assumes there is no change in the forecast portfolio terminal cap rate at the end of the initial term, which effectively assumes no cap rate compression. A lower terminal cap rate would lead to a higher sale price and performance fees may become payable.

Overall, Core Property estimates the Manager will receive approximately 2.0% of the total cash flow from the current portfolio, which leaves investors with approximately 98.0% of the total. Core Property believes the fees paid to the Manager to be at the low end of the range when compared to similar products, which are typically around 7% - 9%, and is reflective of the relatively low management fee that is currently being charged (around 0.33% of gross asset value). The calculation does not factor in the potential for the management fee to increase to 1.0%, which is allowable under the Fund's constitution, and does not factor in a performance fee.

Core Property stresses that these are estimates of how much investors will receive and not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

Figure 4: Fees in Perspective – over an estimated five-year period

Core Property estimates that for every $1.00 of equity invested the Fund can return:	Amount per $1.00 unit
Principal repayment to investors:	$1.000
Income and capital gains to investors:	$0.458
Total cash to investors:	**$1.458**
Acquisition fee:	$0.000
Base management fee:	$0.030
Disposal fee:	$0.000
Fees for the RE (excluding disposal/admin):	**$0.030**
Total cash generated by Fund:	**$1.488**
Fees = % of total cash generated (before fees)	2.0%
Fees= % of gains (before fees)	6.1%
Up-front fee vs total fees	0%

Source: Core Property estimates

Investment Portfolio

The Fund's core mandate is to invest in direct property assets, with additional investments allowed in listed and unlisted property securities. Independent valuations on the Fund's direct properties are required to be conducted generally at least each financial year

- **Direct Properties:** The Fund has an allocation of 70% - 100% in direct properties and currently holds 90.1% of its assets in eight sites with a book value of $309.3M. The properties generate around $19.8M in rental income with an average occupancy of 98.9% and a WALE of 3.8 years. The assets are diversified across the office, retail and industrial sectors, located in WA, Vic, Qld and NSW.
- **Unlisted Property Investments:** The Fund has an allocation of up to 20% in unlisted property investments and currently holds 1.1% of its assets in the Australian Unity Rockdale Property Trust.
- **Listed Property Investments:** The Fund has an allocation of up to 15% in listed property investments (A-REITs) and currently holds 6.2% of its assets in the Australian Unity Office Fund (ASX code: AOF). AOF is currently targeting distributions of around 7.0% in FY18.
- **Cash & Equivalents:** The Fund currently holds around 2.6% in Cash, in line with its withdrawal policy to offer up to 2.5% of the net assets of the fund every quarter.

The following table is a summary of the Fund's metrics at 31 March 2018.

Figure 5: Portfolio Summary as at 31 March 2018

Details	Amount
Direct Properties – 8 assets	$309.3M
Unlisted Property Investments (Funds) – 1 Fund	$3.6M
Listed Property Investments (A-REITs) – 1 Security	$21.3M
Cash & Other Assets	$9.1M
Gross Asset Value of Fund	$343.3M
WALE – by income (Direct Properties)	3.8 years
Weighted Average Capitalisation Rate (Direct Properties)	7.02%
Occupancy	98.9%
Forecast Max LVR (3 years)/ Covenant	48.5% / 55.0%
Gearing Ratio	**40.5%**
Forecast Low ICR (3 years)/ Covenant	**3.2x / 1.6x**
Unit Price – Entry / Exit Price (1 June 2018)	**$0.9999 / $0.9899**
Manager Forecast Distribution % - FY19	**6.8 cents per unit**

Source: Australian Unity

Direct Properties

The Fund has a policy to undertake an independent valuation at least once every financial year. The following table provides a summary of the direct properties held by the Fund at 31 March 2018.

Figure 6: Direct Properties as at 31 March 2018

Address	Sector	Lettable Area (sqm)	Book Value ($M)	Valn Date	Cap Rate	Occ	WALE (by income)
278 Orchard Road, Richlands, QLD	Industrial	53,000	56.5	Dec-17	8.00%	98.3%	1.8 yrs
200 Victoria Street, Carlton, VIC	Office	7,911	51.1	Jun-17	6.25%	100.0%	4.0 yrs
20 Smith Street, Parramatta, NSW	Office	7,420	63.0	Mar-18	6.50%	100.0%	3.3 yrs
Dog Swamp Shopping Centre, Yokine, WA	Retail	7,385	45.0	Dec-17	6.25%	97.5%	8.6 yrs
Woodvale Boulevard Shopping Centre, WA	Retail	6,378	29.1	Dec-17	6.75%	96.4%	5.1 yrs
Busselton Central Shopping Centre, WA[1]	Retail	9,906	35.3	Feb-18	7.00%	100.0%	2.5 yrs
19 Corporate Avenue, Rowville, VIC	Industrial	12,398	16.5	Jun-17	7.25%	100.0%	4.1 yrs
Lots 34 & 36 Geddes Street, Balcatta, WA[2]	Industrial	9,961	12.8	Sep-17	7.50%	100.0%	0.7 yrs
Total Direct Property			**309.3**		**7.02%**	**98.9%**	**3.82yrs**

