IRONGATE

Irongate Property Fund I

Consolidated financial statements prepared in accordance with the Corporations Act 2001 and ASX Listing Rules

Irongate Group

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Directors' report

The directors of Irongate Funds Management Limited (formerly Investec Property Limited) (ABN 93 071 514 246), the responsible entity (**Responsible Entity**) of Irongate Property Fund I (**IPF I**, or **Fund**) (formerly Investec Australia Property Fund (**IAPF**)), present their report together with the consolidated financial statements of IPF I and its controlled entities for the year ended 31 March 2021.

Directors of the Responsible Entity

The following persons were directors of the Responsible Entity during the year from 1 April 2020 up to the date of the financial statements, unless otherwise stated:

Richard Longes	Independent non-executive chairperson
Sally Herman	Lead independent non-executive director and chairperson of the audit and risk committee of the board of the Responsible Entity (**Audit and Risk Committee**)
Georgina Lynch	Independent non-executive director
Stephen Koseff	Non-executive director
Graeme Katz	Executive director
Hugh Martin	Independent non-executive director (resigned 30 November 2020)
Sam Leon	Non-executive director (resigned 30 November 2020)

Directors of the Manager

The following persons were directors of Irongate Property Management Pty Limited (**Manager**) during the year from 1 April 2020 up to the date of the financial statements:

Graeme Katz	Executive director
Zach McHerron	Executive director
Kristie Lenton	Executive director

Company secretary

The company secretary of the Responsible Entity from 1 April 2020 to 19 June 2020 was Paul Lam-Po-Tang. The company secretary from 19 June 2020 up to the date of the financial statements was Lucy Spenceley.

Principal activities

The principal activity of IPF I is to invest in real estate assets. There has been no significant change in the principal activities of IPF I during the year.

Significant changes in state of affairs

An implementation deed between Investec Group and the Responsible Entity was executed on 15 October 2020, providing a clear framework for the internalisation of management to the Irongate Group which was ultimately approved by shareholders on 17 November 2020 and completed on 30 November 2020. In connection with the transaction, the Irongate Group paid A$40 million to the Investec Group and incurred related expenses totalling approximately A$7.7 million. None of these non-recurring costs form part of distributable earnings.

IPF I and its controlled entities together with Irongate Property Fund II (**IPF II**) and its controlled entities form the stapled entity, Irongate Group (**IAP** or **Group**).

There were no other significant changes in the state of affairs of IPF I that occurred during the year.

Review of operations

A detailed review of operations is included in the introduction from the chairperson and the CEO on page 3 of the Group annual report.

Financial result

The following table summarises the statutory profit for the year ended 31 March 2021.

A$'000	31 MARCH 2021	31 MARCH 2020
Revenue, excluding straightline rental revenue adjustment	91,468	96,696
Straightline rental revenue adjustment	1,208	4,407
Property expenses	(20,715)	(21,341)
Net property income	**71,961**	**79,762**
Other operating expenses	(7,528)	(13,653)
Net finance costs	(8,435)	(12,684)
Other income	5	7
Fair value adjustments	110,740	5,524
Cost on sale of investment property	(2,013)	–
Total comprehensive income attributable to unitholders	**164,730**	**58,956**

Interests of the Responsible Entity

Prior to the internalisation of the management function, the Responsible Entity had delegated the management of IPF I to the Manager, which was a wholly owned subsidiary of the Investec Group. The Responsible Entity was not paid fees during the year. The following fees were paid to the Manager for the period up to the internalisation of the management function on 30 November 2020 post internalisation of management function, the fees are paid to IPF II:

A$	2021	2020
Asset management fee	5,871,984	6,572,831
Property management fee	1,695,355	1,551,363

The Investec group (comprising Investec Limited and Investec plc, being the head entities of the dual listed companies structure, and each of their subsidiaries (**Investec Group**)) unitholding in the Fund at reporting date is as follows:

	2021	2020
Investec Bank Limited	–	56,128,379

During the year, Investec Bank Limited has sold their investment in the Irongate Group.

Property portfolio

A detailed review of the property portfolio is included from page 9 of the Group annual report. Note 9 to the financial statements describes the basis for determining fair value of IPF I's properties.

Directors' report

Continued

Subsequent events to reporting date

On 19 April 2021 the Fund announced that it had entered into agreements to acquire two industrial facilities on a fund-through basis, being 57–83 Mudgee Street, Kingston QLD for a total land consideration of A$3.1 million which is expected to be completed in December 2021 and Lot 24 Dunhill Crescent, Morningside QLD for a total land consideration of A$1.3 million which is expected to be completed in November 2021.

Other than the above matters, there is no other item, transaction or event of a material or unusual nature likely that have arisen since the end of the financial year and up until the date of the annual report which significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in subsequent years.

Directors' interest in units

The directors' interest in units is set out in Note 23 to the Group financial statements.

Directors' remuneration

Directors' remuneration is set out in the remuneration report on page 32 of the Group annual report, for the purpose of meeting the requirements of the ASX Listing Rules.

Contracts with directors

Post the internalisation transaction on 30 November 2020, the Group has contracts with the directors of the Responsible Entity and the employees of the Manager. The details are set out in the remuneration report (which has not been audited) on page 32 of the Group annual report.

Corporate governance

The Group's corporate governance framework is set out on page 24 of the Group annual report.

Audit and risk committee

The Audit and Risk Committee comprising independent non-executive directors meets regularly with senior management and the external auditors to consider the nature and scope of the assurance activities and the effectiveness of the risk and control systems.

Auditors

KPMG have been appointed by the Responsible Entity as auditors of the Fund.

Subsidiaries

IPF I has a number of wholly-owned trusts which hold the property assets. Details of subsidiaries are set out in Note 18 to the financial statements.

Insurance and indemnification officers and auditors

The Group has paid premiums in respect of a contract insuring all directors and officers of the Group and its related entities against certain liabilities incurred in that capacity. The insurance policies cover former directors and officers of the Responsible Entity. Disclosure of the nature of the liability covered by the insurance and premiums paid is subject to confidentiality requirements under the contract of insurance.

The Responsible Entity has entered a Deed of Indemnity with each of its directors, Graeme Katz (Chief Executive Officer), Kristie Lenton (Chief Financial Officer), Zach McHerron (Fund Manager), Adam Broder (Third party capital) and Lucy Spenceley (Company Secretary) providing these persons with an indemnity, to the fullest extent permitted by law, against all losses and liabilities incurred in their respective role for the Fund and its related entities. The Deeds also require the Fund to grant the indemnified person with access to certain Fund documents and insure the indemnified persons.

In addition, the Fund's and the Responsible Entity's constitutions provide for the indemnity of officers of the Responsible Entity or its related bodies corporate from liability incurred by a person in that capacity.

No indemnity payment has been made under any of the documents referred to above during, or since the end of, the financial year.

The Fund has not during or since the end of the financial year indemnified or agreed to indemnify an auditor of the Fund or of any related body corporate against a liability incurred in their capacity as an auditor.

Provision for non-audit service by auditor

The Fund may decide to employ the auditor, KPMG, on assignments in addition to their statutory audit duties. Details of the amounts paid to the auditor, which includes the amounts paid for non-audit services and other assurance services, are set out in Note 5 to the consolidated financial statements.

Directors have considered the non-audit services and other assurance services provided by the auditor during the financial year. In accordance with advice received from the Audit and Risk Committee, the directors are satisfied that the provision of non-audit services is compatible with, and did not compromise, the general standard of auditor independence imposed by the Corporations Act for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*

Environmental regulation

As a landlord, the operations of the Fund is subject to a range of environmental laws and regulations under Commonwealth, state and territory law. However, the lease attaching to the majority of sites requires the tenant to use reasonable endeavours to prevent contamination at each site and indemnify the Fund for any contamination caused by their operations

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 consolidated financial statements 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 is set out on page 6 of the financial statements. Signed in accordance with a resolution of the directors of the Responsible Entity.

Directors' declaration

1. In the opinion of the directors of Irongate Funds Management limited, the responsible entity of Irongate Property Fund I:

   (a) the consolidated financial statements and notes that are set out on pages 7 to 39 are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of Irongate Property Fund I and its subsidiaries' financial position as at 31 March 2021 and of its performance, for the financial period ended on that date; and

      (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

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

2. The directors draw attention to note 1.1 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the directors of Irongate Funds Management Limited:

Dated at Sydney this 5th day of May 2021.

