

*Out of the Ordinary®*



**Investec**

Australia Property Fund

# investor presentation

## interim results

30 September 2016



*Out of the Ordinary®*



# One

Highlights



# Highlights

Stable base portfolio delivering sustainable growth

## Financial Performance

**6.0%**  
Pre WHT distribution growth

**8.7%**

Post WHT  
distribution growth

**85.2%\***

Total return in ZAR  
since listing

**3.6%**

Effective tax rate on  
distributable income

**8.2 years**

WEIGHTED SWAP EXPIRY  
75% hedged\*\*

## Key metrics

### Gearing

Sep-16	Mar-16
38.9%***	28.8%

Successful deployment of  
capital raised in February  
2016

### All in cost of funds

Sep-16	Mar-16
3.53%**	3.83%

75% of debt hedged\*\*

**2.1%** 

NAV PER UNIT GROWTH  
Driven by strong revaluation uplift  
in the office portfolio

\* Based on a spot rate of 10.4150 for the distribution. The distribution amount will be converted from AUD to ZAR at the forward rate to 12 December 2016 to be entered into on Tuesday, 29 November 2016

\*\* includes AUD 55.0mn forward swap commencing on 1 December 2016

\*\*\* Includes the acquisition of 324 Queen Street, Brisbane post balance sheet date for AUD 66.0mn which is due to settle on 1 December 2016

# Highlights

Focus on underlying property fundamentals

## Key metrics

Sep-16	Mar-16
21*	19

Number of properties

**AUD  
601.2mn\***

Portfolio growth of  
4.6x since listing

**AUD  
89.3mn\***

Quality enhancing  
acquisitions

## Property Performance

**98<sup>.1</sup> %\***  
Occupancy

**195 407m<sup>2</sup>\*  
GLA**

**3.4%\***

INFORCE ESCALATIONS  
ACROSS THE PORTFOLIO

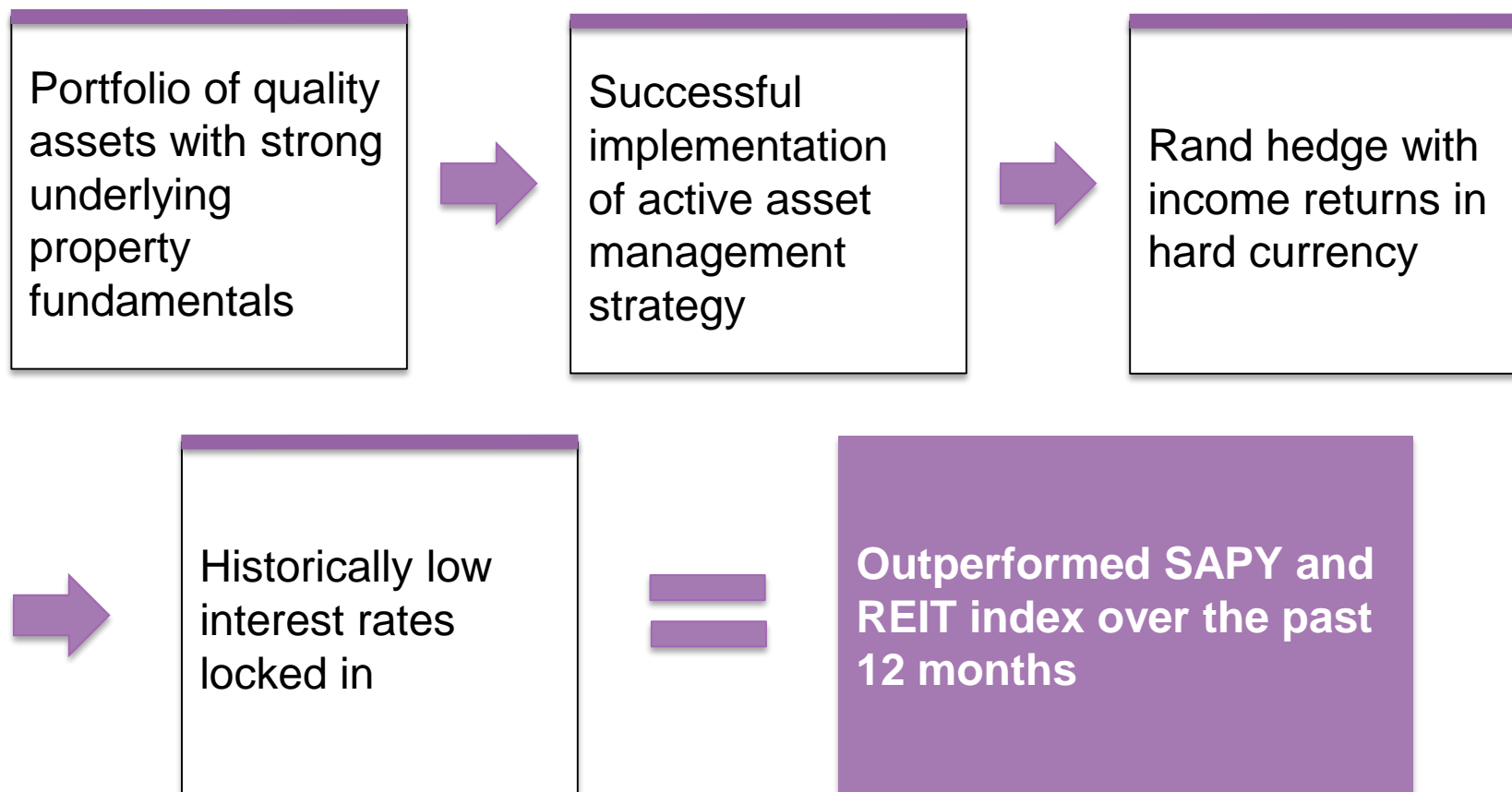
**56%**  
Leases  
expiring after  
5 years\*

**5.5 years\***

WEIGHTED AVERAGE  
LEASE EXPIRY

# Highlights

## Compelling investment thesis



## AT 9 November 2016

Market Capitalisation	R4.60bn / AUD 442mn
Unit price	R14.27
NAV per unit	R11.31
Premium to NAV	26%

## PROPERTY PORTFOLIO\*

No. of properties	21
GLA	195 407m <sup>2</sup>
Vacancy	1.9%
WALE (years)	5.5
In-force escalations	3.4%
Asset value	AUD 601mn

## OFFICE\*

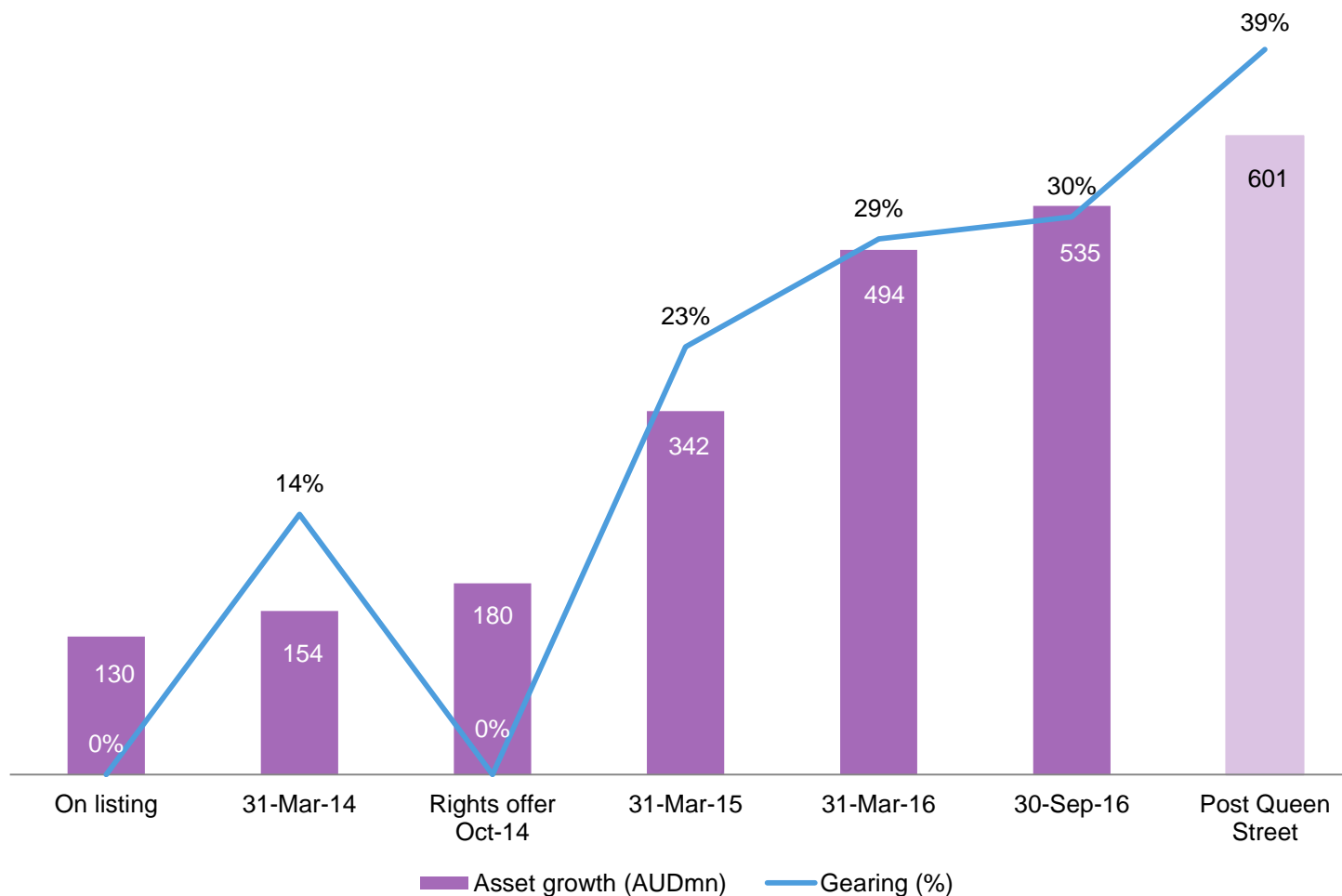
No. of properties	9
GLA	87 125 m <sup>2</sup>
Vacancy	4.3%
WALE (years)	5.1
In-force escalations	3.4%
Asset value	AUD 440mn

## INDUSTRIAL

No. of properties	12
GLA	108 282m <sup>2</sup>
Vacancy	0%
WALE (years)	6.5
In-force escalations	3.3%
Asset value	AUD 161mn

