

Investec Australia Property Fund



 **Investec**
Australia Property Fund

2014

Reviewed preliminary condensed consolidated financial results for the period from 12 December 2012 to 31 March 2014

Highlights

Listing on JSE Main Board
on 23 October 2013 – first
inward listed Australian
REIT on the JSE

Maiden distribution of
3.42 c
Exceeds PLS forecast

Total return since listing in ZAR
of 26% outperforming
Australian and
South African peers*

Quality core portfolio
supported by sound
property fundamentals
9 properties,
AUD 154mn
GLA 54,249m²

WALE
7.3 years
with 59% of leases
expiring after 5 years

Low Vacancy
0.5%**

Announced acquisitions of
AUD 46.8 mn***
deploying 67% of
listing capital

Low gearing
14%
providing headroom
for growth

Favourable interest rate environment
all in fixed cost of
funding 4.69%

Accretive acquisition
pipeline

Well placed to deliver
on the Funds objective of
delivering long term
capital and income
growth to unitholders

* assumes exchange rate of R9,76 / AUD1
at 31 March 2014 - constant currency
total return of 22%

** after taking into account the income
support arrangements over 0.5% of the
GLA, the vacancy is 0%

*** includes 186 Reed Street, Greenway
acquisition announced on 15 May 2014
and the Eight Mile Plains property
completed on 14 March 2014

Note: all amounts are in Australian dollars
unless otherwise stated

Consolidated statement of profit or loss and comprehensive income

for the period from 12 December 2012 to 31 March 2014

AUD'000	Note	2014
Revenue, excluding straight-line rental revenue adjustment		10 129
Straight-line rental revenue adjustment		1 051
Revenue		11 180
Property expenses		(1 498)
Net property income		9 682
Fair value adjustments – investment property		(18)
Other operating expenses		(941)
Operating profit		8 723
Finance costs		(1 388)
Finance income		152
Other income		6
Profit for the period		7 493
Number of units		
Units in issue at the end of the period		134 685
Weighted average number of units in issue for the period		57 214
Cents		
Final distribution for the period from 18 October 2013 to 31 March 2014 (pre-withholding tax)	1	3.42
Final distribution for the period from 18 October 2013 to 31 March 2014 (post-withholding tax)	1	3.20
Earnings per unit for the period	2	13.10

Consolidated statement of financial position

as at 31 March 2014

AUD'000	Note	2014
ASSETS		
Non-current assets		154 381
Investment property		154 364
Financial instruments held at fair value	3	17
Current assets		6 657
Trade and other receivables		287
Cash and cash equivalents		6 370
Total assets		161 038
EQUITY AND LIABILITIES		
Contributed equity		131 025
Retained earnings		1 033
Total unitholders' interest		132 058
Non-current liabilities		22 185
Borrowings		22 185
Current liabilities		6 795
Trade and other payables		2 193
Distributions payable		4 602
Total equity and liabilities		161 038
Net asset value per unit (AUD)		0.98

Consolidated statement of cash flows

for the period from 12 December 2012 to 31 March 2014

AUD'000

2014

Cash flows from operating activities	
Cash generated from operations	9 543
Finance income received	135
Finance costs paid	(1 329)
Distribution to unitholders	(1 858)
Net cash flow from operating activities	6 491
Cash flows from investing activities	
Investment property acquired	(153 331)
Net cash flow used in investing activities	(153 331)
Cash flows from financing activities	
Loans raised	48 918
Repayment of loans	(26 733)
Proceeds of unit issue	131 025
Net cash flow from financing activities	153 210
Net increase in cash and cash equivalents	6 370
Cash and cash equivalents at the beginning of the period	–
Cash and cash equivalents at the end of the period	6 370

Consolidated statement of changes in equity

for the period from 12 December 2012 to 31 March 2014

AUD'000

2014

At the beginning of the period	–
Profit for the year	7 493
Total comprehensive income	7 493
Transaction with unitholders in their capacity as unitholders:	
Issue of ordinary units	131 025
Distributions paid/payable to unitholders	(6 460)
Balance at the end of the period	132 058

