

# Rights offer roadshow

## 25-28 January 2016

Investec Australia Property Fund



*Out of the Ordinary®*



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Australia Property Fund

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# Executive summary

**IAPF is a compelling investment opportunity in an Australian REIT with a track record of delivering on strategic objectives**

- 12m forward yield of 8.1% (pre-WHT) / 7.5% (post-WHT)<sup>1</sup>
- Attractive capital return of 43.3% and income return of 15.8% since listing (i.e. 59.1% total return)
  - Outperformed SAPY and Australian REIT index over the last 12 months
- 22% depreciation of ZAR against AUD in the last 12 months
  - Only 14% IAPF unit price appreciation – potential for further gains
- Disciplined acquisition approach has built a quality portfolio with solid property fundamentals

**IAPF has successfully deployed the equity raised from the rights offer in 2014**

- AUD 268m of acquisitions announced since rights offer in 2014
- Grown by 254% since listing and 156% since the rights offer in October 2014 – but not at the expense of quality

**King Street acquisition increases gearing to 45%**

- Concluded agreement to acquire A-grade office property located at 266 King Street, Newcastle for AUD 56.7m
  - 8.3% yield pre transaction costs / 7.8% yield post transaction costs
- Debt funding used to bridge the purchase consideration until equity proceeds received

**IAPF is undertaking a partially underwritten rights offer to raise up to ZAR 690m to reduce debt**

- Rights offer being undertaken to raise up to ZAR 690m to reduce debt to 31%, if fully subscribed (62.2% covered by commitments / underwriter)
- Rights offer opens on Monday, 8 February 2016
- Rights offer closes on Friday, 19 February 2016
- Rights offer price of R11.58 (cum-distribution)

<sup>1</sup>Assumes no deployment post 266 Kings Street acquisition

Note: all portfolio information in this presentation is on the basis that the acquisition of 266 King Street has been completed and that the full ZAR 690m is raised in terms of the rights offer.

# 1

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## Investment highlights



# Track record of delivering on strategic objectives



## Successful execution of growth strategy – deployment of 2014 rights offer capital into quality assets

- AUD 268m of acquisitions announced since 2014 rights offer
- Strongly acquisitive in very competitive market
- Portfolio growth of 156% since previous rights offer and 254% since listing

## Achieved attractive capital and income growth for unitholders

- Geared growth effect materialised with debt-funded acquisitions
- 31.7% total ZAR return for the FY16 financial year (including estimated H2 distribution)<sup>1</sup>
- FY16 guidance of 10%-12% growth<sup>2</sup> in AUD pre-WHT reaffirmed

## Conservative balance sheet management – favourable funding rates locked in and gearing maintained around target range

- 4.05% all-in funding rate and 83% hedged with long dated swap expiry
- Gearing expected to reduce to 31% post rights offer with capacity for further acquisitions
  - provides short term enhancement
  - preferable to retain capacity to enhance portfolio over time

## Building a portfolio of quality assets with strong underlying property fundamentals

- 6.2 year WALE with 69% leases expiring after 5 years
- No vacancies
- 3.14% average in-force escalations
- Average net property yield of 8.4%

## Attractively priced relative to Australian and SA inward listed peers

- Attractive discount compared to Australian and SA inward listed peers
- Secure income return
- Rand hedge - provides exposure to a sophisticated developed economy

### Assumptions

1. H2 distribution estimated by annualising H1 AUD distribution and converting to ZAR at current exchange rate; exchange rate and unit price based on close as at 18 Jan 2016
2. The lower end of this guidance assumes no change in the property portfolio and gearing as at 31 March 2015. The upper end of this guidance assumes further deployment of gearing capacity during FY 2016 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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## Property information



# Completed acquisitions

AUD 268 million deployed since rights offer in October 2014

757 Ann Street



30-48 Kellar Street



165 Newton Road



Location	Brisbane, Queensland	Brisbane, Queensland	Sydney, New South Wales
Sector	Office	Industrial	Industrial
GLA (m <sup>2</sup> )	9,125	4,102	12,529
WALE	8.0 years	5.1 years	11.1 years
Purchase price (\$A'000)	65,500	8,200	18,500
Purchase yield	8.34%	8.34%	7.86%
Major tenant	Ventyx	HJ Langdon	Horan Steel

# Completed acquisitions continued

24 Spit Island Close



67 Calarco Drive



21-23 Solent Circuit



Location	Newcastle, New South Wales	Melbourne, Victoria	Sydney, New South Wales
Sector	Industrial	Industrial	Office
GLA (m <sup>2</sup> )	5,258	7,149	10,835
WALE	6.1 years	7.9 years	5.5 years
Purchase price (\$A'000)	8,350	8,100	38,915
Purchase yield	8.04%	7.73%	7.77%
Major tenant	Horan Steel	Groundmaster Engineering	Clarendon Homes



# Completed acquisitions continued

66 Glendenning Road



85 Radius Drive



54 Miguel Road



Location	Sydney, New South Wales	Brisbane, Queensland	Perth, Western Australia
Sector	Industrial	Industrial	Industrial
GLA (m <sup>2</sup> )	16,461	10,088	22,358
WALE	4.6 years	6.2 years	12 years
Purchase price (\$A'000)	19,170	18,500	26,000
Purchase yield	7.66%	7.82%	7.94%
Major tenant	McAlpine Hussman	Coil Steels	CTI Logistics

