Interim results

30 September 2017

Investec Australia Property Fund

Out of the Ordinary®

Investec

Australia Property Fund

01

summary

A valuable portfolio comprising 25 properties and established a track record of delivering on strategic objectives

Portfolio is closing in on AUD 1 bn and is now of a scale where it is appropriate to consider an ASX listing

Represents a compelling investment opportunity delivering investors an equity yield of 8.2% and exposure to a developed and stable economy

Highlights

Continued strong performance supported by a quality portfolio and active asset management

Financial Performance

3.0%
half year pre WHT distribution growth

5.8%
NAV growth

3%–4%
Full year growth guidance maintained

88%
hedged for 7.2 years*

7.2 years
WEIGHTED SWAP EXPIRY

Key metrics

Gearing

Sep-17	Mar-17
33.8%*	32.0%

AUD85mn capacity to deploy

All in cost of funds

Sep-17	Mar-17
3.61%*	3.71%

** Includes AUD50.0mn of forward starting swaps which commenced in October 2017 and the acquisition of 6-8 and 11 Siddons Way, Hallam post balance sheet date*

Highlights

Continued portfolio growth but not at the expense of quality

Key metrics

Number of properties

Sep-17*	**Mar-17**
25	24

AUD

30.4 mn

Valuation uplift for the 6 months to 30 September 2017

Property Performance

6.4x asset growth since listing*

4.6

year WALE*

246 024m²

GLA*

AUD 832 mn

portfolio value*

98.4%

occupancy*

3.3%

average escalations*

** Includes the acquisition of 6-8 and 11 Siddons Way, Hallam post balance date*

02

strategy

Performance

Performance against strategy outlined at FY17 results presentation

Strategy outlined at FY17	Performance
Continue to build portfolio in key markets of NSW and Victoria	Acquired 6-8 and 11 Siddons Way, Hallam increasing exposure to Victoria
Look for value in other markets	Actively exploring markets such as NZ
Continue active management strategy to enhance yield and unlock value	Value of portfolio increased by AUD30.4mn as a result of active management
Source appropriately priced entry point into retail sector	Continue to explore retail markets but cautious about general retail sentiment
Consider development opportunities to take advantage of skills of the team developed over the past 10 years	113 Wicks Road and 2 Richardson Place, both in NSW, subject to planning processes
Explore NZ as an investment destination given its relative arbitrage to Australia	Acquired The Majestic Centre, 100 Willis Street, Wellington
Office leasing a key focus over next 24 months	25 694m² leased or subject to signed heads of agreement since 31 March 2017

Performance (cont.)

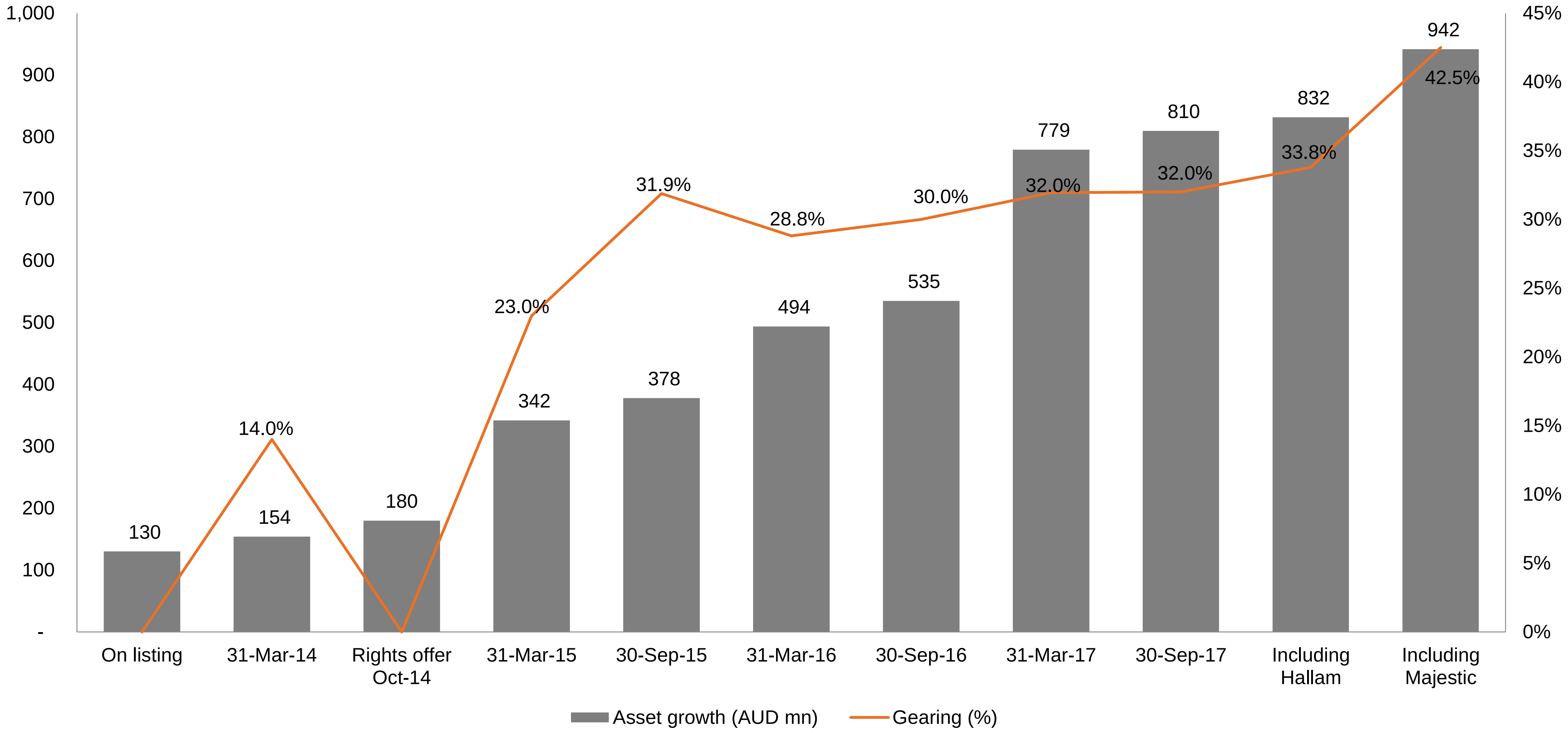
Performance against strategy outlined at FY17 results presentation

Strategy outlined at FY17	Performance
Expected distribution growth for FY 2018 of 3%–4%* pre WHT	Guidance for FY18 distribution growth maintained at 3%–4% pre WHT
Continue to evaluate corporate transactions that make sense	Increased corporate activity but lack of “local currency” holding IAPF back
Explore alternative sources of capital (Asia, Europe, US) or additional listing to broaden the investor base and support capital growth	Developed relationship with key Asian corporates, fund managers and family offices
Distribution growth to normalise in line with leveraged net property income growth	Distribution growth normalising but managing incentives remains a challenge
Capital growth influenced by Australian macro economic factors and demand for Australian property	Sound underlying macro economic factors persist in Australia, providing platform for strong property market

** This forecast assumes partial deployment at the lower end and full deployment at the upper end of gearing capacity during FY2018 into assets factoring in current market considerations. This forecast is based on the assumptions that the macro-economic environment will not deteriorate markedly, no tenant failures will occur and budgeted renewals will be concluded. Budgeted rental income was based on in force leases, contractual escalations and market-related renewals*