# Asset and gearing growth

Successful deployment of capital raised in February 2016



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# Two

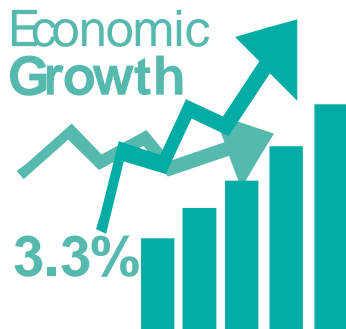
Market update



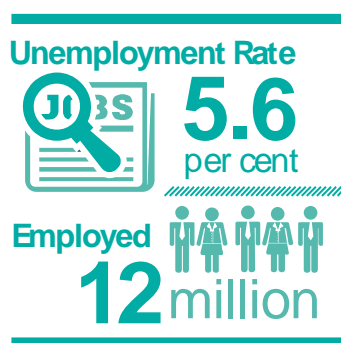


# Australian economy

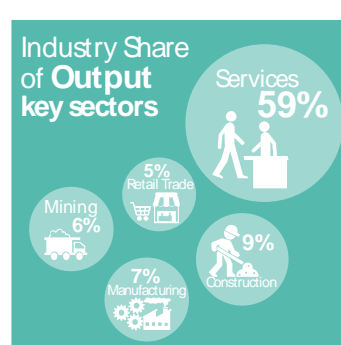
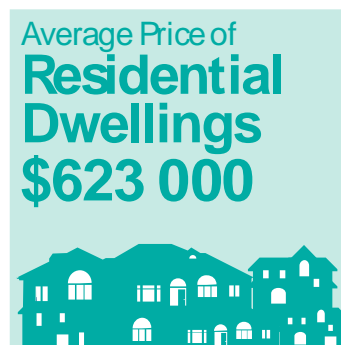
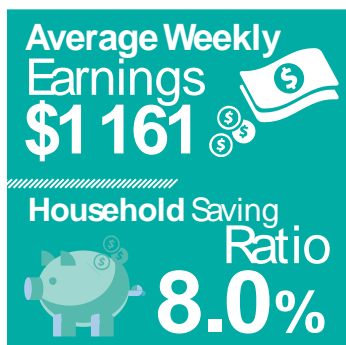
## Sustainable growth



25 years of  
consecutive GDP  
growth



Inflation below  
RBA target range



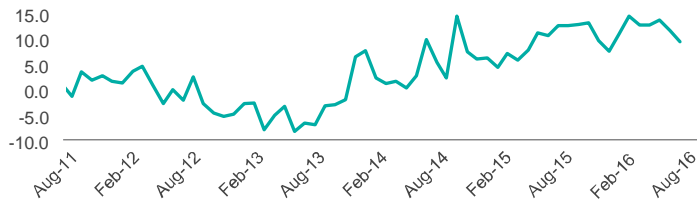
Strong growth in  
white collar  
employment

# Australian economy

## Financial stability

### NAB business conditions

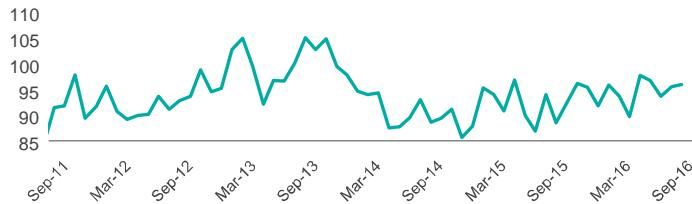
August 2016



Source: NAB / Colliers Edge

### AUD / USD Exchange Rate (1AUD=USD)

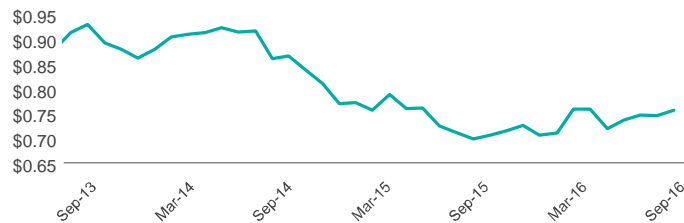
30 September 2016



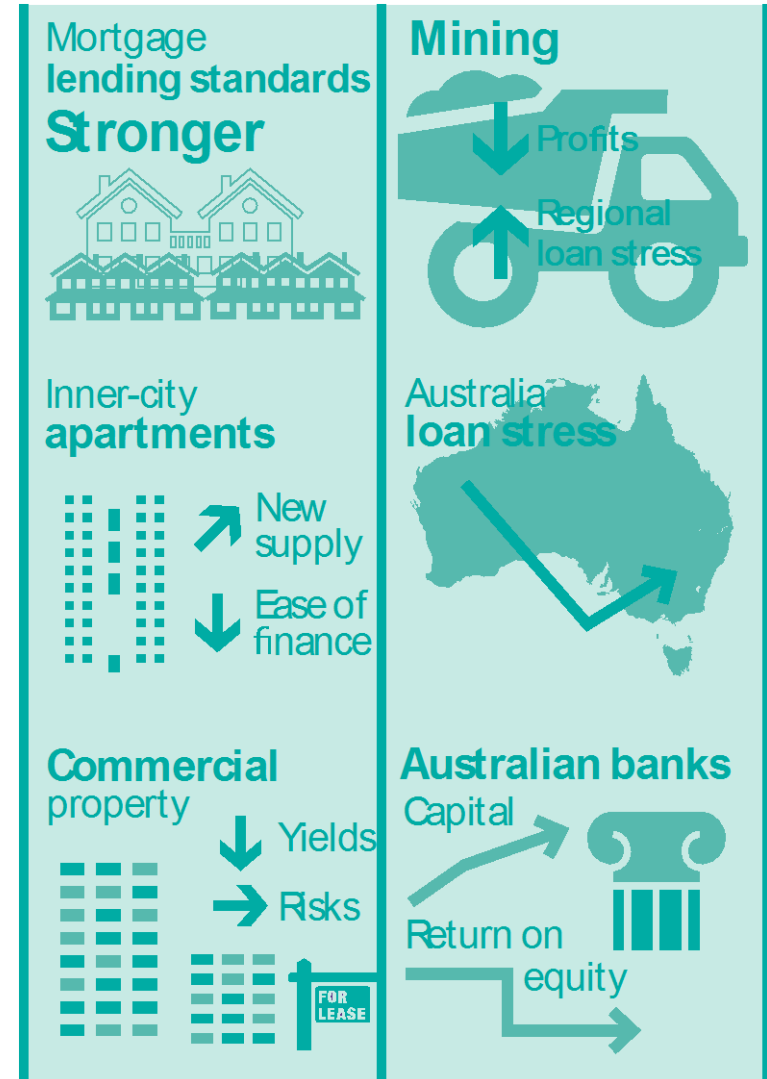
Source: RBA / Colliers Edge

### Westpac MI Consumer Confidence

September 2016



Source: Westpac MI / Colliers Edge



Source: Reserve Bank of Australia

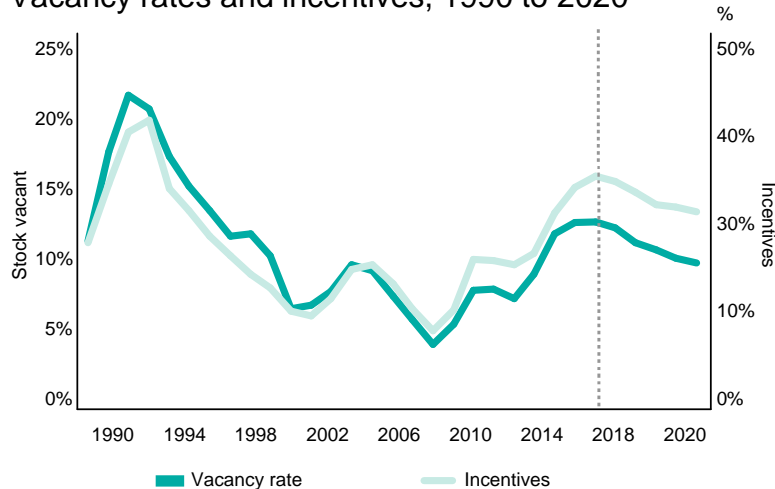
Industrial	
Sydney	<ul style="list-style-type: none"> <li>• Strong investor demand (particularly foreign) continues to drive down cap rates to historical lows, underpinned by prospective improvements to road infrastructure (westconnex) and increasing land costs</li> <li>• Foreign investment creating 2 tier market</li> </ul>
Melbourne	<ul style="list-style-type: none"> <li>• Low interest rates coupled with volatile global financial markets, resulting in strong investment appetite</li> </ul>
Canberra and Brisbane	<ul style="list-style-type: none"> <li>• Stable market with minimal recent transactions</li> </ul>
Adelaide	<ul style="list-style-type: none"> <li>• Characterised by subdued tenant and buyer demand, with the preference for prime, centrally located assets. Stable market driven by a shortage of prime quality industrial facilities in the northern precincts</li> </ul>
Office	
Sydney and Melbourne	<ul style="list-style-type: none"> <li>• Strong foreign investor demand accelerating cap rate compression</li> <li>• A lack of market stock during September quarter, compounded by yield compression has created a highly competitive market</li> </ul>
Brisbane	<ul style="list-style-type: none"> <li>• Investor demand remains strong despite resource sector downturn</li> <li>• Leasing market appears to have bottomed out</li> </ul>

# Australian direct property activity

Global return requirements are influencing domestic pricing

## Australian CBD office markets

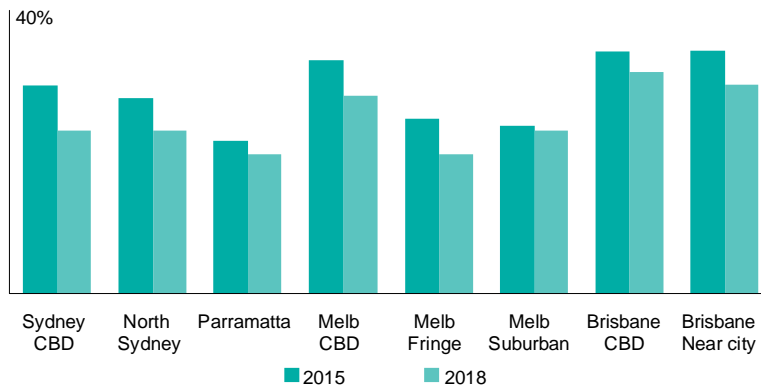
Vacancy rates and incentives, 1990 to 2020