# Announced acquisitions

## 266 King Street



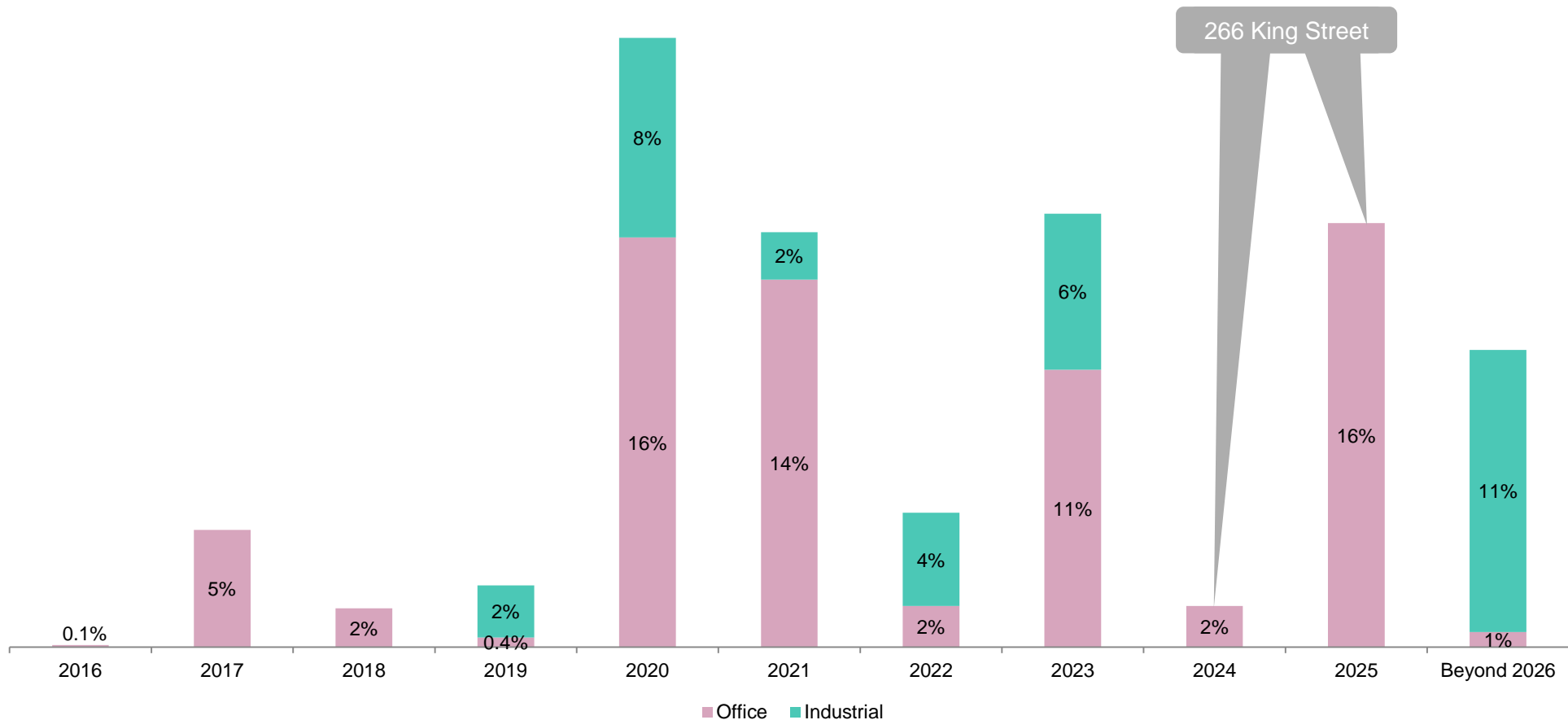
<b>Sector</b>	Office
<b>Location</b>	Newcastle, New South Wales
<b>GLA (m<sup>2</sup>)</b>	13,865
<b>WALE (by income)</b>	8.8 years, excluding vacancy
<b>Purchase consideration (\$A'000)</b>	56,735
<b>Purchase yield</b>	8.3% (pre transaction costs) / 7.8% (post transaction costs) <sup>1</sup>
<b>Vacancy</b>	3,672m <sup>2</sup> and 26 parking bays (covered by 12 month vendor rental guarantee from 1 April 2016) <sup>2</sup>
<b>Escalations</b>	Ranging from 3.5% - 4.0%
<b>Major tenants</b>	Australian Taxation Office, Commonwealth Bank of Australia, Employers Mutual

<sup>1</sup>Yield increases to 9.5% if fully let by 1 April 2017

<sup>2</sup>Limited supply of quality office space in Newcastle with A-grade office vacancy at 2.7% supporting IAPF's view that the vacant space can be leased during the term of the vendor rental guarantee

# Lease expiry profile

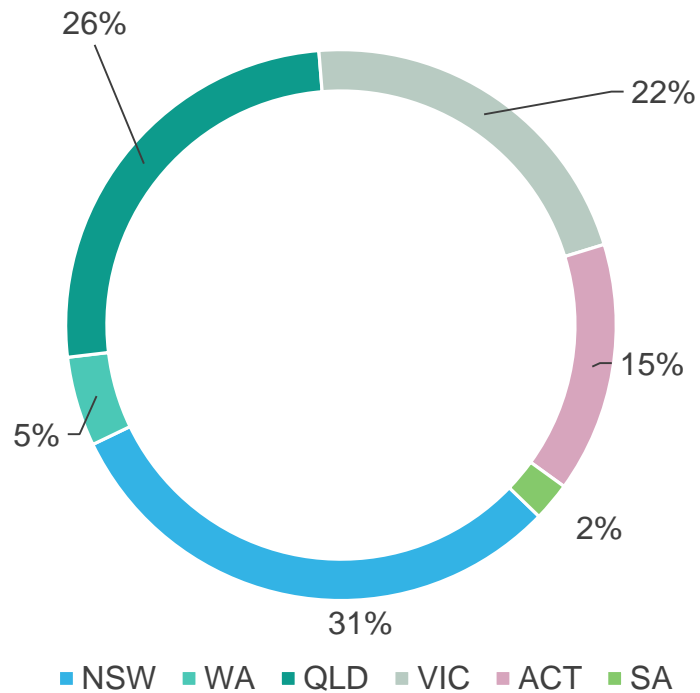
Long WALE of 6.2 years with 69% expiring after 5 years; 100% occupied and no short term letting risk