Notes to the reviewed preliminary condensed consolidated financial results

for the period from 12 December 2012 to 31 March 2014

AUD'000

2014

1. Distribution reconciliation	
Profit for the period	7 493
Less: Straight-line rental revenue adjustment	(1 051)
Less: Fair value adjustments – investment property	18
Distributable earnings	6 460
Add: Pre listing distribution	(1 858)
Final distribution for the period from 18 October 2013 to 31 March 2014 (pre-withholding tax)	4 602
Withholding tax to be paid to the Australian Taxation Office	(290)
Final distribution for the period from 18 October 2013 to 31 March 2014 (post-withholding tax)	4 312
2. Headline earnings reconciliation	
Profit for the period	7 493
Add: Fair value adjustments – investment property	18
Headline earnings	7 511
Headline earnings per unit for the period (cents)	13.13
3. Financial Instruments	
Financial instruments held at fair value consist of interest rate swaps, which are classified as level 2. These are valued using valuation models which use market observable inputs such as quoted interest rates. No other financial instruments are carried at fair value.	

Condensed segmental information

for the period from 12 December 2012 to 31 March 2014

AUD'000

Office

Industrial

Total

Statement of comprehensive income extracts			
Revenue, excluding straight-line rental revenue adjustment	4 208	5 921	10 129
Straight-line revenue adjustment	311	740	1 051
Property expenses	(824)	(674)	(1 498)
Segment results	3 695	5 987	9 682
Net investment property revaluation	(480)	462	(18)
Total segment results	3 215	6 449	9 664
Other operating expenses			(941)
Finance costs			(1 388)
Finance income			152
Other income			6
Profit for the period			7 493
Statement of financial position extracts			
Investment property opening balance	–	–	–
Net additions, acquisitions and disposals	105 423	47 908	153 331
Straight-line rental revenue receivable	311	740	1 051
Fair value adjustment (excluding straight-lining)	(480)	462	(18)
Fair value of investment property	105 254	49 110	154 364

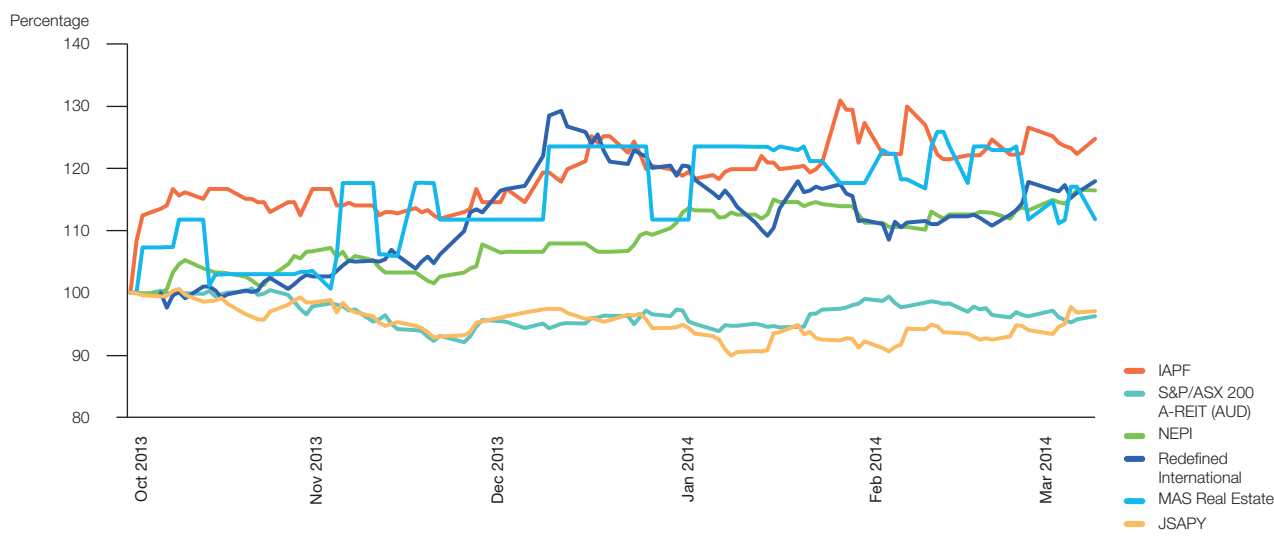
Commentary

Introduction

Investec Australia Property Fund (“the Fund”) listed on the JSE on 23 October 2013, as the first inward listed Australian real estate investment trust. The Fund offers investors exposure to the direct Australian property market, as well as providing exposure to the Australian dollar.