Source: JLL Research

## Incentives will trend down over the medium term

CBD office markets leasing incentives, 2015 to 2018



Source: JLL Research

Strongest performance in New South Wales and Victoria

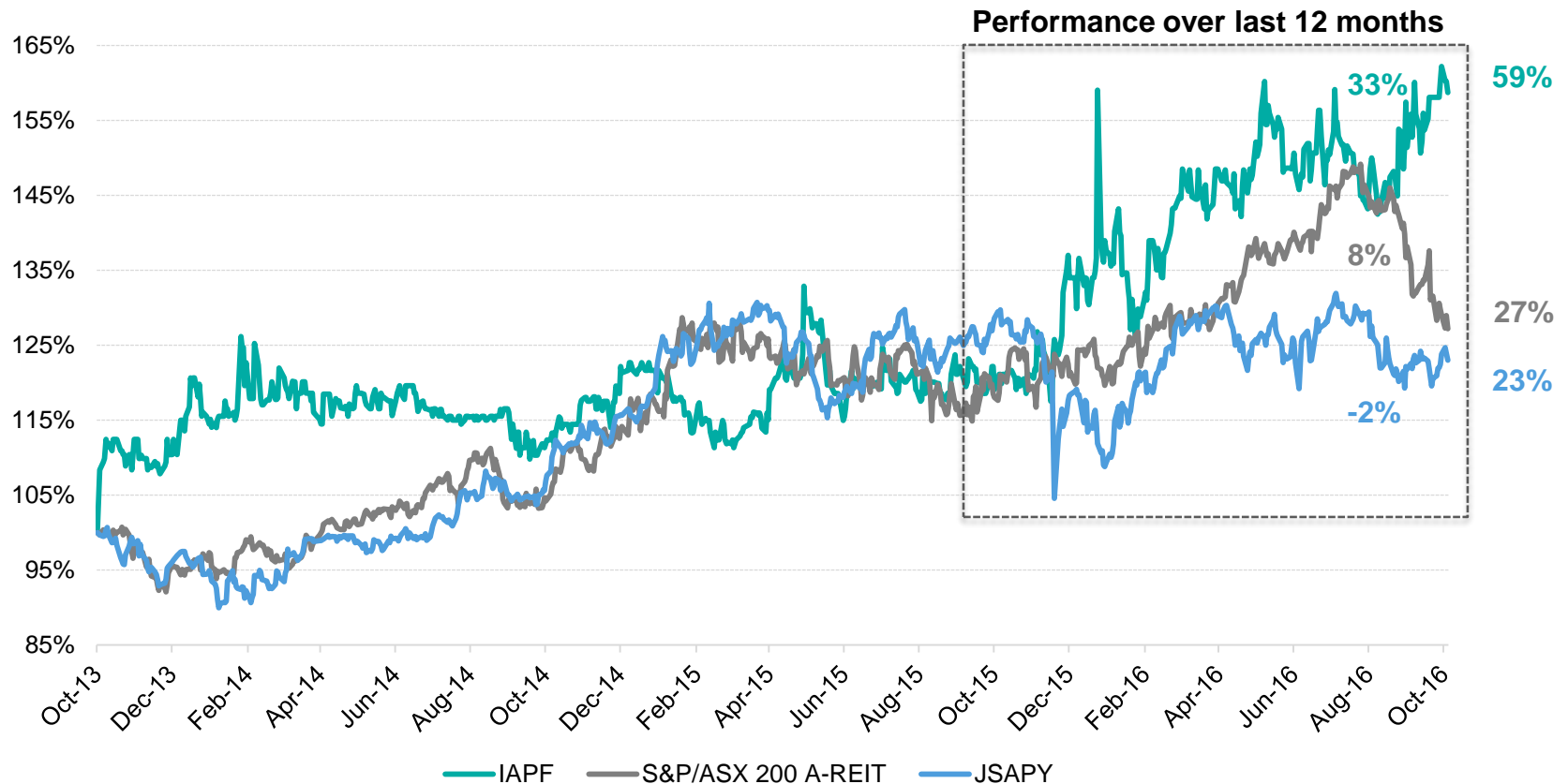
Drivers include low interest rates and foreign capital

**AUD 18.6bn** commercial transactions in 2016 – offshore accounted for 45%

# Relative unit price performance since listing

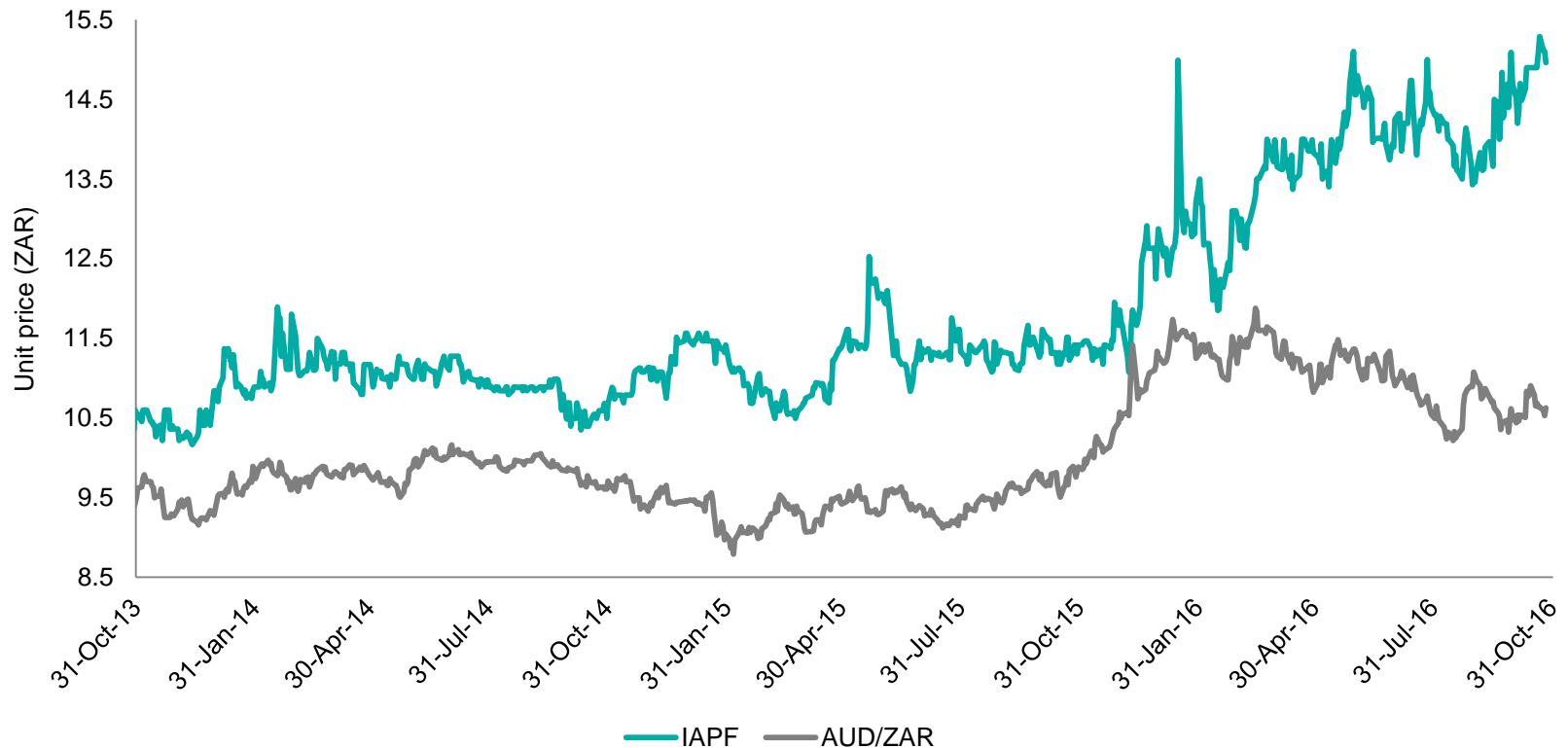
## IAPF vs. Australia REIT index and JSAPY

**59% capital return in ZAR since listing, outperforming returns of the South African and Australian listed property sectors**



## IAPF vs. ZAR/AUD exchange rate

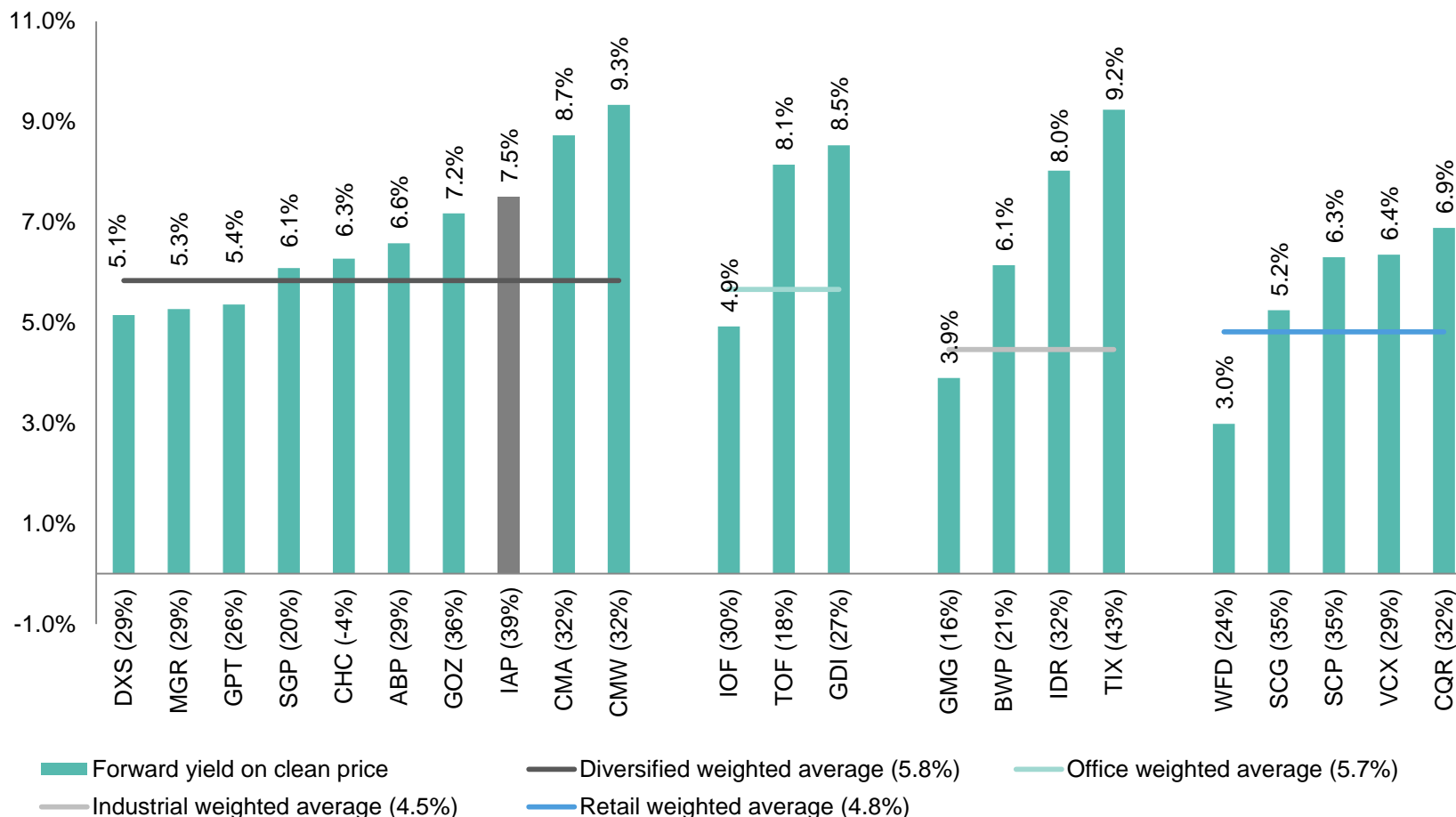
- Delivered a 58.8% capital return in ZAR (43.6% return in AUD and 15.2% currency return)
- Paid out distributions of 249.80\* ZAR cents (post-WHT) to September 2016, equating to an income return of 26.4%\*



