



annual results

2017

Investec Australia
Property Fund



 **Investec**
Australia Property Fund



01 **1** **1**

summary

The Fund has built a **valuable** portfolio comprising 24 properties and established a track record of **delivering** on strategic objectives

The Fund's portfolio is supported by strong underlying **property fundamentals** and exposure to a **developed and stable** economy, notwithstanding the unit price can be influenced by ZAR volatility

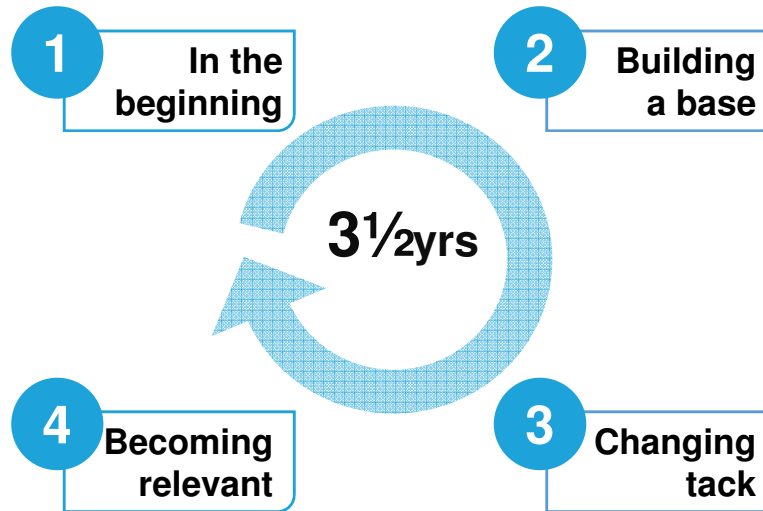
The Fund represents a **compelling** investment opportunity delivering investors an **equity yield of 7.5%**, particularly when compared to where direct assets are currently trading and the pricing of recent corporate activity



The story so far ...

- Offers first direct entry point on JSE into Australian property
- Leverages the Investec brand and on-the-ground property expertise in Australia
- Solid base portfolio with long WALE, good quality tenants, well located properties and contractual rental growth

- Portfolio value of AUD779mn
- 24 assets geographically spread
- Positioned for value uplift based on current market conditions
- 74.6% total return in ZAR since listing
- 7.5% pre-WHT yield from a platform exposed to a stable and developed economy



- Organic growth strategy to enhance quality of the portfolio
- Deployment of listing capacity
- Leverage effect delivering above market distribution growth
- Conclusion of three subsequent rights offers and deployment of capital as promised
- Prudent balance sheet management

- Ability to adapt strategy
- Focus on metropolitan office markets
- See value in markets before others
- Active asset management delivering enhanced yield and capital uplift

IAPF is now a relatively mature portfolio poised to deliver normalised growth in line with NPI growth, further supported by the letting of acquired vacancy and active asset management

IAPF eyes portfolio growth

INVESTEC AUSTRALIA
PROPERTY FUND ACQUIRES
A-GRADE NEWCASTLE OFFICE
BUILDING

Investec growth

Investec Australia Property Fund announced a full-year distribution of 9.17c per unit for the year ending March 31, 2016, representing a 12.1 per cent distribution growth over the same period. **MATTHEW CRANSTON**

Investec snaps up Blackstone Sydney assets for \$160m

Highlights

Continued strong performance supported by stable base portfolio and active asset management

Financial Performance

6.2%
full year pre WHT
distribution growth

9.1%
NAV growth

3.2%
base net property
income growth

99%
hedged for 7.7 years*

3.7 years
WEIGHTED DEBT EXPIRY

Key metrics	
Gearing	
Mar-17 32.0%	Mar-16 28.8%
AUD85mn capacity to deploy	
All in cost of funds	
Mar-17 3.71%*	Mar-16 3.83%
12bps reduction in funding rates	

* Includes AUD50.0mn of forward starting swaps to commence in October 2017

Highlights

Continued portfolio growth but not at the expense of quality

Key metrics

Number of properties

Mar-17	Mar-16
24	19

AUD264mn*
quality enhancing acquisitions concluded during the year

* Includes transaction costs

Property Performance

4.6
year WALE

230 864m²
GLA

6.0x growth since listing

AUD779mn
portfolio value

94.6%
occupancy

3.4%
average escalations

Fund snapshot

58% of portfolio weighted to NSW and Victoria

AT 9 May 2017

Market Capitalisation	R5.82bn / AUD583mn*
Unit price	R13.36
NAV per unit	R11.59
Premium to NAV	15%

PROPERTY PORTFOLIO

No. of properties	24
GLA	230 864m ²
Vacancy	5.4%
WALE (years)	4.6
In-force escalations	3.4%
Asset value	AUD779mn

OFFICE

No. of properties	11
GLA	115 385 m ²
Vacancy	7.1%
WALE (years)	4.27
In-force escalations	3.4%
Asset value	AUD597mn



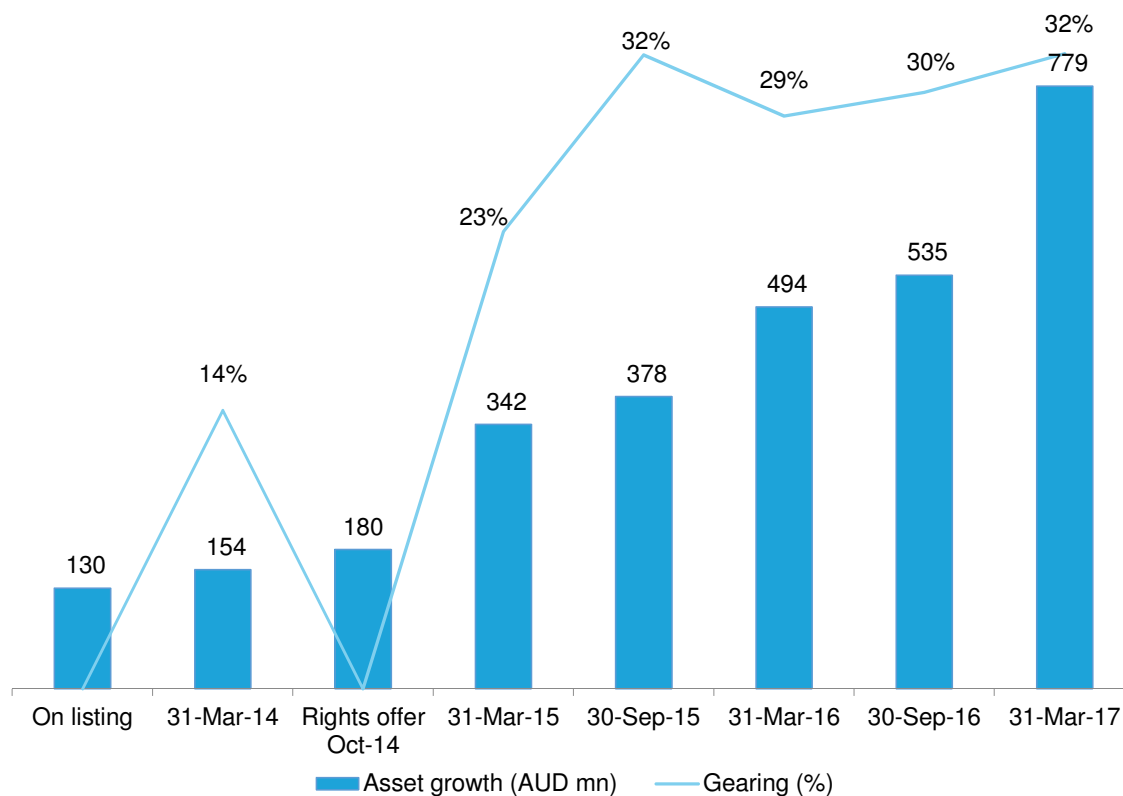
INDUSTRIAL

No. of properties	13
GLA	115 479m ²
Vacancy	0%
WALE (years)	6.1
In-force escalations	3.3%
Asset value	AUD182mn



