Interim Report 2020

Investec Australia Property Fund

Interim financial report for the half year ended 30 September 2020 prepared in accordance with the Corporations Act 2001 and the ASX Listing Rules

Investec
Australia Property Fund

Directors' report

The directors of Investec Property Limited (ABN 93 071 514 246), the Responsible Entity (**RE**) of Investec Australia Property Fund (**IAP** or **the Fund**), present their report together with the consolidated financial statements of the Fund for the half-year ended 30 September 2020.

The Fund is an Australian-domiciled REIT which is registered as a managed investment scheme in Australia under the *Corporations Act 2001* (Cth) (**Corporations Act**) and is subject to regulatory oversight by ASIC. The Fund was registered on 23 August 2013 as a foreign collective investment scheme authorised to solicit investment from members of the public in South Africa in terms of the Collective Investment Schemes Control Act No. 45 of 2003. The manager of the Fund is Investec Property Management Pty Limited (ABN 63 161 587 391).

The Fund was listed on the Johannesburg Stock Exchange (**JSE**) on 23 October 2013 under the 'Real Estate Holdings Development' sector. The Fund was listed on the Australian Securities Exchange (**ASX**) on 28 May 2019 and following this the Fund is dual primary listed on the ASX and JSE. The unit code on both the ASX and JSE is "IAP" and the ISIN is AU0000046005. Units in the Fund are quoted on both JSE and the ASX and can be moved between the South African register and the Australian register. Unitholders can elect where their units are traded by holding their units on either the South African register or the Australian register.

Directors of the RE

The following persons were directors of the RE during the period from 1 April 2020 up to the date of this report:

Richard Longes	Independent Non-Executive Director and Chairperson
Sally Herman	Independent Non-Executive Director, Lead Independent Director and Chairperson of the Audit and Risk Committee
Stephen Koseff	Non-Executive Director
Graeme Katz	Executive Director
Sam Leon	Non-Executive Director
Hugh Martin	Independent Non-Executive Director
Georgina Lynch	Independent Non-Executive Director

Directors of the Manager

The following persons were directors of the Manager during the period from 1 April 2020 up to the date of this report:

Graeme Katz	Executive Director
Zach McHerron	Executive Director
Kristie Lenton	Executive Director

Company secretary

The following persons were the company secretaries of the RE during the period from 1 April 2020 up to the date of this report:

Paul Lam-Po-Tang	Resigned 19 June 2020
Lucy Spenceley	Appointed 19 June 2020

Operating and financial review

Fund objectives and investment philosophy

The Fund's strategy is to invest in office, industrial and retail properties in major metropolitan cities or established commercial precincts in Australia and New Zealand.

The objectives of the Fund are to:

- deliver income and capital returns to unitholders over time;
- grow and diversify its asset base; and
- maintain a strong corporate governance framework.

The Fund's investment philosophy focuses on making investment decisions based on sound underlying property fundamentals, enhancing the quality of the property portfolio and identifying opportunities to unlock additional value through active asset management. The Fund adheres to this philosophy by utilising the skills of an experienced and well-connected management team with a presence in the Fund's key geographies of Sydney, Melbourne and Brisbane and through a commitment to sound balance sheet management.

Financial result

The following table summarises the statutory profit for the half-year ended 30 September 2020 and provides a comparison to the half-year ended 30 September 2019.

AUD'000	HY21	HY20
Revenue, excluding straight-line rental revenue adjustment	45 017	47 169
Straight-line rental revenue adjustment	168	746
Property expenses	(9 909)	(10 329)
Net property income	**35 276**	**37 586**
Other operating expenses[1]	(3 600)	(8 563)
Net finance costs	(4 112)	(7 022)
Cost on sale of investment property	(2 013)	–
Other income	3	3
Fair value adjustments	12 790	20 769
Total comprehensive income attributable to unitholders	**38 344**	**42 773**

As at 30 September 2020, the Fund's net assets attributable to unitholders was AUD1.34 per unit (30 September 2019: AUD1.33 per unit).

Funds from operations

The RE targets distributions between 80% and 100% of funds from operations (**FFO**), and will report distributions as a percentage of FFO and adjusted FFO (**AFFO**).

FFO is calculated in accordance with the Property Council Guidelines, determined by adjusting statutory net profit (under Australian Accounting Standards (**AAS**)) for non-cash and other items such as property revaluations, derivative mark-to-market impacts, amortisation of tenant incentives, gain/loss on sale of investment properties, straight-line rental revenue adjustments, non-FFO tax expenses/benefits and other unrealised one-off items.

AFFO is calculated in accordance with version 2 of the Property Council of Australia's "*Voluntary Best Practice Guidelines for Disclosing FFO and AFFO*", published in December 2017, being FFO adjusted for maintenance capital expenditure, cash and cash equivalent incentives (including rent free incentives) given to tenants during the period and other one-off items which have not been adjusted in determining FFO.

1 Other operating expenses in HY20 includes AUD4.5 million of transaction costs in relation to the ASX listing process included within the consolidated statement of profit or loss and other comprehensive income.

Directors' report
continued

A reconciliation of the statutory profit to FFO and AFFO is set out below for the half-year ended 30 September 2020 and provides comparison to the half-year ended 30 September 2019.

AUD'000	HY21	HY20
Total comprehensive income attributable to unitholders	38 344	42 773
Adjusted for:		
Fair value adjustments	(12 790)	(20 769)
Straight-line rental revenue adjustment	(168)	(746)
Amortisation of incentives	733	711
Cost on sale of investment property	2 013	–
Other one off items[2]	–	4 490
FFO	**28 132**	**26 459**
Maintenance capex	(1 198)	(816)
Leasing fees and cash incentives	(102)	(243)
AFFO	**26 832**	**25 400**
Weighted average units	**611 298**	**531 766**

	HY21	HY20
Basic and diluted earnings (cents per unit (**cpu**))	6.27	8.04
FFO (cpu)	4.60	4.98
AFFO (cpu)	4.39	4.78

Interim distribution for the six months ended 30 September 2020 is as follows:

	HY21
FFO (AUD'000)	28 132
AFFO (AUD'000)	26 832
Distribution declared (AUD'000)	26 832
Distribution declared (cpu)	4.39
Distribution as a percentage of FFO	95%
Distribution as a percentage of AFFO	100%

2 Transaction costs in relation to the ASX listing process included within other operating expenses in the consolidated statement of profit or loss and other comprehensive income.

Property portfolio

At the date of this report, the Fund's portfolio comprised 30 properties valued at AUD1 100.4 million. The portfolio is geographically diversified with properties located in key markets across Australia and New Zealand. The majority of the Fund's exposure is to New South Wales, Victoria and Queensland, which represent 66%[3] of the portfolio.

a. Acquisitions and disposals

During the period the Fund contracted to acquire an industrial property at Lot 3, Belconnen Crescent, Brendale QLD for AUD15.6 million on a fund through basis. The acquisition is due to complete after the period end.