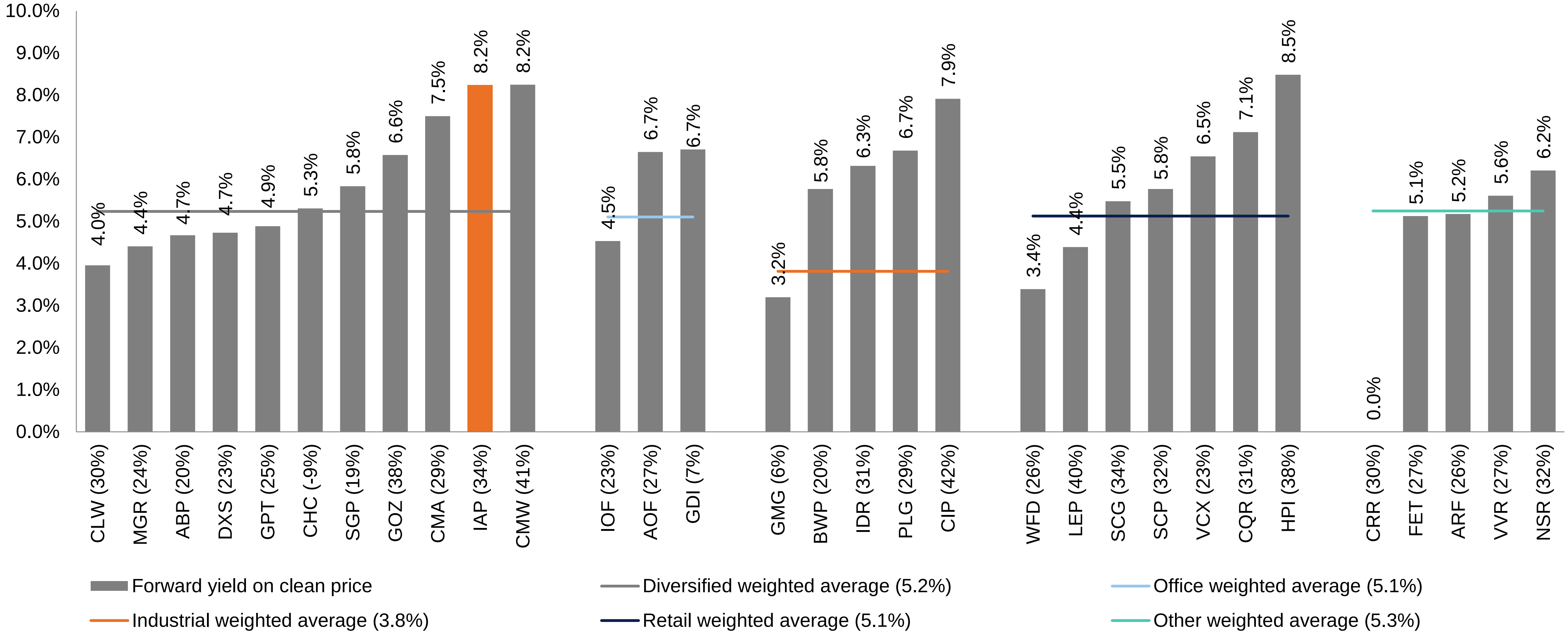
ASX listing

Portfolio now of a scale where an ASX listing can be considered



ASX listing

IAPF represents good value relative to Australian peer set



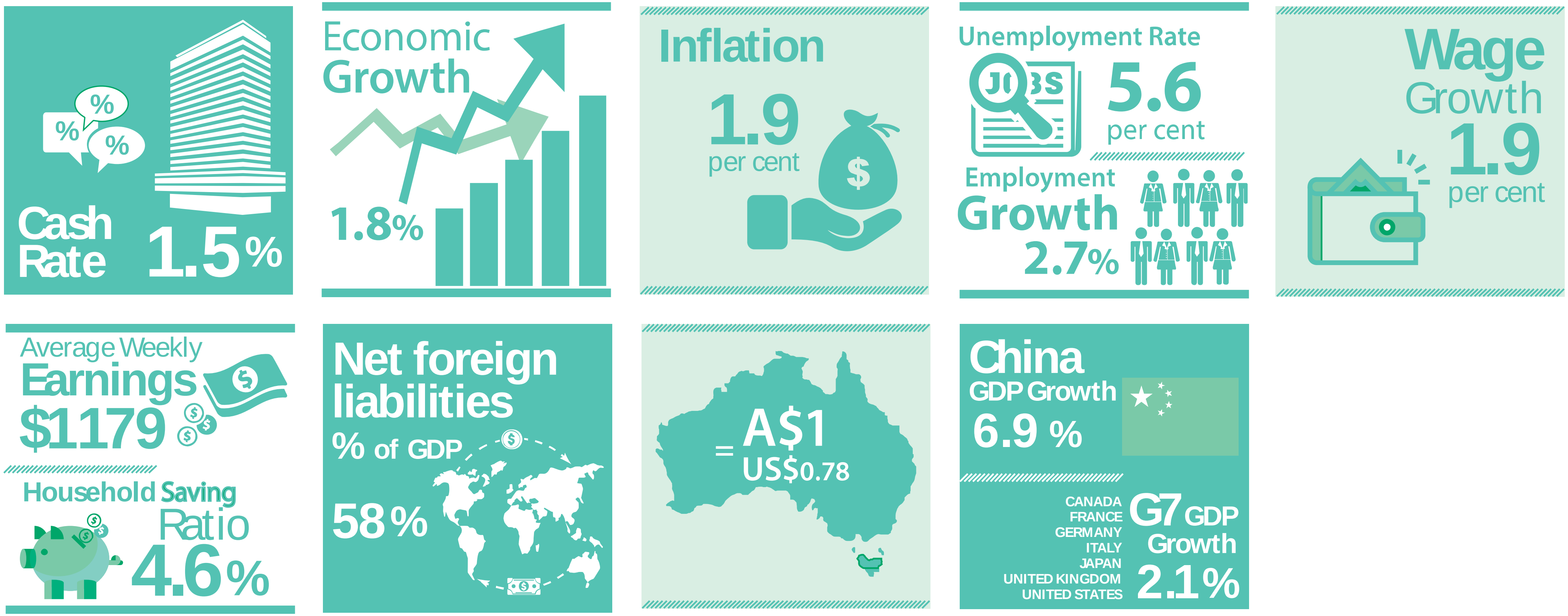
Source: Bloomberg as at 2017/11/03, Investec calculations
Note: Yields are based on rolling 12 month distributions on clean prices; IAPF forward yields are pre withholding tax (Numbers in brackets represent fund gearing)

03

market update

Australia's key economic indicators

Stable economy with 26 years of uninterrupted economic growth



Source: Reserve Bank of Australia

States face different prospects

NSW and Victoria leading the way

For over a decade, the beneficiaries of the mining boom — Western Australia, Queensland and NT — grew at the expense of those states without mining investment to drive growth

That's now reversed, with **NSW** and **Victoria** leading the way

NSW and **Victoria** will see strong economic and investment growth in the near term off the back of:

- recovery in finance and business services
- infrastructure investment
- rising services exports (education and tourism)

Next decade should see a recovery in the Queensland and WA economies

Source: BIS Oxford Economics

Australian property landscape

Continued positive outlook, but different markets will face different challenges

Australian commercial property has provided investors with very strong investment returns over the past five years

Returns were underwritten by falling, then low, interest rates driving firming yields and strong price growth

Over the next five years, rising bond rates mean softening yields, resulting in:

- a shift from yield to rental income growth as the primary driver of capital growth and total returns
- a mixed performance across sectors and cities
- Australian property will continue to outperform many global cities

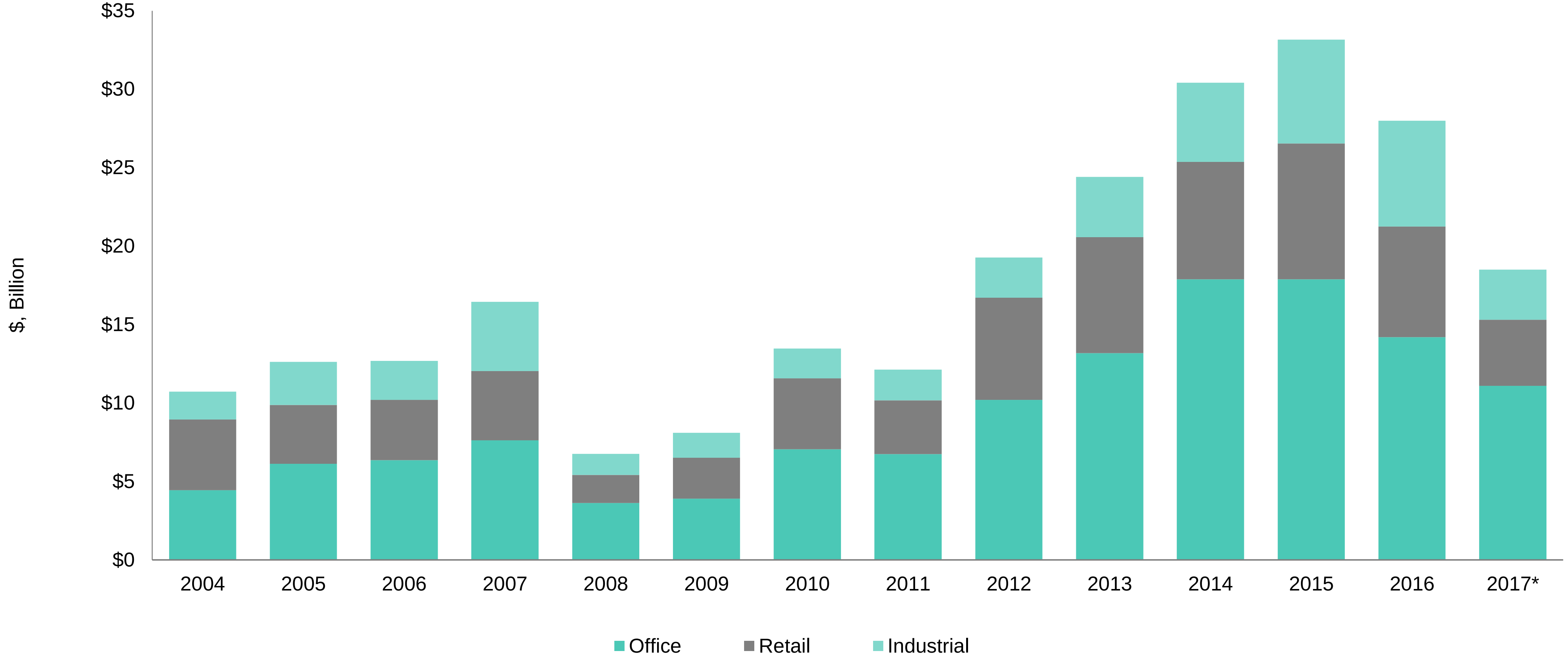
- For investors with a five year horizon, **Sydney** and **Melbourne** office markets offer the best investment returns and will benefit from tightening leasing conditions
- Longer term, recovery in the 'mining city' office markets will mean stronger returns across retail and industrial property