* Based on ZAR / AUD exchange rate of 9.98 as at 9 May 2017

Asset and gearing growth



* Includes transaction costs

6.0x
growth since listing

AUD264mn*
quality enhancing acquisitions during the year



02 **11**

market update

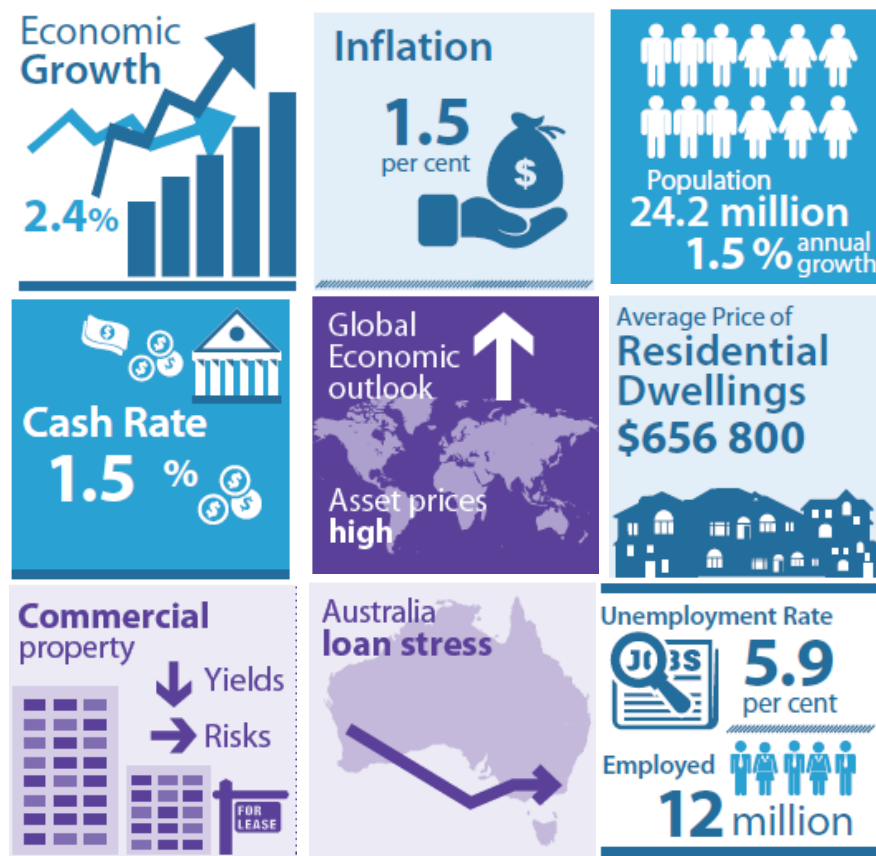
Australian economy

Resilient economy delivering continuing economic growth

RBA inflation forecast to remain in **1.5% to 2.5%** band through 2017 and 2018

Interest rates and bond yields expected to remain **lower for longer**

Source: Reserve Bank of Australia



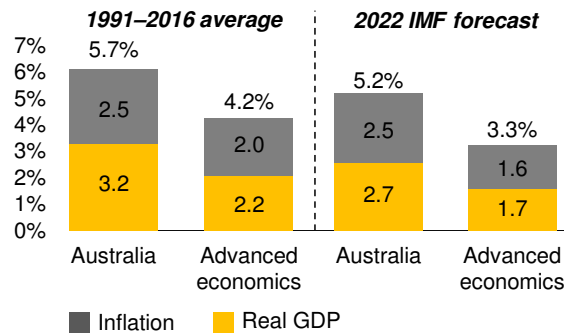
Australian economy

One of twelve countries to maintain AAA credit rating

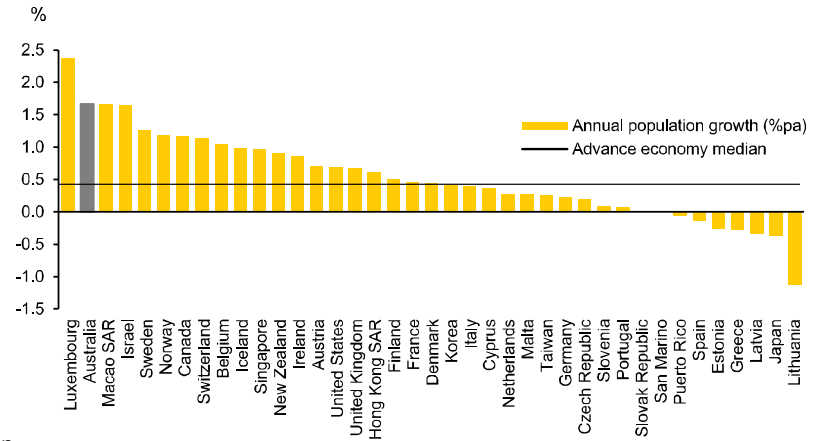
Australia has had **26 years** of unbroken economic growth with outlook remaining attractive

By 2021 it is expected that Australia's economy will have **grown by twice** that of the G7

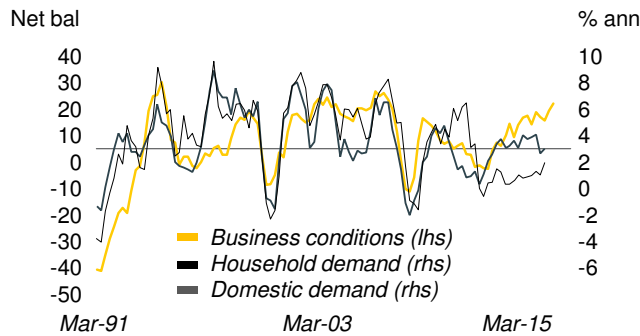
Global growth prospects



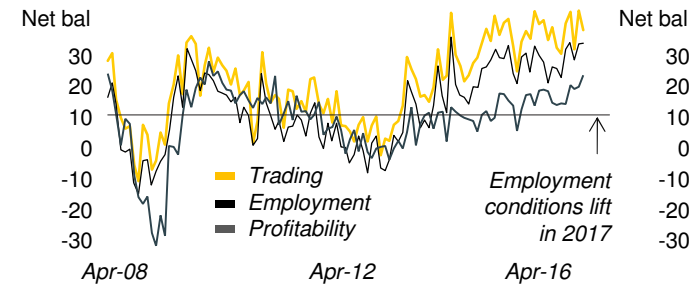
Projected population growth (annual average, 2015–2021)



Business conditions index and demand



Business conditions: demand



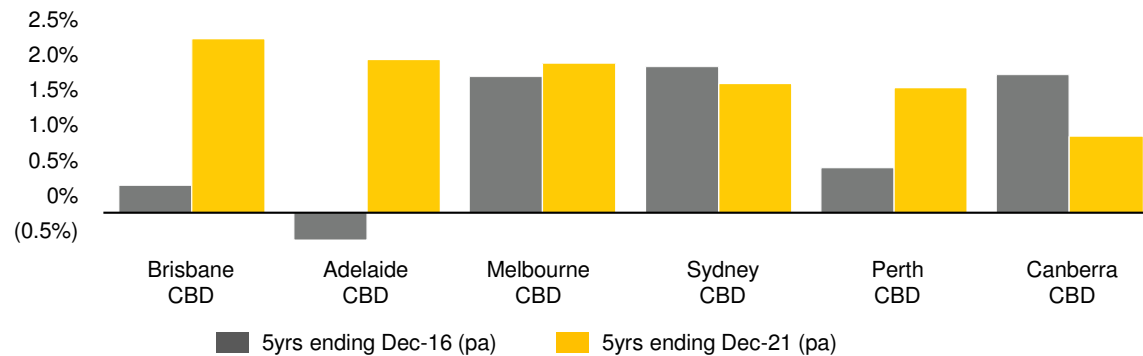
Source: IMF, Australian Bureau of Statistics, Macquarie Research, NAB, Westpac Economics

Australian economy

New South Wales and Victoria are best performing economies, but Queensland showing green shoots