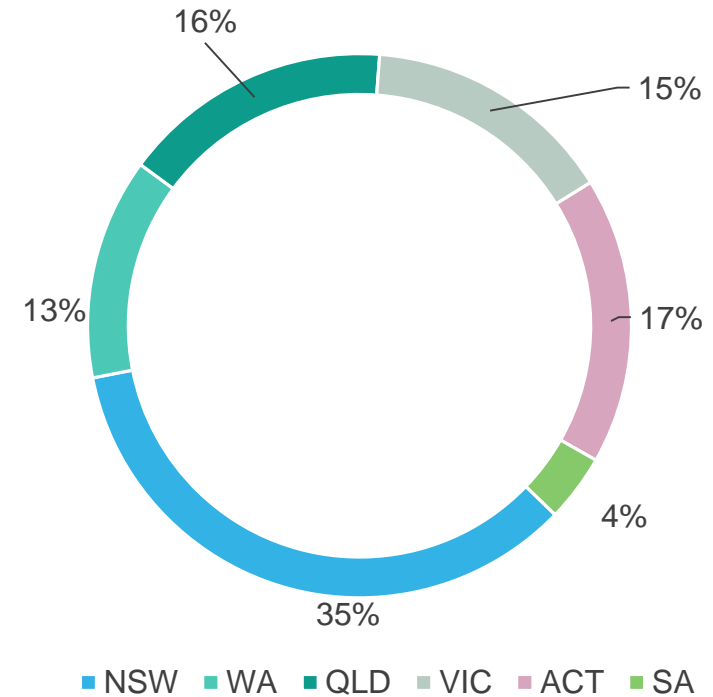
# Portfolio composition by geography

Geographically diversified with majority of exposure to NSW and QLD

## By revenue

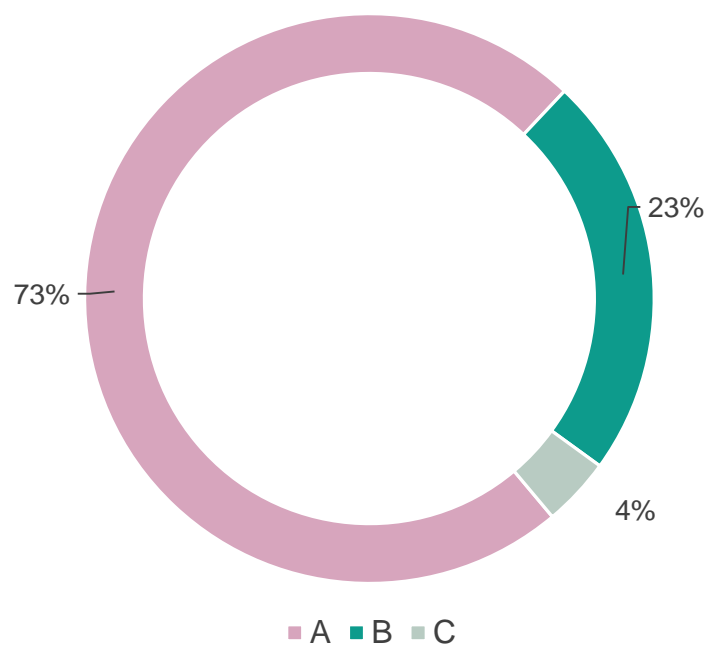


## By GLA



# Tenant composition

Strong tenant covenants; limited exposure to China slowdown and commodities-based industries



- A. Listed, international, large professionals, government, local government and major franchises
- B. National and medium professional firms
- C. Other

Rank	Tenant	% total portfolio
1	ABB Enterprise Software (trading as Ventyx)	8%
2	Toll Transport	7%
3	Carsales.com	7%
4	Commonwealth of Australia (Department of Human Services)	6%
5	Commonwealth of Australia (Australian Taxation Office)	6%
6	Horan Steel	5%
7	CTI Logistics	5%
8	State Government of Victoria	5%
9	Allied Pickfords	4%
10	Clarendon Homes	4%
	<b>Total</b>	<b>57%</b>
	<b>Other</b>	<b>43%</b>

# 3

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## The rights offer



# Details of the rights offer

## Quantum and pricing

- Up to ZAR 690m
- Rights offer price of R11.58 (cum-distribution)
- 7.4% discount to 30-day VWAP and 12.6% discount to closing price on day prior to finalisation of pricing

## Timing

- Rights offer opens on Monday, 8 February 2016
- Rights offer closes on Friday, 19 February 2016

## Underwriting

- IPF (12.0%) and IBL (16.5%) have indicated their intentions to follow their rights
- IPF will underwrite the rights offer up to ZAR 233m (33.7% of the rights offer)
- Commitment fee of 50bps and underwrite fee of 100bps
- As a result, the rights offer will be 62.2% covered
- Underwriting and commitment terms agreed in early December 2015 during period of volatility in South African market
  - Enabled IAPF to maintain yield enhancing acquisitive strategy with the comfort that gearing will return to target range post rights offer



# Salient terms of the underwriting arrangement

- IBL (16.5% interest) and IPF (12.0% interest) have committed to take up their rights. Subscription commitments comprise 28.5% of the rights offer:
  - IPF – R82m
  - IBL – R114m
- IPF has committed to underwriting a further ZAR 233m (33.7% of the rights offer)
- Maximum commitments, including subscription for *pro rata* entitlement, are:
  - IPF – R315m
  - IBL – R114m
- The above arrangements mean that the rights offer will be 62.2% covered and will enable IAPF to reduce gearing sufficiently
- Commitment fee of 0.5% on *pro-rata* take up of rights offer entitlement
- Underwriting fee of 1.0% on quantum underwritten
- Fees payable on closing of rights offer



# Rights offer timetable



JANUARY 2016				
Mon	Tues	Wed	Thur	Fri
				1
4	5	6	7	8
11	12	13	14	15
18	19	20	21	22 Rights offer declaration announcement
25	26 Rights offer finalisation announcement	27	28	29 Last day to trade in order to participate in the rights offer

FEBRUARY 2016				
Mon	Tues	Wed	Thur	Fri
1 LA's listed; units trade ex-rights  Circular available on website	2	3	4	5 Record date to receive rights
8 <b>Rights offer opens at 09:00</b>  Unitholders' accounts credited with entitlements	9 Circular posted to dematerialised unitholders	10	11	12 Last day to trade LA's
15 New rights offer units listed and trading commences	16	17	18	19 <b>Rights offer closes at 12:00</b> Record date for LA's
22 Rights offer units issued	23	24 Excess rights offer units issued	25	26
29	30			