For global investors, Australian property will remain attractive

Source: BIS Oxford Economics

Volumes will increase towards 2016 levels

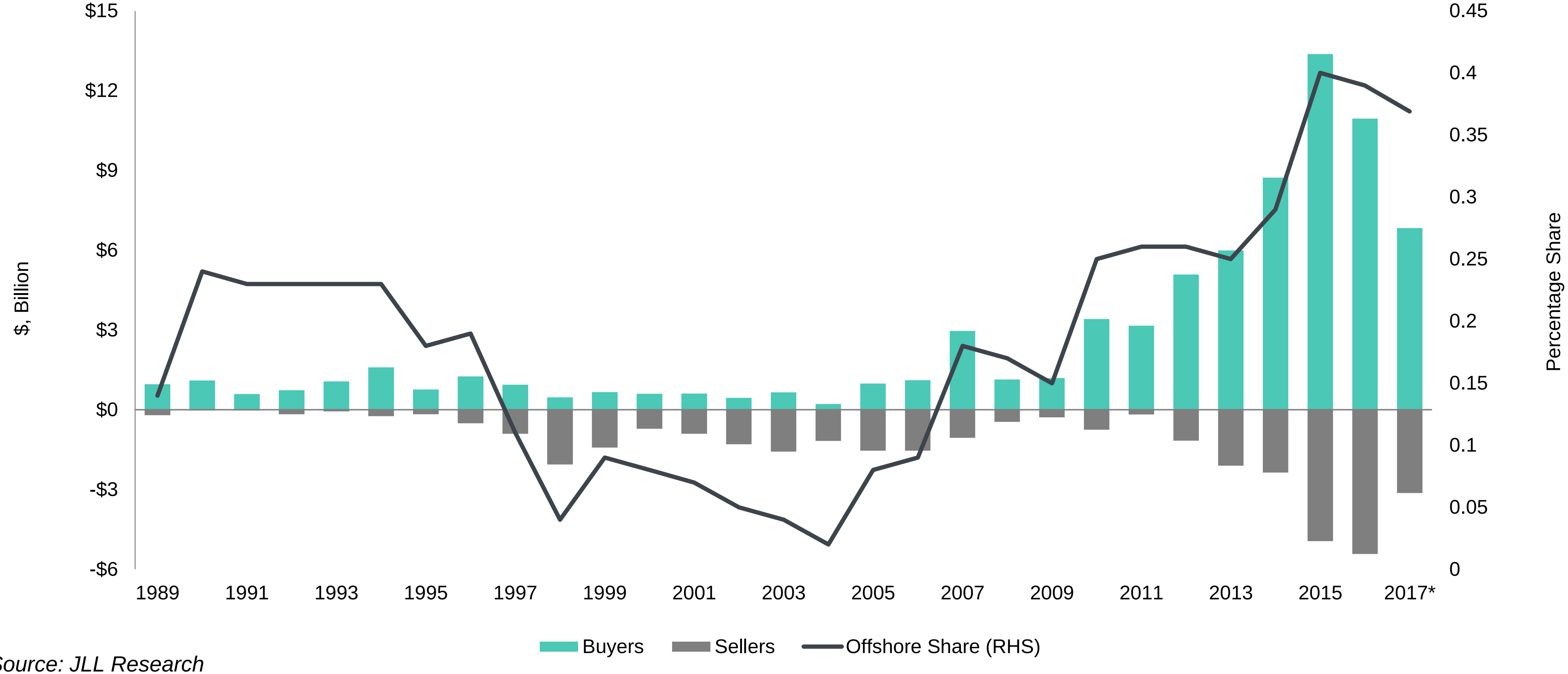
Australian commercial property markets transaction volumes, 2004 to 2017*



Source: JLL Research
** As at September 2017*

Offshore investors remain active participants

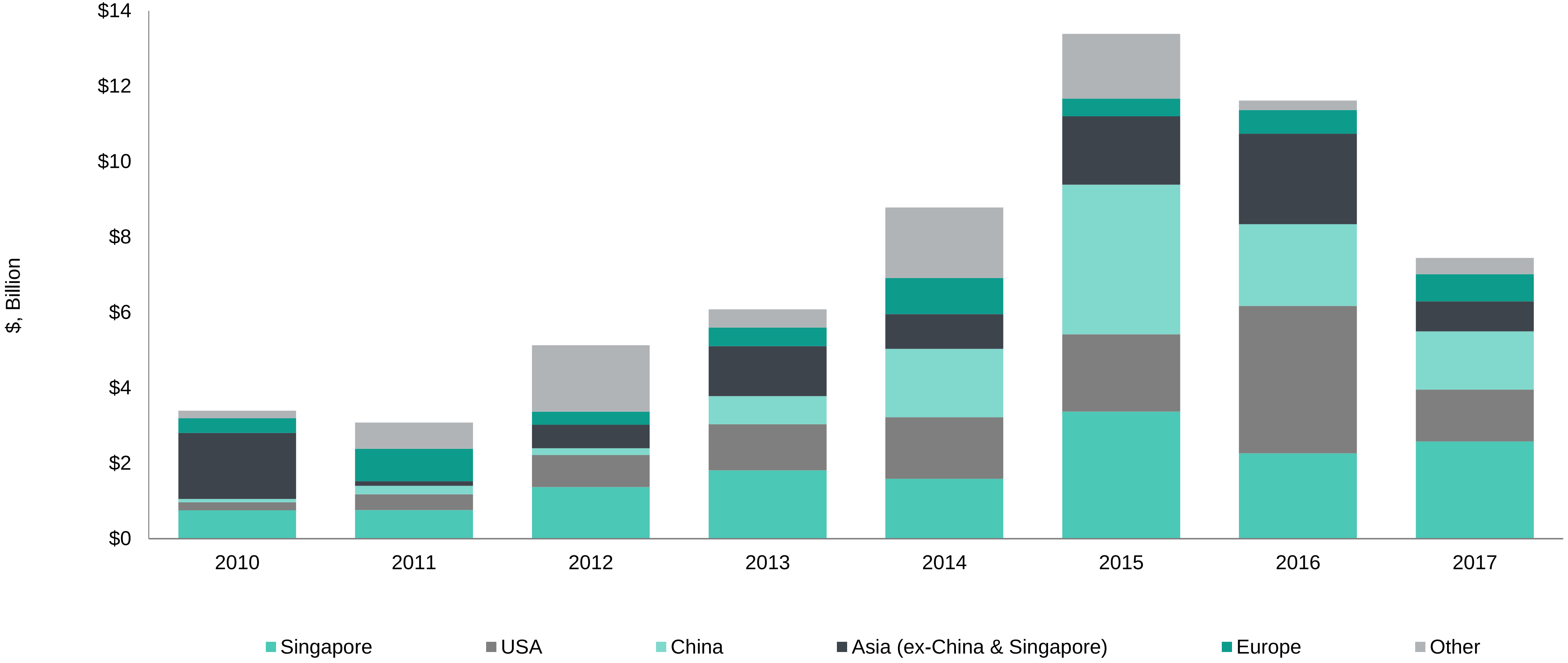
Offshore buyers and sellers, 1989 to 2017*



Source: JLL Research
** As at September 2017*

A diverse range of capital sources

Offshore buyer by origin, 2010 to 2017*



Source: JLL Research

** As at September 2017*

04

property information

Property portfolio

Fund closing in on **AUD 1 bn** of assets following the acquisitions of **6–8 and 11 Siddons Way, Hallam** and **The Majestic Centre, Wellington**