1. Busselton Central Shopping Centre includes adjacent properties, Target Busselton (21 Prince St Busselton 1,860sqm valued at $4.3M) and Rivers Busselton (19 Prince St Busselton, 591sqm valued at $1.5M).
2. Geddes St, Balcatta includes an adjacent property at 5 Kenhelm St, Balcatta, 3,000sqm valued at $1.8M.
Source: Australian Unity Property Limited

Main Properties

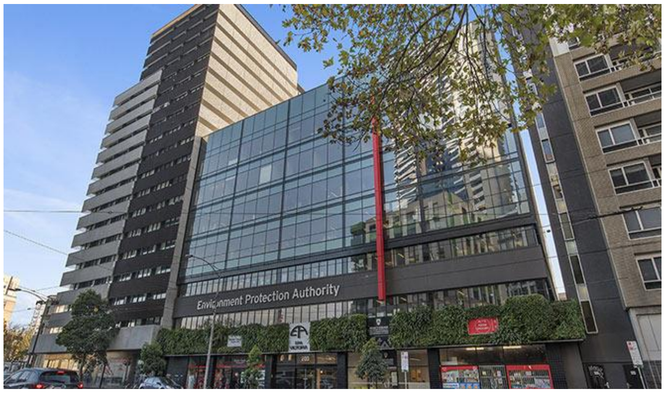
The top 3 properties account for 55.2% of the Direct Property portfolio by Book Value.

278 Orchard Road, Richlands QLD – 18.3% of the Direct Property portfolio

As at 31 March 2018	
Book Value	$56.5M
Capitalisation Rate	8.0%
Lettable Area (sqm)	53,000 sqm
Occupancy-by NLA	98.3%
WALE	1.8 years
Major Tenants (by income): Coca Cola (66.5%), Myer (24.6%), Sahara Logistics (8.9%)	

The property consists of a 112,580sqm industrial site, located in the industrial suburb of Richlands approximately 19km south west of Brisbane, Qld. A warehouse and distribution facility with 3 tenants occupying 98.3% of the lettable area. Coca Cola accounts for 66.5% of rental income, Myer 24.6% and Sahara Logistics 8.9%. Key tenant Coca Cola has its lease expiring in July 2018 which has been extended to 30 November 2018 whilst it prepares to move to new premises. The Manager is currently in the process of reviewing potential tenants to fill the majority of Coca-Cola's space. Myer's lease expires in July 2024 and Sahara Logistics' lease expires in October 2018.

200 Victoria Street, Carlton VIC – 16.5% of the Direct Property portfolio



As at 31 March 2018	
Book Value	$51.1M
Capitalisation Rate	6.25%
Lettable Area (sqm)	7,911 sqm
Occupancy-by NLA	100.0%
WALE	4.0 years
Major Tenants (by income): Environmental Protection Authority (67%), Trinity College (29%)	

A six-storey office building with ground floor retail located in Carlton, Vic. The building has a WALE of 4.0 years and is 100% occupied, with key tenants, the Environment Protection Authority ("EPA", 67% of income) and Trinity College, (Melbourne University, 29% of income). The remaining 4% is leased to two retail tenancies, a café and a convenience store. The Fund recently obtained development approval to add an additional eight levels on top of the existing office building (refer to Development Projects section for further details).

20 Smith St, Parramatta NSW – 20.4% of the Direct Property portfolio

As at 31 March 2018	
Book Value	$63.0M
Capitalisation Rate	6.5%
Lettable Area (sqm)	7,420 sqm
Occupancy-by NLA	100.0%
WALE	3.3 years
Major Tenants (by income): GHD (18.1%), ANZ (17.1%), John Holland (12.2%), Injury Treatment (12.1%), YMCA 9.0%)	