# Conclusion

## IAPF is a compelling investment opportunity with strong prospects

- 8.1% yield (pre-WHT) / 7.5% (post-WHT) in an Australian REIT\*
  - attractive pricing relative to Australian REIT and SA inward listed sectors
  - AUD growth guidance for FY16 of 10% - 12%\*\*
- Quality real estate with strong property fundamentals
  - strong tenant covenants insulated from Chinese / commodity exposure
  - 6.2 year WALE
  - 3.14% average in-force escalations
  - 100% occupancy
- Conservative balance sheet management
  - 4.05% all-in funding rate
  - 83% hedged with long dated swap expiry
- Successful execution of strategy and management track record
  - delivered on objectives
  - investment of previous rights offer capital into high quality assets

**The rights offer positions IAPF favorably with an appropriately geared balance sheet and the ability to pursue further quality, distribution-enhancing acquisitions**

*\*Assumes no deployment post 266 Kings Street acquisition*

**\*\*Assumptions**

1. *The lower end of this guidance assumes no change in the property portfolio and gearing as at 31 March 2015 . The upper end of this guidance assumes further deployment of gearing capacity during FY 2016 into similar yielding assets.*
2. *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.*

# Annexure 1

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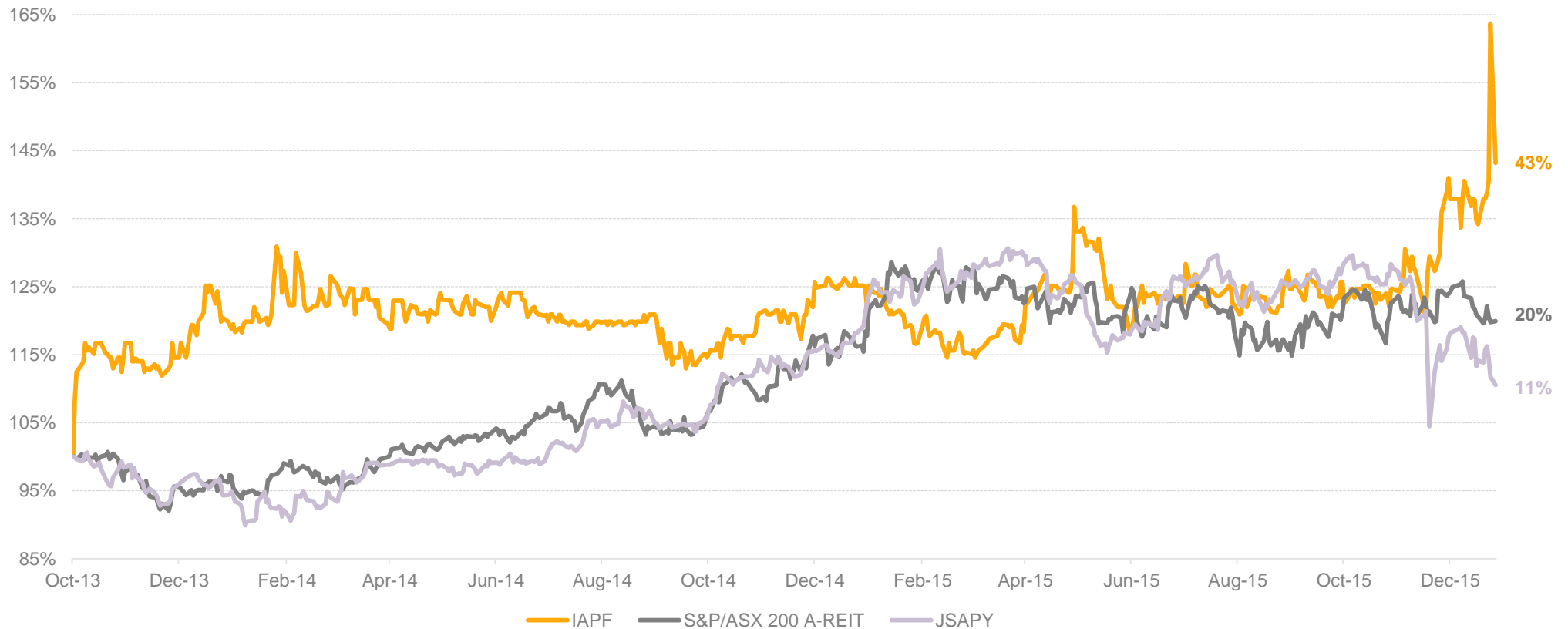
## Market and IAPF unit price performance



# Relative unit price performance since listing

## IAPF vs. Australian REIT index and JSAPY

IAPF units have delivered a 43% capital return since listing, outperforming the returns of the South African and Australian listed property sectors



Source: Bloomberg

# Relative currency and unit price performance – last 12 months

## IAPF vs. AUD/USD and ZAR/AUD

The ZAR has depreciated 22% against the AUD, of which only 14% is reflected in IAPF's unit price appreciation. This indicates potential for further unit price strength. The AUD has depreciated a similar amount as the ZAR against the USD over the past 12 months.