The Fund currently comprises nine properties in Australia with a total gross lettable area (“GLA”) of 54,249m² independently valued at AUD 154mn.

The fund as at 31 March 2014 had an AUD equivalent market capitalisation of AUD 162mn and has delivered unitholders a total ZAR return of 26% since listing, out performing its peers in South Africa and Australia.



The objective of the Fund is to grow and diversify its asset base and to optimise capital and income returns over time for unitholders by investing in high quality commercial real estate assets (office, industrial and retail) that possess the following qualities

- positioned in well located commercial precincts in Australia and New Zealand
- medium to long term lease profiles
- limited or no short term capex requirements
- contractual rental growth
- strong tenant covenants

Financial Results

The board of directors of Investec Property Limited (“IPL”) is pleased to announce the Fund’s maiden distribution since listing of 3.42 cents per unit pre withholding tax and 3.20 cents per unit post withholding tax, which equates to an annualised distribution yield of 7.6% pre withholding tax and 7.1% post withholding tax. These results exceed the distributions disclosed in the Pre-Listing Statement dated 25 September 2013 (“PLS”).

This performance is underpinned by the strength of the portfolio’s property fundamentals, cost containment and the Fund’s efficient capital and interest rate management.

Whilst the results presented in this report cover the 15 month period from 12 December 2012 (being the date the Fund was established) to 31 March 2014, the period relevant to unitholders is from the listing date to 31 March 2014. For the period prior to this, 12 December 2012 to the date of the listing, a pre listing distribution of AUD 1.86mn was paid to Investec Bank (Australia) Limited (“IBAL”), which was the sole unitholder in the Fund prior to listing.

Properties

The Fund is anchored by a core portfolio of 9 quality well located properties. The strength of the property fundamentals are evidenced by a long dated WALE of 7.3 years with 59% of leases expiring after 5 years, vacancies of 0.5%, strong tenant covenants and attractive rental escalations of approximately 3.5%.

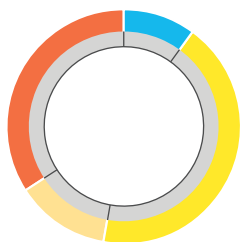
Property portfolio

	Sector	Book value (AUD)	% of portfolio by value	Total area (m ²)	% of portfolio by area	Cap rate %
Industrial portfolio						
48 Hawkins Crescent, Ipswich QLD	Industrial	3 560 000	2.3	2 045	3.8	8.0
47 Sawmill Circuit, Hume ACT	Industrial	9 600 000	6.2	5 535	10.2	7.5
57 Sawmill Circuit, Hume ACT	Industrial	8 750 000	5.7	7 079	13.0	8.0
24 Sawmill Circuit, Hume ACT	Industrial	9 000 000	5.8	6 300	11.6	8.0
44 Sawmill Circuit, Hume ACT	Industrial	9 100 000	5.9	4 639	8.5	9.0
2 – 8 Mirage Rd, Direk SA	Industrial	9 100 000	5.9	6 783	12.5	9.0
Office portfolio						
449 Punt Road, Cremorne VIC	Office	29 800 000	19.3	6 383	11.8	8.8
35 – 49 Elizabeth Street, Richmond VIC	Office	54 500 000	35.3	11 917	22.0	8.5
Building 20, 2404 Logan Road Eight Mile Plains QLD	Office	20 954 000	13.6	3 568	6.6	8.3
Total		154 364 000		54 249		

Geographic spread

The fund has a well diversified geographic spread and will continue to invest in properties that are well located in major metropolitan cities and established commercial precincts.

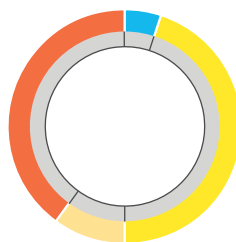
Geographic spread by GLA (%)



31 March 2014



Geographic spread by revenue (%)



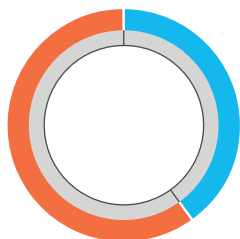
31 March 2014



Sectorial spread

The fund's sectorial exposure to date is mixed between office and industrial. The fund will consider investments in retail, however no opportunities to date have met the investment profile of the fund.