Richard Longes
Independent non-executive chairperson

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

To the Directors of Irongate Funds Management Pty Ltd (formerly Investec Property Limited), the Responsible Entity of Irongate Property Fund I (formerly Investec Australia Property Fund I).

I declare that, to the best of my knowledge and belief, in relation to the audit of Irongate Property Fund I for the financial year ended 31 March 2021 there have been:

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

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

KPMG

KPMG

Paul Thomas

Partner

Sydney

5 May 2021

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 March 2021

A$'000	NOTE	2021	2020
Revenue, excluding straightline rental revenue adjustment		91,468	96,696
Straightline rental revenue adjustment		1,208	4,407
Revenue	3	**92,676**	**101,103**
Property expenses	4	(20,715)	(21,341)
Net property income		**71,961**	**79,762**
Other operating expenses	5	(7,528)	(13,653)
Operating income excluding fair value adjustments		**64,433**	**66,109**
Fair value adjustments	6	110,740	5,524
Finance costs	7	(8,491)	(12,774)
Finance income		56	90
Cost on sale of investment property		(2,013)	–
Other income		5	7
Total comprehensive income attributable to unitholders		**164,730**	**58,956**
Units in issue at the end of the period ('000)		611,298	611,298
Weighted average number of units in issue for the period ('000)		611,298	611,298
Basic and diluted earnings per unit (cents)		26.95	10.32

The Notes on pages 11 to 39 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 March 2021

A$'000	NOTES	2021	2020
ASSETS			
Non-current assets		**1,236,956**	**1,084,958**
Investment properties	9	1,225,356	1,084,958
Investment property under development	10	11,600	–
Current assets		**15,811**	**115,594**
Cash and cash equivalents	12	6,810	17,128
Receivables and other assets	11	9,001	4,466
Property held for sale		–	94,000
Total assets		**1,252,767**	**1,200,552**
EQUITY AND LIABILITIES			
Equity		**871,640**	**808,161**
Contributed equity	13	649,679	696,402
Retained earnings		221,961	111,759
Non-current liabilities		**345,307**	**353,669**
Long-term borrowings	14	339,063	345,487
Trade and other payables	15	5,408	4,845
Financial instruments held at fair value		836	3,337
Current liabilities		**35,820**	**38,722**
Trade and other payables	15	8,124	12,417
Distributions payable	8	27,696	26,305
Total equity and liabilities		**1,252,767**	**1,200,552**
Number of units in issue ('000)		611,298	611,298
Weighted average number of units in issue ('000)		611,298	571,380
Net asset value per unit (A$)		1.43	1.32

The Notes on pages 11 to 39 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 March 2021

A$'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	–	58,956	58,956
Issue of ordinary units	181,199	–	181,199
Distributions paid/payable to ordinary unitholders	–	(53,471)	(53,471)
Balance at 31 March 2020	**696,402**	**111,759**	**808,161**
Total comprehensive income attributable to unitholders	–	164,730	164,730
Capital return[1]	(46,723)	–	(46,723)
Distributions paid/payable to ordinary unitholders	–	(54,528)	(54,528)
Balance at 31 March 2021	**649,679**	**221,961**	**871,640**

The Notes on pages 11 to 39 are an integral part of these consolidated financial statements.

1. Part of the internalisation transaction.

Consolidated statement of cash flows

For the year ended 31 March 2020

A$'000	NOTES	2021	2,020
Cash flows from operating activities			
Rental income received		101,884	107,027
Property expenses		(26,277)	(26,849)
Operating expenses		(9,892)	(14,514)
Cash generated from operations		**65,715**	**65,664**
Finance income received		60	90
Finance costs paid		(9,113)	(12,023)
Distribution paid to unitholders		(53,138)	(51,672)
Net cash from operating activities	16	**3,524**	**2,059**
Cash flows from investing activities			
Investment property acquired		(24,750)	(81,000)
Investment property under development acquired		(3,886)	–
Acquisition costs and capital expenditure		(11,620)	(10,547)
Acquisition costs and capital expenditure—investment property held under development		(4,698)	–
Receipts from sale of investment property		91,945	–
Loan provided to IPF II		(5,419)	–
Net cash inflow/(outflow) from/(used) in investing activities		**41,572**	**(91,547)**
Cash flows from financing activities			
Borrowings raised		103,907	62,701
Repayment of loans		(109,708)	(120,800)
Proceeds from issue of units		–	184,116
Payment related to capital raising		–	(2,917)
Payment of termination of hedging		(2,890)	(24,276)
Capital return		(46,723)	–
Net cash (outflow)/inflow from financing activities		**(55,414)**	**98,824**
Net (decrease)/increase in cash and cash equivalents		(10,318)	9,336
Cash and cash equivalents at beginning of the period		17,128	7,792
Cash and cash equivalents at end of the period		**6,810**	**17,128**

The Notes on pages 11 to 39 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 March 2021

Corporate information

The financial report of Irongate Property Fund I (**IPF I** or **the Fund**) for the year ended 31 March 2021 was authorised for issue in accordance with a resolution of the directors of the Responsible Entity on 5 May 2021.

As at 27 November 2020 the units in Investec Australia property Fund I were stapled to the units in Investec Australia Property Fund II (**IPF II**). Effective 7 December 2020, Investec Australia Property Fund I was renamed to IPF I and Investec Australia Property Fund II was renamed to IPF II. Refer to *Significant changes in state of affairs* in Director's Report for further details.

The Fund is domiciled in Australia. The Responsible Entity is incorporated and domiciled in Australia.

The nature of the operations and principal activities of the Fund are described in the directors' report.

The registered office of the Responsible Entity is located at:

Level 13, 95 Pitt Street
Sydney NSW 2000 Australia

Reporting entity

The Fund is an Australian registered managed investment scheme under the Corporations Act. The Fund is a for profit entity.

The consolidated financial statement of the Fund as at the year ended 31 March 2021 comprise the Fund and its subsidiaries.

Working capital management

The Fund utilises its monthly cash flows to pay down its debt facility whilst maintaining the facility limit. The Fund will draw this cash back from the debt facility in order to pay the final distribution in June 2021. This results in the most efficient use of the Fund's cash flows.

Going concern

The financial statements have been prepared on a going concern basis. The Board have considered the impacts of the COVID-19 pandemic on the tenants in the Fund' investment properties, debt and capital markets, investment property valuations and the broader economic environment and concluded none of these represent material uncertainty that may cast doubt upon the Funds' ability to continue as a going concern.

The Funds is in a net current liability position of A$20.0 million as at 31 March 2021. The net current liability position is principally due to the final distribution declared. It is anticipated that it will be paid from the undrawn debt under the current loan facility (refer to Note 14 *Borrowings*). The Fund has prepared a cashflow forecast 15 months from issuance of the financial statements which indicates that the Fund is expected to have positive ongoing cashflows. Therefore notwithstanding the net current liability position at 31 March 2021, the Fund considers the going concern assumption to be appropriate and is confident that the Fund will be able to pay all liabilities as and when they become due and payable.

Notes to the consolidated financial statements

For the year ended 31 March 2021 continued

1. Accounting policies and basis of preparation

1.1 Basis of preparation

1.1.1 Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (**AAS**) adopted by the Australian Accounting Standards Board (**AASB**) and the Corporations Act. The consolidated financial statements comply with International Financial Reporting Standard (**IFRS**) adopted by the International Accounting Standards Board (**IASB**).

1.1.2 Basis of measurement

The consolidated 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
- investment property is measured at fair value

1.1.3 Functional and presentation currency

The consolidated financial statements are presented in Australian dollars (**A$**), which is IPF's functional currency.

IPF 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 A$ has been rounded to the nearest thousand unless otherwise stated.

1.1.4 Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires the Board 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.

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 year relates to the valuation of investment properties. Refer to Note 9 to the consolidated financial statements for information on best estimates used in the valuation of investment properties.

1.2 Basis of consolidation

1.2.1 Controlled entities

The Fund controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of controlled entities are included in the consolidated 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 Fund with no restrictions.

1.2.2 Transactions eliminated on consolidation

Intra-Fund balances and transactions, and any unrealised income and expenses arising from intra-Fund transactions, are eliminated.

1.3 Segmental reporting

Determination and presentation of operating segments.

The Fund has the following operating segments:

- office properties
- 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.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis to a segment. Segment assets comprise those assets that are directly attributable to the segment on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period on investment property in each segment.