During the period the Fund completed the sale of 757 Ann Street, Fortitude Valley QLD for AUD94.0 million, an 11% premium to book value.

b. Leasing

At the date of this report, the Fund's portfolio is 97.5%[3] occupied and has a weighted average lease expiry of 4.8 years[3] with 45.7%[3] of leases expiring after five years. During the period from 1 April 2020 up to the date of this report the Fund entered into leases in respect of 34 277m^2, with a further 3 726m^2 subject to signed heads of agreement.

c. Valuations

Seven properties were externally valued as at 30 September 2020. These were 47 Sawmill Circuit, Hume ACT; 57 Sawmill Circuit, Hume ACT; 24 Sawmill Circuit, Hume ACT; 44 Sawmill Circuit, Hume ACT; 2–8 Mirage Rd, Direk SA; 2404 Logan Road, Eight Mile Plains QLD; and 186 Reed Street, Greenway ACT. Combined, these valuations have resulted in an increase in property value of AUD1.4 million since the last reported value on 31 March 2020.

The uplift in value for the properties that were externally valued is largely driven by capitalisation and discount rate compression on the ACT industrial properties, offset by cashflow assumptions. The weighted average capitalisation rate compression on the ACT industrial properties was approximately 50 bps. The cashflow assumptions adopted by the valuers factored in longer lease up periods and lower net effective rents. Given 24 Sawmill Circuit and 57 Sawmill Circuit both have short WALEs, the short term cashflow adjustments largely offset the compression in capitalisation and discount rates.

Other properties in the portfolio were internally valued with a net increase of AUD17.2 million. The uplift in value for the properties that were internally valued is largely driven by cash flow factors, amendments to the valuation methodology applied (on the amended risk assessment outcome) and leasing activity undertaken since 31 March 2020. For 13 of the properties internally valued, the capitalisation and discount rate softening adopted in May 2020 was reversed on the back of the risk reassessment, leasing activity undertaken since May 2020 and market evidence. For all other properties internally valued, the capitalisation rate and discount rate was not varied to what was adopted in May 2020.

The total increase in property value for the six months to 30 September 2020 was AUD18.6 million. The valuation approach the Fund has adopted for the half year to 30 September 2020 is a continuation of the approach adopted for the reassessment and ultimate adoption of fair value for the year ended 31 March 2020 conducted in May 2020. This approach was conducted in light of the potential impacts of the COVID-19 pandemic on the Fund's portfolio, factoring in the limited market information and unknown impacts to the Fund's tenants available at that time. The focus was on a risk based assessment, where there was a biased approach to the discounted cash flow (**DCF**) valuation methodology (for the properties that were internally valued) to capture the impacts of subdued growth, longer lease up periods, lower net effective rents and lower probability of tenant's renewing in the short to medium term.

Impact of the COVID-19 pandemic

In early 2020 the Fund implemented a detailed tenant engagement program to gain an understanding of the impact on the tenant base of the Australian bushfires and the early stages of the COVID-19 pandemic.

In mid-March 2020, as the seriousness of the COVID-19 pandemic was becoming more evident, the program was re-instated. All tenants in the portfolio have been communicated with on numerous occasions in an attempt to understand the potential impacts of the COVID-19 pandemic on their business and how this might influence their ability to meet their lease obligations and impact their future leasing decisions. The information obtained from tenants has been used in determining forecast cash flows for each of the properties and in determining the fair value assessment.

During the current reporting period, the Fund continues to communicate with all tenants, particularly as it becomes evident that some tenants may require additional rental support as their businesses are impacted by the COVID-19 pandemic. In assessing requests for rental support, the Fund considers the code of conduct for commercial tenancies released by the National Cabinet on 7 April 2020, acknowledging that not all of the tenants that have requested rental support are captured by the code and that each State and Territory implemented the code in slightly different ways. Where possible, the Fund attempts to agree a commercially sensible position by addressing each individual tenant's specific circumstances on a case-by-case basis. Details of rent relief granted to tenants during the period are included in note 8 to the consolidated interim financial statements.

The impact of the COVID-19 pandemic has resulted in a portion of the Fund's tenants experiencing challenging and uncertain times. Whilst the situation is evolving, the Responsible Entity remains confident that the Fund will be able to continue as a going concern which assumes the Fund will be able to continue trading and realise assets and discharge liabilities in the ordinary course of business for at least 12 months from the date of the consolidated interim financial statements. Details of assessments of the Fund's ability to continue as a going concern are included in note 1 of the consolidated interim financial statements.

Outlook and guidance

The forecast for the year ended 31 March 2021 is outlined in the Explanatory Memorandum (**EM**) associated with the proposal for the internalisation of the management function of the Fund, which was published on 20 October 2020. The forecast disclosed in the EM has been prepared on the basis of the current external management structure for the full financial year. In addition, a forecast assuming the implementation of the proposal in November 2020 has been prepared and disclosed.

The information and opinions contained above are recorded and expressed in good faith and are based upon sources believed to be reliable. No representation, warranty, undertaking or guarantee of whatever nature is made or given concerning the accuracy and/or completeness of such information and/or the correctness of such opinions.

Any reference to future financial information included in this report has not been reviewed or reported on by the Fund's independent auditors.

3 By gross property income.

Directors' report

continued

Events subsequent to reporting date

During the current period, the RE announced that it has commenced discussions with the Investec Group to internalise the management of the Fund, including retention of the existing management team. The Board has established a sub-committee comprising the independent directors to consider the internalisation proposal on behalf of unitholders. An Explanatory Memorandum and Notice of Meeting was sent to the unitholders on 20 October 2020. The unitholder meeting to vote on the internalisation proposal is scheduled for 17 November 2020. If the vote is successful, the internalisation proposal will be implemented on 30 November 2020.

Since balance date, there is no other item, transaction or event of a material and unusual nature likely, in the opinion of the RE, to affect significantly the operations of the Fund, the results of these operations, or the state of affairs of the Fund, in future financial years.

Significant changes in state of affairs

The Board is not aware of any matter or circumstance, that is not discussed in the operating and financial review that has significantly or may significantly impact the Fund now, or in future years.

Indemnification

Under the Fund's constitution the RE, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or fights in relation to the Fund.

The Fund has not indemnified any auditor of the Fund.

Insurance premiums

No insurance premiums are paid out of the Fund's assets in relation to insurance cover for the RE, its officers and employees or the auditors of the Fund.

Environmental regulation

The Fund's operations are not subject to any significant environmental regulation under Commonwealth, State or Territory legislation.

Rounding off

The Fund is of a kind referred to in ASIC Class Order 2016/191 dated 24 March 2016 and in accordance with that ASIC Class Order, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307c of the Corporations Act 2001 is set out on page 8.