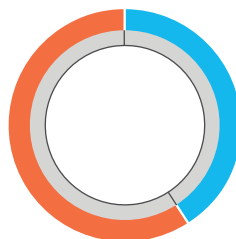
Sectorial spread by GLA (%)



31 March 2014



Sectorial spread by revenue (%)



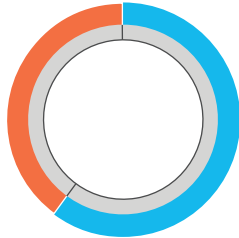
31 March 2014



Tenant profile

The Fund has a high profile tenant base with 80% of the portfolio comprising of A Grade Tenants. The Fund also has 58% of the portfolio represented by single tenant users, with the remaining 42% of multi tenanted buildings only being occupied by a total of 8 tenants.

GLA (%)

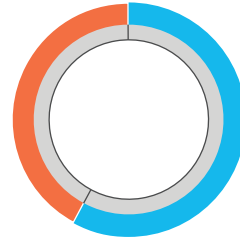


31 March 2014

Single-tenanted
Multi-tenanted

60%
40%

Revenue (%)

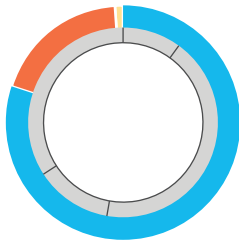


31 March 2014

Single-tenanted
Multi-tenanted

58%
42%

GLA (%)

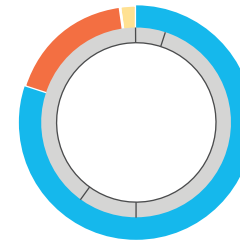


31 March 2014

A
B
C

80%
19%
1%

Revenue (%)



31 March 2014

A
B
C

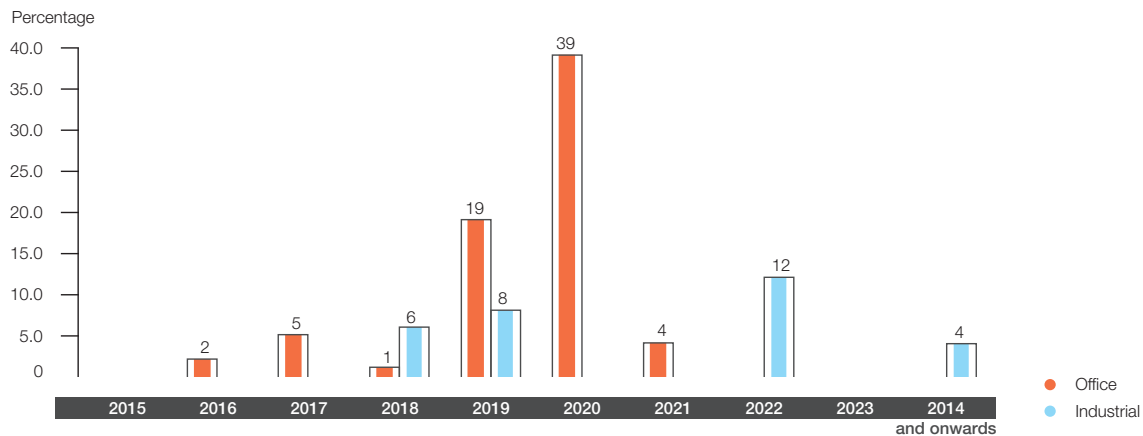
80%
18%
2%

Vacancy levels

At 31 March 2014, the property portfolio had 0.5% vacancy (after taking into account the income support arrangements over 0.5% of the GLA, there is no vacancy).

Lease expiry profile by sector

Lease expiry profile by revenue (including support arrangements)



The lease expiry profile reflects the quality and sustainability of the Funds net property income

Cost to income ratio

The Funds low gross cost to income ratio of 14.8% has been achieved by:

- effective cost containment;
- large percentage of triple net leases; and
- the large percentage of single tenant buildings or multi tenant buildings with less than 5 tenants.