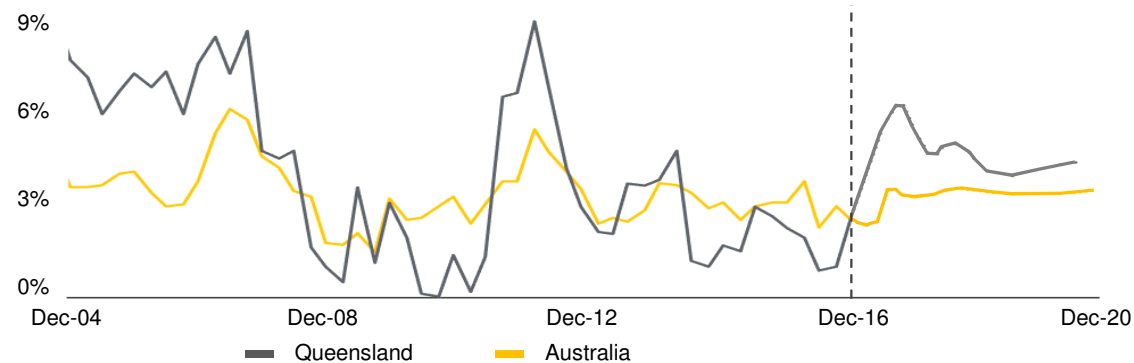
New South Wales (3.5%) and Victoria (3.3%) **exceeding** national GDP growth (2.4%)

Average white collar employment growth by market



Queensland **forecast to grow** faster than the broader economy

Gross state product (constant price, annual % change)



Source: Reserve Bank of Australia, CBRE, Deloitte Access Economics, Commsec, Australian Bureau of Statistics

Australian direct property landscape

Strength of the economy supporting activity from offshore investors

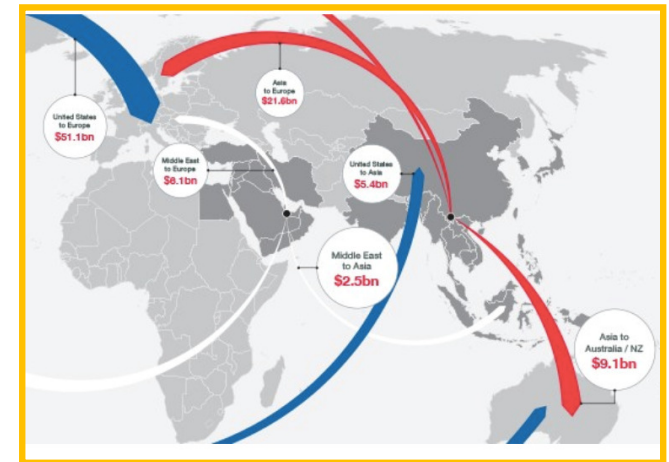
Australian property sector the **beneficiary** of tilt towards real estate assets within the Asia Pacific region

Offshore investors accounted for **42%** of total office transactions in 2016

Australia historically has **lower volatility** of returns than other mature office markets

Australia is one of the most **transparent** real estate markets in the world

Continuing strong demand for **Australian real estate** from local and offshore capital



Australian direct property landscape

Industrial	
Sydney	<ul style="list-style-type: none"> Continued demand from foreign investors driving down capitalisation rates. Continued improvements to road infrastructure and increasing land costs also contributing to cap rate compression in the region.
ACT, Melbourne and Adelaide	<ul style="list-style-type: none"> Relatively stable market considering low supply levels. Investor appetite still remains for high quality and well located industrial assets.
Brisbane	<ul style="list-style-type: none"> Investor demand remains strong with tightening of capitalisation rates being seen across all grades.
Perth	<ul style="list-style-type: none"> Cap rate contraction is slowing, with vacancy forecasted to increase. Rent has decreased year on year. Investor demand has continued to focus on prime assets in well established locations.
Office	
Sydney and Melbourne	<ul style="list-style-type: none"> Vacancy rates decreased and are forecast to continue to decrease due to low new supply. This has caused net rents in prime assets to rise and capitalisation rates to tighten.
Brisbane	<ul style="list-style-type: none"> Economy is moving off the bottom of the cycle with investor demand remaining high. Modest yield compression has continued in 2017.

Melbourne and Sydney expected to have the **highest** growth in office rents and capital value **globally** over next 3 years

Source: KPMG, JLL Research

Performance since listing (74.6% total return)

IAPF vs. ZAR / AUD exchange rate

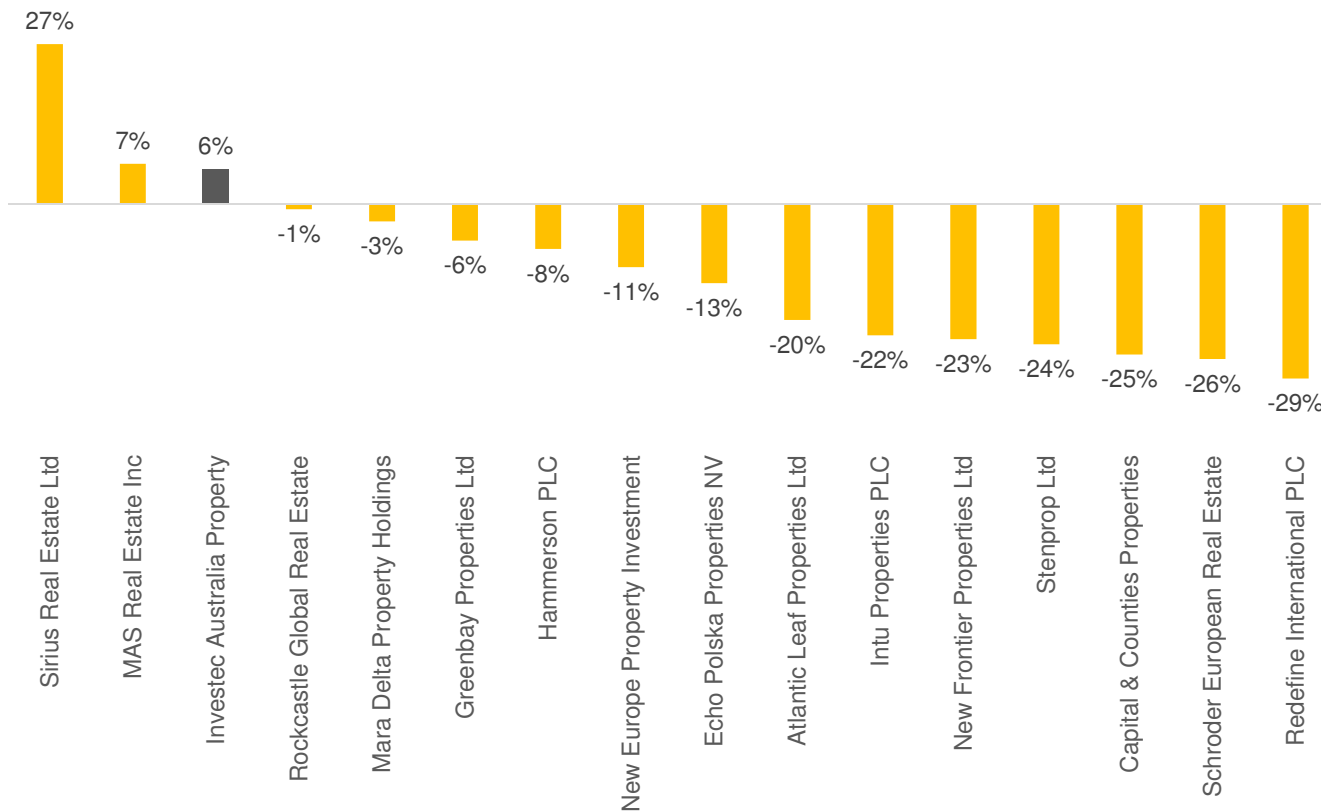
- Delivered a 42.0% capital return in ZAR (33.9% return in AUD and 8.1% currency return)
- Declared distributions of 306.76 ZAR cents (pre-WHT), equating to an income return of 32.6%*

Unit price (ZAR)



* 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 9 May 2017

12 month performance of SA inward listed property sector



In a challenging period for inward listed stocks, IAPF has been a **top performer**