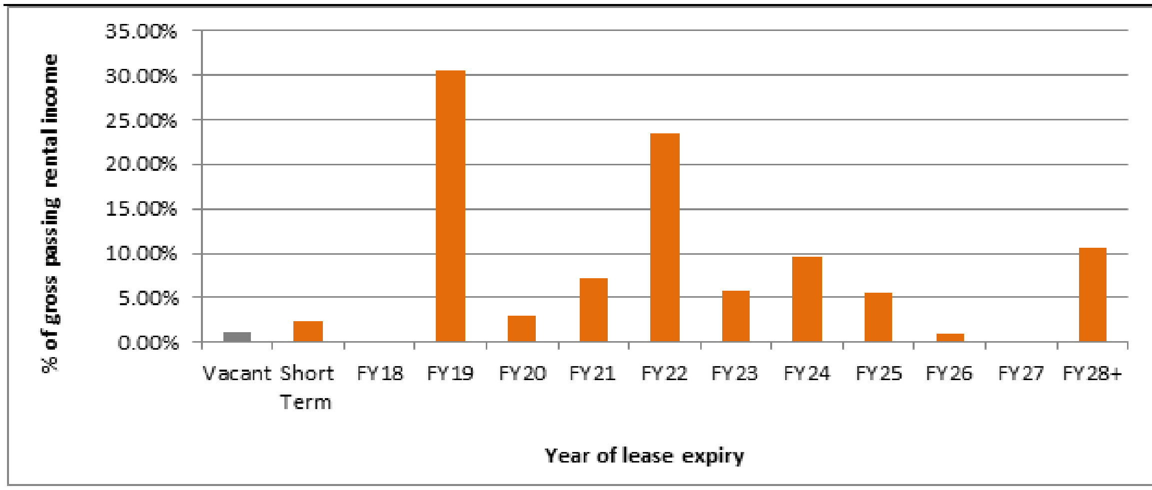
A twelve-level office building in Parramatta, NSW with ground floor retail tenants. The property consists of eight levels of office and three levels of parking. The building is currently 100% occupied with a WALE of 3.3 years. The property is leased to 12 tenants, with the top 5 tenants occupying around 68% of income: GHD Services Pty Ltd (18.1%), ANZ Banking Group (17.0%), John Holland Rail Pty Ltd (12.2%), Injury Treatment Pty Ltd (12.1%) and the YMCA (9.0%).

Leases, tenants and income

The direct portfolio has a WALE of 3.8 years (at March 2018). The top five tenants represent 44.4% of income and include corporate and government entities – Coca Cola, Environment Protection Authority (EPA), Woolworths, Metcash and Regal Beloit.

The key tenant, Coca-Cola at 278 Orchard Road, Richlands, Qld accounts for 66.5% of the rental income at the site. Coca-Cola's lease expires at the end of July 2018 and the lease has been extended to 30 November 2018 whilst it prepares to move to new premises. The Manager is currently in discussions with potential new tenants to occupy Coca-Cola's area when it becomes available.

Figure 7: Lease expiry profile – as at 31 March 2018



Source: Australian Unity, Core Property

Development Projects

The Fund's strategy does not allow speculative development as part of its portfolio. Development projects may be considered with a view to retaining ownership in the medium term if the leasing and development risk has been mitigated.

The Fund has recently completed a development at its Dog Swamp Shopping Centre in Yokine WA in December 2017. The shopping centre was extended to include a new Aldi supermarket and seven new specialty stores at one end, in addition to the existing Woolworths supermarket at the other end. The Manager has spent $10M to redevelop the centre, following which it was revalued up by $15M upon completion. In addition, the Fund has a number of development opportunities under consideration over the next few years. The proposed developments are likely to require additional capital in the Fund, and expected to add value to the portfolio.

- **Busselton Central Shopping Centre, WA – approx. $40M:** The Fund has received development approval to increase the shopping centre's size by 40% to 16,000sqm and will include a new supermarket offering, additional specialty shops, and a food and entertainment precinct with cafes and a restaurant. Stages 1 and 2 of the development is expected to be completed over a two-year period. The Manager is currently working through the development details with major tenants.

- **200 Victoria St, Carlton, Vic – approx. $80M:** The Fund has obtained development approval to add an additional eight levels on top of the existing office building. Construction will proceed once pre-commitments have been secured for the majority of the space.

- **19 Corporate Ave, Rowville, Vic – approx. $2M:** The Manager is currently in discussions with the tenant Regal Beloit, a global engineering company, to extend the warehouse facilities at the site.

Capex

The Manager is forecasting around $25M in capital expenditure (capex) over the next three years, which does not include the major development projects currently under consideration (and expected to be funded separately). After this, capex is expected to reduce to around $2.5M - $3.0M p.a., representing around 0.8% - 1.0% of GAV which Core Property considers to be appropriate for the portfolio. The capex assumptions are in line with valuer assumptions.