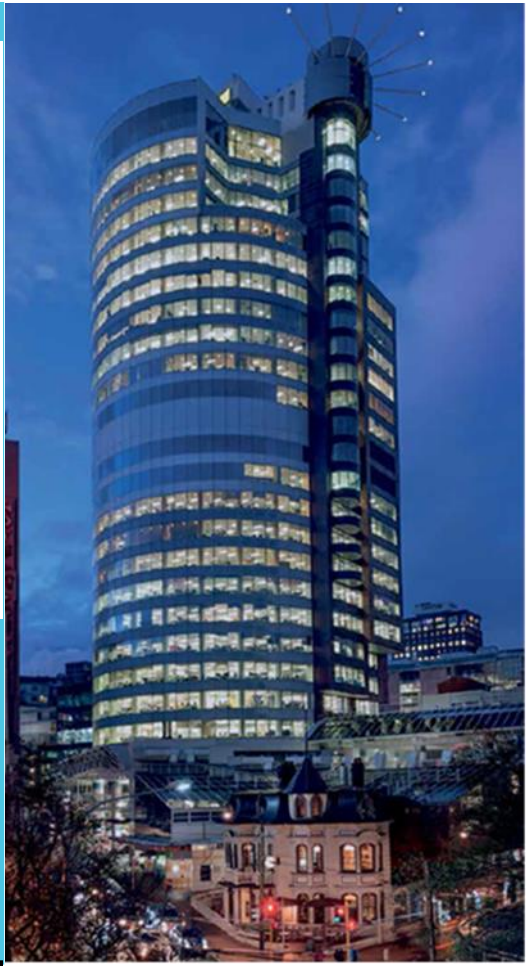
The Majestic Centre
Wellington, New Zealand

Iconic office tower located in the heart of the Wellington CBD’s ‘Golden Mile’

Major tenants

New Zealand Trade and Enterprise
Ernst & Young
Opus International Consultants
Cigna Life Insurance

Acquisition date **Dec-17**	GLA **24 469m²**
Purchase price **NZD 123 175 000**	Purchase yield **7.1%**

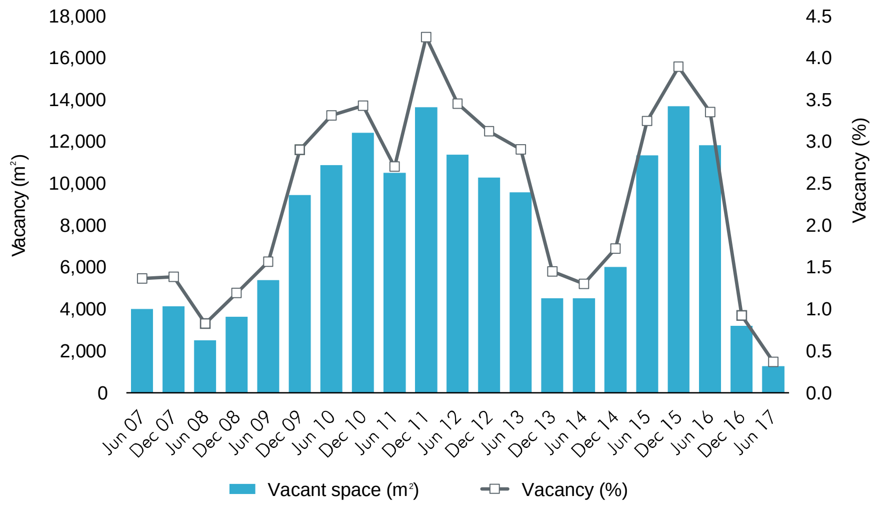


- Yield spread of more than **100 bps** over comparable Australian prime grade office assets
- Rate/m² of **NZD 5 000** significantly below comparable Australian prime grade office assets
- Long WALE of **6.6 years**
- Strong tenant covenants
- **98%** occupied
- Under rented
- **NZD 87.5 mn** spent on seismic upgrades and 100% NBS rating
- Materially below replacement value of **NZD 195 mn**

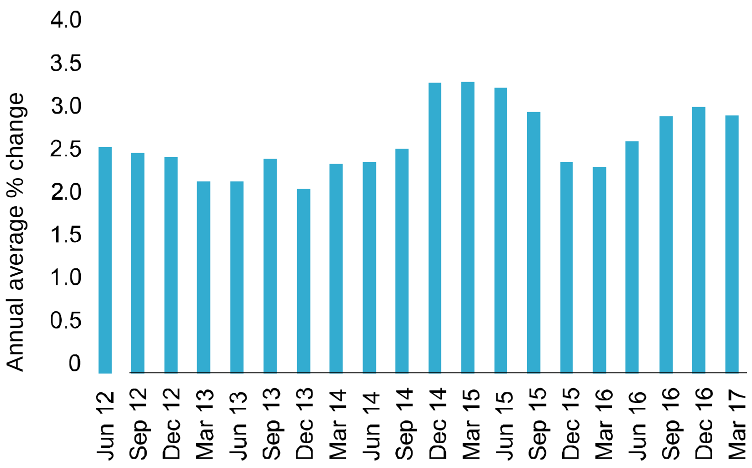
The Majestic Centre
Wellington, New Zealand

- Sizeable office market of **1 500 000m²**
- **Supply constrained** by topography, seismic activity and high construction costs
- Limited number of prime grade assets with large floor plates and **NBS rating of >80%**
- Vacancy in prime grade office market at **0.4%** with systemic low vacancy
- Low incentives in prime grade office market of approximately **7%** and declining
- Prime grade office rents have grown by **3%** over the long term
- **No stamp duty** on property acquisitions and **no capital gains tax** on investment property
- NZ economy a solid performer with GDP growth of between **2.0%** and **3.5%**

Wellington CBD prime office vacancy (Source: CBRE)



New Zealand GDP growth (Source: Westpac)



The Majestic Centre
Wellington, New Zealand

The acquisition of The Majestic Centre has an overall positive impact on key Fund metrics

26
properties
1 ↑

270 493m²
GLA
24 469m² ↑

4.9
year WALE
0.3 ↑

AUD 942 mn*
Portfolio value
AUD 110 mn ↑

98.3%
occupancy
0.1% ↓

7.2x
growth since listing
0.8x ↑

** Based on an AUD/NZD exchange rate of 1.1141*

6-8 and 11 Siddons Way
Hallam, VIC

Opportunity to acquire a good quality warehouse facility in an established industrial precinct with a long WALE of 7.8 years

Major tenant

Focus on Furniture

Acquisition date
Oct-17

Purchase price
AUD 22 000 000

GLA
15 504m²

Purchase yield
6.3%

Leasing activity

98.4% occupancy and positive signs in the leasing market

Signed leases	GLA	WALE	Escalations
Replacement leases / renewals			
Office	7 774	8.4	3.62%
Letting of vacancy			
Office	5 656	4.1	3.60%
Total	**13 429**	**6.7**	**3.61%**
Signed HOAs	**GLA**	**WALE**	**Escalations**
Replacement leases / renewals			
Office	11 304	6.5	3.59%
Letting of vacancy			
Office	961	5.7	3.54%
Total	**12 265**	**6.4**	**3.58%**
Total	**25,694**	**6.6**	**3.60%**

Signed leases

- Allianz
- Probe
- Paynter Dixon
- 5 214m² at Queen Street

Signed HOAs

- Carsales
- Yum!
- 1 689m² at Queen Street

Capital works programs *at a number of properties completed, underway or proposed to improve tenant amenity and assist with* ***tenant retention***