1.4 Revenue recognition

The Fund recognises revenue that depict the transfer of promised good or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Rental income

Revenue from investment property in terms of leases comprises gross rental income and recoveries of operating costs, net of goods and services tax (**GST**). Rental income is recognised in profit or loss on a straightline basis over the term of the rental agreement where the revenue under the lease terms is fixed and determinable. For leases where revenue is determined with reference to market reviews or inflationary measures, revenue is not straightlined and is recognised in accordance with lease terms applicable for the period.

Recoverable outgoings

Within the Fund's lease arrangements, certain services are provided to tenants (such as utilities, cleaning and maintenance) which are accounted for within IFRS 15 *Revenues from contracts with customers*. As the Fund has the primary responsibility in delivering these services revenues are recognised on a gross basis. A portion of the consideration within the lease arrangements are allocated to revenue for the provision of services based on the standalone selling method. The service revenue is recognised over time as services are provided and based on the annual estimates, with the estimates reconciled at least annually. These are invoiced monthly based on an annual estimates basis. The consideration is due 30 days from the invoiced date.

1.5 Lease incentives and commissions

Any lease incentives provided to a tenant under the terms of a lease such as fit-outs or cash incentives are first capitalised to investment property and then recognised as an expense or reduction in revenue on a straightline basis over the term of the lease.

Leasing commissions paid to agents on signing of lease agreements are recognised as an expense on a straightline basis over the term of the lease.

1.6 Finance income

Finance income includes interest earned on cash invested with financial institutions which are recognised in the profit or loss on an accrual basis using the effective interest method.

1.7 Finance costs

Finance costs include interest expense and other borrowing costs which are recognised in the profit or loss on an accrual basis using the effective interest method.

1.8 Earnings per unit

Basic earnings per unit is determined by dividing the profit or loss of the Fund by the weighted average number of units outstanding during the financial year.

There are no instruments in issue that could potentially result in a dilution in earnings per unit in the future.

1.9 Financial instruments

The Fund recognises financial instruments when it becomes party to the contractual provisions of the instrument.

Financial instruments are initially recognised at their fair value plus, for financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities. All other transaction costs are recognised in profit or loss immediately.

Any gains or losses on these instruments arising from fair value adjustments, where appropriate, do not affect distributable earnings.

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability. The Fund derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

1.9.1 Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost using the effective interest method, less any allowance under the expected credit loss (**ECL**) model.

At each reporting period, the Fund assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit-impaired when one or more events that has a detrimental impact on the estimated future cash flows of the financial asset have occurred (as described below).

The Fund recognises loss allowances at an amount equal to lifetime ECL on trade and other receivables. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the trade receivables and are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive. The Fund analyses the age of outstanding receivable balances and applies historical default percentages adjusted for other current observable data as a means to estimate lifetime ECL, including:

- significant financial difficulty of a tenant
- default or delinquency by a tenant

The Fund also incorporates forward-looking information by considering economic data and market outlook views by external valuers. Debts that are known to be uncollectable are written off when identified. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or significant delinquency in payments (more than 90 days past due) are considered indicators that the trade receivable is impaired, given all these events would impact the estimated future cashflows of the Fund's trade receivables.

The Fund may write off financial assets which are still subject to enforcement activity when there is no reasonable expectation of recovery.

1.9.2 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in fair value. Cash and cash equivalents are subsequently measured at amortised cost.

1.9.3 Trade and other payables

Trade and other payables are subsequently measured at amortised cost using the effective interest method. Any gains or losses on derecognition of trade and other payables are recognised in profit or loss.

1.9.4 Derivative financial instruments

The Fund utilises derivative financial instruments to hedge its exposure to interest rate risk arising from its financing activities.

The Fund does not hold or issue derivative financial instruments for trading purposes. Derivatives are not designated as hedges for accounting purposes and are accounted for at fair value. After initial recognition, all derivative instruments are subsequently recorded in the statement of financial position at fair value, with gains and losses recognised in profit or loss.

1.9.5 Borrowings

Long-term borrowings are subsequently measured at amortised cost using the effective interest method. Borrowings are classified as non-current unless they are repayable within 12 months.

1.10 Investment properties

When the Fund acquires property or a group of properties either directly or by obtaining control of entities that own investment properties, an evaluation is performed as to whether such acquisitions should be accounted for as business combinations or asset acquisitions of investment properties. An acquisition is not considered to be a business combination if at the date of the acquisition of the entity/property, it does not meet the definition of a business (i.e. inputs, processes and outputs). In particular where the integrated activities (i.e. processes) deemed necessary to generate outputs are not present.

Properties held by the Fund which are held for rental income or capital appreciation are classified as investment properties. Investment properties are initially recognised at cost including transaction costs. Investment properties are subsequently measured at fair value, with fair value gains and losses recognised in profit or loss. Investment property consists of land and buildings, installed equipment that is an integral part of the building and land held to earn rental income. The fair value of investment property also includes components relating to lease incentives and straightline rental receivables. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits will flow to the Fund those costs can be reliably measured.

An investment property is classified as held for sale as it will be recovered principally through a sale transaction rather than through

Notes to the consolidated financial statements

For the year ended 31 March 2021 continued

continuing use. The asset is available for sale in its present condition subject only to terms that are usual and customary for sales of such assets. Basis of valuation of property held for sale is conditional sales contract. The sale is considered to be highly probable and expected to settle within the next 12 months.

A property interest under an operating lease is classified and accounted for as an investment property when it is held to earn rental income. Any such property interest under an operating lease classified as investment property is carried at fair value.

Should any properties no longer meet the Fund's investment criteria and are sold, any profits or losses will be recognised in profit or loss.

Investment property is maintained, upgraded and refurbished where necessary, in order to preserve or improve the capital value as far as it is possible to do so. Maintenance and repairs which neither materially add to the value of the properties nor prolong their useful lives are recognised in profit or loss as an expense.

Independent valuations are obtained on a rotational basis, ensuring that every property is valued at least once every 24 months by an external independent valuer.

The directors value the remaining properties that have not been independently valued semi-annually on an open market basis. Directors' valuations are prepared by considering the aggregate of the net annual rental receivable from the properties and where relevant, associated costs, using the discounted cash flow method and the capitalisation rate method. The directors believe that their valuations accurately represent the fair value. Note 9 to the consolidated financial statements describes the basis for determining fair value of the Fund's properties.

Gains or losses on subsequent measurement or disposals of investment properties (calculated as the difference between the net proceeds from disposal and the carrying amount) are recognised in profit or loss. Such gains or losses are excluded from the calculation and determination of distributable earnings.

Investment properties under development are stated at fair value at each balance date. Fair value is assessed with reference to reliable estimate future cash flows, status of the development and the associated risk profile. Finance costs incurred on properties undergoing development are included in the cost of the development.

1.11 Lease agreements as lessor

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a financial lease.

The Fund is party to numerous lease agreements in the capacity as lessor of the investment properties. All agreements are operating leases.

Where classified as operating leases, lease payable/receivable are charged/credited in the profit or loss on a straightline basis over the lease term. Contingent lease (if any) are accrued to the statement of profit or loss and other comprehensive income when incurred.

Initial direct costs incurred in negotiating and arranging an operating lease are recognised in profit or loss over the term of the lease.

1.12 Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount, and are recognised as soon as the Fund has a legal or constructive obligation which will lead to an outflow of economic resources to settle the obligation as a result of a past event and a reliable estimate can be made of the amount of the obligation. Contingent assets and contingent liabilities are not recognised.

Provisions are measured by at the best estimate of expenditure to settle the present obligation.

1.13 Taxation

Taxation of the IPF Fund

Under current income tax legislation, IPF I (as a REIT, which is a flow-through structure) is not subject to Australian income tax on any of the net income derived by the Fund, provided that its activities are limited to deriving rental income from real property directly or indirectly held by the Fund and deriving gains from sale of real property held for rental purposes; and it fully distributes its distributable income(as defined in the Fund's constitution), subject to amounts permitted to be retained, to investors year-on-year during or within three months after the relevant income year.

Furthermore, the Fund and management arrangements are structured to meet the required criteria to be classified as an Attribution Managed Investment Trust for Australian tax purposes. As an Attribution Managed Investment Trust, the Fund will be required to withhold tax in Australia at a concessional rate of 15% on distributions to individual and institutional investors in South Africa (including distributions of capital gains) to the extent that it is not a 'tax deferred distribution', a distribution of interest income or non-Australian sourced income.