The majority of the capex is funded through debt resulting in the LVR increasing slightly to 48.3%. Core Property estimates the LVR will remain in the range 43% - 49%, below the bank LVR covenant of 55%. Core Property has adopted the Manager's capex assumptions on the basis that they were based on independent technical reports. The inherent assumptions here is that the capital expenditure is likely to improve the value of the building. While this has been the case in recent years, Core Property reminds investors that this may not be the case in adverse market conditions.

Diversification

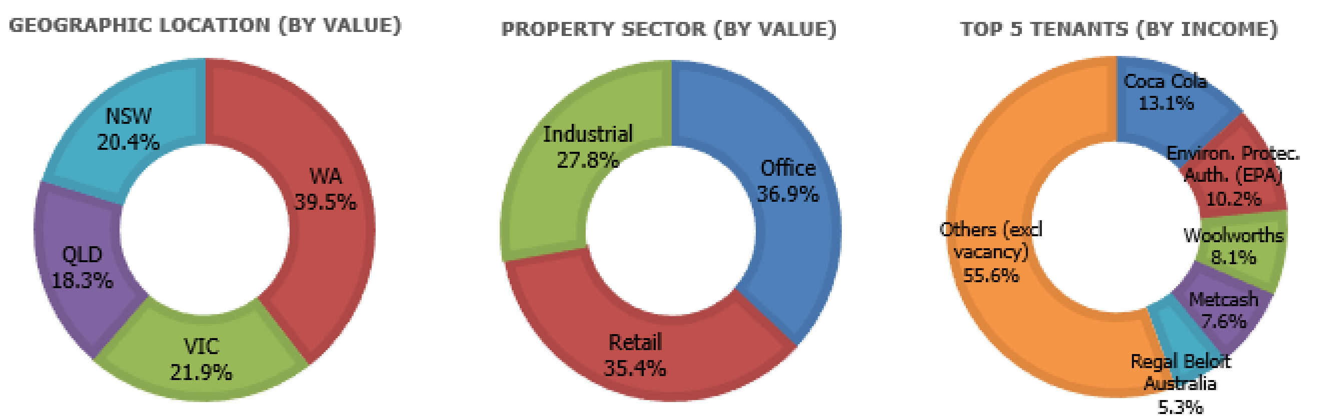
The Fund's direct properties are diversified across the office, retail and industrial sectors with around a third of the portfolio in each sector. The Fund has a slight weighting towards WA assets (39.5% of the portfolio) with the remainder of assets spread across Victoria, Queensland and NSW.

Core Property notes the Manager has improved diversification since acquiring the management of the Fund in September 2010. In particular:

- The Fund was previously weighted to industrial assets (57%) and retail (25%), and has now a more even distribution across industrial, retail and office.
- The Fund was previously weighted to WA (61%) and NSW (21%), and the WA component has now reduced to 39.5% of the Fund.
- The Fund's rental income was heavily reliant 2 major tenants – Metcash (~70%) and the ATO (16%), however the largest tenant (Coca Cola) now accounts for around 13% of the rental income.

The following table is a summary of the portfolio mix as at 31 March 2018.

Figure 8: Diversification metrics – as at 31 March 2018



Source: Australian Unity, as at 31 March 2018

Unlisted Investments

The Fund currently owns $3.6M of units in the Australian Unity Rockdale Property Trust ("Rockdale Trust"), which is an unlisted registered managed investment scheme also managed by Australian Unity Limited. The Rockdale Trust consists of a bulky goods/retail property at 395 West Botany Street, Rockdale, NSW valued at $17.8M with a WALE (by income) of 6.3 years (at March 2018). It is 100% leased to two tenants; Fitness First and Repco. The Rockdale Property Trust has forecast distributions of between 9.0% - 9.3% for the year to 31 March 2019.

Listed Investments

The Fund also owns $21.3M in the Australian Unity Office Fund (ASX: AOF) which is an ASX listed entity also managed by Australian Unity. AOF owns and manages a diversified portfolio of nine office properties (valued at $574.8M) located across Australian metropolitan and CBD markets in Sydney, Adelaide, Melbourne, Brisbane and Canberra. The portfolio has an occupancy rate of 94.4%, and a WALE of 4.5 years. AOF has forecast distributions of around 7.0% for FY 2018.

The Manager has confirmed in the PDS that the investments was made on the same terms as external parties and are no less favourable than if the parties were dealing at arms' length.

Financial Analysis

Core Property has undertaken a financial forecast of the Fund, based on a review of the current portfolio as well as discussions with the Fund Manager. The forecast below is based on certain assumptions that may change as a result of market conditions and the changing performance of the properties.