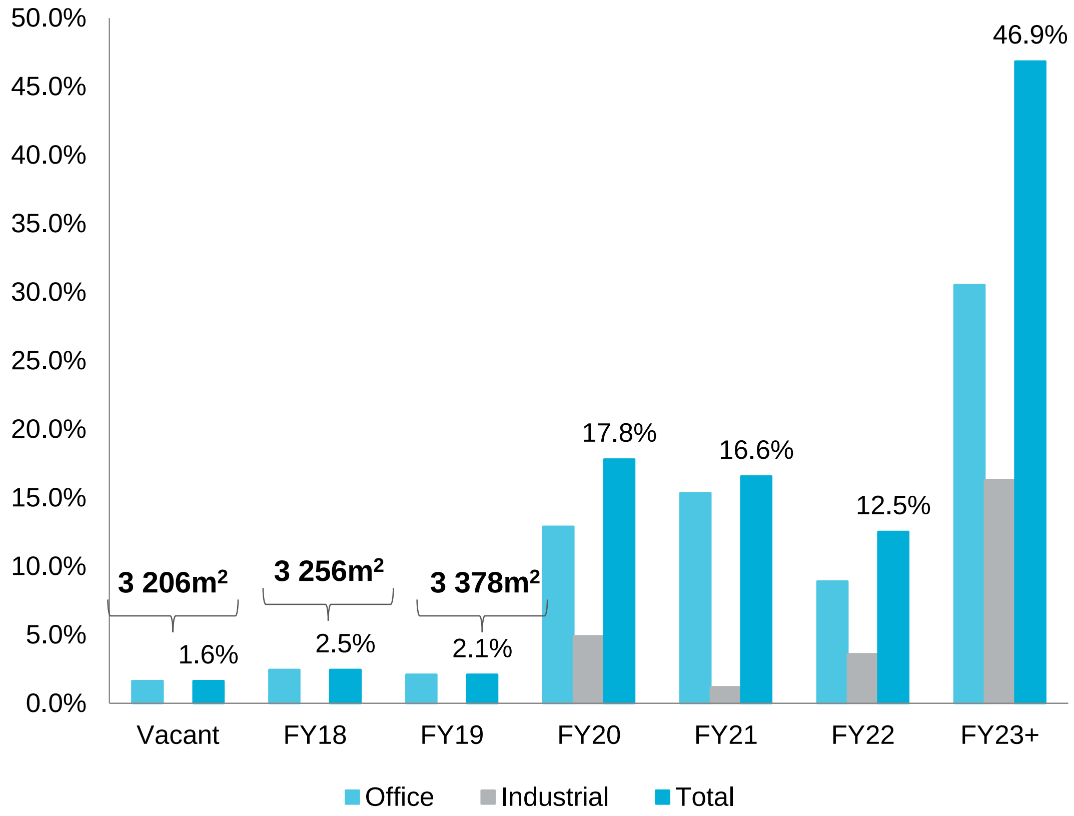
9 179m² Opening vacancy + **0m²** Expiries/ cancellations + **0m²** Acquired vacancy - **4 309m²** Replacements /renewals - **1 664m²** Acquired vacancy let = **3 206m²** Closing vacancy

Lease expiry profile

47% of leases expiring after 5 years

- Low current vacancy of **1.6%**
- Majority of FY18 expiries concentrated in New South Wales
- Signed HOAs reduce FY19 expiries by **1.1%**, FY20 expiries by **4.7%** and FY21 expiries by **2.2%**
- WALE of **4.6 years** maintained from FY17 due to leasing activity during the period and the acquisition of 6–8 and 11 Siddons Way, Hallam which has a WALE of 7.8 years

Expiry profile by income



Lease expiry profile includes signed leases but not signed heads of agreement

Valuations

Valuations reflect quality of underlying assets and have contributed to **NAV growth of 5.8%** for the period

	Book value			Cap rate	
Property	**31-Mar-17**	**30-Sep-17**	**Movement**	**31-Mar-17**	**30-Sep-17**
449 Punt Road, Cremorne VIC	44 500 000	47 500 000	6.7%	6.25%	6.00%
35-49 Elizabeth Street, Richmond VIC	74 500 000	80 000 000	7.4%	6.50%	6.13%
757 Ann Street, Fortitude Valley QLD	82 000 000	84 200 000	2.7%	6.75%	6.50%
21-23 Solent Circuit, Baulkham Hills NSW	48 500 000	52 500 000	8.2%	7.75%	7.50%
266 King Street, Newcastle NSW	67 000 000	70 000 000	4.5%	7.75%	7.50%
324 Queen Street, Brisbane QLD	66 000 000	68 750 000	4.2%	7.50%	7.00%
20 Rodborough Road, Frenchs Forest NSW	56 000 000	58 000 000	3.6%	7.75%	7.00%
2 Richardson Place, North Ryde NSW	85 000 000	90 000 000	5.9%	7.00%	6.75%

3.9%
valuation uplift
across portfolio

AUD 30.4 mn
of capital value added

05

financial information

Key financial metrics

	Reviewed Six months to 30-Sep-17	Reviewed Six months to 30-Sep-16	+/-
Distribution (AUDmn)	21.3	15.5	37.4%
Distribution per unit pre WHT (cents)	4.95	4.81	3.0%
Distribution per unit post WHT (cents)	4.64	4.64	0.0%
Basic and diluted earnings per unit (cents)	5.48	3.46	58.4%
	Reviewed as at 30-Sep-17	**Audited as at 31-Mar-17**	
Portfolio size (AUDmn)	809.7	779.4	3.9%
NAV per unit (cents)	122.8	116.1	5.8%

6.4x

Portfolio growth since listing*

5.8%

NAV growth in the 6 months to 30-Sep-17

** Includes the acquisition of 6–8 and 11 Siddons Way, Hallam post balance date*

Base portfolio

	Reviewed Six months to 30-Sep-17	Reviewed Six months to 30-Sep-16	+/-
Base rental income	24.1	23.4	3.1%
Base gross expenses	(3.9)	(3.7)	7.1%
Base net property income	**20.2**	**19.7**	**2.4%**
Acquisitions	8.5	0.5	
Net property income	**28.7**	**20.2**	**42.2%**

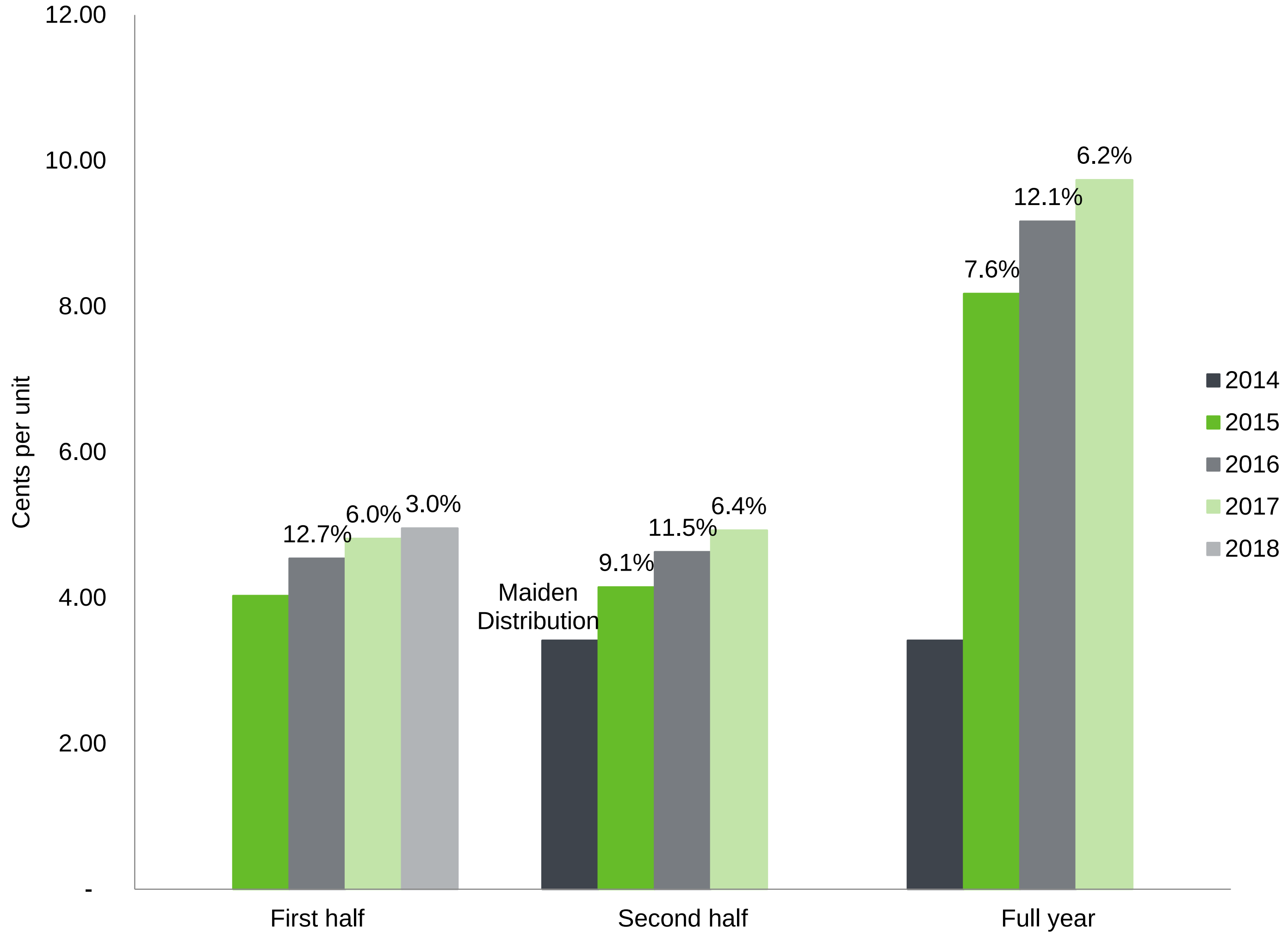
Average in-force escalations	3.4%	3.4%	
WALE (by income)	4.8 years	5.4 years	
Vacancy %	0.7%	0.0%	