Additional interim financial report

As a result of the Fund being dual primary listed on both the JSE and ASX, the Fund's financial report for the half year ended 30 September 2020 is required to be reviewed by auditors in both Australia and South Africa to meet the regulatory requirements in both jurisdictions. Due to the varying reporting requirements in Australia and South Africa, two sets of financial statements have been prepared, where the differences in the two are largely presentation driven. Both copies of the financial statements are on the Fund's website www.iapf.com.au.

Signed in accordance with a resolution of the directors of Investec Property Limited.

Richard Longes
Chairperson

Graeme Katz
Chief Executive Officer

29 October 2020

Directors' declaration

In the opinion of the directors of Investec Property Limited, the Responsible Entity of Investec Australia Property Fund:

(a) the consolidated financial statements and notes that are set out on pages 9 to 23 are in accordance with the *Corporations Act 2001* (Cth), including:

(i) giving a true and fair view of the Fund's financial position as at 30 September 2020 and of its performance, for the financial period ended on that date; and

(ii) complying with Australian Accounting Standards as it relates to AASB 134 *Interim Financial Reporting*, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors of Investec Property Limited:

Dated at Sydney this 29th day of October 2020.

Richard Longes
Chairperson

29 October 2020

Auditor's independence declaration

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Investec Property Limited, the Responsible Entity of Investec Australia Property Fund

I declare that, to the best of my knowledge and belief, in relation to the review of Investec Australia Property Fund for the half-year ended 30 September 2020 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Paul Thomas

Partner

Sydney

29 October 2020

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Consolidated statement of profit and loss and other comprehensive income

For the six months to 30 September 2020

AUD'000	Notes	Reviewed six months to 30 September 2020	Reviewed six months to 30 September 2019
Revenue, excluding straight-line rental revenue adjustment		45 017	47 169
Straight-line rental revenue adjustment		168	746
Revenue	3	**45 185**	**47 915**
Property expenses		(9 909)	(10 329)
Net property income		**35 276**	**37 586**
Other operating expenses		(3 600)	(8 563)
Operating profit excluding fair value adjustment		**31 676**	**29 023**
Fair value adjustments	4	12 790	20 769
Finance costs		(4 131)	(7 075)
Finance income		19	53
Cost on sale of investment property		(2 013)	–
Other income		3	3
Total comprehensive income attributable to equity holders		**38 344**	**42 773**
Units in issue at the end of the period	5	**611 298**	**555 726**
Weighted average number of units in issue for the period		**611 298**	**531 766**
Basic and diluted earnings per unit (cents)		6.27	8.04

The notes on pages 13 to 23 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 30 September 2020

AUD'000	Notes	Reviewed 30 September 2020	Audited 31 March 2020
ASSETS			
Non-current assets		**1 100 613**	**1 084 958**
Investment property	6	1 100 401	1 084 958
Receivables and other assets	8	212	–
Current assets		**16 216**	**115 594**
Cash and cash equivalents	7	7 153	17 128
Receivables and other assets	8	9 063	4 466
Property held for sale		–	94 000
Total assets		**1 116 829**	**1 200 552**
EQUITY AND LIABILITIES			
Equity		**819 673**	**808 161**
Contributed equity		696 402	696 402
Retained earnings		123 271	111 759
Non-current liabilities		**262 434**	**353 669**
Long-term borrowings	9	252 201	345 487
Trade and other payables		6 041	4 845
Financial instruments held at fair value	10	4 192	3 337
Current liabilities		**34 722**	**38 722**
Trade and other payables		7 890	12 417
Distributions payable	5	26 832	26 305
Total equity and liabilities		**1 116 829**	**1 200 552**
Number of units in issue ('000)		**611 298**	**611 298**
Net asset value per unit (AUD)[4]		1.34	1.32

The notes on pages 13 to 23 are an integral part of these consolidated financial statements.

4 Net asset value per unit is calculated by dividing net asset value by the number of units in issue.

Consolidated statement of changes in equity

For the six months to 30 September 2020

AUD'000	Contributed equity	Retained earnings	Total unitholder's interest
Balance at 1 April 2019	**515 203**	**106 274**	**621 477**
Total comprehensive income attributable to unitholders	–	42 773	42 773
Issue of ordinary units	98 500	–	98 500
Distributions paid/payable to ordinary unitholders	–	(25 390)	(25 390)
Reviewed balance at 30 September 2019	**613 703**	**123 657**	**737 360**
Balance at 1 October 2019	**613 703**	**123 657**	**737 360**
Total comprehensive income attributable to unitholders	–	16 183	16 183
Issue of ordinary units	82 699	–	82 699
Distributions paid/payable to ordinary unitholders	–	(28 081)	(28 081)
Audited balance at 31 March 2020	**696 402**	**111 759**	**808 161**
Balance at 1 April 2020	**696 402**	**111 759**	**808 161**
Total comprehensive income attributable to unitholders	–	38 344	38 344
Issue of ordinary units	–	–	–
Distributions paid/payable to ordinary unitholders	–	(26 832)	(26 832)
Reviewed balance at 30 September 2020	**696 402**	**123 271**	**819 673**

The notes on pages 13 to 23 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the six months to 30 September 2020

AUD'000	Reviewed six months to 30 September 2020	Reviewed six months to 30 September 2019
Cash flows from operating activities		
Rental income received	50 975	51 689
Property expenses	(13 158)	(15 035)
Fund expenses	(6 822)	(5 176)
Security deposits received	835	–
Cash generated from operations	**31 830**	**31 478**
Finance income received	19	53
Finance costs paid	(4 769)	(6 814)
Distribution paid to unitholders	(26 305)	(31 649)
Net cash (used in)/from operating activities	**775**	**(6 932)**
Cash flows from/(used in) investing activities		
Receipts from sale of investment property	89 251	–
Deposit on investment property acquired	–	(4 050)
Acquisition cost and capital expenditure	(3 903)	(1 133)
Net cash outflow used in investing activities	**85 348**	**(5 183)**
Cash flows from financing activities		
Borrowings raised	12 000	18 500
Repayment of loans	(105 209)	(107 300)
Proceeds from issue of units	–	98 500
Payment of termination of hedging	(2 889)	–
Net cash inflow from financing activities	**(96 098)**	**9 700**
Net increase/(decrease) in cash and cash equivalents	(9 975)	(2 415)
Cash and cash equivalents at beginning of the period	17 128	7 792
Cash and cash equivalents at end of the period	**7 153**	**5 377**

The notes on pages 13 to 23 are an integral part of these consolidated financial statements.

Notes to the consolidated interim financial statements

For the six months to 30 September 2020

1. Basis of preparation

The consolidated interim financial statements for the half-year ended 30 September 2020 was authorised for issue in accordance with a resolution of the directors of the Investec Property Limited (**RE**) on 29 October 2020.

The consolidated interim financial statements for the half-year ended 30 September 2020 have been prepared in accordance with the *Corporations Act 2001* (Cth) (**Corporations Act**) and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This consolidated interim financial report does not include all the notes and information normally included in a set of annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial statements for the year ended 31 March 2020 and any public announcements made in respect of Investec Australia Property Fund (**IAP** or **the Fund**) during the reporting period in accordance with the continuous disclosure requirements of the Corporations Act.