A 'tax deferred distribution' is the excess of cash distributed over the investors' proportionate share of the Australian taxable income of the Fund.

As the Fund is an Attribution Managed Investment Trust, the Responsible Entity will be required to withhold tax in Australia at 10% on Australian sourced interest income.

The New Zealand sourced income is subject to the corporate tax rate in New Zealand of 28%, and is not subject to Australian withholding tax.

GST

GST is a tax levied or imposed in Australia pursuant to the *GST Act 1999* or otherwise on a supply. Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the consolidated statement of financial position are shown inclusive of GST. Cash flows are presented in the statement of cash flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

1.14 Unit capital

Ordinary unit capital

Units are classified as equity when the units are redeemable only at the Responsible Entity's option, and any distributions are discretionary. The issued unit capital represents the amount of consideration received for units issued in IPF I.

Transaction costs of an equity transaction are accounted for as a deduction from equity. All units are fully paid. The unitholders are entitled to receive distributions as declared from time-to-time and are entitled to one vote per unit at the annual general meeting of IPF I. All units rank equally with regard to IPF I's residual assets.

1.15 Accounting standards applicable to the Fund not yet effective

AASB 2020-1 Amendments to Australian Accounting Standards—Classification of liabilities as current or non-current (Amendments to AASB 101)

Under existing AASB 101 requirements, companies classify a liability as current when they do not have an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period. As part of its amendments, the Board has removed the requirement for a right to be unconditional and instead, now requires that a right to defer settlement must have substance and exist at the end of the reporting period.

It is expected that the changes will have minimal impact to the Fund.

2. Segment information

The Fund has determined the reportable segments to be on two separate segments, as follows:

1. The Fund's investment properties are made up of office and industrial assets. This is the first segment basis determined to be relevant to report and is consistent with the sectoral spread disclosure of the portfolio in the Fund's property landscape.
2. The Fund's investment properties are geographically spread over the states of Australia and New Zealand. These disclosures are consistent with the geographical spread disclosure of the portfolio in the Fund's property landscape.

The primary measure of performance of each operating segment is net property income.

The Fund's operating segment results are reported monthly to the Fund's Chief Executive Officer, who is the chief operating decision maker.

FOR YEAR ENDED 31 MARCH 2021 A$'000	OFFICE	INDUSTRIAL	TOTAL
Statement of profit or loss and other comprehensive income 2021			
Revenue from external customers, excluding straightline rental revenue adjustment	62,852	28,616	91,468
Straightline rental revenue adjustment	188	1,020	1,208
Property revenue	**63,040**	**29,636**	**92,676**
Property expenses	(16,694)	(4,021)	(20,715)
Net property income	**46,346**	**25,615**	**71,961**
Fair value adjustments—investment properties	54,414	55,754	110,168
Fair value adjustments—investment property under development	–	3,016	3,016
Fair value adjustments—foreign currency revaluation	(7,122)	–	(7,122)
Total segment results	**93,638**	**84,385**	**178,023**
Other operating expenses			(7,528)
Fair value adjustment on interest rate swaps			2,500
Fair value adjustment on foreign currency			2,178
Cost on sale of investment property			(2,013)
Finance costs			(8,491)
Finance income			56
Other income			5
Profit before tax for the year			**164,730**
Statement of financial position extracts at 31 March 2021			
Investment properties at 31 March 2021	819,856	405,500	1,225,356
Investment property under development at 31 March 2021	–	11,600	11,600
Investment property at 31 March 2021	**819,856**	**417,100**	**1,236,956**
Other assets not managed on a segmental basis			15,811
Total assets as at 31 March 2021			**1,252,767**

Notes to the consolidated financial statements

For the year ended 31 March 2021 continued

A$'000	VICTORIA	QUEENSLAND	SOUTH AUSTRALIA
Statement of profit or loss and other comprehensive income 2021			
Revenue from external customers, excluding straightline rental revenue adjustment	15,152	10,169	3,126
Straightline rental revenue adjustment	560	86	(95)
Property revenue	**15,712**	**10,255**	**3,031**
Property expenses	(3,030)	(2,805)	(300)
Net property income	**12,682**	**7,450**	**2,731**
Fair value adjustments—investment properties	21,644	1,972	3,895
Fair value adjustments—investment property under development	–	3,016	–
Fair value adjustments—foreign currency revaluation	–	–	–
Total segment results	**34,326**	**12,438**	**6,626**
Other operating expenses			
Fair value adjustment on interest rate swaps			
Fair value adjustment on foreign currency			
Cost on sale of investment property			
Finance costs			
Finance income			
Other income			
Profit before tax for the year			
Statement of financial position extracts at 31 March 2021			
Investment properties at 31 March 2021	227,751	149,750	37,751
Investment property development at 31 March 2021	–	11,600	–
Investment property at 31 March 2021	**227,751**	**161,350**	**37,751**
Other assets not managed on a segmental basis			
Total assets as at 31 March 2021			

WESTERN AUSTRALIA	NEW SOUTH WALES	AUSTRALIAN CAPITAL TERRITORY	NORTHERN TERRITORY	NEW ZEALAND	TOTAL
4,992	33,419	9,728	2,649	12,233	91,468
283	589	(228)	215	(202)	1,208
5,275	**34,008**	**9,500**	**2,864**	**12,031**	**92,676**
(870)	(7,347)	(1,384)	(184)	(4,795)	(20,715)
4,405	**26,661**	**8,116**	**2,680**	**7,236**	**71,961**
6,690	46,148	12,624	1,076	16,119	110,168
–	–	–	–	–	3,016
–	–	–	–	(7,122)	(7,122)
11,095	**72,809**	**20,740**	**3,756**	**16,233**	**178,023**
					(7,528)
					2,500
					2,178
					(2,013)
					(8,491)
					56
					5
					164,730
62,999	466,751	107,342	29,400	143,612	1,225,356
–	–	–	–	–	11,600
62,999	**466,751**	**107,342**	**29,400**	**143,612**	**1,236,956**
					15,811
					1,252,767

Notes to the consolidated financial statements

For the year ended 31 March 2021 continued

FOR THE YEAR ENDED 31 MARCH 2020 A$'000	OFFICE	INDUSTRIAL	TOTAL
Statement of profit or loss and other comprehensive income 2020			
Revenue from external customers, excluding straightline rental revenue adjustment	72,146	24,550	96,696
Straightline rental revenue adjustment	3,569	838	4,407
Revenue	**75,715**	**25,388**	**101,103**
Property expenses	(18,185)	(3,156)	(21,341)
Net property income	**57,530**	**22,232**	**79,762**
Fair value adjustments—investment properties	24,298	(4,104)	20,194
Fair value adjustments—foreign currency revaluation	1,340	–	1,340
Total segment results	**83,168**	**18,128**	**101,296**
Other operating expenses			(13,653)
Fair value adjustment on interest rate swaps			(15,760)
Fair value adjustment on foreign currency			(250)
Finance costs			(12,774)
Finance income			90
Other income			7
Profit for the year			**58,956**

Statement of financial position extracts at 31 March 2020			
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**

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Notes to the consolidated financial statements

For the year ended 31 March 2021 continued

A$'000	VICTORIA	QUEENSLAND	SOUTH AUSTRALIA
Statement of profit or loss and other comprehensive income 2020			
Revenue from external customers, excluding straightline rental revenue adjustment	15,154	18,559	2,009
Straightline rental revenue adjustment	(667)	409	(60)
Revenue	**14,487**	**18,968**	**1,949**
Property expenses	(2,927)	(4,121)	(186)
Net property income	**11,560**	**14,847**	**1,763**
Fair value adjustments—investment properties	(1,704)	7,554	(1,185)
Fair value adjustments—foreign currency revaluation	–	–	–
Total segment results	**9,856**	**22,401**	**578**
Other operating expenses			
Fair value adjustment on interest rate swaps			
Fair value adjustment on foreign currency			
Finance costs			
Finance income			
Other income			
Profit for the year			
Statement of financial position extracts at 31 March 2020			
Investment property at 31 March 2020	202,101	120,800	33,951
Other assets not managed on a segmental basis			
Total assets as at 31 March 2020			