Base rental income in line with escalations

active asset management through successful tenant retention and minimising down time

Distribution growth (pre WHT)

CONSISTENT distribution growth underpinned by a quality portfolio



3%–4%

Full year growth guidance maintained

Delivering stable income growth through active asset management and efficiently managing the balance sheet and interest rates

Debt management

Balance sheet well positioned for **growth**

88%*

hedged for

7.2 years

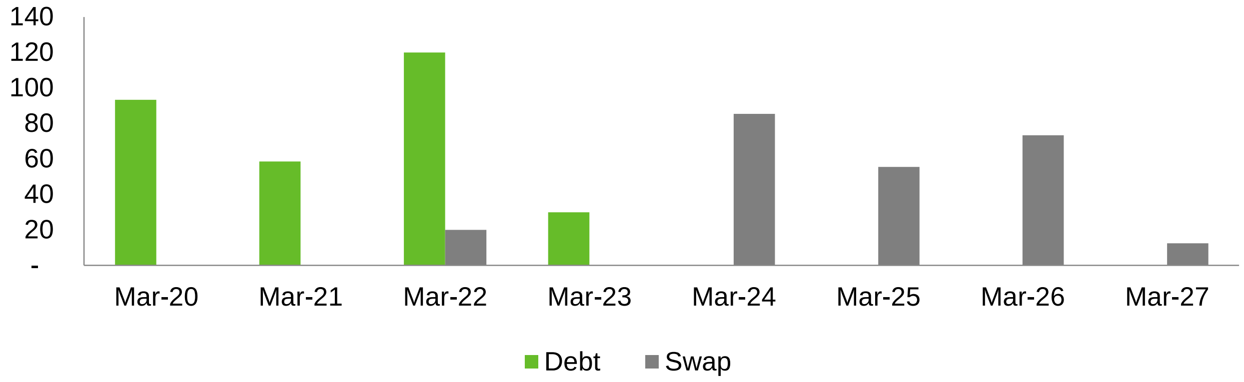
3.3 years

weighted debt expiry

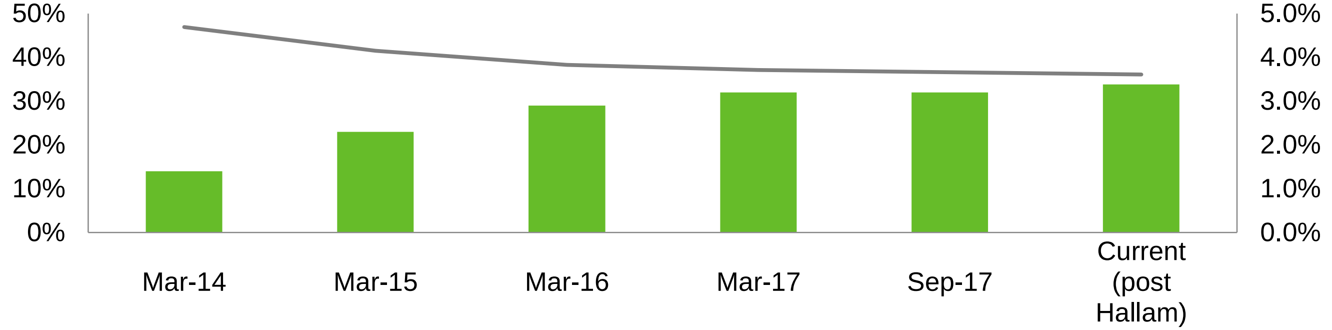
3.61%*

all in cost of funds

Debt and swap maturity profile*



Gearing and cost of funding



	Mar-14	Mar-15	Mar-16	Mar-17	Sep-17	Current (post Hallam)
Gearing	14%	23%	29%	32%	32%	34%
COF	4.69%	4.15%	3.83%	3.71%	3.66%	3.61%

** Includes AUD50.0mn forward starting swaps which commenced in October 2017 and the acquisition of 6–8 and 11 Siddons Way, Hallam post balance date*

06

conclusion

Focus for FY 2018

Continue to build portfolio in key markets of NSW and Victoria and look for value in other markets

Actively manage the portfolio with a key focus on tenant retention

Continue to explore alternative sources of capital or an additional listing to broaden the investor base, support capital growth and provide currency for corporate activity

3%-4%*

pre WHT distribution growth guidance maintained for FY 2018

** This forecast assumes partial deployment at the lower end and full deployment at the upper end of gearing capacity during FY2018 into assets factoring in current market considerations. This forecast is based on the assumptions that the macro-economic environment will not deteriorate markedly, no tenant failures will occur and budgeted renewals will be concluded. Budgeted rental income was based on in force leases, contractual escalations and market-related renewals*

07

appendix

Fund snapshot

64% of portfolio weighted to **NSW and Victoria**

AT 3 NOVEMBER 2017

Market Capitalisation	R5.83bn / AUD539mn^
Unit price	R13.70
NAV per unit	R13.30
Premium to NAV	3%

OFFICE

No. of properties	11
GLA	115 062 m^2
Vacancy	2.2%
WALE (years)	4.2
In-force escalations	3.5%
Asset value	AUD625mn

PROPERTY PORTFOLIO*

No. of properties	25
GLA	246 024m^2
Vacancy	1.6%
WALE (years)	4.6
In-force escalations	3.3%
Asset value	AUD832mn

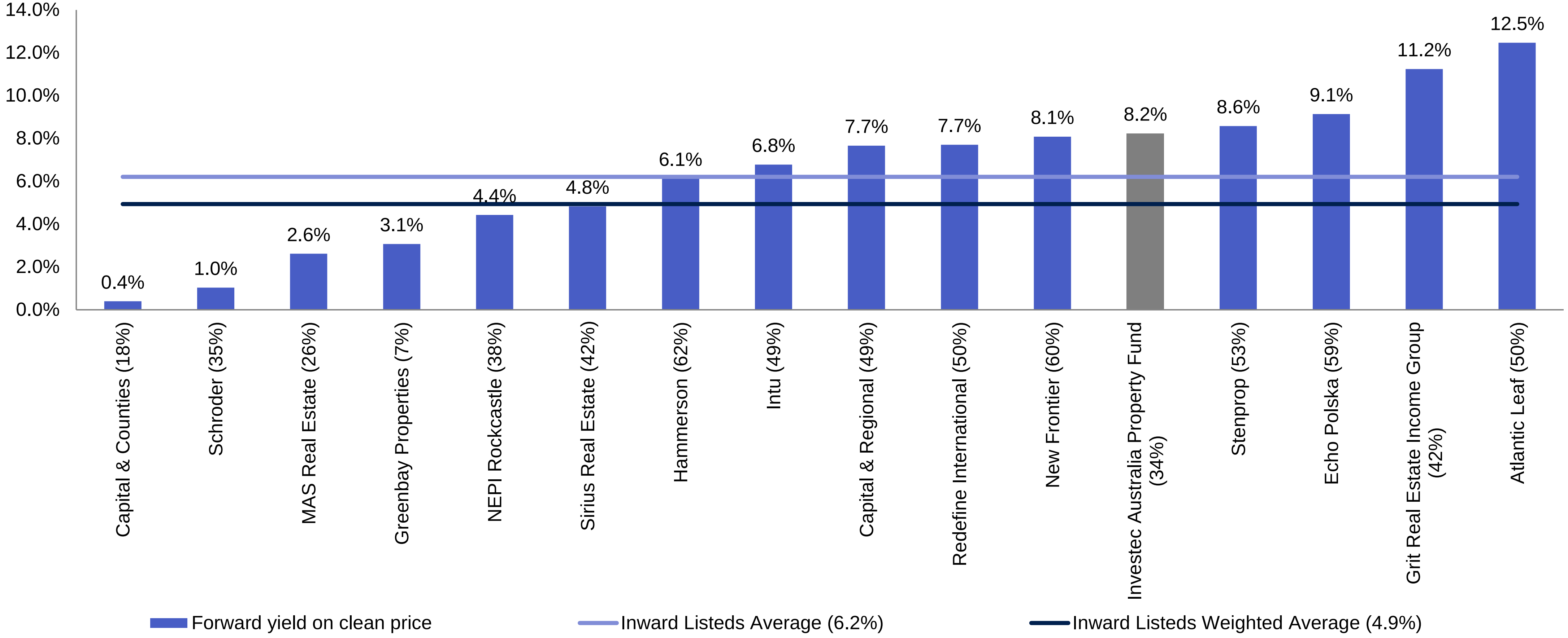
INDUSTRIAL*

No. of properties	14
GLA	130 962m^2
Vacancy	0%
WALE (years)	5.8
In-force escalations	3.2%
Asset value	AUD207mn