The consolidated interim financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value; and
- investment property is measured at fair value.

The financial statements have been prepared on a going concern basis. The impact of the COVID-19 pandemic has resulted in a portion of the Fund's tenants experiencing challenging and uncertain times. Whilst the situation is evolving, the Responsible Entity remains confident that the Fund will be able to continue as a going concern which assumes the Fund will be able to continue trading and realise assets and discharge liabilities in the ordinary course of business for at least 12 months from the date of the consolidated interim financial statements. In reaching this position, the following factors have been considered:

- the Fund is in a net current liability position of AUD18.5 million as at 30 September 2020 (31 March 2020: net current asset of AUD76.8 million). The net current liability position is principally due to the interim distribution declared. It is anticipated that it will be paid from the undrawn debt under the current loan facility (refer to note 9 *Borrowings*). The Fund manager has prepared a cashflow forecast 12 months from issuance of the financial statements which indicated that the fund is expected to have positive ongoing cashflows;
- the Fund's tenant exposure where the potential credit risk is more severe including hospitality and accommodation, tourism, education and retail is approximately 3.3% of the total tenant revenue base;
- the Fund's weighted average debt expiry is 7.0 years, with the earliest tranche maturing in March 2023;
- the Fund's debt is fixed or hedged to a level of 97.3%;
- the Fund's gearing[5] sits at 22.4% with a covenant level of 55%;
- the Fund's interest cover ratio[6] at 30 September 2020 was 6.8x with a covenant level of 2.0x; and
- stress testing of the covenants results in adequate levels of headroom from both a gearing and interest cover ratio perspective. While debt compliance may come under pressure, the Fund does not expect any potential covenant breaches for a period of 12 months from the date of the consolidated interim financial statements.

The outcome of all of the above leads the RE to determine that the Fund's financial position is strong, and it will be able to meet its debts as and when they fall due for at least a period of 12 months from the date of the consolidated interim financial statements. The consolidated interim financial statements have therefore been prepared on a going concern basis.

The same accounting policies and methods of computation are followed in the current interim financial statements as compared with the annual financial statements for the year ended 31 March 2020, unless otherwise stated.

The financial statements of controlled entities are included in the consolidated interim financial statements from the date on which control commences until the date on which control ceases. All subsidiaries are 100% owned trusts and controlled by the group with no restrictions.

This consolidated interim financial statements are presented in AUD, which is IAP's functional currency. IAP is of a kind referred to in ASIC Class Order 2016/191 dated 24 March 2016 and in accordance with that ASIC Class Order, all financial information presented in AUD has been rounded to the nearest thousand unless otherwise stated.

The preparation of the condensed consolidated financial statements in conformity with IFRS requires the board of the RE to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or the period of the revision and future periods if the revision affects both current and future periods.

Due to the COVID-19 pandemic, estimation uncertainty at balance date, that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets within the next financial period relates to the valuation of investment properties. Refer to note 6 for information on best estimates used in the valuation of investment properties.

New accounting standards adopted by the Fund

Amendments to IFRS 3 '*Business Combinations – Definition of a Business*'. IFRS 3 '*Business Combinations – Definition of a Business*' to clarify the definition of a business. This amendment which have become effective from 1 January 2020 and have therefore been adopted, have not had a material impact on the Fund's financial results or position.

Amendments to IAS 1 and IAS 8 – *Definition of Material* IAS 1 and IAS 8 amended to clarify the definition of material as applied across all reporting standards. The intention of the amendment is to reduce and declutter financial reports and focus the user's attention on the key material items. This amendment which have become effective from 1 January 2020 and have therefore been adopted, have not had a material impact on the Fund's financial results or position.

Accounting standards applicable to the Fund not yet effective

Amendment to IAS 1 Classification of Liabilities as Current or Non-current. The amendments require a liability be classified as current when companies do not have a substantive right to defer settlement at the end of the reporting period. The Fund will look to review the disclosure in respect of liabilities, but do not expect this to have a material impact to the Fund.

5 Interest bearing liabilities (excluding debt establishment costs) less cash divided by the total value of investment properties. (non-IFRS information).
6 Earnings before interest, taxes, depreciation and amortization divided by interest expenses for the proceeding 12 months. (non-IFRS information).

Notes to the consolidated interim financial statements

For the six months to 30 September 2020 continued

2. Segment information

The Fund has the following operating segments:

- office properties; and
- industrial properties.

The above segments are derived from the way the business of the Fund is structured, managed and reported to the chief operating decision-makers.

The Fund manages its business in the office and industrial property sectors where resources are specifically allocated to each sector in achieving the Fund's stated objectives.

Statement of profit or loss and other comprehensive income

For the six months ended 30 September 2020

AUD'000	Office	Industrial	Total
Revenue, excluding straight-line rental revenue adjustment	30 800	14 217	45 017
Straight-line rental revenue adjustment	(452)	620	168
Revenue	**30 348**	**14 837**	**45 185**
Property expenses	(7 981)	(1 928)	(9 909)
Net property income	**22 367**	**12 909**	**35 276**
Fair value adjustments – investment property	11 747	6 828	18 575
Fair value adjustments – foreign currency revaluation	(6 037)	–	(6 037)
Total segment results	**28 077**	**19 737**	**47 814**
Other operating expenses			(3 600)
Fair value adjustment on interest rate swaps			(855)
Fair value adjustment on foreign currency			1 107
Cost on sale of investment property			(2 013)
Finance costs			(4 131)
Finance income			19
Other income			3
Profit for the period			**38 344**

Statement of profit or loss and other comprehensive income

For the six months ended 30 September 2019

AUD'000	Office	Industrial	Total
Revenue, excluding straight-line rental revenue adjustment	36 466	10 703	47 169
Straight-line rental revenue adjustment	838	(92)	746
Revenue	**37 304**	**10 611**	**47 915**
Property expenses	(9 022)	(1 307)	(10 329)
Net property income	**28 282**	**9 304**	**37 586**
Fair value adjustments – investment property	30 331	8 806	39 137
Fair value adjustments – foreign currency revaluation	(176)	–	(176)
Total segment results	**58 437**	**18 110**	**76 547**
Other operating expenses			(8 563)
Fair value adjustment on interest rate swaps			(15 600)
Fair value adjustment on foreign currency			(2 592)
Finance costs			(7 075)
Finance income			53
Other income			3
Profit for the period			**42 773**