\* Based on a spot rate of 10.4150 for the distribution. The distribution amount will be converted from AUD to ZAR at the forward rate to 12 December 2016 to be entered into on Tuesday, 29 November 2016

# Australian property sector yields

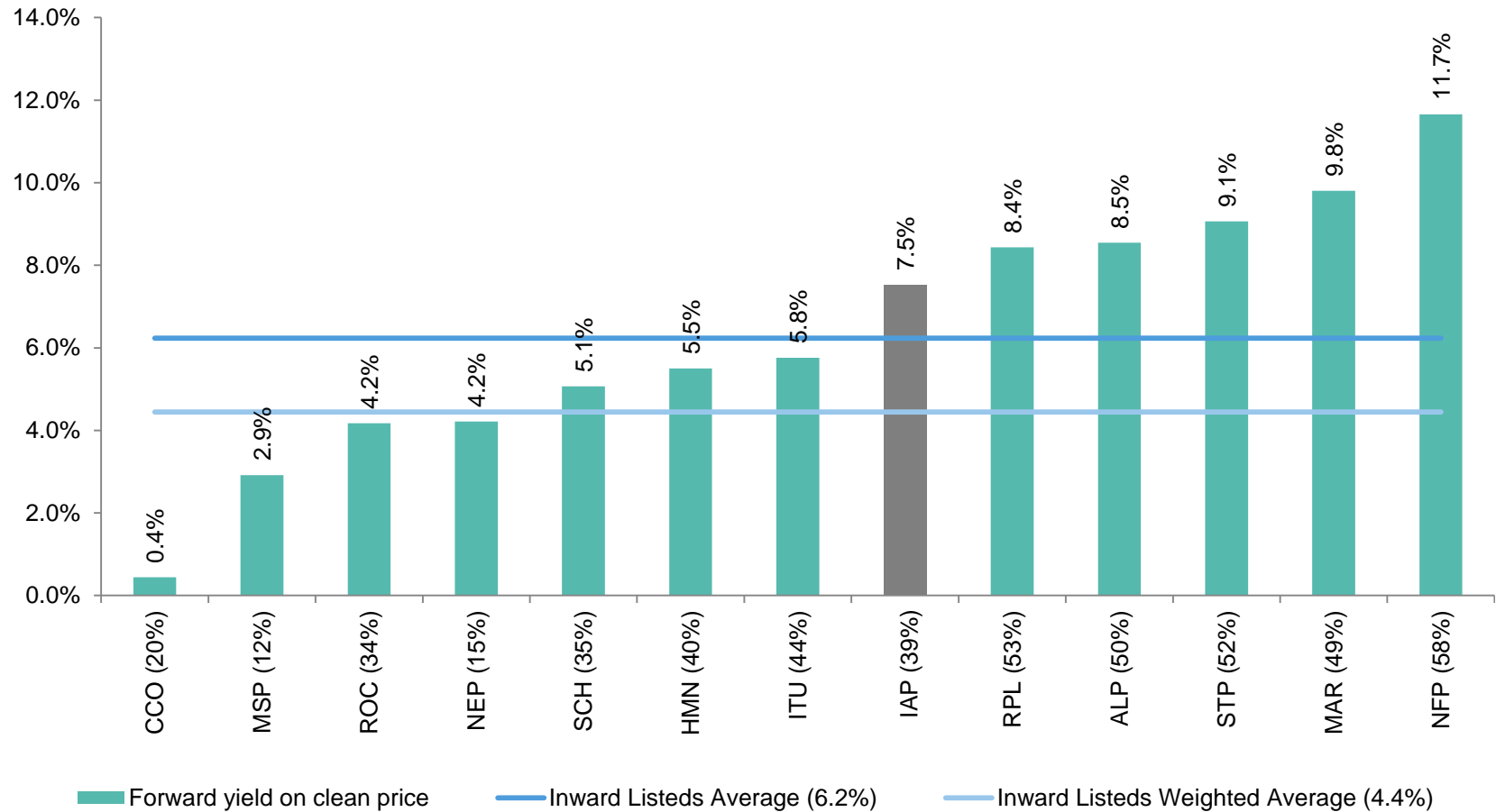
Attractively priced relative to A-REITs



Source: Bloomberg as at 2016/11/17, Investec calculations

Note: Yields are based on rolling 12 month distributions on clean prices; AU forward yields are pre withholding tax  
Numbers in brackets represent fund gearing

# SA inward listed property sector yields



Source: INet Bridge as at 2016/11/17 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



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# Three

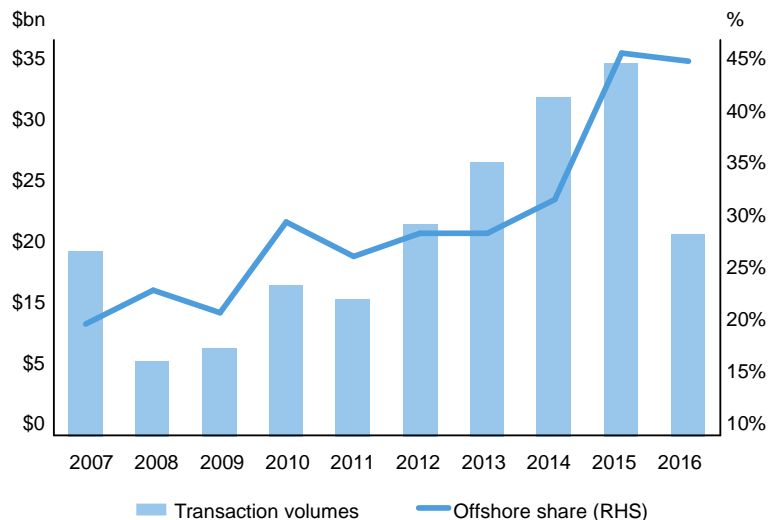
Property information



## Investment market remains very competitive

### Australian transaction volumes

Transaction volumes and offshore share (2007 to 2016)



Source: JLL Research (June 2016)

### IAPF activity (year to date)

**BID** | AUD1.5bn

**DEPLOYED** | AUD146mn

**STRIKE RATE** | 9.7%

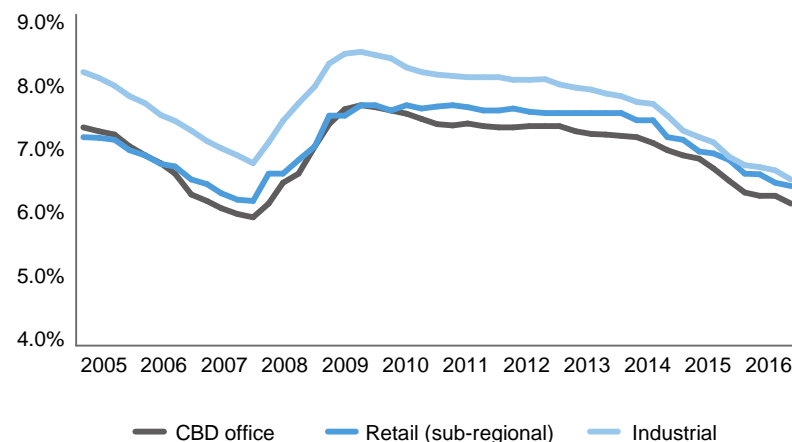
Limited stock +  
offshore capital



**cap rate compression**

### Commercial property yields

Mid-point equivalent yield (2005 to 2016)



Source: JLL Research (September 2016)