^ Based on ZAR / AUD exchange rate of ZAR 10.83 and share price of 13.70 as at 3 November 2017
** Includes the acquisition of 6-8 and 11 Siddons Way, Hallam post balance date*

SA inward listed property sector yields

IAPF delivering attractive returns without earnings volatility and excessive gearing



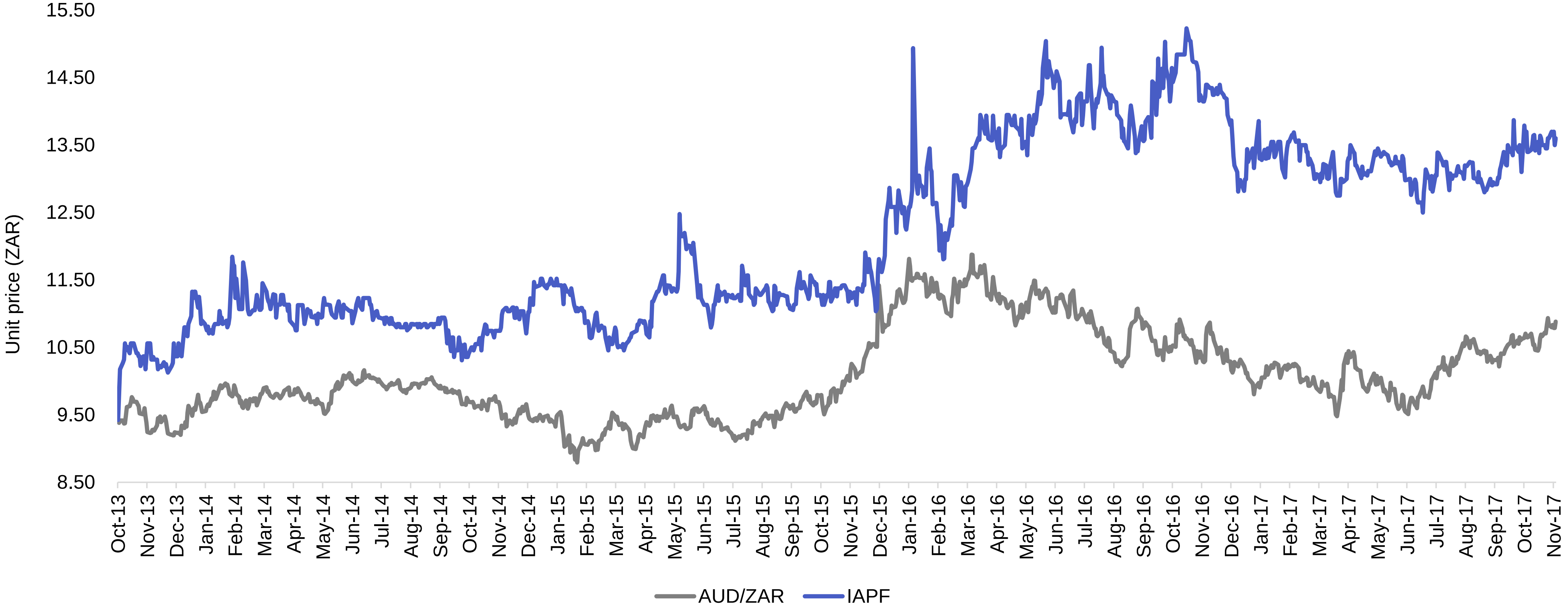
Source: *INet Bridge as at 2017/11/03, Investec calculations*

Note: *Yields are based on clean prices; where Bloomberg forecasts are not available, EPS forecasts are based on assumed growth rates applied to historical core or headline EPS; IAPF forward yields are pre withholding tax. For comparative purposes, all forward yields are based on distributions pre-WHT in the relevant jurisdictions (including IAPF) Numbers in brackets represent fund gearing*

Performance since listing (82.8% total return)

IAPF vs. ZAR / AUD exchange rate

- Delivered a 44.6% capital return in ZAR (25.0% return in AUD and 19.6% currency return)
- Declared distributions of 359.28 ZAR cents (pre-WHT), equating to an income return of 38.2%*



* *Return calculation based on listing price of ZAR 9.42 and takes into account ZAR equivalent of all pre-WHT distributions paid out to date*

Source: Bloomberg as at 3 November 2017

Income statement

	Reviewed 6 months to 30-Sep-17	Reviewed 6 months to 30-Sep-16	+/-
	AUDmn	**AUDmn**	
Revenue	34.8	24.0	45.0%
Straight line rental adjustment	1.9	1.4	38.7%
Total revenue	36.7	25.4	44.7%
Property expenses	(6.1)	(3.8)	60.5%
Net property income	**30.6**	**21.6**	**41.9%**
Operating expenses	(2.7)	(1.8)	52.6%
Net finance costs*	(4.7)	(3.0)	56.6%
Net fair value adjustments	27.5	4.2	555.3%
Profit	**50.7**	**21.0**	**141.6%**

Distribution reconciliation

	Reviewed 6 months to 30-Sep-17	Reviewed 6 months to 30-Sep-16	+/-
	AUDmn	**AUDmn**	**%**
Profit	50.7	21.0	
Less: straight line rental adjustment	(1.9)	(1.4)	
Fair value adjustments — investment property	(26.9)	(10.0)	
Fair value adjustments — derivatives	(0.6)	5.7	
Antecedent distribution	-	0.2	
Distribution pre-withholding tax	21.3	15.5	
Withholding tax (to be paid to the ATO)	(1.3)	(0.5)	
Distribution post — withholding tax	19.9	15.0	
Units in issue ('000)	429 265	322 359	
	cpu	**cpu**	
Distribution per unit pre WHT	4.95	4.81	3.0%
Distribution per unit post WHT	4.64	4.64	0.0%

Balance sheet

	Reviewed as at 30-Sep-17	Audited as at 31-Mar-17	
	AUDmn	AUDmn	+/-
Assets			
Investment property	809.7	779.4	3.9%
Derivative financial instruments	1.9	1.3	46.2%
Trade and other receivables	4.4	1.8	144.4%
Cash and cash equivalents	2.9	4.1	(29.3%)
Total assets	**818.9**	**786.6**	4.1%
Unitholders' interest			
Contributed equity	458.9	466.9	(1.7%)
Retained earnings	68.2	38.8	75.9%
Liabilities			
Long term borrowings	258.4	248.0	4.2%
Trade and other payables	12.1	11.4	6.6%
Distributions payable	21.3	21.5	(1.1%)
Total equity and liabilities	**818.9**	**786.6**	**4.1%**
Net asset value per unit (cents)	122.8	116.1	5.8%

Our property landscape

Victoria — x2 x2

South Australia — x1

New South Wales — x5 x4

Queensland — x3 x2

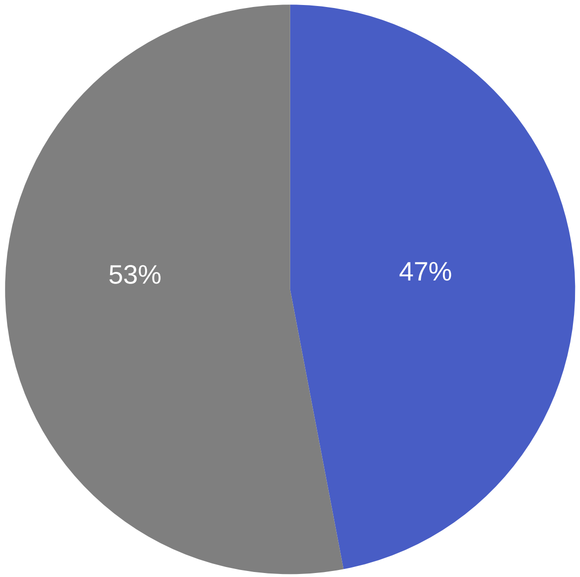
ACT — x1 x4

WA — x1

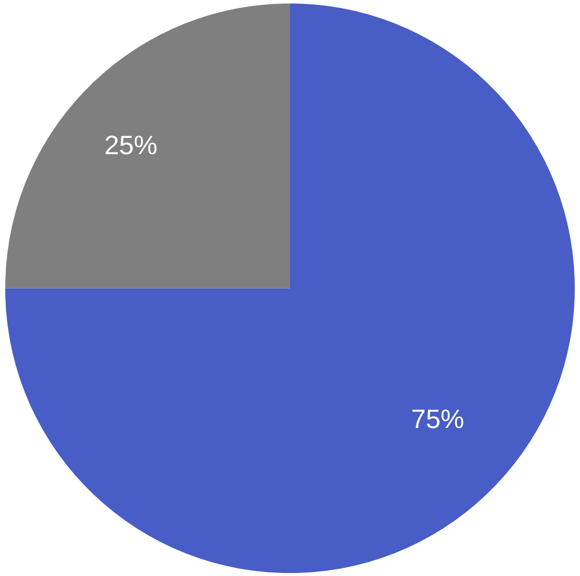
Includes the acquisition of 6–8 and 11 Siddons Way, Hallam post balance date