Statement of financial position extracts at 30 September 2020

AUD'000	Office	Industrial	Total
Investment property balance at 1 April 2020	763 158	321 800	1 084 958
Foreign currency revaluation on property	(6 037)	–	(6 037)
Acquisition costs and capital expenditure	2 685	52	2 737
Straight-line rental revenue receivable	(452)	620	168
Fair value adjustments	11 747	6 828	18 575
Investment property at 30 September 2020	**771 101**	**329 300**	**1 100 401**
Other assets not managed on a segmental basis			16 428
Total assets as at 30 September 2020			**1 116 829**
Total liabilities not managed on a segmental basis			**297 156**
Net assets as at 30 September 2020			**819 673**

Statement of financial position extracts at 31 March 2020

AUD'000	Office	Industrial	Total
Investment property balance at 1 April 2019	822 867	239 000	1 062 767
Acquisitions	–	81 000	81 000
Transfer to property held for sale	(94 000)	–	(94 000)
Foreign currency revaluation on property	1 340	–	1 340
Acquisition costs and capital expenditure	5 084	4 166	9 250
Straight-line rental revenue receivable	3 569	838	4 407
Fair value adjustments	24 298	(4 104)	20 194
Investment property at 31 March 2020	**763 158**	**321 800**	**1 084 958**
Other assets not managed on a segmental basis			115 594
Total assets as at 31 March 2020			**1 200 552**
Total liabilities not managed on a segmental basis			**392 391**
Net assets as at 31 March 2020			**808 161**

3. Revenue

AUD'000	Six months to 30 September 2020	Six months to 30 September 2019
Contracted rental income	38 753	41 051
Recoverable outgoings	6 264	6 118
Revenue, excluding straight-line rental revenue adjustment	45 017	47 169
Straight-line rental revenue adjustment	168	746
	45 185	**47 915**

Notes to the consolidated interim financial statements

For the six months to 30 September 2020 continued

4. Fair value adjustments

AUD'000	Six months to 30 September 2020	Six months to 30 September 2019
Fair value adjustments – investment property	18 575	39 137
Fair value adjustments – interest rate swaps	(855)	(15 600)
Fair value adjustments – foreign currency revaluation	(4 930)	(2 768)
Total fair value adjustments	**12 790**	**20 769**

The Fund restructured and terminated some of the interest rate swaps during the year ended 31 March 2020. As at 30 September 2020, the Fund has two interest rate fixed to variable instruments (30 September 2019: 17). Refer to note 10 for information on interest rate swaps.

5. Distributions to unitholders

	Half year					
	2021 AUD'000	2021 Units in issue ('000)	2021 cpu	2020 AUD'000	2020 Units in issue ('000)	2020 cpu
1 April 2020–30 September 2020	26 832	611 298	4.39	–	–	–
1 April 2019–28 May 2019	–	–	–	7 631	555 726	1.59
28 May 2019–30 September 2019	–	–	–	17 759	555 726	3.20

6. Investment property

AUD'000	30 September 2020	31 March 2020
Cost	953 428	956 051
Accumulated fair value adjustment	131 780	115 549
Investment properties	1 085 208	1 071 600
Straight-line rental revenue receivable	15 193	13 358
Carrying value	**1 100 401**	**1 084 958**
Movement in investment properties		
Balance at beginning of year	**1 084 958**	1 062 767
Acquisitions	–	81 000
Property held for sale	–	(94 000)
Foreign currency revaluation on property	(6 037)	1 340
Acquisition costs and capital expenditure	2 737	9 250
Fair value adjustment on revaluation of investment properties	18 575	20 194
Straight-line rental revenue adjustment	168	4 407
Carrying value at end of the year	**1 100 401**	**1 084 958**

Property to the value of AUD1 100.4 million (31 March 2020: AUD1 085.0 million) is held as security under the debt facility with Westpac, ANZ and PGIM currently drawn down to a value of AUD254.1 million (31 March 2020: AUD347.3 million).

All of the investment properties located in New South Wales, Victoria, South Australia, Queensland, Western Australia, Northern Territory and New Zealand are held under freehold interests. All of the properties located in the Australian Capital Territory are held under leasehold interests with the earliest termination date in 2088 and no lease payment obligations.

Gains and losses recorded in consolidated statement of profit and loss and other comprehensive Income for recurring fair value measurements categorised within level 3 of the fair value hierarchy amount to AUD18.6 million (31 March 2020: AUD20.2 million) and are presented in profit and loss in the line item 'fair value adjustment'.

Property portfolio AUD'000	Latest external valuation		Consolidated carrying value	
	Date	Valuation	30 September 2020	31 March 2020
Industrial portfolio				
47 Sawmill Circuit, Hume ACT	30-Sep-20	12 200	12 200	11 100
57 Sawmill Circuit, Hume ACT	30-Sep-20	9 900	9 900	9 500
24 Sawmill Circuit, Hume ACT	30-Sep-20	9 500	9 500	9 050
44 Sawmill Circuit, Hume ACT	30-Sep-20	10 400	10 400	10 400
2–8 Mirage Road, Direk SA	30-Sep-20	8 750	8 750	8 750
30–48 Kellar Street, Berrinba QLD	31-Mar-20	8 400	8 650	8 400
165 Newton Road, Wetherill Park NSW	30-Sep-19	25 500	25 700	25 250
24 Spit Island Close, Newcastle NSW	31-Mar-20	10 600	10 900	10 600
67 Calarco Drive, Derrimut VIC	31-Mar-20	10 150	10 700	10 150
66 Glendenning Road, Glendenning NSW	30-Sep-19	29 300	29 500	29 400
85 Radius Drive, Larapinta QLD	31-Mar-20	17 500	18 000	17 500
54 Miguel Road, Bibra Lake WA	30-Sep-19	31 000	31 000	30 100
24 Rodborough Road, Frenchs Forest NSW	31-Mar-20	22 250	22 250	22 250
6–8 & 11 Siddons Way, Hallam VIC	31-Mar-20	20 000	20 000	20 000
36–42 Hydrive Close Dandenong South VIC	30-Sep-19	20 500	20 500	20 150
103 Welshpool Road, Welshpool WA	10-Oct-19	26 500	26 600	25 900
70 Grand Trunkway, Gillman SA	10-Oct-19	25 500	25 650	25 200
16 Dawson Street, East Arm NT	10-Oct-19	29 000	29 100	28 100
Office portfolio				
449 Punt Road, Cremorne VIC	31-Mar-19	57 000	59 200	58 800
35–49 Elizabeth Street, Richmond VIC	31-Mar-19	93 000	94 000	93 000
2404 Logan Road, Eight Mile Plains QLD	30-Sep-20	17 500	17 500	18 150
186 Reed Street, Greenway ACT	30-Sep-20	25 750	25 750	25 650
21–23 Solent Circuit, Baulkham Hills NSW	30-Sep-19	62 500	63 100	61 500
266 King Street, Newcastle NSW	31-Mar-20	77 000	78 500	77 000
113 Wicks Road, Macquarie Park NSW	31-Mar-20	29 000	30 400	29 000
324 Queen Street, Brisbane QLD	31-Mar-20	76 750	79 000	76 750
20 Rodborough Road, Frenchs Forest NSW	31-Mar-20	62 500	62 500	62 500
2 Richardson Place, North Ryde NSW	30-Sep-19	102 000	99 900	97 150
100 Willis Street, Wellington NZ[7]	31-Mar-20	134 508	131 501	134 508
24 Wormald Street, Symonston ACT	08-Feb-19	29 750	29 750	29 150
Total investment properties			**1 100 401**	**1 084 958**
Property held for sale				
757 Ann Street, Fortitude Valley QLD[8]	31-Mar-20	94 000	–	94 000
				94 000

7 Converted at spot rate of 1.0844 at 30 September 2020.
8 The property was contracted to sell during the year ended 31 March 2020. The sale settled on 1 April 2020.