Core Property's calculations provide an indicative expectation of the performance of the Fund as the calculations assumes that no properties are purchased or sold over a 5-year period and the assets in the Fund are realised at the end of 5 years. It should be noted that this is unlikely to occur, as the Trust is open ended. The key assumptions in our forecasts are:

- Property assets are based on the portfolio as at March 2018.
- Capitalisation Rates are calculated via a weighted average method and are assumed to remain constant at 7.02% on the portfolio;
- Based on the Manager's expectations the current units on issue of 194.6M increases to 203.5M in FY21.
- Earnings in excess of distributions are assumed to be retained in the Trust, contributing to an increase in NTA over the period.
- The capital expenditure figures over the 5-year period are based on the Manager's estimates and does not include the major development works planned at Busselton Central Shopping Centre, WA and 200 Victoria Road, Carlton Vic.
- FY19 income includes 6 months vacancy at Richlands for the Coca Cola tenancy, with fitout incentives of 12-month's rent to secure a new tenant.
- The potential benefits and returns from redevelopment projects have not been included.

A summary of our forecasts is presented below

Figure 9: Profit & Loss Forecast

Profit & Loss - Forecast $M	FY18	FY19	FY20
Net Property Income	19.8	19.1	20.4
Listed/Unlisted Property Trusts	1.8	1.8	1.8
Fees/Trust Expenses (excl performance fees)	-2.7	-3.0	-3.0
Net Finance Costs & Other Income	-6.1	-5.5	-6.6
Funds from operations	**12.8**	**12.5**	**12.6**
Amortisation of borrowing costs	-0.3	-0.3	-0.3
Amortisation of incentives and leasing fees	0.7	1.1	1.3
Cash Available for Distribution	**13.2**	**13.4**	**13.6**
Retained earnings/distributions in excess of FFO	0.1	0.1	0.1
Cash distribution	**13.1**	**13.3**	**13.5**
Cash distribution per unit (cents)	6.8	6.8	6.8

Source: Core Property, based on Australian Unity assumptions

Balance sheet

Figure 10: Historical Balance Sheet

Balance Sheet – $M	As at 30 June 2017	As at 31 March 2018
Cash & Other	5.4	9.1
Property value	285.5	309.3
Unlisted & Listed Property Trusts	23.0	24.9
Total Assets	**313.9**	**343.3**
Interest-bearing debt	130.7	138.8
Other liabilities	9.1	11.7
Total Liabilities	**139.8**	**150.5**
Net Assets	**174.1**	**192.8**
Units on Issue (Millions)	187.7	195.8
NTA per unit	**$0.928**	**$0.9843**[1]
Debt/ Total assets	**41.7%**	**40.5%**
LVR (Debt/ Property Valuation)	**45.8%**	**45.1%**

Note 1: based on ex-distribution mid price. Source: Australian Unity

Expected Future Performance (IRR Sensitivity)

Core Property has estimated the total return from the Fund based on the 5-year forecasts presented in the section above.

The Fund has interest rate swaps on 64.8% of its debt until April 2023 and a change in the average interest rate after this period has only a slight impact on IRR. A change in the terminal capitalisation rate has a more material impact on IRR as seen in the table below.

Using these assumptions Core Property expects the Fund to deliver a 5-year Internal Rate of Return (IRR) in the range of 6.8% - 11.0% (midpoint 9.0%).

Investors should be aware the sensitivities include the potential for the valuation of the assets to increase or decrease (depending on market conditions) which will result in either a capital gain or loss for investors.

The three main performance drivers in a property syndicate are:

1. The property income profile (lease structure);
2. The terminal value upon the sale of the property (asset quality + market conditions); and
3. The cost of debt (depending on leverage).

The table below summarises our expected IRRs.

Figure 11: Pre-tax, 5-year IRR (after fees) sensitivity analysis

Terminal cap rate	Cost of debt				
	3.25%	3.75%	4.25%	4.75%	5.25%
6.52%	11.1%	11.0%	10.9%	10.8%	10.8%
6.77%	10.2%	10.1%	10.0%	9.9%	9.8%
7.02% (base)	9.2%	9.1%	**9.0%**	8.9%	8.7%
7.27%	8.2%	8.1%	7.9%	7.8%	7.7%
7.52%	7.2%	7.1%	6.9%	6.8%	6.7%

Source: Core Property

Management & Corporate Governance

Background of the Responsible Entity & Manager

Australian Unity Property Limited is the responsible entity and Manager of the Trust. It holds an Australian Financial Services License (number 234455) which authorises it to act as the responsible entity for the Fund. Australian Unity Property Limited is a wholly owned subsidiary of Australian Unity Limited, a mutual company formed by the merger of the Australian Natives' Association Friendly Society (ANA) and the Manchester Unity Independent Order of Oddfellows (Manchester Unity) in Victoria in 1993. Australian Unity's main operations are in healthcare, investments, retirement living and personal financial services. The Australian Unity group provides services to almost a million customers, with 300,000 members in Australia. Core Property has reviewed the composition of the Board and senior executive team of the Manager and believes that they have the relevant skills and experience to manage the Trust successfully with each director and senior executive having demonstrable property development and investment management skills.