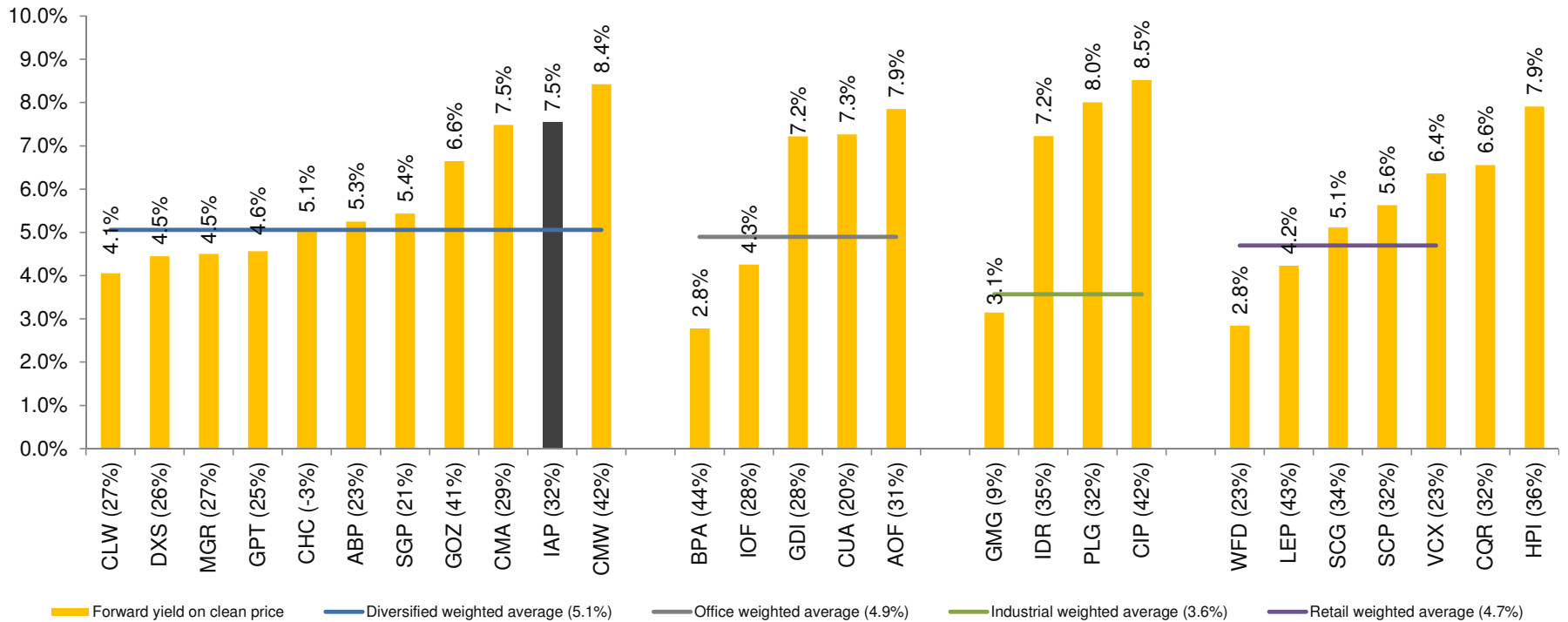
Quality earnings base supported by solid **property fundamentals** and stable economy with outlook remaining positive

Source: Bloomberg

Note: Total return for the period 8 May 2016 to 9 May 2017

Australian property sector yields

IAPF represents good value relative to other A-REITs

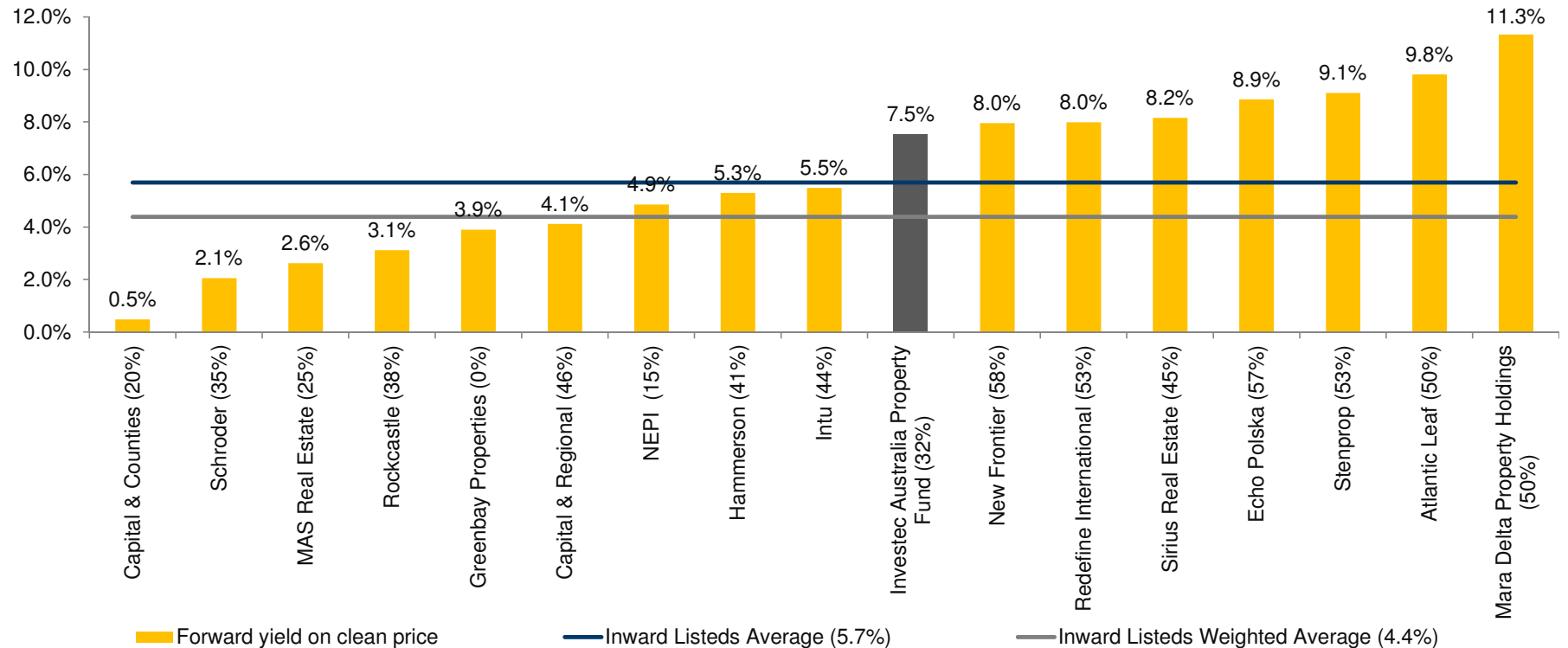


Source: Bloomberg as at 9 May 2017; Investec calculations

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

SA inward listed property sector yields

IAPF delivering attractive returns without earnings volatility and excessive gearing



Source: INet Bridge as at 9 May 2017; 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; numbers in brackets represent fund gearing



03



property information

AUD264mn* of **quality enhancing acquisitions** yielding **7.2%** completed during the year



Portfolio valued at **AUD779mn**

113 Wicks Road,
Macquarie Park NSW

Major tenants

Telstra Corporation
NSW Health
Mine Site Technologies



Acquisition date
Jul-16
Purchase price
AUD 23 255 000

GLA
6 253m²
Purchase yield
7.0%



** Includes transaction costs*

324 Queen Street,
Brisbane QLD

Major tenants

Allianz
ANZ
North Queensland Ports
Asciano
Brookfield



Acquisition date
Dec-16
Purchase price
AUD 66 000 000

GLA
19 864m²
Purchase yield
7.2%



2 Richardson Place,
North Ryde NSW

Major tenants

Honeywell
Ricoh
Paynter Dixon



Acquisition date
Mar-17

Purchase price
AUD 85 000 000

GLA
15 205m²

Purchase yield
7.0%




20 and 24 Rodborough Road,
Frenchs Forest NSW



Major tenants


- Yum! Restaurants
- Henkel
- Alexion Pharmaceuticals

Acquisition date Mar-17	GLA 12 677m²	
Purchase price AUD 56 000 000	Purchase yield 7.00%	