Notes to the consolidated interim financial statements

For the six months to 30 September 2020 continued

(A) Valuation basis

The basis of valuation of investment properties is fair value. Fair values are based on market values, being the price that would be received to sell an asset in an orderly transaction between market participants at balance date.

The Fund's policy is to value investment properties at each reporting period, with independent valuations performed on a rotational basis to ensure each property is valued at least every 24 months by an independent external valuer (in compliance with the Fund's debt facility). Where a property is not due for an independent valuation, internal valuations are undertaken at the end of reporting period, the valuation methods include the discounted cash flow (**DCF**) method and income capitalisation method.

Seven properties were externally valued as at 30 September 2020. These were 47 Sawmill Circuit, Hume ACT; 57 Sawmill Circuit, Hume ACT; 24 Sawmill Circuit, Hume ACT; 44 Sawmill Circuit, Hume ACT; 2-8 Mirage Rd, Direk SA; 2404 Logan Road, Eight Mile Plains QLD; and 186 Reed Street, Greenway ACT. Combined, these valuations have resulted in an increase in property value of AUD1.4 million since the last reported value on 31 March 2020.

The uplift in value for the properties that were externally valued is largely driven by capitalisation and discount rate compression on the ACT industrial properties, offset by cashflow assumptions. The weighted average capitalisation rate compression on the ACT industrial properties was approximately 50 bps. The cashflow assumptions adopted by the valuers factored in longer lease up periods and lower net effective rents. Given 24 Sawmill Circuit and 57 Sawmill Circuit both have short WALEs, the short term cashflow adjustments largely offset the compression in capitalisation and discount rates.

Other properties in the portfolio were internally valued with a net increase of AUD17.2 million. The uplift in value for the properties that were internally valued is largely driven by cash flow factors, amendments to the valuation methodology applied (on the amended risk assessment outcome) and leasing activity undertaken since 31 March 2020. For 13 of the properties internally valued, the capitalisation and discount rate softening adopted in May 2020 was reversed on the back of the risk reassessment, leasing activity undertaken since May 2020 and market evidence. For all other properties internally valued, the capitalisation rate and discount rate was not varied to what was adopted in May 2020.

The total increase in property value for the six months to 30 September 2020 was AUD18.6 million. The valuation approach the Fund has adopted for the half year to 30 September 2020 is a continuation of the approach adopted for the reassessment and ultimate adoption of fair value for the year ended 31 March 2020 conducted in May 2020. This approach was conducted in light of the potential impacts of the COVID-19 pandemic on the Fund's portfolio, factoring in the limited market information and unknown impacts to the Fund's tenants available at that time. The focus was on a risk based assessment, where there was a biased approach to the discounted cash flow (**DCF**) valuation methodology (for the properties that were internally valued) to capture the impacts of subdued growth, longer lease up periods, lower net effective rents and lower probability of tenant's renewing in the short to medium term.

The assessment undertaken to determine the fair value the Fund's portfolio is based on the measures and process discussed below. This included an assessment of each individual tenant's specific situation and overlaying market factors.

A risk assessment of each property in the portfolio was undertaken incorporating the following factors:

- tenant covenant (higher tenant covenant strength would indicate lower risk);
- weighted average lease expiry (**WALE**) (higher WALE would indicate lower risk);
- rent reversion to market (higher rent reversion would indicate higher risk); and
- whether any of the tenant's had applied for rental support (expected or actual rental relief request would indicate higher risk).

Each factor above was considered along with other property specific factors as relevant to determine an overall risk rating for each property as low, medium or high. The reassessed fair values were determined based on a mix of discounted cash flow (**DCF**) and midpoint (between DCF and capitalisation rate) approaches. Where the DCF approach was adopted, the value was sense checked to the capitalisation rate approach to ensure adopted value was reasonable. In determining whether the DCF or midpoint approach was adopted, the Fund applied the following approach:

- midpoint approach was adopted for properties where the risk assessment resulted in a low impact outcome
- DCF approach was adopted for properties where the risk assessment resulted in a medium to high impact outcome

Under the capitalisation rate method a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate.

Under the DCF method, a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the property's life including an exit or terminal value. This involves the projection of a series of cash flows and to this, a market-derived discount rate is applied to establish the present value of the income stream.

In determining the specific assumptions to be adjusted, the Fund undertook the following process for each property:

1. Tenant engagement program and cashflow indicator

The Fund implemented a detailed tenant engagement program. All tenants within the portfolio were communicated with a number of times in an attempt to understand the potential impacts of the COVID-19 pandemic on their business and how this might influence their ability to meet their lease obligations and their future leasing decisions. Rental relief in the form of rental waivers or deferrals has been provided to the qualified tenants as required under the National Cabinet's Mandatory Code of Conduct for SME commercial leasing principles during the COVID-19 pandemic which has been given effect by state and territory legislation. The rental relief and information obtained from tenants are applied within the risk assessment process and determining the forecast cash flows within fair values assessment.

2. Market indicator

The market indicators that were taken into account included:

- location of each property;
- tenant industry type and the level of impact; and
- other market factors.

The cashflow and market indicators as well as the risk assessment factors were considered to determine if adjustments to the reassessed fair values should be made to discount rates and cap rates, market rental growth in the short to medium term, levels of incentives, probability of tenant retention, downtime periods, leasing fees and cap rate and terminal yield horizon periods.

(B) Uncertainty around property valuations

The COVID-19 pandemic has impacted market activity in many sectors globally. The valuation assessment undertaken for reporting purposes has attached less weight to previous market evidence for comparison purposes to inform opinions of value. The current response to the COVID-19 pandemic means that the Fund continues to face an unprecedented set of circumstances on which to base a judgement. In the event that impacts are more material or prolonged than anticipated, this may have further impact to the fair value of the Fund's property portfolio, and the future price achieved if a property is sold.

(C) Contractual obligations/capital commitments

At 30 September 2020, the Fund included forecast cost associated with the aluminium cladding panel assessment and remediation for three properties in the portfolio (31 March 2020: 4) within the valuation of these properties rather than a separate provision.