Acquisitions

The capital raised on listing provided the Fund with debt capacity to acquire approximately AUD 70mn of properties before it reached the mid range of its desired gearing ratio of 35%. The Fund has to date completed 2 acquisitions totaling AUD 46.8mn, resulting in the deployment of approximately 70% of its acquisition debt capacity (including costs). The acquisition of the Greenway property referred to below was completed and announced on 15 May 2014 and is reported as a subsequent event.

Property name	Geography	Effective date	Sector	Value	GLA m ²	Yield*	WALE (GLA)
Eight Mile Plains	QLD	14 March 2014	Office	20 954 000	3 568	7.74%	6.2
Subsequent to 31 March 2014							
Greenway	ACT	15 May 2014	Office	25 805 000	5 403	7.40%	9

*After transaction costs

The acquisitions complement the existing property portfolio and contribute to the strength of the existing property fundamentals. The Eight Mile Plains Property was an off market transaction sourced through Investec's network, illustrating the funds ability to secure quality properties in a highly competitive environment.

The acquisitions have been funded with debt from the Fund's existing Westpac facility, the details of which are included below.

The acquisitions are accretive to the Fund due to the current positive spread of property yields over the cost of debt, which is primarily due to the current favourable interest rate environment in Australia.

The Fund has an attractive pipeline of acquisition opportunities which are expected to be earnings accretive and will compliment the profile of the existing property portfolio.

Fair value adjustment of investment property

The Fund's policy is to value investment properties at year-end, with independent valuations performed on a rotational basis to ensure each property is valued at least every 18 months by an independent external valuer (in compliance with the Fund's debt facility). Where directors' valuations are performed, the valuation methods include using the discounted cash flow model and the capitalisation model.

Independent external valuations were obtained for all of the Fund's investment properties in February and March 2014. The Fund recorded a gross valuation uplift across the portfolio of 0.7%.

Capital funding

On 23 October 2013 the Fund raised capital by way of a private placing of 112 685 000 units at AUD 1.00 each. The private placing was significantly over subscribed.

The proceeds of the private placing were used to acquire the Punt Road Property and the Elizabeth Street Property (which both transferred on 25 October 2013) and to repay the debt on the balance sheet prior to the listing and private placing.

Prior to the private placing the Fund was wholly owned by IBAL and had 22 000 000 units in issue.

The Fund now has 134 685 000 units in issue, which were issued at AUD 1.00 per unit.

The Fund has secured a debt facility with Westpac Banking Corporation – one of Australia's largest banks. At period end the facility had a limit of AUD 26 8mn which can be increased to AUD 125mn subject to financier approval and other conditions being met. The facility is for a 3 year term from April 2014 and the Fund will hedge at least 75% of its interest rate exposure. The Fund recently secured a 20 basis point decrease in pricing which is set out below:

At 31 March 2014	Expiry	Rate	Amount AUD'000
Facility			
Westpac	Apri – 17	BBSW + 150 bps	125 000
Total facilities			125 000
Drawn down at 31 March 2014			22 290
Available facilities (subject to financier approval)			102,710

The Fund's gearing ratio remained low at 14.4% at period end and increased to 26.8% subsequent to post year end on the completion of the Greenway property acquisition. The gearing remains below the stated range in the PLS of 30% to 40%, providing headroom to pursue further acquisitions.

The Fund has hedged 100% of its current interest rate exposure at a base rate of 3.19% for 3 years. The all in cost of funding at period end was 4.69%.

Related party transactions

IPL is the responsible entity of the Fund. Investec Property Management Pty Limited ("IPML") is the manager of the Fund. Both IPL and IPML are wholly owned subsidiaries of IBAL.

On 11 April 2014 the sale of IBAL's Professional Finance, Asset Finance and Leasing businesses and deposit book was announced. The transaction will be structured as a sale of IBAL. Prior to the sale all of the non-sale assets (including IPL and IPML) will be transferred out of IBAL to another wholly owned Investec Group entity. Investec will continue its property business in Australia. The IBAL support arrangements will be transferred to an Australian Investec Group entity. This entity will be capitalised by Investec Bank Plc to the extent necessary to fulfil the needs of all ongoing businesses and to honour all commitments, including the income support arrangements. As such, the transaction will have no impact on the Fund, IPL or IPML.