# 113 Wicks Road, Macquarie Park

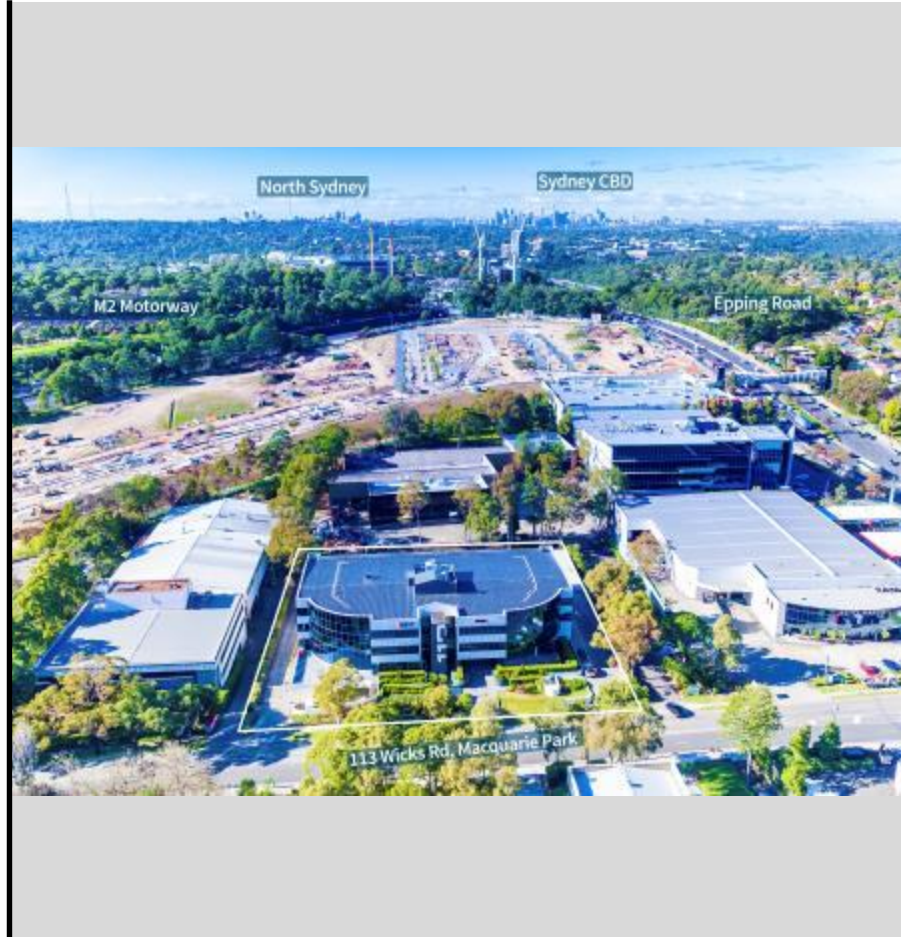
## Sound investment case



Major tenants | Telstra Corporation  
NSW Health; MST

### 113 Wicks Road Macquarie Park NSW

WALE	Purchase price	Purchase yield
4.2 years	AUD 23 255 000	7.0%





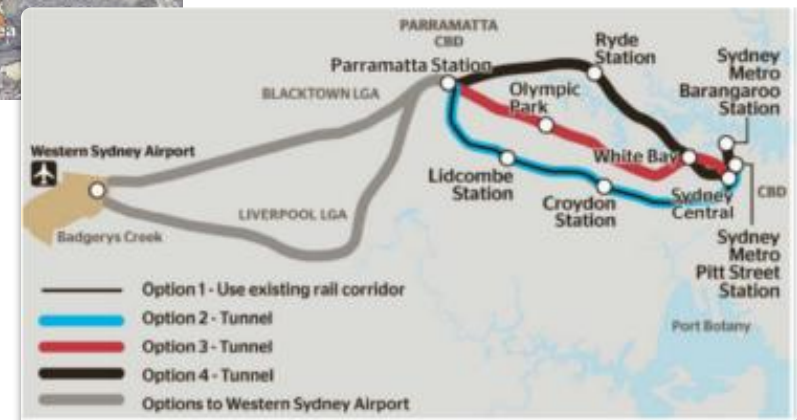
# 113 Wicks Road, Macquarie Park

Potential for value uplift through rezoning



The NSW Government, Transport for NSW and Ryde City Council are formally investigating revitalisation opportunities for Macquarie Park

Major infrastructure projects support Macquarie Park as a strategic centre of Sydney