AUD'000	30 September 2020	31 March 2020
266 King Street, Newcastle NSW	70	70
2 Richardson Place, North Ryde NSW	–	500
449 Punt Road, Cremorne VIC	550	500
35–49 Elizabeth Street, Richmond VIC	1 100	1000
	1 720	**2 070**

Other capital commitments relating to the investment properties are listed below: (31 March 2020: 2.6 million):

- 35–49 Elizabeth Street, Richmond VIC – AUD1.9 million construction works to enclose balcony space to create additional lettable area as part of a lease extension agreement with an existing tenant.

(D) Fair value hierarchy – Investment property

The fair value for all investment properties AUD1 100.4 million (31 March 2020: AUD1 085.0 million) has been undertaken under the Level 3 fair value hierarchy, where unobservable inputs have been utilised in the valuation techniques. For all investment property that are measured at fair value, the current use of the property is considered the highest and best use.

The following significant unobservable inputs have been considered to determine the fair value of measurement at the end of the reporting period:

- weighted average capitalisation rate of 6.46% (31 March 2020: 6.57%), weighted average discount rate of 7.27% (31 March 2020: 7.39%) and weighted average terminal yield of 6.78% (31 March 2020: 6.82%); and
- weighted average rental growth is 2.65% (31 March 2020: 2.62%) based on a 10 year period, noting that in the short term the rental growth adjustments are lower than the weighted average due to the impacts of the COVID-19 pandemic.

(E) Sensitivity analysis

Due to the uncertainty the COVID-19 pandemic is currently having on property values, sensitivity analysis has been undertaken to further stress test the assessment of fair value undertaken for half year-end reporting requirements.

The following sensitivity analysis is based on a range of potential capitalisation rate and discount rate movements on a portfolio basis compared to the capitalisation rates and discount rates adopted by the Fund at 30 September 2020, and are considered to be the key unobservable inputs that would be expected to have the most material impact on the fair values adopted if they moved.

As noted in A. Valuation basis the base case was the fair value for each property as at reporting date, where a combination of DCF and midpoint approaches was adopted. The stress testing performed was based on the same approach adopted for each property. For properties where the DCF approach was adopted, the stress testing was based on softening discount rates by 0.25% and 0.50%. Softening the capitalisation rates for properties where the DCF approach was adopted did not have an impact on the outcome. For properties where the midpoint approach was adopted, the stress testing was based on softening both the capitalisation rate and discount rate by 0.25% and 0.50%.

The below table is the outcome of the sensitivity analysis:

		Capitalisation rate movement		
	AUD'000	0%	0.25%	0.50%
Discount rate movement	**0%**	1 100 401	1 081 700	1 063 869
	0.25%	1 089 956	1 070 704	1 052 873
	0.50%	1 079 455	1 060 203	1 042 373

The results of the sensitivity analysis above demonstrates that stress testing the material unobservable inputs by the ranges disclosed would result in a movement of AUD58.0 million if discount rate and cap rate was softened by 0.50%. Even at this unlikely worst case scenario, this would not result in the Fund's financial position being materially impacted to the point the Fund would reconsider its position as a going concern.

Notes to the consolidated interim financial statements

For the six months to 30 September 2020 continued

7. Cash and cash equivalents

AUD'000	30 September 2020	31 March 2020
Cash held on call account	7 153	17 128
Total cash and cash equivalents	**7 153**	**17 128**

8. Receivable and other assets

As at 30 September 2020, the Fund granted AUD0.6 million (31 March 2020: nil) of rental relief to tenants in the form of rental waivers and AUD1.1 million (31 March 2020: nil) in the form of rental deferrals as required for qualifying tenants under the National Cabinet's Mandatory Code of Conduct for SME commercial leasing principles during the COVID-19 pandemic which has been given effect by state and territory legislation. For non-qualifying tenants the principles of the code were taken into account in the consideration of deferral requests. Deferrals granted have been agreed with tenants to be repaid over periods between October 2020 and September 2022.

Consideration of the impact of COVID-19 on tenants has been incorporated into the assessment as at 30 September 2020 based on discussions held to date with each tenant and on any other information known about the tenant and/or their trading conditions. As at 30 September 2020, the Fund recognised an allowance for expected credit losses of AUD0.2 million (31 March 2020: nil).

AUD'000	30 September 2020	31 March 2020
Current		
Prepaid expenses	3 431	3 391
Trade receivable	1 674	852
Allowance for expected credit losses	(151)	–
Other assets	4 109	223
	9 063	4 466
Non-current		
Trade receivable	212	–
	212	**–**
Total receivable and other assets	**9 275**	**4 466**

9. Borrowings

AUD'000	Tranche expiry date	Interest rate	30 September 2020	31 March 2020
BORROWINGS				
Loans – secured – bank debt				
ANZ Facility – Tranche G	01-Apr-23	BBSY + 1.55%[9]	–	20 000
ANZ Facility – Tranche H	01-Apr-25	BBSY + 1.55%[9]	51 291	75 000
ANZ Facility – Tranche I	01-Apr-24	BBSY + 1.55%[9]	–	15 000
Westpac Facility – Tranche M[10]	28-Sep-21	BBSY + 1.35%[9]	–	46 500
Westpac Facility – Tranche N	28-Mar-23	BBSY + 1.45%[9]	52 815	40 815
The Prudential Company of America Facility	23-Dec-29	3.4%	150 000	150 000
Total long-term borrowings – secured			**254 106**	**347 315**
Capitalised loan establishment costs			(1 905)	(1 828)
Total value of interest-bearing borrowings			**252 201**	**345 487**

The Fund's gearing[11] was 22.4% as at 30 September 2020 (31 March 2020: 28.0%).

At 30 September 2020 the approved facility limit of the loan facility was AUD325.0 million (31 March 2020: AUD375.0 million) with AUD70.9 million (31 March 2020: 27.7 million) undrawn.

The Fund's policy is to hedge at least 75% of interest rate risk. At 30 September 2020, 97.3% (31 March 2020: 87%) of borrowings were hedged using interest rate swaps, locking in a blended rate (including margin and line fees) of 3.07% (31 March 2020: 3.03%) for a weighted average 7.8 year (31 March 2020: 5.6 year) term. The facility held with the Prudential Company of America has a make whole provision that may be triggered in certain circumstances where there has been a full or partial repayment during the term of the facility.

9 Varies based on gearing level.
10 Tranche cancelled.
11 Interest bearing liabilities (excluding debt establishment costs) less cash divided by the total value of investment properties. (non-IFRS information).

10. Financial instruments

The financial instruments of the Fund consist mainly of cash and cash equivalents, including deposits with banks, borrowings, derivative instruments, trade and other receivables and trade and other payables. The Fund purchases or issues financial instruments in order to finance operations and to manage the interest rate risks that arise from these operations and the source of funding.