The Fund entered into the following significant related party transactions during the period with the Investec Group, IBAL and its subsidiaries:

Transaction with related parties	31 March 2014 AUD'000
<i>Payments to Investec Group, IBAL and its subsidiaries:</i>	
Investec Property Management Pty Limited	
Asset management fee	439
Property management fee	161
Investec Bank Limited	
Capital raising fees and listing costs	2 160
<i>Receipts from Investec Group, IBAL and its subsidiaries:</i>	
Investec Bank (Australia) Limited	
Payments to the Fund under income support arrangements	834

Australian REIT Structure

The Fund allows for the tax efficient flow-through of net income to unitholders. The Fund is an uncapped and open-ended fund and existing and future unitholders will hold a participatory interest in the Fund, which entitles unitholders to a pro rata share of the underlying income generated by the Fund and a pro rata beneficial interest in the assets of the Fund. The Fund is registered as a Managed Investment Scheme in Australia. The Fund is governed and operated by IPL and managed by IPML.

Unitholders

Investec Property Fund Limited and Investec Bank Limited are the only unitholders holding in excess of 5% of the Fund's total issued units, holding 18.56% and 16.33% respectively.

Number of units in issue 134 685 000

Number of unitholders 2 076

Changes to the board

David Gonski resigned from the board of IPL effective 31 March 2014.

Prospects

The Fund is well positioned to continue with the execution of its strategy outlined to investors on its listing on the JSE. The existing property portfolio consists of well located properties, 99.5% let (before taking into account the income support arrangements over the remaining 0.5% of the GLA) with income underpinned by strong tenant covenants, with a WALE of 7.3 years and embedded contractual escalations. The underlying property portfolio is expected to perform in line with forecasts provided in the PLS and the forecasts provided in relation to the recent completed and announced acquisitions.

The strength of the underlying property portfolio allows management to focus on its pipeline of prospective acquisitions, which consist of both on and off market opportunities which in the current favourable interest rate environment can be funded at attractive pricing. The Fund's balance sheet is well capitalised to take advantage of these opportunities.

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.

The auditor's review report does not report on all of the information contained in this announcement. Any reference to future financial information included in this announcement has not been reviewed or reported on by the Fund independent auditors.

On behalf of the board of Investec Property Limited as responsible entity for the Investec Australia Property Fund



Richard Longes

Chairman

22 May 2014



Graeme Katz

Chief Executive Officer

Basis of accounting

The preliminary condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for preliminary reports. The Listings Requirements require preliminary reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting.

The accounting policies applied in the preparation of the reviewed preliminary condensed consolidated financial results for the period from 12 December 2012 to 31 March 2014 are in terms of IFRS and are consistent with those adopted in the PLS.

Review conclusion

These preliminary condensed consolidated financial results for the period from 12 December 2012 to 31 March 2014 have been reviewed by KPMG, who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at IPL's registered office together with the financial statements identified in the auditor's report.

Distribution

Notice is hereby given of a final distribution declaration number 1 of:

- 3.42 cents per unit pre withholding tax
- 3.20 cents per unit post withholding tax

for the period from 18 October 2013 to 31 March 2014, payable to holders of the units as recorded in the register of unitholders of the Fund at the close of business on Friday, 13 June 2014. Withholding tax of 0.22 cents per unit will be withheld from the distribution paid to non-Australian unitholders and will be paid to the Australian Taxation Office.

The distribution amount will be converted from AUD to ZAR at the spot rate on the day before the record date. The distribution will be paid to unitholders in ZAR.

The salient dates relating to the distribution are as follows:

Last day to trade in order to participate in the distribution	Friday, 6 June 2014
Units to trade ex distribution	Monday, 9 June 2014
Distribution amount transferred to South Africa and converted from AUD to ZAR at the spot rate	Thursday, 12 June 2014
Record date	Friday, 13 June 2014
Distribution posted/paid to certificated unitholders	Tuesday, 17 June 2014
Accounts credited by CSDP or broker to dematerialised unitholders	Tuesday, 17 June 2014

Units may not be dematerialised or rematerialised between Monday, 9 June and Friday, 13 June 2014, both days inclusive. The above dates and times are subject to amendment. Any such amendment will be released on SENS and published in the press.