WESTERN AUSTRALIA	NEW SOUTH WALES	AUSTRALIAN CAPITAL TERRITORY	NORTHERN TERRITORY	NEW ZEALAND	TOTAL
3,704	34,032	9,276	1,184	12,778	96,696
375	2,289	78	267	1,716	4,407
4,079	**36,321**	**9,354**	**1,451**	**14,494**	**101,103**
(692)	(7,765)	(1,305)	(99)	(4,246)	(21,341)
3,387	**28,556**	**8,049**	**1,352**	**10,248**	**79,762**
(2,045)	19,478	(6,369)	(2,973)	7,438	20,194
–	–	–	–	1,340	1,340
1,342	**48,034**	**1,680**	**(1,621)**	**19,026**	**101,296**
					(13,653)
					(15,759)
					(250)
					(12,774)
					90
					7
					58,956
55,999	414,651	94,848	28,100	134,508	1,084,958
					115,594
					1,200,552

Notes to the consolidated financial statements

For the year ended 31 March 2021 continued

3. Property revenue

A$'000	2021	2020
Contracted rental income	79,237	83,907
Recoverable outgoings	12,231	12,789
Revenue, excluding straightline rental revenue adjustment	**91,468**	**98,696**
Straightline rental revenue adjustment	1,208	4,407
	92,676	**101,103**

4. Property expenses

A$'000	2021	2020
Statutory expenses	(6,674)	(6,196)
Electricity	(1,681)	(2,059)
Insurance	(2,383)	(1,918)
Cleaning	(1,241)	(1,406)
Building management	(2,310)	(2,282)
Repairs & Maintenance	(1,196)	(1,365)
Amortisation of fitout expenses	(783)	(1,054)
Tenant rechargeable expenditure	(511)	(905)
Air-conditioning	(871)	(790)
Fire protection	(374)	(404)
Lift and escalators	(474)	(531)
Emergency Generators	(426)	(479)
Gardening/Landscaping	(179)	(227)
Consultancy Fees	(356)	(318)
Leasing fee	(593)	(477)
Legal and marketing expenses	(241)	(158)
Non recoverable property expenses	(385)	(583)
Other property expenses	(37)	(189)
	(20,715)	**(21,341)**

5. Other operating expenses

A$'000	2021	2020
Asset management fee	(5,872)	(6,573)
Fund operating costs		
Auditor's remuneration[1]	(465)	(354)
Audit fee	(301)	(233)
Tax compliance fees	(164)	(121)
Directors' fees	(258)	(295)
Legal and consulting fees	(349)	(356)
ASX listing expenses	–	(5,339)
Other fund expenses	(584)	(736)
	(7,528)	**(13,653)**

1. All Audit and tax services were provided by KPMG.

6. Fair value adjustments

A$'000	2021	2020
Fair value adjustments—investment property	110,168	20,194
Fair value adjustments—investment property under development	3,016	–
Fair value adjustments—interest rate swaps	2,500	(3,337)
Fair value adjustments—foreign currency revaluation	(4,944)	1,090
Termination and restructure of hedges	–	(12,423)
Total fair value adjustments	**110,740**	**5,524**

7. Finance costs

A$'000	2021	2020
Finance costs on borrowings and derivatives	(8,491)	(12,774)
Total finance costs	**(8,491)**	**(12,774)**

Refer to Note 14 for details on borrowings.

8. Distribution per unit

A$'000 PERIOD FOR DISTRIBUTION	TOTAL DISTRIBUTION (A$'000)	UNITS IN ISSUE ('000)	DISTRIBUTION PER UNIT (A$ CENTS)
Half year to 30 September 2020	26,832	611,298	4.39
Half year to 31 March 2021	27,696	611,298	4.53
Total distribution for FY2021	**54,528**		**8.92**
1 April 2019–27 May 2019	7,631	478,802	1.59
28 May 2019–30 September 2019	19,535	611,298	3.20
Half year to 31 March 2020	26,305	611,298	4.30
Total distribution for FY2020	**53,471**		**9.09**

9. Investment properties

Investment properties held by the Fund are accounted for as asset acquisitions when the integrated activities deemed necessary to generate outputs are not present at acquisition. The Fund concluded that all the acquisition of properties in the current financial year were asset acquisitions.

(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 measurement 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 once 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. The mid-point is generally taken between the DCF and income capitalisation method.

Notes to the consolidated financial statements

For the year ended 31 March 2021 continued

(b) Fair value assessment results

External valuations

External valuations were conducted for 23 properties in the portfolio for the second half of the year. External valuations were conducted by Colliers International, Urbis, Savills and CBRE who are all registered as Certified Practising Valuers with the Australian Property Institute.

Directors' valuations

As at 31 March 2021 there were eight properties where fair value was based on directors' valuations. At each reporting date, the directors update their assessment of the fair value of each property in accordance with the Fund's valuation policy.

As at 31 March 2021, investment properties to the value of A$1,225.4 million (31 March 2020: A$1,085.0 million) is held as security under the syndicated facility agreement drawn down to a value of A$341.5 million (31 March 2020: A$347.3 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 profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to A$110.2 million (31 March 2020: A$20.2 million) and are presented in profit and loss in the line item 'fair value adjustment'.

(c) Valuation process

The fair value for all investment properties A$1,225.4 million (2020: A$1,085.0 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.

PROPERTY PORTFOLIO A$'000	LATEST EXTERNAL VALUATION		CONSOLIDATED CARRYING VALUE	
	DATE	VALUATION	2021	2020
INDUSTRIAL PORTFOLIO				
47 Sawmill Circuit, Hume ACT	30-Sep-20	12,200	12,700	11,100
57 Sawmill Circuit, Hume ACT	31-Mar-21	13,900	13,900	9,500
24 Sawmill Circuit, Hume ACT	31-Mar-21	14,500	14,500	9,050
44 Sawmill Circuit, Hume ACT	30-Sep-20	10,400	10,500	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-21	9,500	9,500	8,400
165 Newton Road, Wetherill Park NSW	31-Mar-21	33,500	33,500	25,250
24 Spit Island Close, Newcastle NSW	31-Mar-21	12,000	12,000	10,600
67 Calarco Drive, Derrimut VIC	31-Mar-21	12,300	12,300	10,150
66 Glendenning Road, Glendenning NSW	31-Mar-21	38,250	38,250	29,400
85 Radius Drive, Larapinta QLD	31-Mar-21	19,500	19,500	17,500
54 Miguel Road, Bibra Lake WA	31-Mar-21	33,000	33,000	30,100
24 Rodborough Road, Frenchs Forest NSW	31-Mar-21	24,500	24,500	22,250
6–8 & Siddons Way, Hallam VIC	31-Mar-21	23,750	23,750	20,000
36–42 Hydrive Close Dandenong South VIC	31-Mar-21	25,700	25,700	20,150
103 Welshpool Road, Welshpool WA	31-Mar-21	30,000	30,000	25,900
70 Grand Trunkway, Gillman SA	31-Mar-21	29,000	29,000	25,200
16 Dawson Street, East Arm NT	10-Oct-19	29,000	29,400	28,100
131–153 Main Beach Road, Pinkenba QLD	12-Feb-21	24,750	24,750	–
Office Portfolio				
449 Punt Road, Cremorne VIC	31-Mar-21	61,500	61,500	58,800
35–49 Elizabeth Street, Richmond VIC	31-Mar-21	104,500	104,500	93,000
Building 20, 2404 Logan Road, Eight Mile Plains QLD	30-Sep-20	17,500	17,000	18,150
186 Reed Street, Greenway ACT	30-Sep-20	25,750	25,250	25,650
21–23 Solent Circuit, Baulkham Hills NSW	31-Mar-21	68,000	68,000	61,500
266 King Street, Newcastle, NSW	31-Mar-20	77,000	81,500	77,000
113 Wicks Road, Macquarie Park NSW	31-Mar-21	33,000	33,000	29,000
324 Queen Street, Brisbane QLD	31-Mar-20	76,750	79,000	76,750
20 Rodborough Road, Frenchs Forest NSW	31-Mar-21	66,000	66,000	62,500
2 Richardson Place, North Ryde NSW	31-Mar-21	110,000	110,000	97,150
100 Willis Street, Wellington NZ[1]	31-Mar-21	143,606	143,606	134,508
24 Wormald Street, Symonston ACT	31-Mar-21	30,500	30,500	29,150
Total Investment Properties			**1,225,356**	**1,084,958**

Property held for sale		
757 Ann Street, Fortitude Valley QLD	31-Mar-20	94,000
		94,000

1. Converted at a spot rate of 1.0877 at 31 March 2021.

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For the year ended 31 March 2021 continued

Valuation techniques used to derive Level 3 fair value

The Fund determines a property's value within a range of reasonable fair value estimates and in making this assessment, considers information from a variety of sources including:

- Current prices for comparable investment properties;
- Discounted cash flows based on estimates of future cash flows; and
- Capitalised income projections based on estimated net market income, and a capitalisation rate based on market analysis.