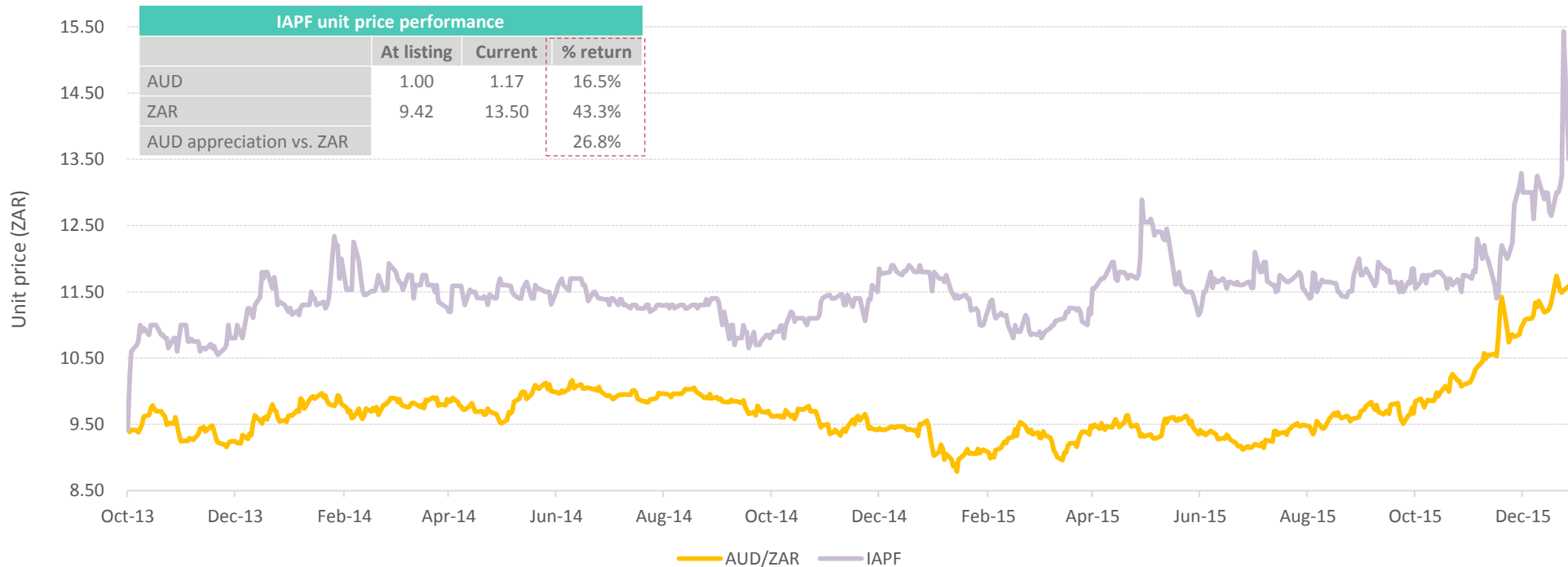


Source: Bloomberg

# Performance since listing

## IAPF vs. ZAR/AUD exchange rate

IAPF provides a rand hedge and exposure to a hard currency that offers value relative to other developed markets



Since listing, IAPF has:

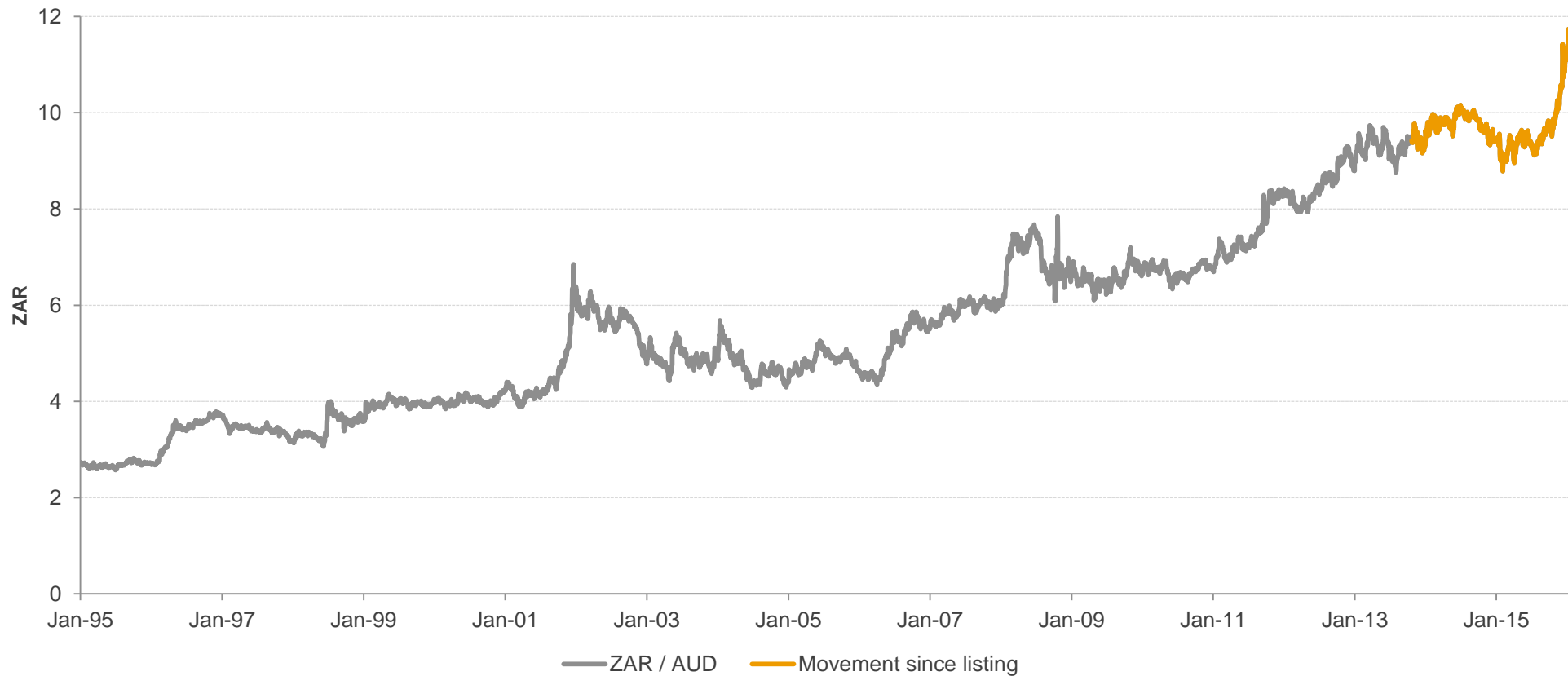
- delivered a **43.3% capital return** in ZAR (16.5% return in AUD and 26.8% currency return); and
- paid out distributions of 148.5 ZAR cents (post-WHT) to September 2015, equating to an **income return of 15.8%**

Source: Bloomberg

# Currency performance (1994 – 2016)

## ZAR / AUD exchange rate

Long term trend indicates depreciation of ZAR vs. AUD of 7.1% p.a. on average in low inflation / interest rate environments