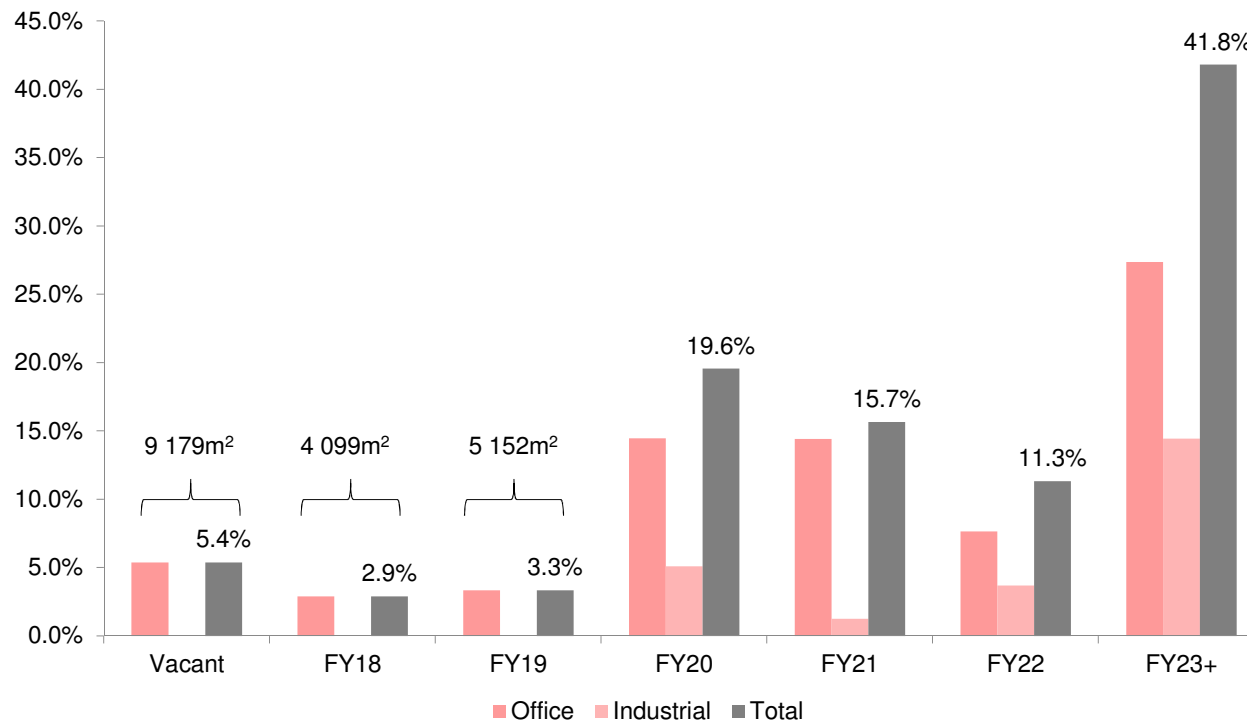


Major tenants

Pharmaxis

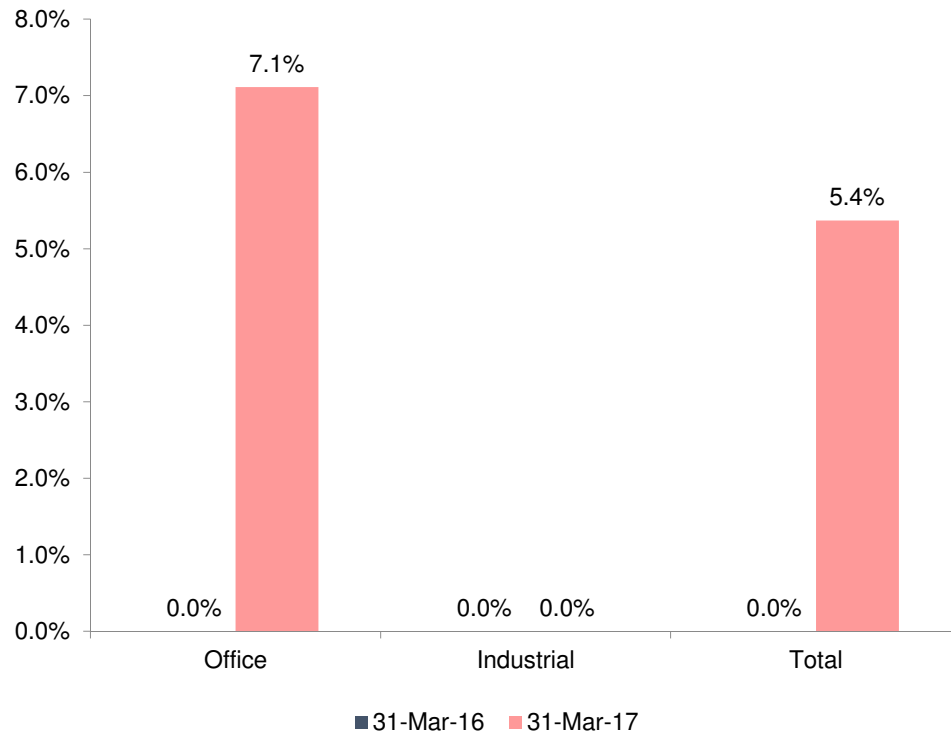
Acquisition date Mar-17	GLA 7 198m²	
Purchase price AUD 19 000 000	Purchase yield 9.4%	

Lease expiry profile (by revenue)



- Manageable short term vacancy
- 42% of leases expiring after 5 years
- WALE of 4.6 years – reduced year on year due to acquired vacancy and shift to multi-tenanted office
- 24 month expiry concentrated in NSW, which is showing strong rental growth

Current vacancy (by revenue)

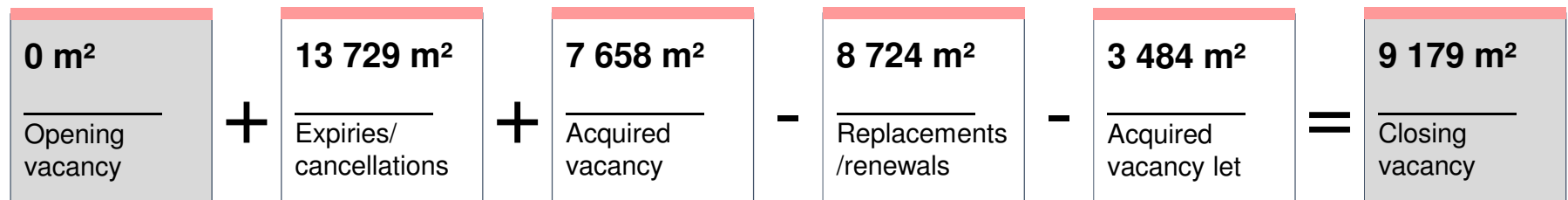


- 2.5% attributable to an existing tenant being placed in liquidation
- 2.0% attributable to acquired vacancy
- 0.8% attributable to an existing tenant signing a new lease over a reduced area
- 0.1% attributable to the expiry of rental guarantees

Leasing activity

	GLA	Weighted average new rental	Weighted average reversion	Weighted average WALE	Weighted average escalation	Weighted average incentive
Replacement leases / renewals						
Office	1,645	\$599	-2.0%	6.0	3.00%	19.4%
Industrial	7,079	\$114	2.0%	5.0	4.00%	0.0%
Letting of acquired vacancy						
Office	3,484	\$368	0.6%	5.1	3.27%	29.3%*
Total	12 208		1.1%	5.2	3.66%	11.0%

* Partially funded from vendor rental guarantee



Valuations

Valuations reflect strong capital markets, quality of underlying assets and leasing activity during the year

Property	Book value			Cap rate	
	31-Mar-17	31-Mar-16	Movement	31-Mar-17	31-Mar-16
449 Punt Road, Cremorne VIC	44 500 000	41 700 000	6.7%	6.25%	7.00%
35-49 Elizabeth Street, Richmond VIC	74 500 000	72 000 000	3.5%	6.50%	7.25%
757 Ann Street, Fortitude Valley QLD	82 000 000	75 000 000	9.3%	6.75%	7.25%
21-23 Solent Circuit, Baulkham Hills NSW	48 500 000	43 000 000	12.8%	7.75%	8.75%
266 King Street, Newcastle NSW	67 000 000	56 750 000	18.1%	7.75%	8.35%
113 Wicks Road, Macquarie Park NSW	24 750 000	23 255 000	6.4%	6.75%	7.00%