Under the DCF approach, a property's fair value is estimated by projecting a series of cash flows over a specified time horizon (typically 10 years) and discounting this cash flow, including the projected exit or terminal value, at a market-derived discount rate. Projected cash flows are derived from contracted or expected market rents, operating costs, lease incentives, capital expenditure and future income on vacant space. The net present value of the discounted cash flow represents the fair value of the property.

The income capitalisation approach involves estimating the potential sustainable gross market income of a property from which annual outgoings are deducted to derive the net market income. Net market income is then capitalised in perpetuity at an appropriate market derived capitalisation rate (market yield). Appropriate capital adjustments are then made where necessary to reflect the specific cash flow profile and general characteristics of the property.

At reporting date, the key assumptions used by the Fund in determining fair value were as follows:

INDUSTRIAL	31 MARCH 2021	31 MARCH 2020
Capitalisation rate	4.50–7.75%	5.50–8.75%
Discount rate	5.50–8.00%	6.38–10.25%
Terminal yield	4.75–8.00%	5.75–9.25%
Rental growth rate	1.95–3.29%	1.63–3.03%

OFFICE	31 MARCH 2021	31 MARCH 2020
Capitalisation rate	5.50–8.00%	5.75–8.25%
Discount rate	6.13–8.25%	6.63–8.63%
Terminal yield	5.75–8.13%	5.75–8.25%
Rental growth rate	2.15–3.51%	2.09–3.18%

Capitalisation rates

Capitalisation rates are derived from the yields indicated by sales of comparable properties. It factors in risk with regard to a property's location, quality, strength of the tenant covenant and length of secured cashflows.

Industrial

Demand for industrial properties has increased over the past twelve months. The sector has proven to be resilient during recent times of economic uncertainty. The large volume of sales activity weighted towards the second half of the Fund's financial period ended 31 March 2021 has demonstrated the strength of the industrial market and the main driver for taking 14 out of the Fund's 18 industrial properties for external valuation at 31 March 2021 (excluding 153 Main Beach Road, Pinkenba QLD, acquired in 2021). At 31 March 2021, the weighted average capitalisation rate used in valuing the Fund's industrial portfolio firmed 100 basis points to 5.83% when compared to 31 March 2020. The industrial terminal cap rate firmed 72 basis points to 6.18% when compared to 31 March 2020.

Office

Office sales volumes were impacted by the COVID-19 pandemic, with prospective purchasers demonstrating caution around the unknown economic impacts of the Government lead restrictions implemented. Transaction volumes reduced significantly, especially in CBD markets. Generally, office yields have remained relatively steady, with metropolitan office markets being favoured by investors/occupiers due to affordable rents and a more decentralised model. Properties with minimal vacancy, long WALE with strong tenant covenants have seen strong demand and ultimately have seen tightening of investment metrics. The weighted average capitalisation rate used in valuing the Fund's office portfolio firmed 34 basis points to 6.12% when compared to 31 March 2020. The office terminal cap rate firmed 51 basis points to 6.18% when compared to 31 March 2020.

Discount Rates

At 31 March 2021 discount rates utilised in the valuation of the Fund's property portfolio have tightened (i.e. lowered) by approximately 64 basis points to 6.75% when compared to 31 March 2020. The weighted average discount rate tightened 48 basis points to 6.77% for the office portfolio and 103 basis points to 6.71% for the industrial portfolio when compared to 31 March 2020.

Market rental growth

Market rental growth is the projected year on year change in market rent based on factors such as population growth, demand for space and expected supply and new developments within markets. A key driver of the DCF calculation outcome is market rental growth, where a property's projected cash flow comprises of actual rental income, speculative rental income, and rental income growth.

Market rent and rental growth have a material impact on the outcome of the terminal value calculation, as terminal market rent is a function of the current market rent and the 10 year CAGR. The terminal market rent is divided by the terminal capitalisation rate to determine the terminal value.

At 31 March 2021, the market rental growth (10-year CAGR) utilised in the valuation of the Fund's property portfolio has increased by approximately 37 basis points to 2.99%, when compared to 31 March 2020. Limited transactional activity and the unknown impact of the Government lead restrictions to manage the impacts of the COVID-19 pandemic lead to the Fund adopting a 0% market rental growth rate for the short term in the assessment of DCF value undertaken as at 31 March 2020.

Significant unobservable inputs

For all classes of investment property the significant unobservable inputs below are used to determine the fair value measurement of investment property at balance date. Movement in any of the unobservable inputs is likely to have an impact on the fair value of investment property. The higher the market rent or 10-year compound annual growth rate, the higher the fair value. The higher the capitalisation rate, terminal yield or discount rate, the lower the fair value.

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

Capitalisation rate	Increases/(decreases) in the capitalisation rate would (decrease)/increase estimated fair value	The rate at which net market income is capitalised to determine the value of a property. The rate is determined with regards to market evidence.
Discount rate	Increases/(decreases) in the discount rate would (decrease)/increase estimated fair value	The rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it should reflect the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk. The rate is determined with regards to market evidence
Terminal yield	Increases/(decreases) in the terminal yield would result in (decreases)/increases in the estimated fair value	The capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regards to market evidence.
Market rent and rental growth	Increases/(decreases) in market rent and rental growth would increase/(decrease) estimated value	The rent at which a space could be let in the market including rental growth in future years at the date of valuation. Market rent includes gross rent and net rent. Gross rent is where outgoings are incorporated in the rent being paid. Net market rent is where the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).

(d) Uncertainty around property valuations

In response to the uncertainty surrounding the impacts of the COVID-19 pandemic, the Fund has assessed the carrying value of its investment properties in light of this. Sensitivity analysis has been undertaken to stress test the impacts of investment and market parameters adopted as part of the fair value assessment. In the event the impacts are more material or prolonged than anticipated (refer to Note 9(h)), 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.

(e) Contractual obligations/capital commitments

At 31 March 2021, the Fund included forecast cost associated with the aluminium cladding panel assessment and remediation for two properties in the portfolio (31 March 2020: 4) within the valuation of these properties rather than a separate provision.

A$'000	FY21	FY20
266 King Street, Newcastle NSW	–	70
2 Richardson Place, North Ryde NSW	–	500
449 Punt Road, Cremorne VIC	650	500
35-49 Elizabeth Street, Richmond VIC	1,200	1,000
	1,850	**2,070**

(f) Leasing arrangements as lessor

The Fund leases office and industrial properties under operating leases. Contractual amounts due in terms of operating lease agreements are receivable as follows:

A$'000	2021	2020
Less than 1 year	87,439	84,978
Between 1 and 2 years	81,900	74,960
Between 2 and 3 years	70,293	68,193
Between 3 and 4 years	60,497	56,870
Between 4 and 5 years	40,812	46,875
More than 5 years	105,973	104,484
	446,914	**436,360**

Investment property comprises a number of commercial properties and industrial that are leased to third parties. The significant majority of leases are subject to annual rent reviews that are fixed or indexed to consumer prices. Subsequent renewals are negotiated with the lessee and historically, the average renewal period is five years. No contingent rents are charged.

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For the year ended 31 March 2021 continued

(g) Movement in investment properties' carrying value

A$'000	2021	2020
Cost	985,813	956,051
Accumulated fair value adjustment	225,073	115,549
Investment properties	**1,210,886**	**1,071,600**
Straightline rental revenue receivable	14,470	13,358
Carrying value	**1,225,356**	**1,084,958**
Movement in investment properties		
Balance at beginning of year	1,084,958	1,062,767
Acquisitions	24,750	81,000
Property held for sale	–	(94,000)
Foreign currency revaluation on property	(7,122)	1,340
Acquisition costs and capital expenditure	11,394	9,250
Fair value adjustment on revaluation of investment properties (refer to note 6)	110,168	20,194
Straightline rental revenue adjustment	1,208	4,407
Fair value gain on investment properties		
Carrying value at end of the year	**1,225,356**	**1,084,958**

(h) Sensitivity analysis

As a result of the COVID-19 pandemic, there is still some uncertainty surrounding the economic impacts of the Government lead restrictions to property values. Assumptions made within the Fund's valuations in respect of investment parameters, market growth outlook, and re-letting assumptions have sought to consider the impact of the COVID-19 pandemic on market conditions, albeit in an environment where market uncertainty exists.