Figure 12: The Board & Senior Management of the Responsible Entity & Manager

Name & Role	Experience
Rohan Mead Chairman & Group Managing Director	Rohan was appointed Group Managing Director of Australian Unity Limited on 1 July 2004. As Group Managing Director, he is a member of subsidiary boards and most committees. Mr Mead is also deputy chairman of Platypus Asset Management. He is chairman of the Business Council of Australia's Healthy Australia task force and a member of its Indigenous Engagement task force. He is also a director of the Centre for Independent Studies, a director of the Business Council of Co-Operatives and Mutuals Limited (BCCM) and the Australian Brandenburg Orchestra. Prior to joining Australian Unity, Mr Mead was employed by Perpetual Trustees Australia Limited (1996-2003) in a range of senior roles and has not held any directorships of listed entities (in addition to those set out above) in the last 3 years.
David Bryant Chief Executive Officer and Chief Investment Officer	David joined Australian Unity in 2004. He is Chief Executive Officer for Australian Unity Wealth and Chief Investment Officer for the Australian Unity Group. He is responsible for Australian Unity's financial services, investment and banking activities in Australia and Hong Kong. He is a board member of many of its operating entities and Investment Joint Venture subsidiaries. Prior to joining Australian Unity in 2004, David was Chief Operating Officer at Perpetual Personal Financial Services, and has held senior roles in financial services, asset consulting, and banking, for both Australian and international organisations. His various roles have encompassed responsibilities for business across the Asia Pacific region. Mr Bryant is a director of the Australian Financial Services Council, co-chair of its Advice Board Committee and a member of its Policy Agenda Committee.
Mark Pratt Executive General Manager – Australian Unity Property	Mark joined Australian Unity Investments in 2004 and is responsible for the property and investment management operations. Prior to this, Mark was Australian Unity Investments' Chief Operating Officer. He has worked at MLC, Plum Financial Services, AMP financial Services and State Street Australia. Mark holds a Bachelor of Commerce – Accounting from the University of NSW and sites on the national executive committee of the Property Funds Association and is also a member of the Victorian Division of the Property Council of Australia.
Peter Lambden Head of Property & Asset Management	Peter joined Australian Unity Investments in 2001 and is responsible for the fund and property strategies, management processes and operations. He has over 41 years' experience in portfolio and property management. During his 14 years at National Mutual/AXA he has been the manager of new investments and valuations, Queensland state branch manager, manager for Victorian/Tasmanian assets, and manager for New Zealand property operations. Peter has a diploma in Agricultural Science and a Diploma in Business Studies – Valuations from RMIT. Peter has been the president of the Australian Property Institute and executive member of the Property Council of Australia.
Mark Lumby Head of Commercial Property	Mark joined Australian Unity Investments in 2011, following its acquisition of Investa Funds Management Limited, and is responsible for the commercial property funds in the office, retail and industrial sectors. He has over 17 years' experience in the property and funds management industry having worked at Investa Property Group, Stockland and Trafalgar. Mark holds a Bachelor of Business (Accounting) from the University of Technology, Sydney and is an Associate of the Institute of Chartered Accountants in Australia and is Chairman of the Property Council of Australia's Retail and Wholesale Fund Manager's Forum.
Nikki Panagopoulos Fund Manager	Nikki joined Australian Unity Investments in 2004 and has held a number of roles in property portfolio management before taking responsibility as Fund Manager for the Fund in 2010. She has over 25 years' experience in property including as an Investment Analyst for Deutsche Bank's $1.5B listed Deutsche Diversified Trust as well as 12 years in Property Funds Management at National Mutual/AXA. Nikki holds a Bachelor of Business (Accounting) from RMIT, is an Associate of the Australian Property Institute with Fund Manager Certification, is a member of the Australian Institute of Management and is a Licensed Real Estate Agent.

Source: Australian Unity Property Limited

Compliance Committee

The Fund's Compliance Committee consists of two external members and one internal member of Australian Unity.

David Bryant (Internal, Executive)

David joined Australian Unity in 2004. He is Chief Executive Officer for Australian Unity Wealth and Chief Investment Officer for the Australian Unity Group. He is responsible for Australian Unity's financial services, investment and banking activities in Australia. He is a board member of many of its operating entities and Joint Venture subsidiaries. Prior to joining Australian Unity in 2004, David was Chief Operating Officer at Perpetual Personal Financial Services, and has held senior roles in financial services, asset consulting, and banking, for both Australian and international organisations. David is a director of the Australian Financial Services Council, and co-chair of its Advice Board Committee. David is also a Fellow of the Australian Institute of Company Directors, the Australian Institute of Management and Finsia.