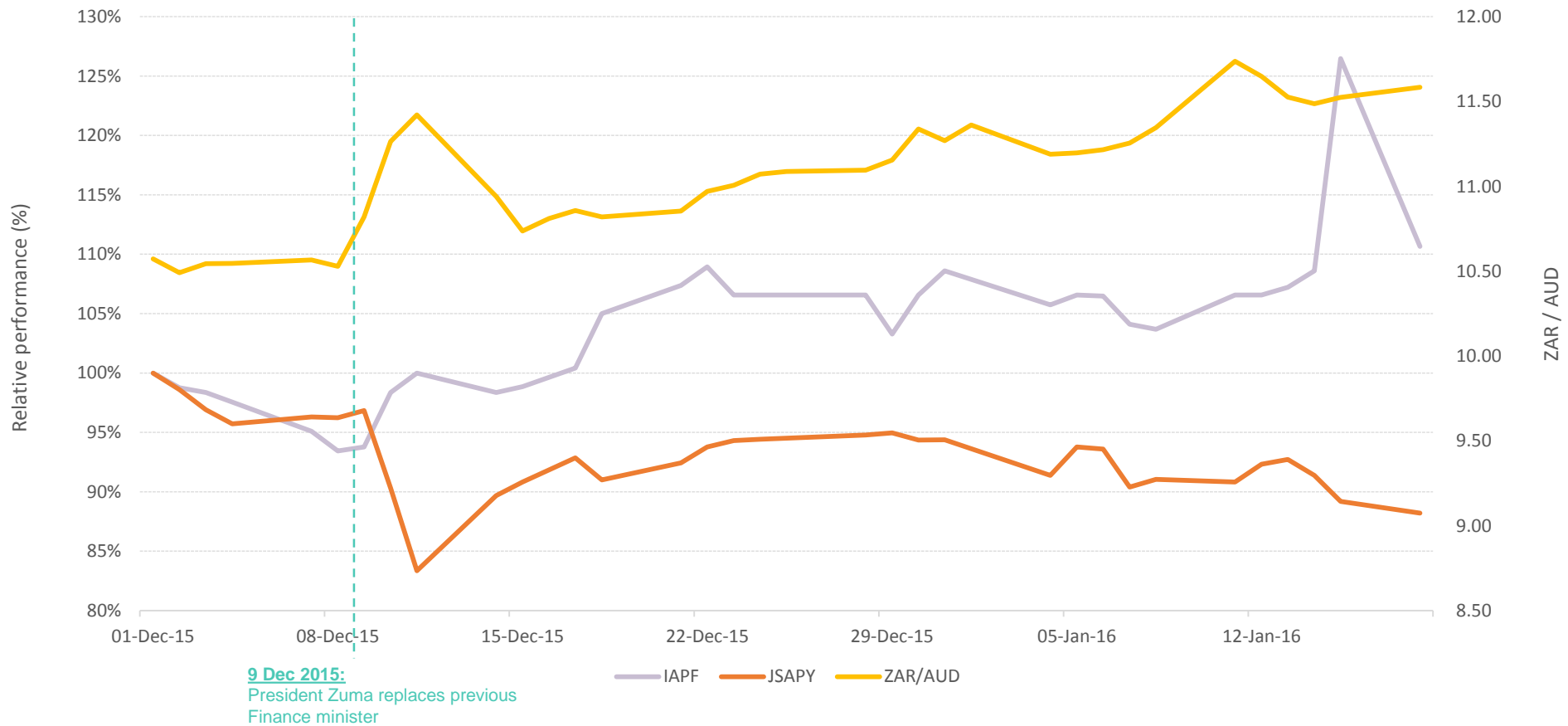


Source: Bloomberg

# Performance since December 2015

## IAPF vs. JSAPY and ZAR/AUD exchange rate

IAPF's unit price performance has been resilient through recent market volatility