The results of the sensitivity analysis below demonstrates that stress testing the material unobservable inputs by the ranges disclosed would result in a movement of A$70.2 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.

		CAPITALISATION RATE MOVEMENT		
	A$'000	0%	0.25%	0.50%
Discount rate movement	**0%**	1,225,356	1,201,355	1,177,320
	0.25%	1,214,258	1,190,193	1,166,158
	0.50%	1,203,238	1,179,173	1,155,138

10. Investment property under development

A$'000	2021	2020
Opening balance	–	–
Acquisitions	3,886	–
Acquisition cost and capitalised expenditure	4,698	–
Fair value adjustment	3,016	–
Carrying value	**11,600**	**–**

11. Receivables and other assets

As at 31 March 2021, the Fund granted A$0.7 million (31 March 2020: nil) of rental relief to tenants in the form of rental waivers and A$1.1 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 31 March 2021 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 31 March 2021, the Fund had nil allowance for credit losses (31 March 2020: nil).

A$'000	2021	2020
Prepaid expenses	2,405	3,391
Trade debtors	1,115	852
Sundry debtors	62	223
Receivable from IPF II	5,419	–
	9,001	**4,466**

12. Cash and cash equivalents

A$'000	2021	2020
Cash held on call account	6,810	17,128
Total cash and cash equivalents	**6,810**	**17,128**

13. Contributed equity

A$'000	2021	2020
Issued		
On establishment—22,000,000 fully paid ordinary units	22,000	22,000
On listing—112,685,000 fully paid ordinary units	112,685	112,685
On completion of renounceable rights offer Oct 2014—111,896,298 fully paid ordinary units	121,501	121,501
On completion of renounceable rights offer Feb 2016—59,566,747 fully paid ordinary units	59,964	59,964
On completion of renounceable rights offer Mar 2017—5,108,004,819 fully paid ordinary units	143,462	143,462
Distribution re-investment plan Nov 2015—6,393,331 fully paid ordinary units	6,815	6,815
Distribution re-investment plan Jun 2016—9,818,121 fully paid ordinary units	12,008	12,008
Distribution re-investment plan Dec 2016—5,223,526 fully paid ordinary units	7,111	7,111
Unit buy back—6,330,842 fully paid ordinary units	(8,000)	(8,000)
On completion unit placement offer Nov 2017—49,545,454 fully paid ordinary units	60,055	60,055
On listing on ASX on 28 May 2019—76,923,077 fully paid ordinary units	101,366	101,366
On completion unit placement offer Oct 2019—55,572,553 fully paid ordinary units	82,750	82,750
Fund establishment costs capitalised to contributed equity	(10,128)	(10,128)
Antecedent distributions paid	(15,187)	(15,187)
Capital distributions—November 2020	(46,723)	–
In issue at year end	**649,679**	**696,402**

Refer to unitholders analysis included on page 124 within the Group Annual Report 2021.

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For the year ended 31 March 2021 continued

14. Borrowings

A$'000	TRANCHE EXPIRY DATE	INTEREST RATE	2021	2020
Loans—secured—bank debt				
ANZ Facility—Tranche G	01-Apr-24	BBSY+1.55%[1]	20,000	20,000
ANZ Facility—Tranche H	01-Apr-26	BBSY+1.55%[1]	75,000	75,000
ANZ Facility—Tranche I	01-Apr-25	BBSY+1.55%[1]	25,000	15,000
ANZ Facility—Tranche M			–	46,500
Westpac Facility—Tranche N	28-Mar-24	BBSY+1.45%[1]	55,000	40,815
Westpac Facility—Tranche P	30-Nov-25	BBSY+1.70%[1]	16,514	–
Westpac Facility—PGIM	22-Dec-29	3.4%	150,000	150,000
Total long-term borrowings—secured			**341,514**	**347,315**
Capitalised loan establishment costs			(2,451)	(1,828)
Total value of interest-bearing borrowings			**339,063**	**345,487**

Movement in borrowings		
Balance at beginning of year	347,315	405,414
Interest charged	8,491	12,774
Interest paid	(8,491)	(12,774)
Additional borrowing acquired	103,907	62,701
Repayments	(109,708)	(120,800)
Closing balance at the end of the year	**341,514**	**347,315**

The Fund's LVR[2] was 27.06% as at 31 March 2021 (31 March 2020: 28.0%).

At 31 March 2021 the approved facility limit of the loan facility was A$435.0 million (31 March 2020: A$375.0 million) with A$93.5 million (31 March 2020: A$27.7 million) undrawn.

The funds policy is to hedge at least 75% of interest rate risk. At year end, 78.3% (31 March 2020: 87.0%) of borrowings were hedged using interest rate swaps, locking in a blended rate (including margin and line fees) of 2.84% (31 March 2020: 3.03%) for a weighted average 6.1 year term (31 March 2020: 5.6).

15. Trade and other payables

A$'000	2021	2020
Security deposits	581	206
Income received in advance	4,206	2,221
Other payables	621	2,418
Trade and other payables—non current	**5,408**	**4,845**
Accrued expenses	3,403	2,698
Trade creditors	1,142	1,074
Income received in advance	2,924	2,667
GST payable	379	1,856
Other payables	276	4,122
Trade and other payables—current	**8,124**	**12,417**

1. Varies based on gearing levels.
2. LVR is a non-IFRS measure.

16. Reconciliation of cash flows from operating activities

A$'000	2021	2020
Profit for the period	164,730	58,956
Adjusted for:		
Fair value adjustments—investment properties	(113,184)	(20,194)
Fair value adjustments—derivatives	(2,500)	15,760
Fair value adjustments—foreign currency revaluation	4,944	(1,090)
Straightline rental revenue adjustment	(1,208)	(4,407)
Cost on sale of investment property	2,013	–
Working capital movement		
Change in trade and other receivables	(265)	1,981
Change in trade and other payables	1,146	1,194
Change in Capital expenses	986	1,531
Distributions paid	(53,138)	(51,672)
Net cash from operating activities	**3,524**	**2,059**

17. Related party transactions

Responsible Entity

Prior to the internalisation of management function, The RE of the IPFI is IPL. IPL is a wholly owned subsidiary of IAPHPL.

Following the internalisation of the management function the RE is a wholly owned subsidiary of IPF II.

As at 31 March 2021, total fees paid or payable to IPF II is A$2.6 million which includes asset management fee of A$2.1 million and property management fee of A$0.5 million. The Fund also has a receivable of A$5.4 million from IPF II (refer to note 11).

Manager

Prior to the internalisation of management function, the Manager of IPFI is IPML. IPML is a wholly owned subsidiary of IAPHPL. IPML provides fund management services and property management services to the Fund.

IPL's and IPML's ultimate Australian parent entity is IAPHPL. Its ultimate parent is Investec Plc, incorporated in the United Kingdom.

Investec Plc and Investec Limited and their subsidiary companies together comprise the Investec group of companies (referred to as the Investec Fund).

IPFI enters into transactions or arrangements with Investec Fund. These transactions are described below. These are entered into on normal commercial terms.

Transactions with Related Parties

A$'000	2021	2020
Payments to Investec Group and its subsidiaries:		
Investec Property Management Pty Limited—subsidiary		
Asset management fee	3,808	6,573
Property management fee[1]	1,136	1,551
Investec Bank Limited—parent company		
Sponsor fee	16	17
Capital raising fees and listing costs	–	208
Investec Australia Limited—subsidiary		
Interest on swaps	–	1,529
Amounts owing to related parties		
Investec Property Management Pty Limited—subsidiary		
Asset management fee payable	–	495

1. IPMPL has been contracted to perform property management services. IPMPL has sub-contracted this to third party property managers who receive this fee from IPMPL.

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For the year ended 31 March 2021 continued

18. Fund entities

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in Note 1.2. All subsidiaries are established in Australia and are 100% owned and controlled by IPF I with no restrictions.