Peter Wickenden (External, Non-Executive)

Mr Wickenden is a certified practicing accountant, company auditor and principal in the accounting firm Burke Bond Partners since 1981. He has held several directorships and was a long-standing Director and President of the Hastings Bush Nursing Hospital.

Peter has been an external member of the Australian Unity Compliance Committee for a number of managed investment schemes since early 2000.

Andy Esteban (External, Non-Executive)

Mr Esteban has over 30 years' experience in the financial services industry, of which 21 years were with Perpetual Trustees Australia Ltd. He is currently a member of compliance, risk and audit committees for a range of managed investment schemes and superannuation products (retail and wholesale) including Macquarie Bank, Credit Suisse Asset Management, Suncorp, Schroder Investment Management, Alliance Bernstein, and Deutsche Asset Management Australia Ltd as well as Australian Unity.

Andy has been an external member of the Australian Unity Compliance Committee for a number of managed investment schemes since early 2000.

Compliance and Governance

The Fund has a compliance plan for the Fund, which outlines the key processes, systems and measures that the Manager has in place to ensure compliance with the Corporations Act, the Fund's Constitution, and ASIC, guidelines. The Compliance Plan includes processes to deal with complaints handling, applications processing, transfers and distributions, registry systems, record keeping, valuations, conflicts of interest and the monitoring of suspected compliance breaches.

The Compliance Plan is audited annually in accordance with the Corporations Act. The Fund's auditors are PWC. The Manager has also lodged a copy of the Fund's Constitution and Compliance Plan with ASIC, as required by the Corporations Act.

ASIC Regulatory Guide 46:"Unlisted property schemes: Improving disclosure for retail investors' and Regulatory Guide 198 'Unlisted disclosing entities: continuous disclosure obligations" ("RG46") describe ASIC's preferred benchmarks and disclosure principles. The Fund currently publishes its continuous disclosures notices on the Manager's website.

The Fund does not comply with RG46 Disclosure Principle 6, which requires that distributions be paid out of cash from operations. Instead, the Fund pays distributions from its Funds From Operations ("FFO"), which includes capital from asset sales, which is standard industry practice.

The following table summarises how the Manager has addressed the RG46 benchmarks.

Figure 13: Summary of ASIC retail disclosure benchmarks

ASIC Benchmark	Meets Reqmt (Y/N)	Comments
1. Gearing Policy	Y	The Fund's gearing as at 31 March 2018 was 40.45% (calculated according to ASIC's method) and operates within its range of 40% and 50%. The Fund's borrowing facility covenant limit is 55% and it has a maximum gearing ratio of 60%.
2. Interest Cover Ratio (ICR)	Y	The Fund's ICR as at 31 March 2018 is 2.88x (calculated according to ASIC's method: EBITDA, less unrealised items, divided by interest expense), which is above its minimum of 1.25x and its borrowing facility limit of 1.60x.
3. Interest Capitalisation	Y	The Fund meets this benchmark. The interest expense of the Fund is not capitalised.
4. Valuation Policy	Y	The RE maintains and complies with a written valuation policy, including obtaining an independent valuation prior to the purchase of a property, the rotation of valuers, and for valuations to generally be conducted at least once in a financial year.
5. Related Party Transactions	Y	The RE maintains and complies with a written policy on related party transactions, including the assessment and approval of such transactions and arrangements to manage conflicts of interest.
6. Distribution Practices	N	The Fund does not meet this benchmark, which requires the Fund to source distributions from cash from operations. Instead, the Fund's Distribution Policy allows distributions to be made from Funds From Operations ("FFO") which includes other sources, such as capital from the sale of assets, if it considers it to be in the interests of investors and where payment from that source is expected to be sustainable given the circumstances.

Source: Australian Unity

Related Party Transactions

Core Property has reviewed the list of related party transactions as disclosed in the Fund's annual report and consider the transactions to be appropriate in relation to the management of the Fund.

The senior management maintains and complies with a written policy on related party transactions, including the assessment and approval process for such transactions and arrangements to manage conflicts of interest. Decisions made in relation to conflict of interest and related party transactions are documented.