The distributions, net of withholding tax, received by South African institutional and individual investors will constitute income and will be subject to income tax in South Africa at the investors' marginal tax rate. Individual investors will be able to claim a rebate against the withholding tax paid in Australia. Non-tax paying institutional investors will not be taxed and will therefore not be entitled to claim a rebate. The effective withholding tax rate on the distribution is 6.3%.

The above summary of the tax treatment of the foreign distribution does not constitute legal or tax advice and is based on taxation law and practice at the date of this announcement. Investors should take their own tax advice as to the consequences of their investment in the Fund and are encouraged to consult their professional advisors should they be in any doubt as to the appropriate action to take.

By order of the board

Investec Property Limited

Company Secretary

22 May 2014

Important Disclosures

Investec Property Limited (IPL) AFS licence 290909 is the Responsible Entity for the Investec Australia Property Fund (the Fund) ARSN 162 067 736, an Australian registered managed investment scheme registered in South Africa as a Foreign Collective Investment Scheme (CIS) and listed on the JSE Limited.

IPL is not an authorised deposit-taking institution for the purposes of the Banking Act 1959 (Cth). Neither investments in the Fund nor Investec Property's obligations represent deposits or other liabilities of Investec Bank (Australia) Limited ABN 55 071 292 594 (Investec Bank) or any Investec Group entity. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income and capital invested. Neither Investec Bank nor any Investec Group entity: (i) guarantee or otherwise provide assurance in respect of the obligations of Investec Property; (ii) guarantee any particular rate of return or the performance of the Fund; or (iii) guarantee the repayment of capital from the Fund. **Basis of accounting**

Directors of the Responsible Entity

Richard Longes[#] (*Non-executive chairman*)
Sam Hackner (*Non-executive*)
Graeme Katz (*Executive*)
Samuel Leon (*Non-executive*)
Sally Herman[#] (*Non-executive*)
Michael Crawford[#] (*Non-executive*)
David Gonski[#] (*Non-executive*) (*resigned 31 March 2014*)
[#] *Independent*

Directors of the Manager

Graeme Katz (*Executive*)
Zach McHerron (*Executive*)
Matthew Liston (*Executive*)
Jason Sandler (*Executive*)
Samuel Leon (*Non-executive*)

Investec Australia Property Fund

Registered in Australia in terms of ASIC (ARSN 162 067 736)
Registered in terms of the Collective Investment Schemes
Control Act No. 45 of 2003
Share code: IAP
ISIN: AU60INL00018

Company Secretary of the Responsible Entity

Paul Lam-Po-Tang (BCom, LLB)

Registered office and postal address of the Responsible Entity and date of establishment of the Fund***Australia:***

Level 23, Chifley Tower
2 Chifley Square
Sydney
New South Wales
2000
Australia

Local representative office:

2nd Floor
100 Grayston Drive
Sandown
Sandton
2196

*Established on 12 December 2012 in Sydney, Australia.
Registered as a Managed Investment Scheme with ASIC under
the Corporations Act on 6 February 2013. On 23 August 2013
the Registrar of Collective Investment Schemes authorised the
Fund to solicit investments in the Fund from members of the
public in the Republic of South Africa in terms of Section 65 of
the Collective Investment Schemes Control Act, 45 of 2002,
as amended.*

Responsible Entity

Investec Property Limited
(ACN 071 514 246 AFSL 290 909)
Level 23, Chifley Tower
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New South Wales
2000
Australia

Manager

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New South Wales
2000
Australia

Transfer Secretaries

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Phone: +27 11 370 5159

Sponsor

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2nd Floor
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Sandown
Sandton
2196
(PO Box 785700, Sandton, 2146)

Custodian

Perpetual Corporate Trust Limited
(ACN 000 341 533)
Level 12, 123 Pitt Street
Sydney
New South Wales
2000
Australia

Independent Party

FirstRand Bank Limited
Bank City, 3 First Place
1st Floor, Corner Simmonds and Jeppe Streets
(PO Box 7713, Johannesburg, 2000, South Africa)

Notes:

Lined writing area consisting of 30 horizontal lines.