7.0%
valuation uplift
across portfolio

AUD36.2mn
of capital value
added



04 **11**

financial information

Income statement

	31-Mar-17	31-Mar-16	+/-
	AUDmn	AUDmn	
Revenue	51.7	37.7	37.1%
Straight line rental adjustment	2.8	1.6	75.0%
Total revenue	54.5	39.3	38.7%
Property expenses	(8.4)	(5.2)	61.5%
Net property income	46.1	34.1	35.2%
Operating expenses	(4.0)	(4.3)	(7.0%)
Net finance costs*	(4.8)	(6.8)	(29.4%)
Net fair value adjustments	11.4	20.5	(44.3%)
Profit	48.7	43.5	12.0%

Strong financial result underpinned by base portfolio, active asset management and yield enhancing acquisitions

* Includes mark-to-market on interest swaps of AUD2.2mn

Base portfolio

	Reviewed Year ended 31-Mar-17	Audited Year ended 31-Mar-16	+/-
	AUDmn	AUDmn	
Base net property income	29.0	28.1	3.2%
Acquisitions	14.5	4.2	
Disposals	–	0.2	
Net income	43.5	32.5	33.9%
Average in-force escalations	3.4%	3.5%	
WALE (by income)	4.7 years	5.7 years	
Vacancy %	6.6%	0.0%	

6.0%

valuation increase
in base portfolio for
the year

3.2%

base net property
income growth

Distribution reconciliation

	Reviewed Year ended 31-Mar-17	Audited Year ended 31-Mar-16	+/-
	AUDmn	AUDmn	
Profit	48.7	43.5	
Less: straight line rental adjustment	(2.8)	(1.6)	
Less: Net fair value adjustments	(13.6)	(18.5)	
Antecedent interest	4.7	2.3	
Less: interim distribution paid	(15.5)	(11.2)	
Total final distribution	21.5	14.5	
Number of units	435.6	312.5	
	cpu	cpu	
Final distribution per unit pre WHT	4.93	4.63	6.4%
Interim distribution per unit pre WHT	4.81	4.54	6.0%
Total distribution per unit pre WHT	9.74	9.17	6.2%
Final distribution per unit post WHT	4.60	4.65	(1.1%)
Interim distribution per unit post WHT	4.64	4.27	8.7%
Total distribution per unit post WHT	9.24*	8.92	3.6%

* The effective rate of tax on the distribution has been impacted by the antecedent distribution (which is not subject to withholding tax)

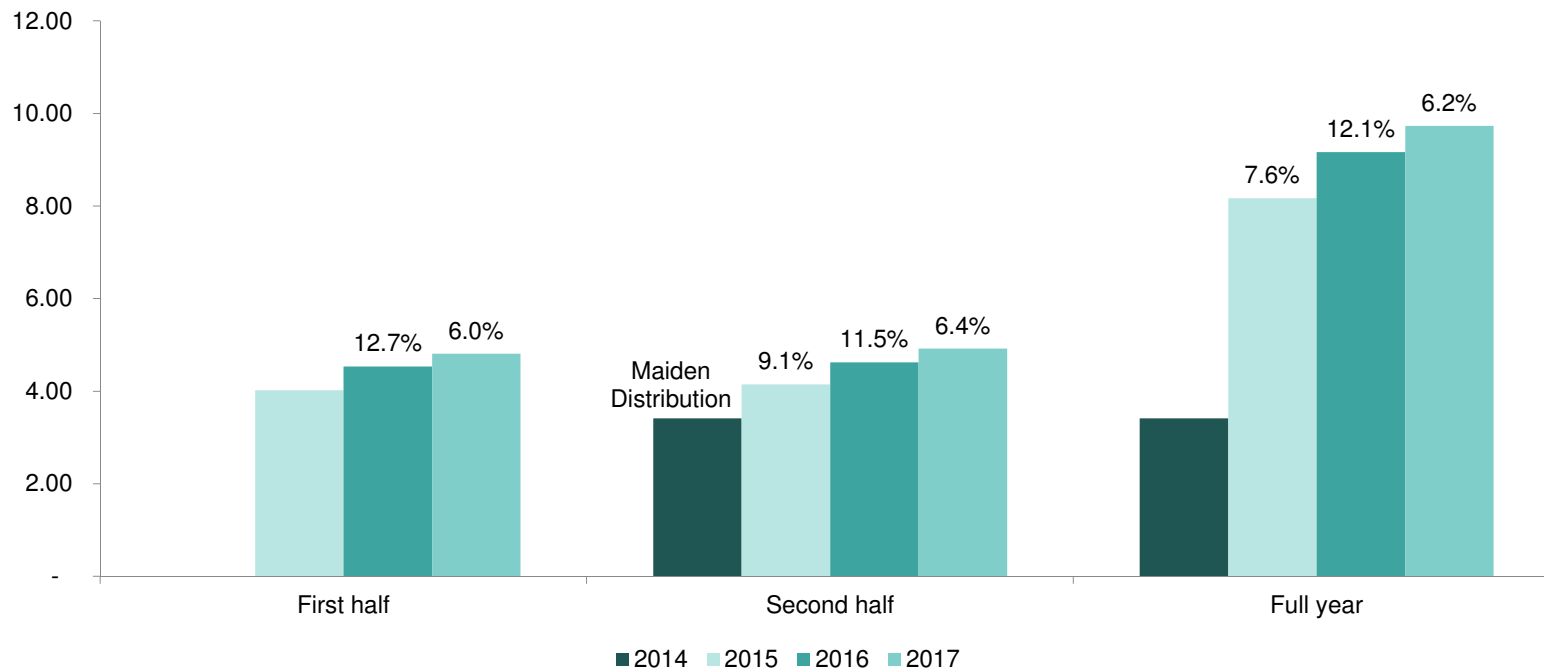
6.2%

distribution
growth pre WHT

Distribution growth

Consistent distribution growth underpinned by a quality portfolio with a long WALE of 4.6 years

AUD cpu



Balance sheet

	Reviewed Year ended 31-Mar-17	Audited Year ended 31-Mar-16	+/-
	AUDmn	AUDmn	
Assets			
Investment property	779.4	493.8	57.8%
Cash and equivalents	4.1	1.1	270.8%
Derivative financial instruments	1.3	–	–
Other assets	1.8	2.0	(8.7%)
Total assets	786.6	496.9	58.3%
Unitholders' interest			
Contributed equity	466.9	310.1	50.5%
Retained earnings	38.8	22.4	73.6%
Liabilities			
Long term borrowings	248.0	141.7	75.1%
Derivative financial instruments	–	1.0	–
Trade and other payables	11.4	7.2	55.4%
Distribution payable	21.5	14.5	48.3%
Total equity and liabilities	786.6	496.9	58.3%
Net asset value per unit (cents)	116.1	106.4	9.1%