Source: Bloomberg



# Annexure 2

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## Property information



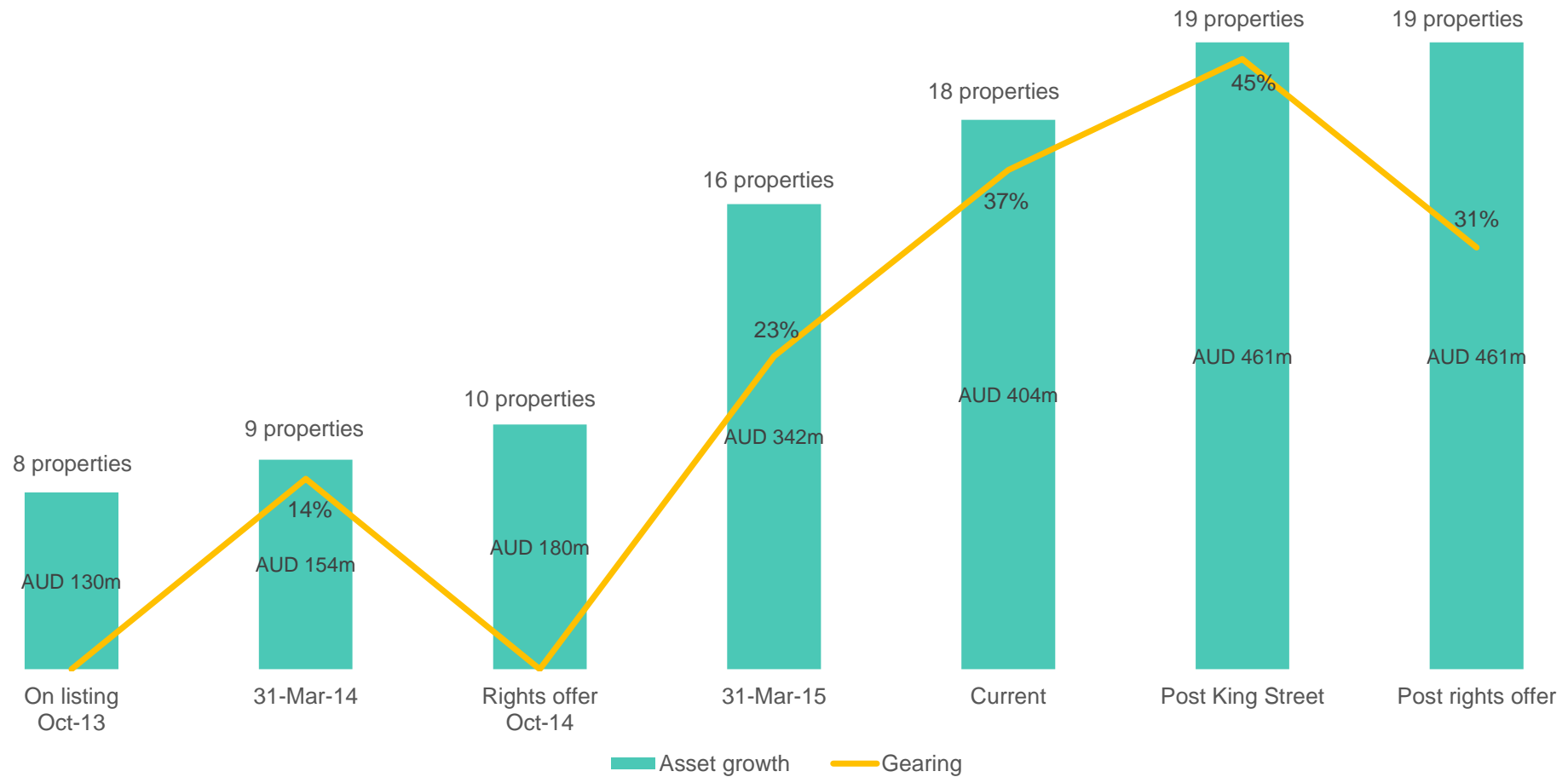
# Fund snapshot

Market			
Market capitalisation	• R3.4bn / A\$295m		
Unit price	• R13.50		
Forward yield	• 8.1% (pre-WHT) / 7.5% (post-WHT)*		
NAV per unit	• R 11.62		
Portfolio**	Total portfolio	Office	Industrial
Number of properties	• 19	• 7	• 12
Asset value	• AUD 461mn	• AUD 306mn	• AUD 155mn
GLA	• 169,796 m <sup>2</sup>	• 61,514 m <sup>2</sup>	• 108,282 m <sup>2</sup>
Vacancy	• 0%	• 0%	• 0%
WALE	• 6.2 years	• 5.7 years	• 7.1 years
Property yield	• 8.4%		
Weighted average escalation	• 3.14%		
Balance Sheet**			
Gearing (post rights offer)	• 31% post rights offer (all-in funding cost of 4.05%)		

\*Assumes no deployment post 266 King Street acquisition

\*\*Assume that the acquisition of 266 King Street has been completed and that the full ZAR 690m is raised in terms of the rights offer

# Asset and gearing growth

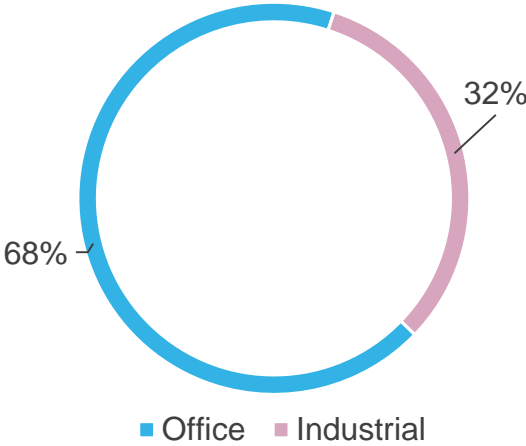


Note: Current portfolio includes all announced acquisitions up to 266 King Street acquisition announced on 23 December 2015

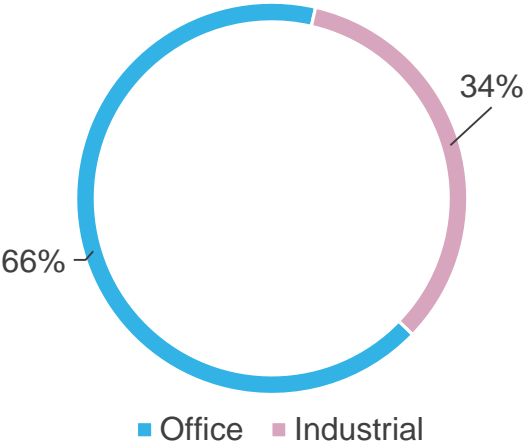
# Portfolio composition by sector

Sectorally diversified with appropriate mix of office and industrial properties

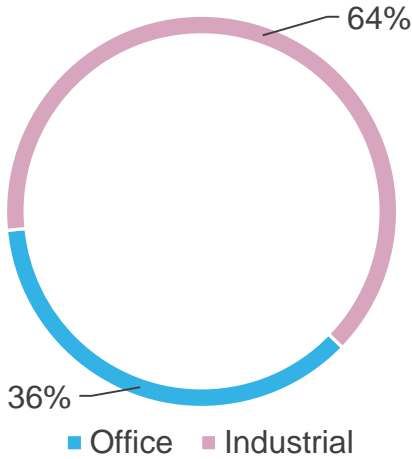
By revenue



By asset value



By GLA



# Annexure 3

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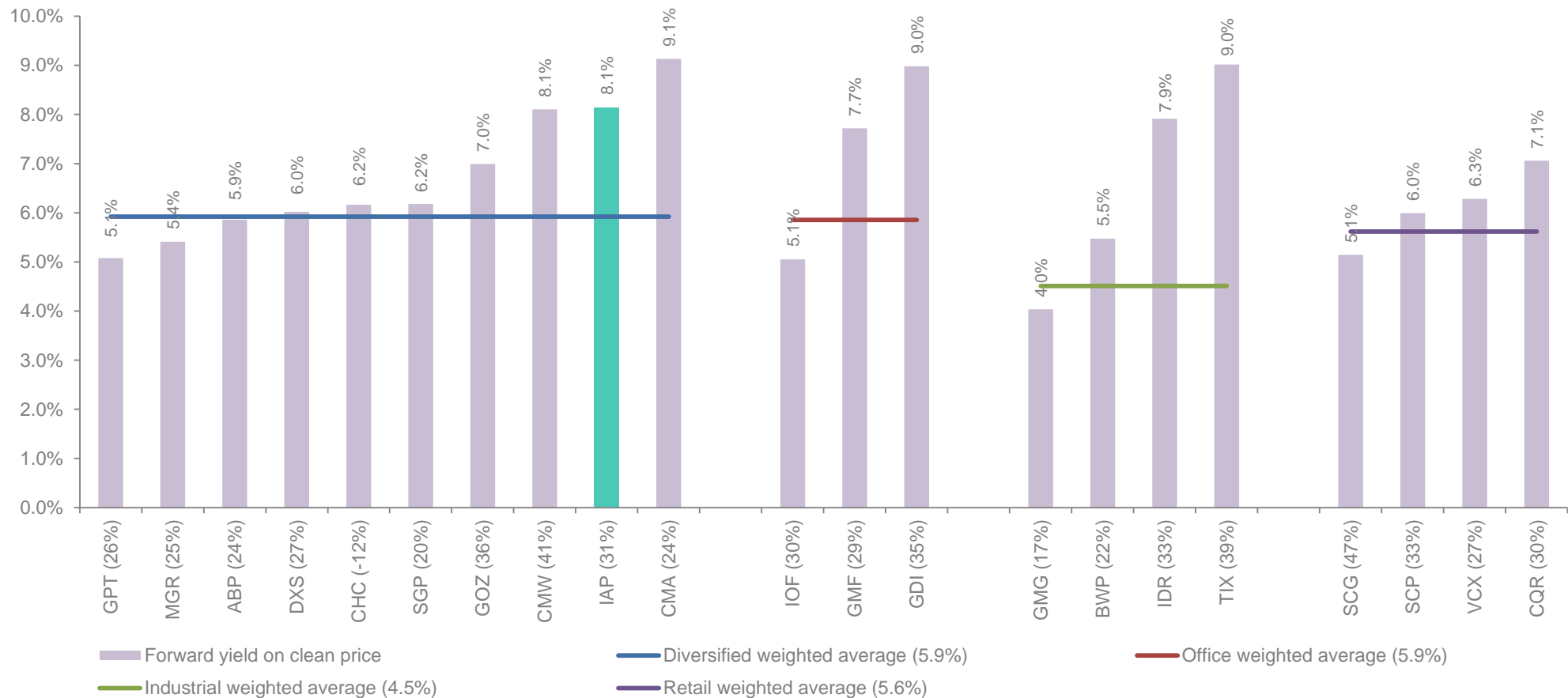