# 324 Queen Street, Brisbane

Core location with asset management upside

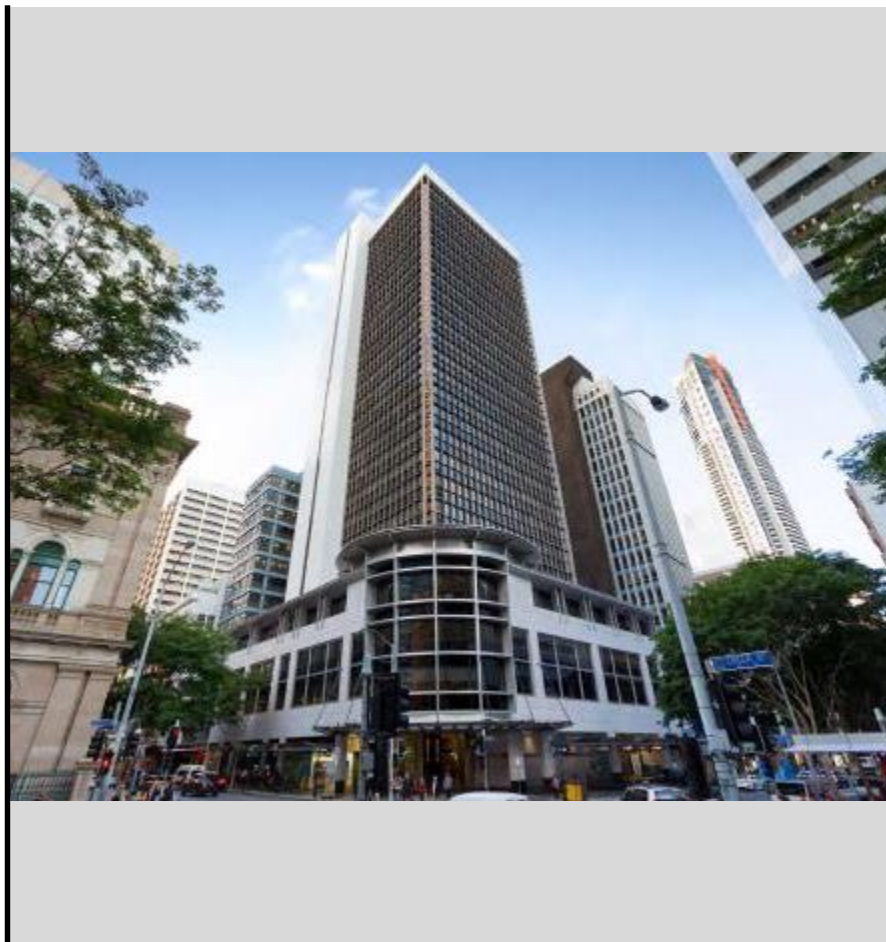


Major tenants | Allianz; North QLD  
Ports; Asciano; Brookfield

## 324 Queen Street Brisbane QLD

WALE	Purchase price	Purchase yield
3.2 years	AUD 66 000 000*	7.2%

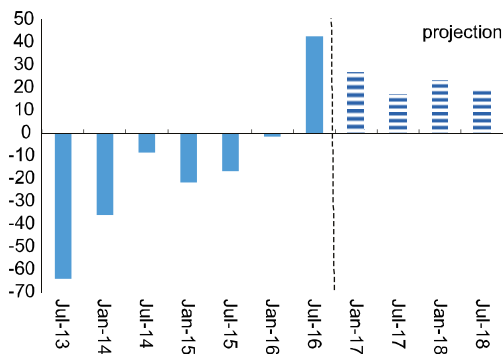
50% share



***“Brisbane is on the cusp of a cyclical upswing”*** Source: JLL (October 2016)

## Brisbane CBD Net Absorption

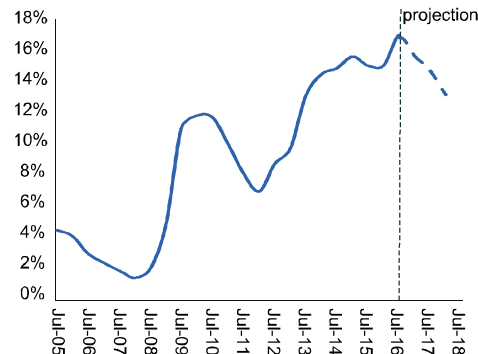
('000m<sup>2</sup>) per 6 month period



Source: Knight Frank Research / PCA

## Brisbane CBD Vacancy

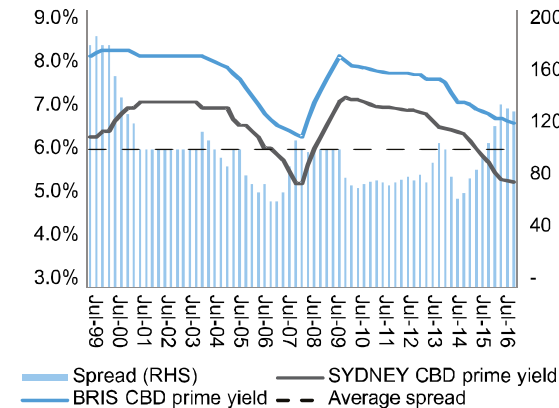
% total vacancy



Source: Knight Frank Research / PCA

## Brisbane CBD & Sydney CBD yields

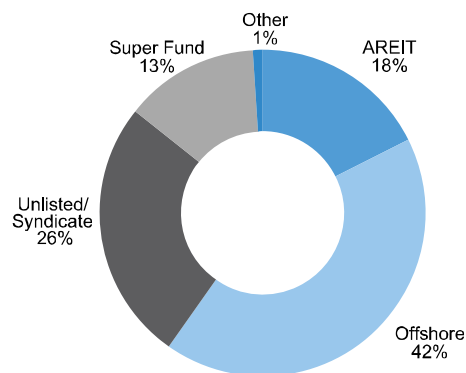
% yield LHS and basis point spread RHS



Source: Knight Frank Research

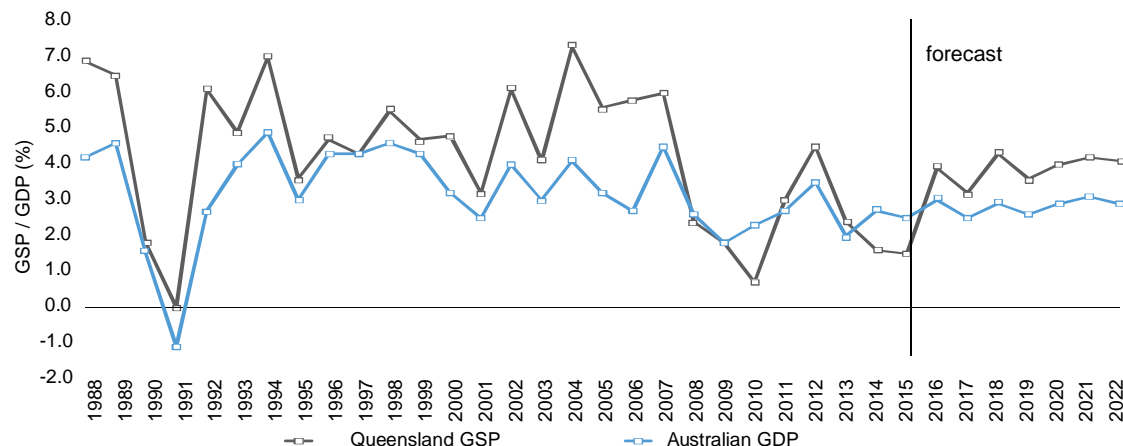
## Brisbane CBD Purchaser Profile

2015/16



Source: Knight Frank Research

## Australian GDP vs Queensland GSP



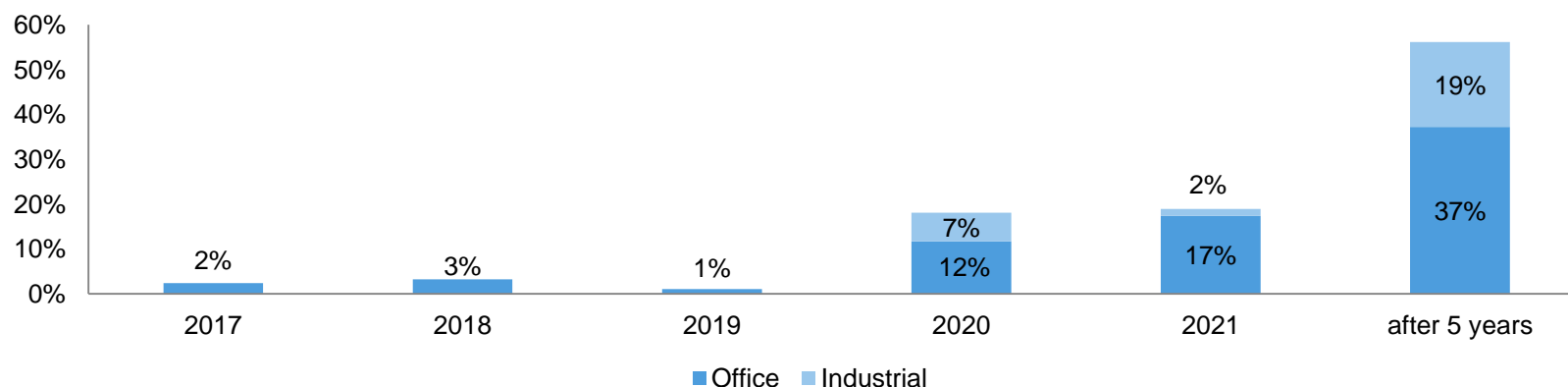
Source: Deloitte Access Economics (June 2016)

## Leasing success and limited short term exposure

### 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%**
<b>Total</b>	<b>12 208</b>		<b>1.1%</b>	<b>5.2</b>	<b>3.66%</b>	<b>11.0%</b>

### Lease expiry (by income)



\* Reversion against acquisition underwrite

\*\* Partially funded from vendor rental guarantee



## Successful implementation of leasing strategy outlined on acquisition



Major tenants | ATO; CBA;  
Employers Mutual; RMS

**266 King Street  
Newcastle NSW**

	At acquisition	30 Sep 2016	
Occupancy	74%	99%	↑
WALE	6.7 years	7.0 years	↑
Yield	8.21%*	9.18%	↑
<b>Valuation (AUD)</b>	<b>56 750 000</b>	<b>64 000 000</b>	↑





## Valuation uplift through 3rd party leasing activity



Major tenants | ABB; Corporate House; Domain Holdings

**757 Ann Street  
Brisbane QLD**

	30 Sep 2015	30 Sep 2016	
3rd party leases	74%	100%	⬆
WALE	6.6 years	7.6 years	⬆
Cap rate	7.75%	7.00%	⬆
<b>Valuation (AUD)</b>	<b>65 500 000</b>	<b>79 000 000</b>	⬆



# Valuations

Positive leasing activity and strong underlying property performance leading to valuation uplift

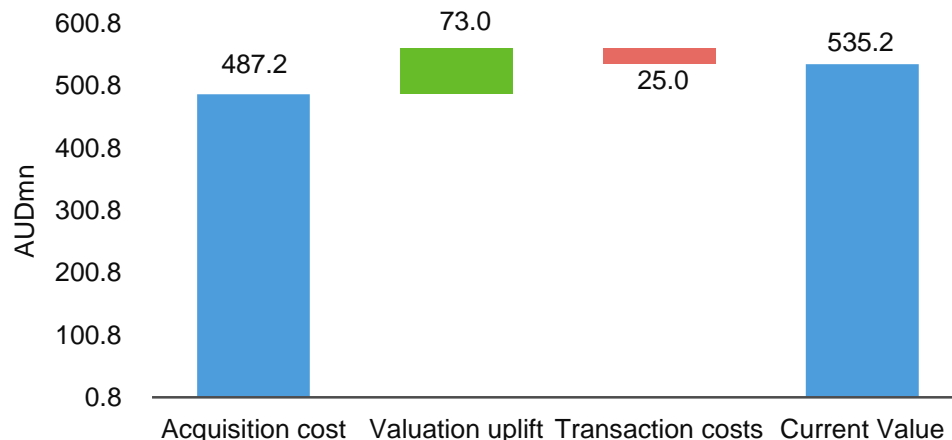
## Key contributors to valuation uplift

- AUD 7.3mn increase at 266 King Street, Newcastle NSW
- AUD 4.0mn increase at 757 Ann Street, Fortitude Valley QLD
- AUD 2.5mn increase at 35-49 Elizabeth Street, Richmond VIC
- AUD 1.3mn increase at 54 Miguel Road, Bibra Lake WA
- AUD 0.7mn increase at 57 Sawmill Circuit, Hume ACT

**7.7%** valuation uplift in externally valued properties

**3.7%** valuation uplift across whole portfolio

## Impact of transaction costs\*



**NAV of AUD 1.09**

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# Four

Financial review



# Income statement

	Reviewed 30 September 2016	Reviewed 30 September 2015	+/-
	AUDmn	AUDmn	%
Revenue	24.0	17.2	39%
Straight line rental adjustment	1.4	1.0	40%
<b>Revenue</b>	<b>25.4</b>	<b>18.2</b>	<b>40%</b>
Property expenses	(3.8)	(2.5)	52%
<b>Net property income</b>	<b>21.6</b>	<b>15.7</b>	<b>38%</b>
Operating expenses	(1.8)	(1.6)	12%
Net finance costs	(3.0)	(2.0)	50%
Net fair value adjustments	4.2	(3.4)	
<b>Profit</b>	<b>21.0</b>	<b>8.7</b>	<b>141%</b>

## Base portfolio

Stable base portfolio delivering sustainable distribution growth and valuation uplift

**2.5%**

Valuation  
increase in  
base portfolio  
for the period

**100%**

Occupancy  
for base  
portfolio

	Reviewed 6 months to 30 September 2016	Reviewed 6 months to 30 September 2015	+/-
	AUDmn	AUDmn	%
<b>Base net property income</b>	<b>14.3</b>	<b>13.9</b>	<b>3.0%</b>
Acquisitions	5.9	0.6	
Disposals	—	0.2	
<b>Net income</b>	<b>20.2</b>	<b>14.7</b>	<b>36.4%</b>
Average in-force escalations	3.4%	3.4%	
WALE (by income)	5.4 years	5.9 years	
Vacancy %	0.0%	1.0%	

# Distribution reconciliation

Consistent distribution growth underpinned by stable base and increased leverage

**6.0%**

Distribution growth pre WHT

**8.7%**

Distribution growth post WHT

**76.2%**

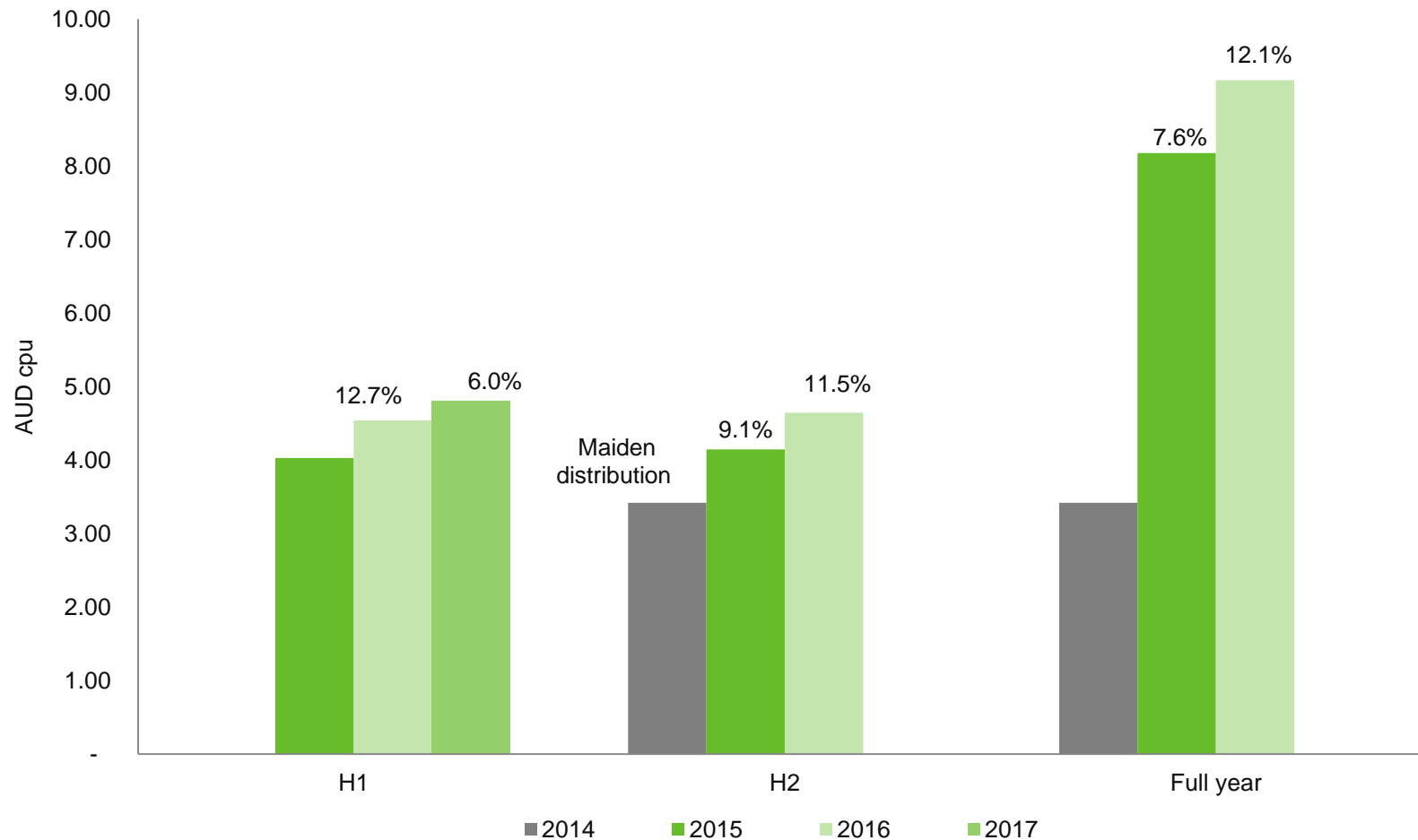
Distribution tax shield\*

	Reviewed 6 months to 30 Sept 2016	Reviewed 6 months to 30 Sept 2015	+/-
	AUDmn	AUDmn	
<b>Profit</b>	<b>21.0</b>	<b>8.7</b>	
Less: straight line rental adjustment	(1.4)	(1.0)	
Add: fair value adjustments — investment property	(10.0)	3.4	
Add: fair value adjustments — interest rate swaps	5.7	—	
Antecedent distribution	0.2	—	
<b>Final distribution for the period (pre withholding tax)</b>	<b>15.5</b>	<b>11.1</b>	
Less: Withholding tax (to be paid to the ATO)	(0.5)	(0.6)	
Final distribution for the period (post withholding tax)	15.0	10.5	
Units in issue ('000)	322,359	246,581	
Distribution per unit (pre withholding tax) (cents)	4.81	4.54	6.0%
Distribution per unit (post withholding tax) (cents)	4.64	4.27	8.7%