6.0x

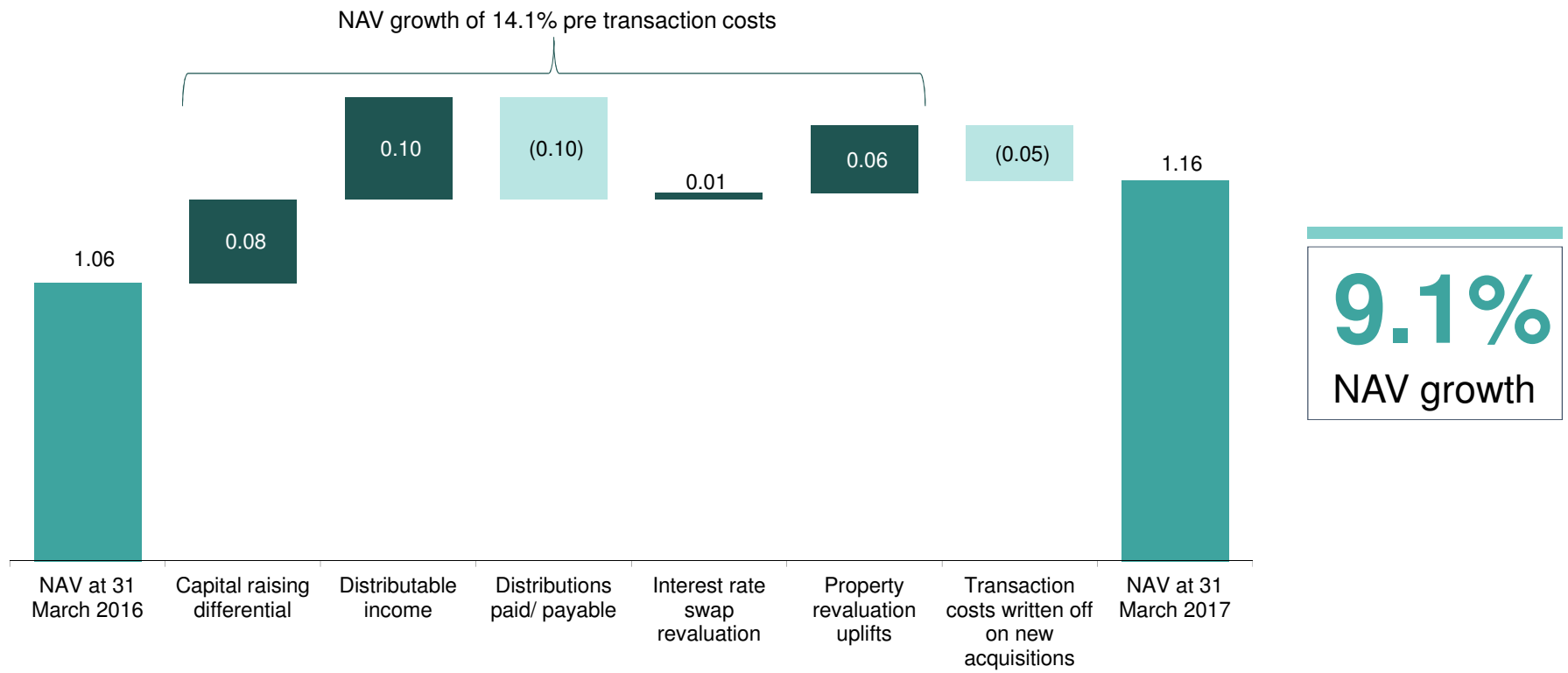
growth since
listing

Gearing

Mar-17	Mar-16
32.0%	28.8%

Gearing providing
AUD85mn of
acquisition capacity

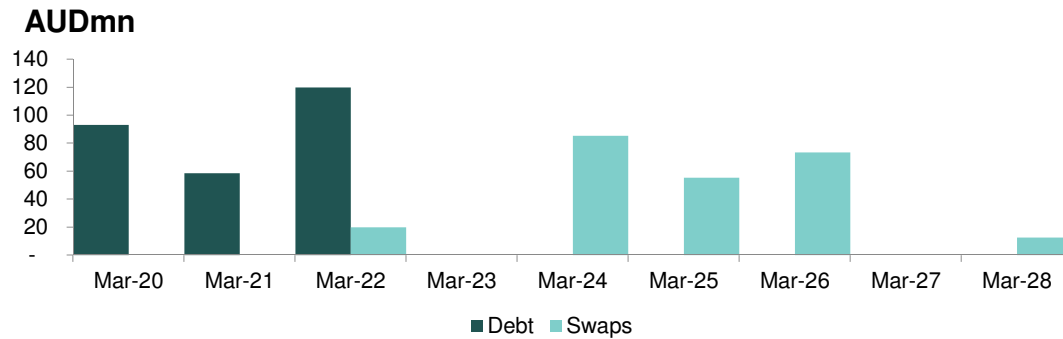
NAV bridge



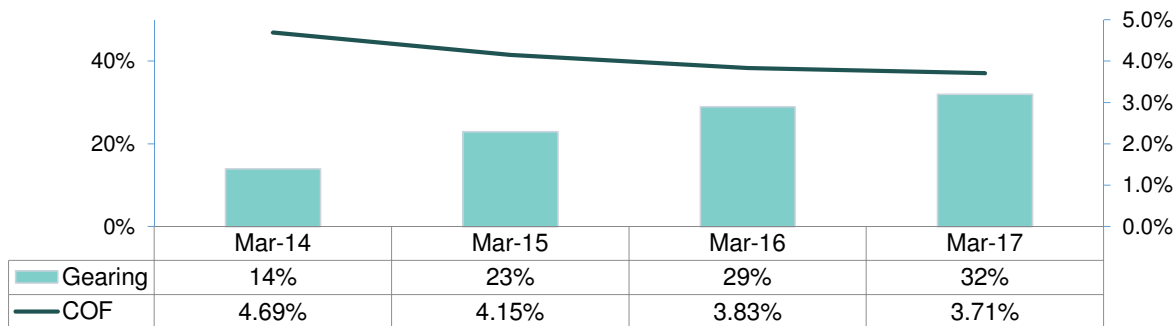
Debt management

Balance sheet well positioned for **growth**

Debt and swap maturity profile



Gearing and cost of funding



* Includes AUD50.0mn forward starting swaps commencing in October 2017

99.1%*

hedged for

7.7 years

3.7 years

weighted debt expiry

3.71%*

all in cost of funds
12 bps reduction
year on year



05 **111**

conclusion

Focus for FY 2018...

Property portfolio

- Continue to build portfolio in key markets of NSW and Victoria
- Look for value in other markets
- Continue active management strategy to enhance yield and unlock value
- Source appropriately priced entry point into retail sector
- Consider development opportunities to take advantage of skills of the team developed over the past 10 years
- Explore NZ as an investment destination given its relative arbitrage to Australia
- Office leasing a key focus over next 24 months

Strategy and performance

- Expected distribution growth for FY 2018 of 3% – 4%* pre WHT
- Continue to evaluate corporate transactions that make sense
- Explore alternative sources of capital (Asia, Europe, US) or additional listing to broaden the investor base and support capital growth
- Distribution growth to normalise in line with leveraged net property income growth
- Capital growth influenced by Australian macro economic factors and demand for Australian property

** 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*

... and beyond

Valuable portfolio of quality assets and significant scale – AUD2.0bn

Solid base portfolio of 24 properties repositioned to NSW and VIC

AUD85mn to immediately deploy into acquisitions to enhance quality

Continuation of active asset management strategy to enhance yield and unlock capital value



next
3-5
yrs

Strong economy supporting property markets and continued interest in Australia as a capital destination

Entering normalised growth cycle appropriate for developed market

Broaden capital base by accessing international markets

Markets poised for rental growth and capital uplift off low supply, low vacancy and confidence