## Property sector yields analysis



# Australian REIT sector yields

Attractively priced relative to Australian peer group



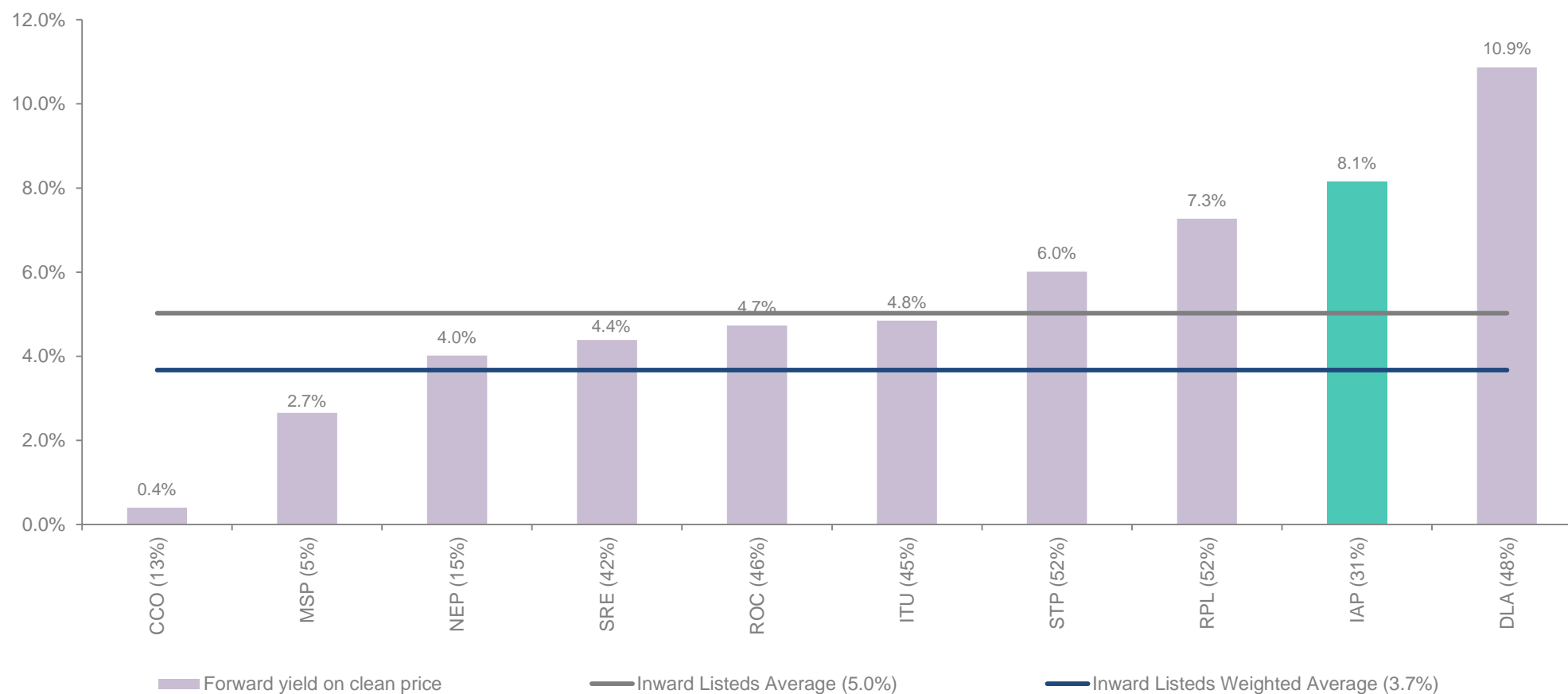
Source: Bloomberg as at 2016/01/18, Investec calculations

Note: Yields are based on rolling 12 month distributions on clean prices; IAPF forward yields are pre withholding tax and assume no deployment post 266 King Street acquisition

Numbers in brackets represent fund gearing

# SA inward listed property sector yields

Attractively priced relative to SA inward listed peer group



Source: Bloomberg as at 2016/01/18; Investec calculations

Note: Yields are based on clean prices; where no consensus forecasts are available (i.e. for MSP, STP, DLA), forward yields based on assumed distribution growth rate of 5%; IAPF forward yields are pre-withholding tax assume no deployment post 266 King Street acquisition  
Numbers in brackets represent fund gearing

# South African property sector yields



Source: Bloomberg as at 2016/01/18, Investec calculations

Note: Yields are based on rolling 12 month distributions on clean prices; IAPF forward yields are post withholding tax and assume no deployment post 266 King Street acquisition  
 Numbers in brackets represent fund gearing





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