\* Effective tax rate of 3.57% on distributable income (excluding the antecedent distribution) through certain deductions such as depreciation and rental incentive payments during the period, which shielded the Fund from withholding tax

## Distribution growth

Consistent distribution growth underpinned by base portfolio and value add activity



# Balance sheet

Successful deployment of capital raised in February 2016

	Reviewed 6 months to 30 September 2016	Audited as at 31 March 2016	+/-
	AUDmn	AUDmn	
<b>Assets</b>			
Investment property	535.2	493.9	8%
Cash and equivalents	3.8	1.1	245%
Other assets	1.5	1.9	(21%)
<b>Total assets</b>	<b>540.5</b>	<b>496.9</b>	<b>9%</b>
<b>Equity and liabilities</b>			
Unitholder interests	350.0	332.5	5%
Borrowings	163.1	141.7	15%
Other liabilities	27.5	22.7	21%
<b>Total equity and liabilities</b>	<b>540.5</b>	<b>496.9</b>	<b>9%</b>

**AUD  
601.2mn**

Investment  
property value  
post settlement of  
324 Queen Street,  
Brisbane

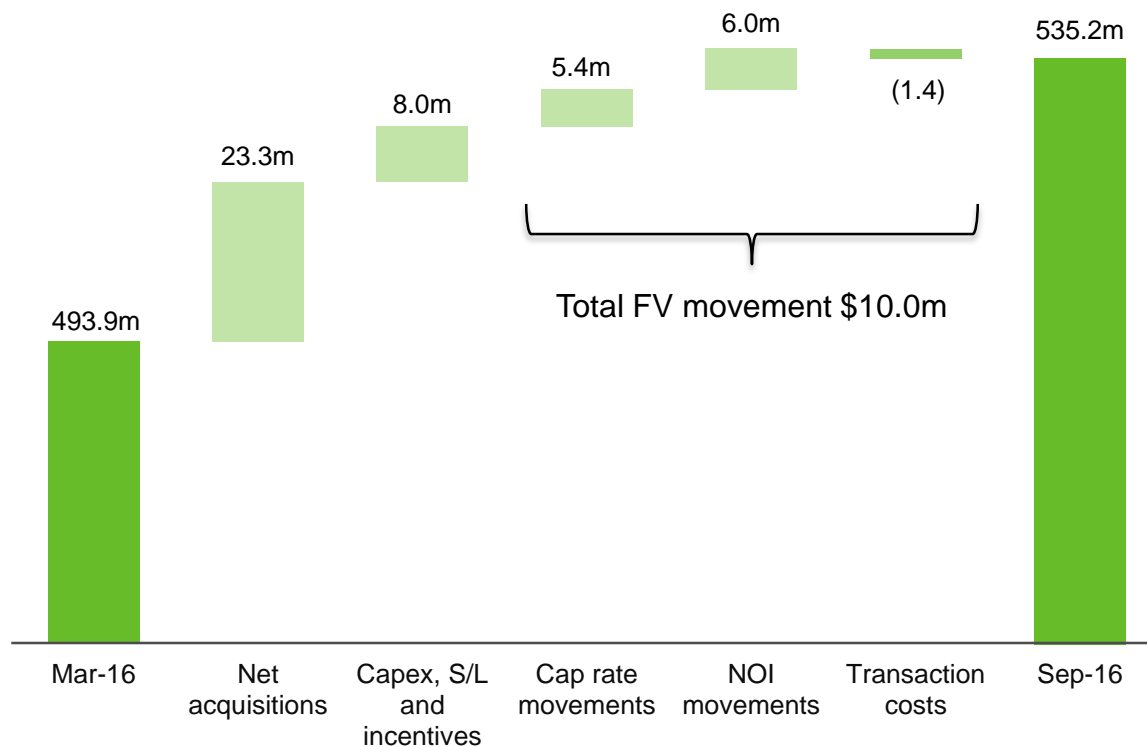
## Gearing

Sep-16	Dec-16*
30.5%	38.8%



# Investment property movements

Cap rate compression and active leasing activity driving fair value movements

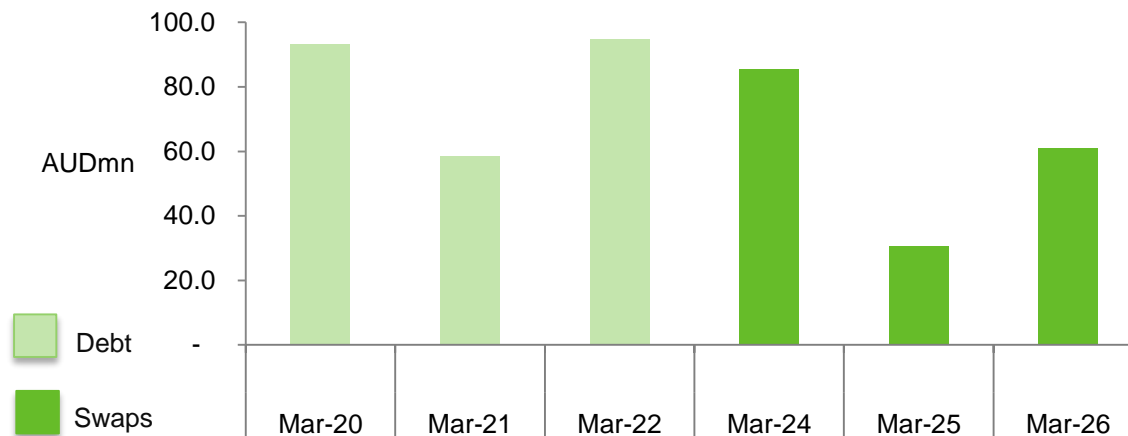


**7.47%**  
**Weighted  
average cap rate  
of portfolio**

**Industrial**  
**7.45% WACR**

**Office**  
**7.48% WACR**

## Debt and swap maturity profile

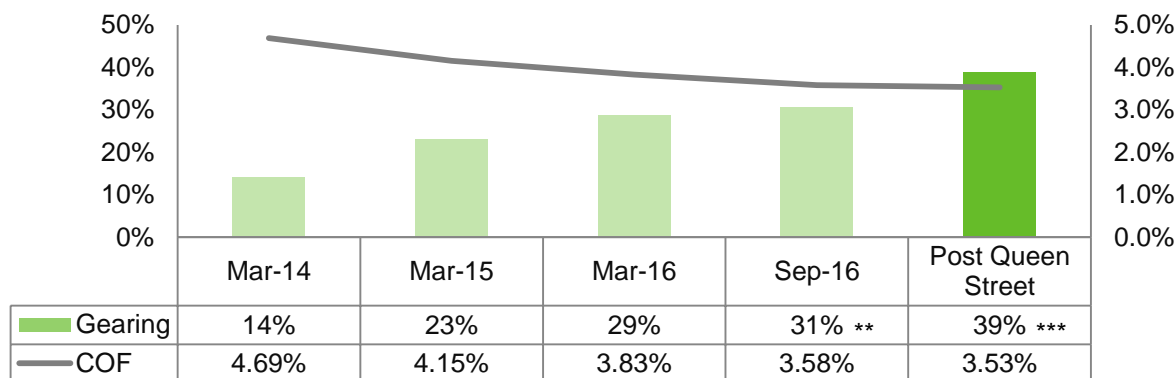


**4.1 years**  
Weighted debt  
expiry

**8.2 years**  
Weighted  
swap expiry\*\*

**75.6%**  
Debt hedged\*\*\*

## Gearing and cost of funding



\* Tranche for 324 Queen Street, Brisbane acquisition to settle 1 December 2016

\*\* Based on a floating rate of 1.67% at 9 November 2016

\*\*\* Includes AUD 55.0mn forward starting swap commencing on 1 December 2016 and post 324 Queen Street, Brisbane settlement

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# Five

Conclusion



- IAPF continues to perform off a solid base
- Successful implementation of active asset management strategy
- Creating strategic partnerships
- Continue to add scale and look for value
- Operating in a competitive and stable environment with:
  - Full employment
  - Growing population
  - Growth in white collar employment
  - 25 years of GDP growth
  - All time low rates
- Maintain growth guidance for FY 2017 of 6%–8%
- Distribution re-investment plan offered to all unitholders

*\* Assumptions*

*This guidance assumes partial deployment at the lower end and full deployment at the upper end of gearing capacity during FY2017 into similar yielding assets. 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.*