Portfolio by sector

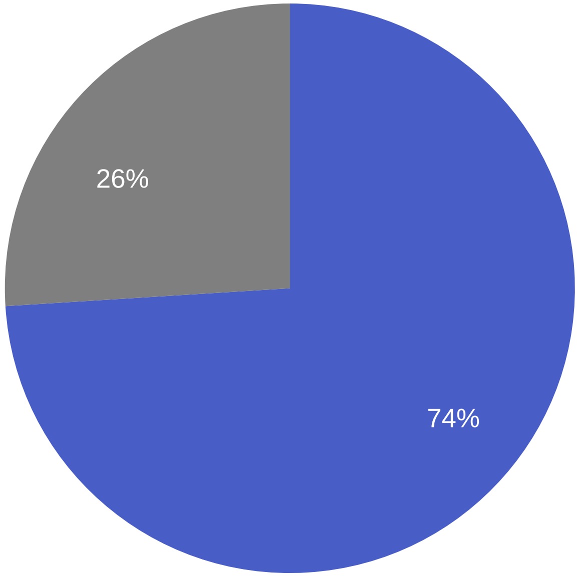
GLA



Asset value



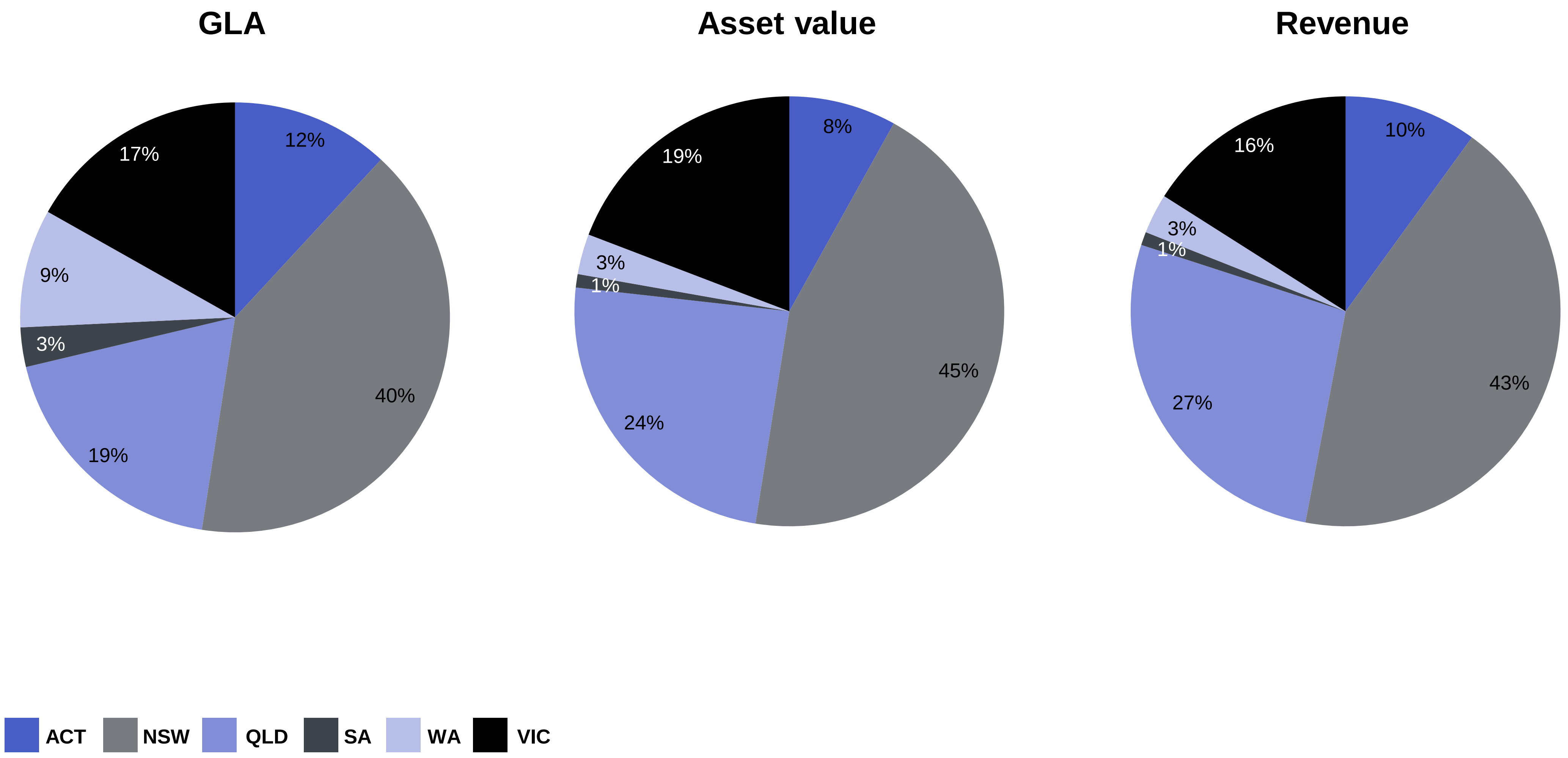
Revenue



Office **Industrial**

Includes the acquisition of 6–8 and 11 Siddons Way, Hallam post balance date

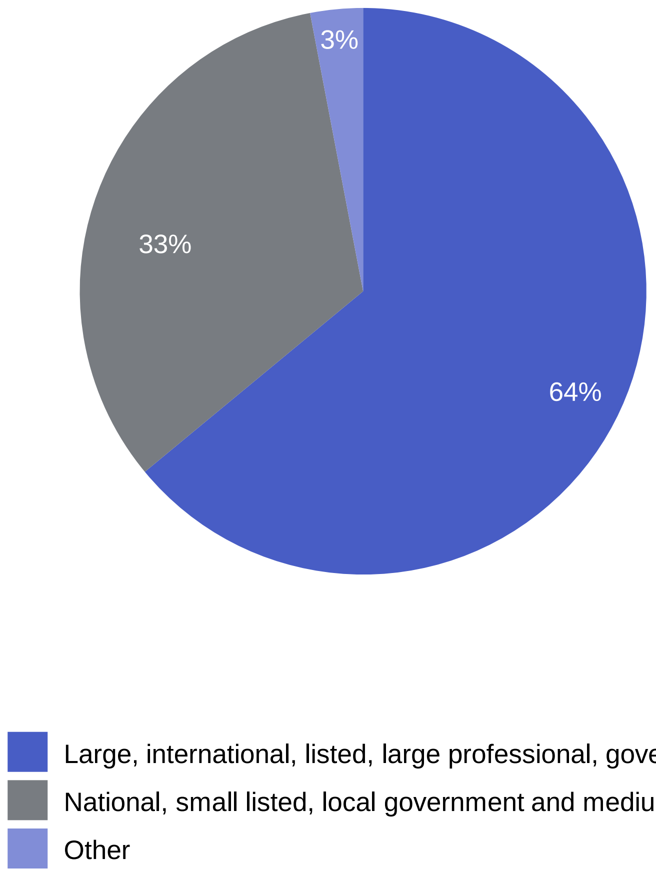
Portfolio by geography



Includes the acquisition of 6–8 and 11 Siddons Way, Hallam post balance date

Tenant composition

97% A and B grade tenants



Rank	Tenant	% of portfolio
1	ABB Enterprise Software	5%
2	Carsales.com Limited	5%
3	Ricoh Australia Pty Ltd	4%
4	Toll Transport Pty Ltd	4%
5	Commonwealth of Australia	4%
6	Australian Taxation Office	4%
7	Honeywell Limited	4%
8	Horan Steel	4%
9	CTI Freight Systems Pty Ltd	3%
10	State Government of Victoria	3%
	Total	40%
	Other	60%

Includes the acquisition of 6–8 and 11 Siddons Way, Hallam post balance date

Disclaimer