Derivative financial instruments

Derivative instruments are used in the normal course of business in order to hedge the Fund's exposure to fluctuations in interest and currency rates in accordance with the Fund's financial risk management policies. Interest rate hedging instruments are valued based on broker quotes and are tested for reasonableness by discounting future cash flows using an observable market interest rate curve at the dates when the cash flows will take place. The gain or loss from re-measuring the interest rate and cross currency swaps at fair value is recognised in the consolidated statement of profit and loss and other comprehensive Income.

Details of the interest rate fixed for variable swap instruments are as follows:

Financial institution	Notional amount $'000	Fair value $'000	Start date	End date	Fixed rate
30 September 2020					
Australia and New Zealand Banking Group	30,000	(1,045)	24-Dec-19	24-Dec-24	1.06%
Westpac Banking Corporation	67,303	(3,146)	11-Dec-17	12-Dec-26	2.58%
	97,303	**(4,192)**			

Financial institution	Notional amount $'000	Fair value $'000	Start date	End date	Fixed rate
31 March 2020					
Australia and New Zealand Banking Group	30,000	(773)	24-Dec-19	24-Dec-24	1.06%
Westpac Banking Corporation	67,303	(2,564)	11-Dec-17	12-Dec-26	2.58%
	97,303	**(3,337)**			

Fair value hierarchy-financial instruments

Cash and cash equivalents, receivables and other assets; trade and other payables are measured at amortised cost and approximate fair value.

In the case of financial instruments whose carrying amount is not the same as their theoretical fair value. The fair value has been calculated as follows:

a. The fair value of "long term borrowings at amortised cost" has been estimated by market interest rate at period end.

   As at 30 September 2020, the Fund's long term borrowings had a fair value of AUD317.1 million (31 March 2020: AUD373.1 million).

   The carrying amount of these long term borrowings was AUD252.2 million (31 March 2020: AUD345.5 million). The difference between carrying amounts and the fair values is due to:

   - unamortised up-front costs which are included in the carrying amounts but excluded from fair values; and
   - movements in discount rates applied in fair value discount cash flows based on current funding curves.

   Derivative financial instruments consist of interest rate hedging instruments. Interest rate hedging instruments are valued based on broker quotes and are tested for reasonableness by discounting future cash flows using an observable market interest rate curve at the dates when the cash flows will take place.

   For financial instruments whose carrying amount is equivalent to their fair value, the measurement processes used are defined as follows:

   Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.

   Level 2 – inputs other than quoted prices included within Level 1 that are observable for the assets and liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

   Level 3 – inputs for the assets and liabilities that are not based on observable market data (unobservable inputs).

Notes to the consolidated interim financial statements

For the six months to 30 September 2020 continued

AUD'000 Fair value and carrying amount	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
As at 30 September 2020					
Financial assets not measured at fair value					
Cash and cash equivalents	7 153	–	–	–	–
Receivables and other assets	9 275	–	–	–	–
	16 428	**–**	**–**	**–**	**–**
Financial liabilities not measured at fair value					
Trade and other payables	40 763	–	–	–	–
Long term borrowings	252 201	–	317 084	–	317 084
	292 964	**–**	**317 084**	**–**	**317 084**
Financial liabilities measured at fair value					
Interest rate swaps	4 192	–	4 192	–	4 192
	4 192	**–**	**4 192**	**–**	**4 192**
As at 31 March 2020					
Financial assets not measured at fair value					
Cash and cash equivalents	17 128	–	–	–	–
Receivables and other assets	4 466	–	–	–	–
	21 594	**–**	**–**	**–**	**–**
Financial liabilities not measured at fair value					
Trade and other payables	43 567	–	–	–	–
Long term borrowings	345 487	–	373 053	–	373 053
	389 054	**–**	**373 053**	**–**	**373 053**
Financial liabilities measured at fair value					
Interest rate swaps	3 337	–	3 337	–	3 337
	3 337	**–**	**3 337**	**–**	**3 337**

b. Details of changes in valuation techniques

There have been no significant changes in valuation techniques during the period under review.

c. Significant transfers between Level 1, Level 2 and Level 3

There have been no transfers between Level 1, Level 2 and Level 3 during the period

11. Related party transactions

The Fund entered into the following related party transactions during the year with the Investec Group and its subsidiaries:

Transactions with related parties:

AUD'000	Six months to 30 September 2020	Six months to 30 September 2019
Payments to Investec Group and its subsidiaries:		
Investec Property Management Pty Limited – subsidiary		
Asset management fee	2 821	3 186
Property management fee[12]	690	693
Leasing fee	–	–
Investec Bank Limited – parent company		
Capital raising fees and listing costs	–	215
Investec Australia Limited – subsidiary		
Interest on swaps	–	909
Amounts owing to related parties		
Investec Property Management Pty Limited – subsidiary		
Asset management fee payable	474	584

12. Subsequent events

During the current period, the RE announced that it has commenced discussions with the Investec Group to internalise the management of the Fund, including retention of the existing management team. The Board has established a sub-committee comprising the independent directors to consider the internalisation proposal on behalf of unitholders. An Explanatory Memorandum and Notice of Meeting was sent to the unitholders on 20 October 2020. The unitholder meeting to vote on the internalisation proposal is scheduled for 17 November 2020. If the vote is successful, the proposal will be implemented on 30 November 2020.

Since balance date, there is no other item, transaction or event of a material and unusual nature likely, in the opinion of the RE, to affect significantly the operations of the Fund, the results of these operations, or the state of affairs of the Fund, in future financial years.

12 Investec Property Management Pty Limited (**IPMPL**) has been contracted to perform property management services on behalf of the Fund. IPMPL has sub-contracted certain of these services to third party property managers who are paid by IPMPL.

Independent Auditor’s review report

KPMG

Independent Auditor’s Review Report

To the unitholders of Investec Australia Property Fund

Conclusion

We have reviewed the accompanying ***Interim Financial Report*** of Investec Australia Property Fund (the Fund).

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Interim Financial Report of Investec Australia Property Fund does not comply with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group’s*** financial position as at 30 September 2020 and of its performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Interim Financial Report*** comprises:

- Consolidated statement of financial position as at 30 September 2020.
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity and Consolidated statement of cash flows for the half-year ended on that date
- Notes 1 to 12 comprising a summary of significant accounting policies and other explanatory information
- The Directors’ Declaration.

The ***Group*** comprises Investec Australia Property Fund (the Fund) and the entities it controlled at the half-year’s end or from time to time during the half-year.

Basis for Conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor’s Responsibilities for the Review of the Financial Report* section of our report.

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board’s APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Responsibilities of the Directors for the Interim Financial Report

The Directors of Investec Property Limited, as the Responsible Entity of Investec Australia Property Fund are responsible for:

- the preparation of the Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001.*
- such internal control as the Directors determine is necessary to enable the preparation of the Interim Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Interim Financial Report

Our responsibility is to express a conclusion on the Interim Financial Report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the Interim Financial Report does not comply with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 30 September 2020 and its performance for the half-year ended on that date, and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an Interim Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

KPMG

KPMG

Paul Thomas

Partner

Sydney

29 October 2020