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# appendix

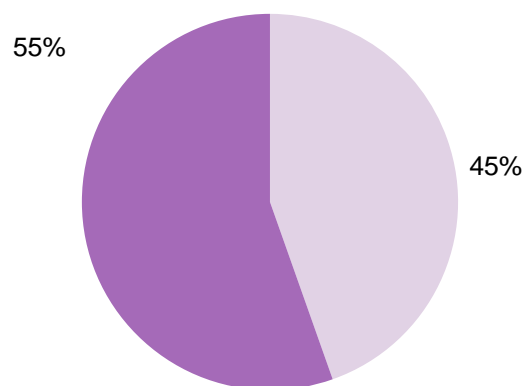


# Property schedule\*

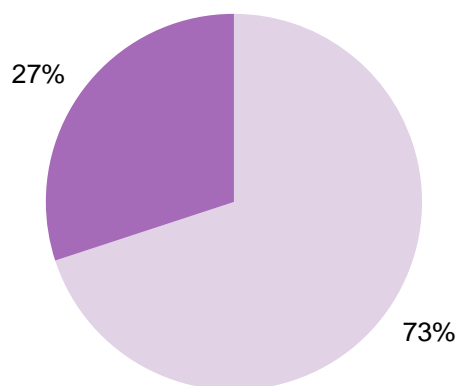
Property	State	NLA (sqm)	Acquisition date	Current Book Value	% of portfolio	Cap rate	Value per sqm
Industrial Portfolio							
47 Sawmill Circuit, Hume	ACT	5,535	21-Dec-12	10,500,000	1.96%	7.25%	1,897
57 Sawmill Circuit, Hume	ACT	7,079	21-Dec-12	9,750,000	1.82%	7.50%	1,377
24 Sawmill Circuit, Hume	ACT	6,300	21-Dec-12	9,400,000	1.76%	7.75%	1,492
44 Sawmill Circuit, Hume	ACT	4,639	21-Dec-12	9,500,000	1.78%	8.75%	2,048
2-8 Mirage Rd, Direk	SA	6,783	21-Dec-12	9,850,000	1.84%	8.25%	1,452
30-48 Kellar Street, Berrinba	QLD	4,102	31-Oct-14	8,450,000	1.58%	7.50%	2,060
165 Newton Road, Wetherill Park	NSW	12,529	10-Dec-14	19,800,000	3.70%	6.75%	1,580
24 Spit Island Close, Newcastle	NSW	5,258	10-Dec-14	8,350,000	1.56%	8.00%	1,588
67 Calarco Drive, Derrimut	VIC	7,150	24-Dec-14	9,350,000	1.75%	6.75%	1,308
66 Glendenning Road, Glendenning	NSW	16,461	30-Apr-15	20,400,000	3.81%	7.50%	1,239
85 Radius Drive, Larapinta	QLD	10,088	21-Aug-15	18,150,000	3.39%	7.00%	1,799
54 Miguel Road, Bibra Lake	WA	22,358	16-Oct-15	27,300,000	5.10%	7.50%	1,221
Office Portfolio							
449 Punt Road, Cremorne	VIC	6,384	25-Oct-13	42,000,000	7.85%	7.00%	6,579
35-49 Elizabeth Street, Richmond	VIC	11,916	25-Oct-13	74,500,000	13.92%	7.00%	6,252
2404 Logan Road, Eight Mile Plains	QLD	3,571	7-Mar-14	20,400,000	3.81%	8.00%	5,713
186 Reed Street, Greenway	ACT	5,407	15-May-14	27,500,000	5.14%	7.50%	5,086
757 Ann Street, Fortitude Valley	QLD	9,359	11-Nov-14	79,000,000	14.75%	7.00%	8,441
21-23 Solent Circuit, Baulkham Hills	NSW	10,815	31-Mar-15	43,750,000	8.17%	8.50%	4,045
266 King St, Newcastle	NSW	13,868	8-Feb-16	64,000,000	11.96%	8.25%	4,615
113 Wicks Road, Macquarie Park	NSW	6,195	1-Jul-16	23,255,000	4.35%	7.00%	3,754
<b>Total</b>		<b>175,796</b>		<b>535,205,000</b>			

# Portfolio by sector\*

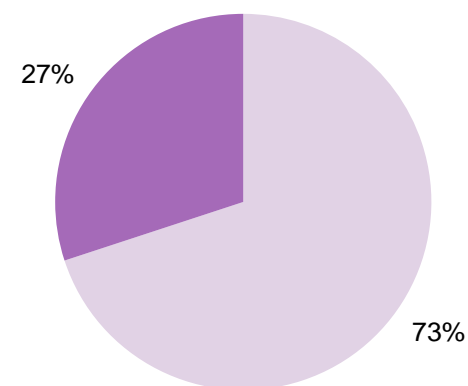
**GLA**



**Asset value**



**Revenue**

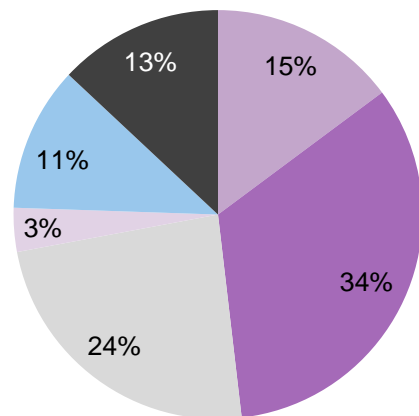


 Industrial       Office

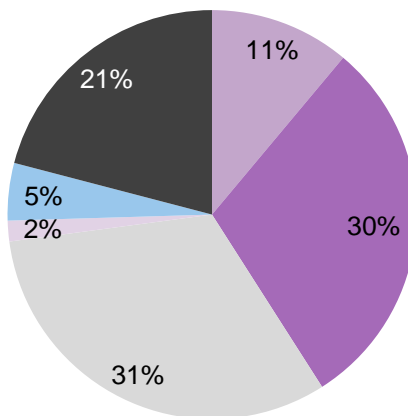
\* Includes acquisition of 324 Queen Street, Brisbane post balance sheet date for AUD 66.0mn which is due to settle on 1 December 2016

# Portfolio by geography\*

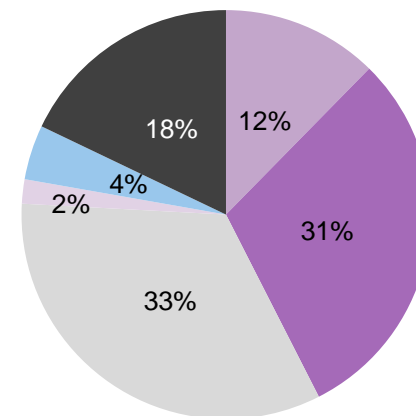
**GLA**



**Asset value**



**Revenue**

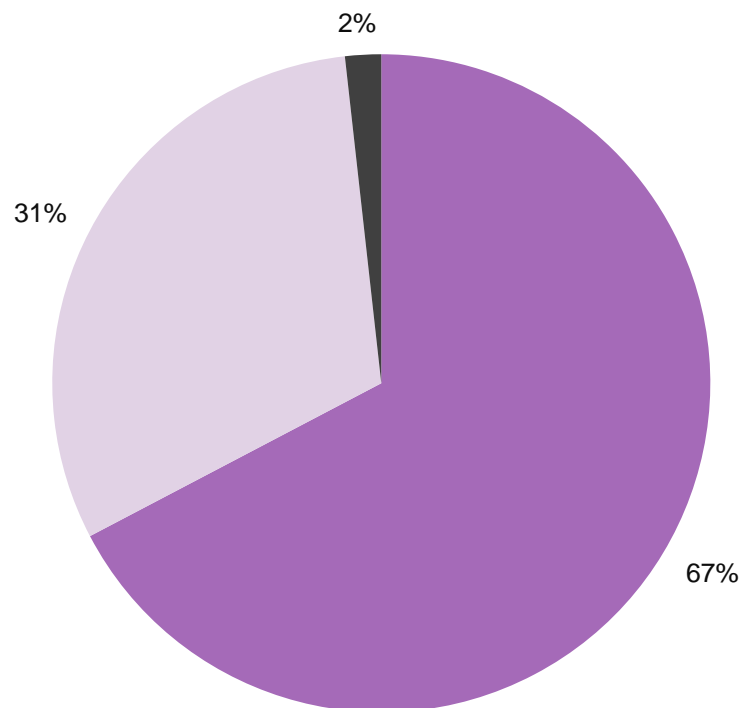


\* Includes acquisition of 324 Queen Street, Brisbane post balance sheet date for AUD 66.0mn which is due to settle on 1 December 2016



# Tenant composition\*

98% A and B grade tenants

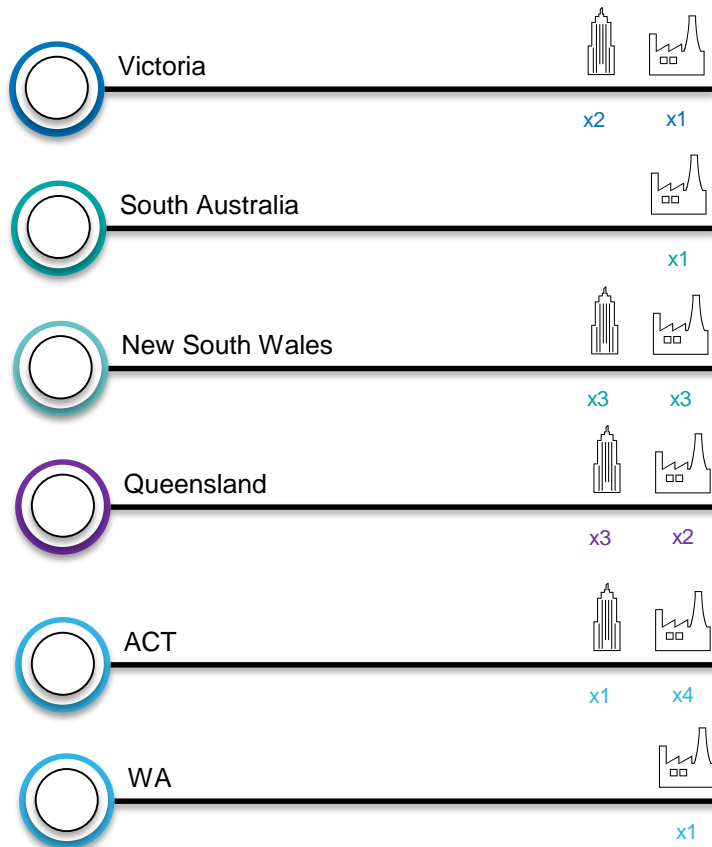


- Large, international, listed, large professional, government and major franchises
- National, small listed, local government and medium professional firms
- Other

Rank	Tenant	% of portfolio
1	ABB Enterprise Software	7%
2	Carsales.com Limited	6%
3	Toll Transport Pty Limited	5%
4	Commonwealth of Australia	5%
5	Australian Taxation Office	5%
6	Horan Steel	5%
7	CTI Logistics	4%
8	State Government of Victoria	4%
9	Clarendon Residential Holdings Pty Ltd	3%
10	Allied Pickfords	3%
	Total	47%
	Other	53%

\* Includes acquisition of 324 Queen Street, Brisbane post balance sheet date for AUD 66.0mn which is due to settle on 1 December 2016

# Our property landscape\*



\* Includes acquisition of 324 Queen Street, Brisbane post balance sheet date for AUD 66.0mn which is due to settle on 1 December 2016

*Out of the Ordinary®*



**Investec**

Australia Property Fund



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