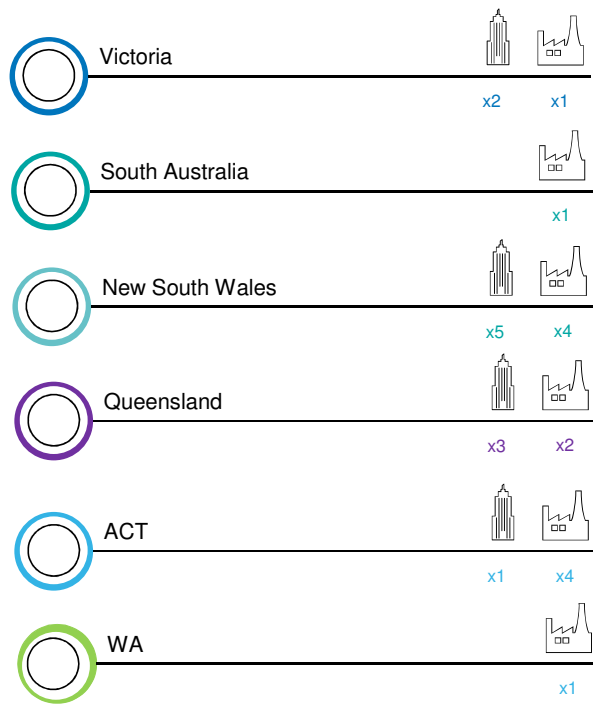


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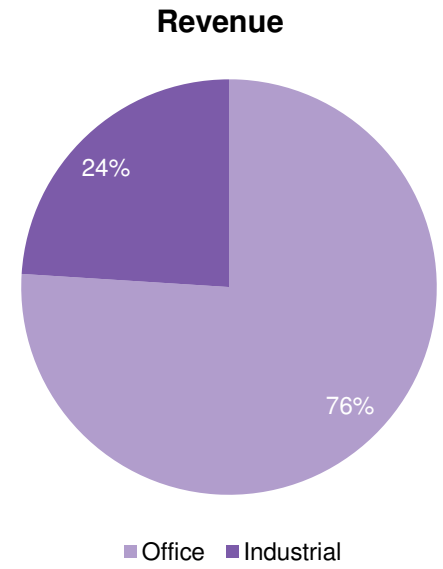
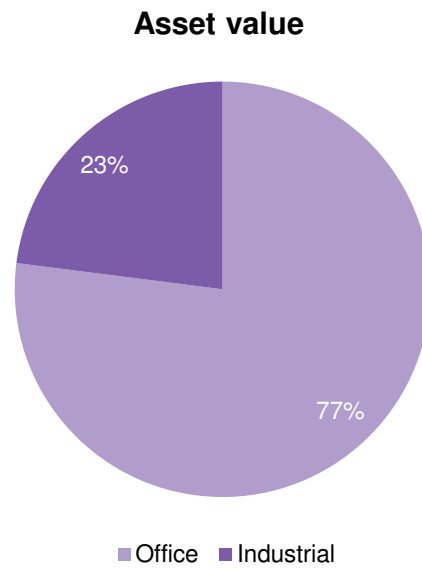
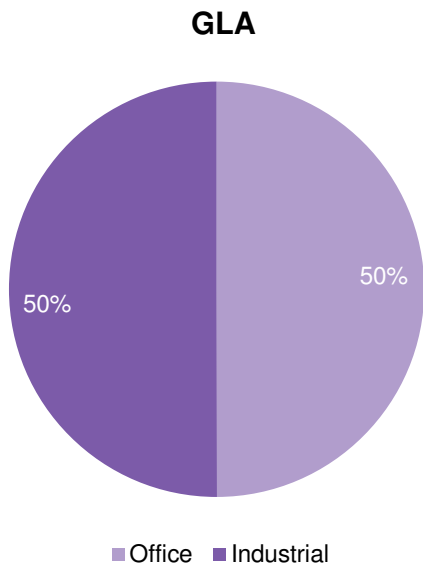


appendix

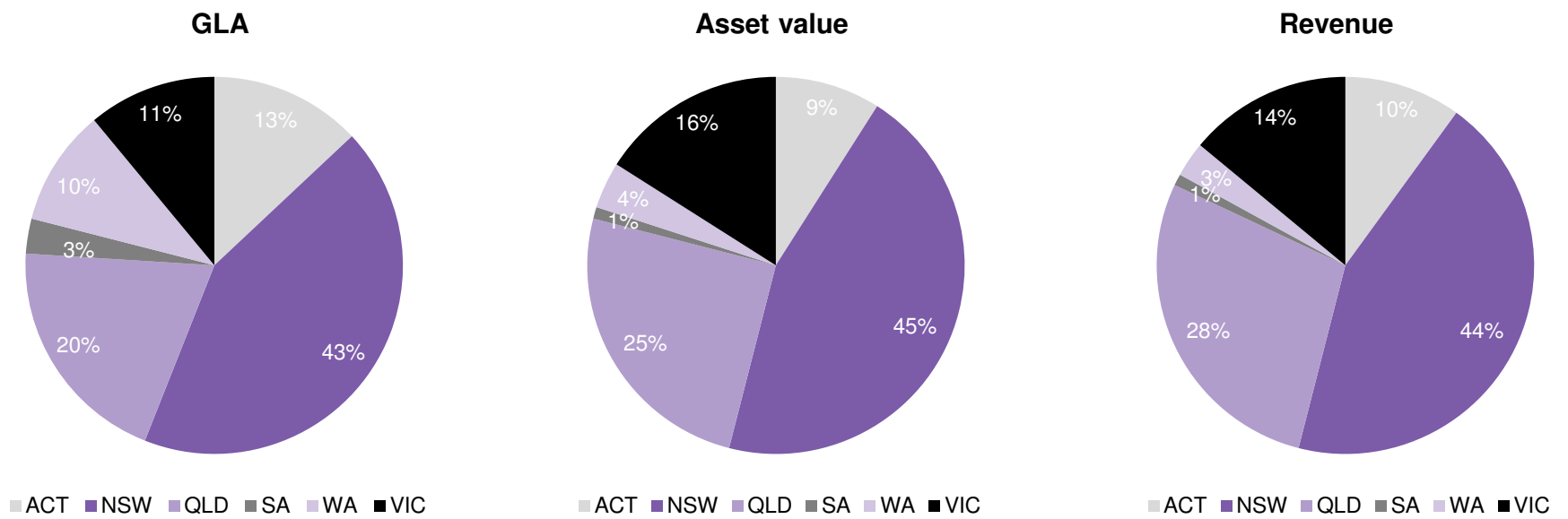
Our property landscape



Portfolio by sector

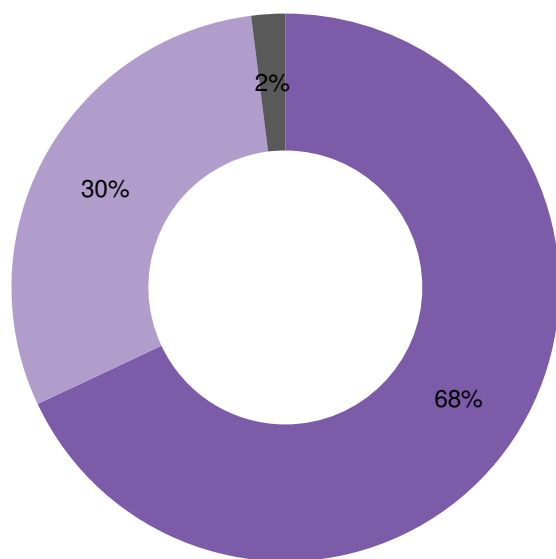


Portfolio by geography



Tenant composition

98% A and B grade tenants



- Large, international, listed, large professional, government and major franchises
- National, small listed, local government and medium professional firms
- Other

Rank	Tenant	% of portfolio
1	ABB Enterprise Software Pty Ltd	6%
2	Carsales.com Limited	5%
3	Ricoh Australia Pty Ltd	5%
4	Toll Transport Pty Ltd	5%
5	Commonwealth of Australia	5%
6	Australian Taxation Office	4%
7	Honeywell Limited	4%
8	Horan Steel Holdings Pty Ltd	4%
9	CTI Freight Systems Pty Ltd	4%
10	State Government of Victoria	4%
	Total	44%
	Other	56%

Disclaimer

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The forward looking statements contained in the presentation are 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.

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This report provides further detail in relation to key elements of the Fund's financial performance and financial position. Any additional financial information in this presentation which is not included in the Fund's Financial Report was not subject to independent audit or review by KPMG.

Incorporated and registered in Australia in terms of ASIC (ARSN 162 067 736)

Registered as a foreign collective investment scheme in terms of the Collective Investment Schemes Control Act No. 45 of 2003 and operated by Investec Property Limited (ACN 071 514 246; AFSL 290 909)

Investec Property Limited ABN 93 071 514 246 AFS licence 290909 is the issuer of units in the scheme. Investments in the scheme are not deposits with, or other liabilities of, Investec Australia Limited or any Investec Group entity and are subject to investment risk, including possible delays in repayment and loss of income and capital invested. Past performance is not necessarily a guide to future performance. Returns and benefits are dependent on the performance of underlying assets and other variable market factors and are not a guarantee. Exchange rate fluctuations may have an adverse effect on the value of certain investments. Neither Investec Australia Limited nor any member of the Investec Group guarantee any particular rate of return or the performance of the scheme, nor do they guarantee the repayment of capital from the scheme. The scheme is regulated in Australia and is approved by the FSB in South Africa as a foreign collective investment scheme (CIS). The scheme is listed on the JSE Limited.