There are three related party transactions in relation to the Fund:

- **Australian Unity Property Management Pty Ltd** (a related party of the Responsible Entity) has been appointed to provide property related services such as leasing and agency services, market rent reviews, property management services, project management services, development management services and debt arrangement services. The amount paid for the 9-month period to 31 March 2018 was $1.025M.
- **Australian Unity Funds Management Limited** (a related party of the Responsible Entity) has been appointed to provide registry and accounting services to the Fund. Effective from 6 February 2018 the amount charged to the Fund is $0.3M p.a. and is subject to an annual review.
- **As at 31 March 2018,** related parties within Australian Unity Limited held interests in the Fund to the value of $30.2M (16.3%), based on net assets.

In addition, the Fund holds investments in the ASX listed Australian Unity Office Fund (ASX: AOF) and the unlisted Australian Unity Rockdale Property Trust, which are managed by entities within the Australian Unity Group of companies.

All related party transactions are under normal commercial terms and conditions and at market rates.

Material service engagements and financial benefits that are paid to related parties are updated regularly through the Fund Update and Continuous Disclosure Notice. The dollar amounts of related party payments are also reported annually in the Fund's Annual Report.

Past Performance

Since the Fund was established in August 2006, it has delivered a total of $0.8269 per unit in distributions during the 11.6 years to 31 March 2018.

Under the current Manager, Australian Unity, the Fund has delivered total distributions of $0.4808 per unit since September 2010, equivalent to an average yield of 8.23% p.a., assuming the reinvestment of distributions. It should be noted that Australian Unity began management of the Fund when its unit entry price was $0.8088 per unit (30 September 2010) and the unit price at 1 June 2018 is $0.9999 per unit. Some of the main factors which impacted on performance, include:

- The impact of the GFC which materially reduced asset prices in FY09/FY10. under the prior management.
- The impact of asset sales under the current Manager, as it restructured the portfolio.

Core Property notes that past performance is not a reliable indicator of future performance as each syndicate, and its respective underlying asset, has its own specific risks and unique attributes.

Figure 14: Australian Unity Diversified Property Fund – historical performance

Period End	Unit Price (Entry Price)	Distn per unit (12 mths)	Distn Yield (12 mths) on prior entry price
June 2007[1]	$1.1023	$0.0858	8.6%
June 2008	$1.1619	$0.0749	6.8%
June 2009	$0.8434	$0.0760	6.5%
June 2010	$0.7981	$0.0580	6.9%
June 2011[2]	$0.8183	$0.0515	6.5%
June 2012	$0.7884	$0.0442	5.4%
June 2013	$0.8189	$0.0921[3]	11.7%
June 2014	$0.7877	$0.0617[4]	7.5%
June 2015	$0.7901	$0.0620	7.9%
June 2016	$0.8713	$0.0650	8.2%
June 2017	$0.9494	$0.0670	7.7%
31 March 2018	$1.0063	$0.051 (9 months)	7.2% (annualised)
1 June 2018	$0.9999	NA	NA

Note 1: From Fund inception August 2006 to June 2007.
Note 2: Australian Unity became the Responsible Entity and Manager effective 30 September 2010. The Entry price of units on this date was $0.8088 per unit ($0.7951 on an ex-distribution basis)
Note 3: The 2013 distributions benefitted from a one-off capital return of $0.0446 per unit from the sale of its interest in several properties, one of which was 218 Bannister Road Canning Vale, Western Australia for $63.5M.
Note 4: Includes a one-off distribution of $0.0037 per unit relating to AOF's sale of a property and capital return.
Source: Australia Unity Diversified Property Fund

Appendix – Ratings Process

Core Property has developed a framework for rating property and property related investment product offerings in Australia. The methodology gives consideration to a number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product and underlying portfolio construction; strength and depth of management team, product structure, risk management, financial analysis, and likely outcomes.

It is important for financial planners and investors to view the recommendation and rating in the context of comparable products only and not across all products rated by Core Property.

The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

Rating	Definition
Highly Recommended	This is the highest rating provided by Core Property and is indicative of the product exceeding the requirements of our review process across a number of parameters.
Recommended	Indicates that the product has an above average grade profile across a number of Core Property's parameters and has the potential to deliver above average risk adjusted total returns.
Approved	Indicates that the product has met the aggregate requirements of Core Property's criteria. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.
Speculative	Core Property believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Core Property does not rule out investing in this product, investors should be very aware of, and be comfortable with the specific risks. The product may provide unique diversification opportunities, although concerns over one or more features mean that it may not be suitable for most investors.
Not Approved	Indicates that the product has failed to meet the minimum aggregate requirements of Core Property's criteria. While the product may have some positive attributes, Trusts in this category are considered high risk.

This report has been commissioned, and, as such, Core Property has received a fee for its publication. Under no circumstances has Core Property been influenced, either directly or indirectly, in making statements and / or recommendations contained in this report.

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