IPFI enter into transactions with its wholly owned trusts. These transactions mainly involve the payment of distributions between trusts and lending of funds between the trusts. Intertrust loans are repayable upon demand, unsecured and non-interest bearing.

NAME OF ENTITY	INTERTRUST LOAN BALANCE 2021 A$'000	INTERTRUST LOAN BALANCE 2020 A$'000
Irongate Property Hold Trust No.1 (Prior 30 November 2020: Investec Australia Hold Trust No.1)	(54,003)	(17,526)
Irongate Property Sub Trust No.1 (Prior 30 November 2020: Investec Australia Sub Trust No.1)	3,848	3,428
Irongate Property Sub Trust No.2 (Prior 30 November 2020: Investec Australia Sub Trust No.2)	(5,503)	(2,016)
Irongate Property Sub Trust No.3 (Prior 30 November 2020: Investec Australia Sub Trust No.3)	(3,155)	(3,427)
Irongate Property Sub Trust No.4 (Prior 30 November 2020: Investec Australia Sub Trust No.4)	427	18
Irongate Property Sub Trust No.5 (Prior 30 November 2020: Investec Australia Sub Trust No.5)	(1,501)	(1,477)
Irongate Property Sub Trust No.6 (Prior 30 November 2020: Investec Australia Sub Trust No.6)	75,347	(7,210)
Irongate Property Sub Trust No.7 (Prior 30 November 2020: Investec Australia Sub Trust No.7)	87	96
Irongate Property Sub Trust No.8 (Prior 30 November 2020: Investec Australia Sub Trust No.8)	(110)	(239)
Irongate Property Sub Trust No.9 (Prior 30 November 2020: Investec Australia Sub Trust No.9)	(358)	(51)
Irongate Property Sub Trust No.10 (Prior 30 November 2020: Investec Australia Sub Trust No.10)	(2,697)	(2,333)
Irongate Property Sub Trust No.11 (Prior 30 November 2020: Investec Australia Sub Trust No.11)	(360)	(117)
Irongate Property Sub Trust No.12 (Prior 30 November 2020: Investec Australia Sub Trust No.12)	165	159
Irongate Property Sub Trust No.13 (Prior 30 November 2020: Investec Australia Sub Trust No.13)	(271)	(357)
Irongate Property Sub Trust No.14 (Prior 30 November 2020: Investec Australia Sub Trust No.14)	(2,258)	(2,501)
Irongate Property Sub Trust No.15 (Prior 30 November 2020: Investec Australia Sub Trust No.15)	(974)	(767)
Irongate Property Sub Trust No.16 (Prior 30 November 2020: Investec Australia Sub Trust No.16)	(3,706)	(2,731)
Irongate Property Sub Trust No.17 (Prior 30 November 2020: Investec Australia Sub Trust No.17)	506	522
Irongate Property Sub Trust No.18 (Prior 30 November 2020: Investec Australia Sub Trust No.18)	(4,228)	(632)
Irongate Property Sub Trust No.19 (Prior 30 November 2020: Investec Australia Sub Trust No.19)	(3,911)	(2,988)
Irongate Property Sub Trust No.20 (Prior 30 November 2020: Investec Australia Sub Trust No.20)	445	371
Irongate Property Sub Trust No.21 (Prior 30 November 2020: Investec Australia Sub Trust No.21)	242	215
Irongate Property Sub Trust No.22 (Prior 30 November 2020: Investec Australia Sub Trust No.22)	695	723
Irongate Property Sub Trust No.23 (Prior 30 November 2020: Investec Australia Sub Trust No.23)	31	5
Irongate Property Sub Trust No.24 (Prior 30 November 2020: Investec Australia Sub Trust No.24)	(5,361)	(5,335)
Irongate Property Sub Trust No.25	1,759	–
Irongate Property Sub Trust No.26	–	–
Irongate Property Sub Trust No.27	–	–
Irongate Property Sub Trust No.28	–	–
Irongate Property Sub Trust No.29	–	–
Irongate Property Sub Trust No.30	–	–

19. Parent entity disclosures

A$'000	2021	2020
Result of parent entity		
Profit for the year	78,290	63,560
Other comprehensive income	–	–
Total comprehensive income for the year	**78,290**	**63,560**
Financial position of parent entity at year end		
Current assets	663	880
Non current assets	815,178	850,249
Total assets	**815,841**	**851,129**
Current liabilities	25,695	28,502
Non current liabilities	111,993	117,269
Total liabilities	**137,688**	**145,771**
Net assets	**678,153**	**705,358**
Total equity of parent entity comprising of:		
Contributed equity	649,679	696,402
Retained earnings	28,474	8,956
Total equity	**678,153**	**705,358**

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For the year ended 31 March 2021 continued

20. Financial Risk and capital management

20.1 Total financial and non-financial assets and liabilities

The table below sets out the Fund's accounting classification of each class of financial and non-financial asset and liability and their fair values at 31 March 2021.

AS AT 31 MARCH 2021 A$'000	MEASURED AT FAIR VALUE	NON-FINANCIAL INSTRUMENTS	AMORTISED COST	TOTAL
ASSETS				
Non-current assets				
Investment property	1,225,356	–	–	1,225,356
Investment property under development	11,600	–	–	11,600
Current assets				
Cash and cash equivalents	–	–	6,810	6,810
Trade and other receivables	–	–	9,001	9,001
Total assets	**1,236,956**	**–**	**15,811**	**1,252,767**
LIABILITIES				
Non-current liabilities				
Long-term borrowings	–	–	339,063	339,063
Financial instruments held at fair value	836	–	–	836
Trade and other payables	–	–	5,408	5,408
Current liabilities				
Trade and other payables	–	–	8,124	8,124
Unitholders for distributions	–	–	27,696	27,696
Total liabilities	**836**	**–**	**380,291**	**381,127**

The table below sets out the Fund's accounting classification of each class of financial and non-financial asset and liability and their fair values at 31 March 2020.

AS AT 31 MARCH 2020 A$'000	MEASURED AT FAIR VALUE	NON-FINANCIAL INSTRUMENTS	AMORTISED COST	TOTAL
ASSETS				
Non-current assets				
Investment property	1,084,958	–	–	1,084,958
Current assets				
Cash and cash equivalents	–	–	17,128	17,128
Trade and other receivables	–	–	4,466	4,466
Property held for sale	94,000	–		94,000
Total assets	**1,178,958**	**–**	**21,594**	**1,200,552**
LIABILITIES				
Non-current liabilities				
Long-term borrowings	–	–	345,487	345,487
Financial instruments held at fair value	3,337	–	–	3,337
Trade and other payables			4,845	4,845
Current liabilities				
Trade and other payables	–	–	12,417	12,417
Unitholders for distributions	–	–	26,305	26,305
Total liabilities	**3,337**	**–**	**389,054**	**392,391**

Cash and cash equivalents; trade and other receivables; trade and other payables are measured at amortised cost and approximate fair value. The fair value of "long term borrowings at amortised cost" has been estimated by market interest rate at each year end.

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20.2 Fair value hierarchy—financial instruments

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 marketing interest rate at year end.

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)

A$'000 FAIR VALUE AND CARRYING AMOUNT	CARRYING AMOUNT	FAIR VALUE LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
As at 31 March 2021					
Financial assets not measured at fair value					
Cash and cash equivalents	6,810	–	–	–	–
Receivables and other assets	9,001	–	–	–	–
	15,811	**–**	**–**	**–**	**–**
Financial liabilities not measured at fair value					
Trade and other payables	13,532	–	–	–	–
Distribution payable	27,696	–	–	–	–
Long term borrowings	339,063	–	352,018	–	352,018
	380,291	**–**	**352,018**	**–**	**352,018**
Financial liabilities measured at fair value					
Interest rate swaps	836	–	836	–	836
	836	**–**	**836**	**–**	**836**

A$'000 FAIR VALUE AND CARRYING AMOUNT	CARRYING AMOUNT	FAIR VALUE LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
As at 31 March 2020					
Financial assets not measured at fair value					
Cash and cash equivalents	17,128	–	–	–	–
Trade and other receivables	4,466	–	–	–	–
	21,594	**–**	**–**	**–**	**–**
Financial liabilities not measured at fair value					
Trade and other payables	17,262	–	–	–	–
Distribution payable	26,305	–	–	–	–
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 year 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 year.

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.

20.3 Other financial risk management considerations

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.

The Fund has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The board has overall responsibility for the establishment and oversight of the Fund's risk management framework. The board has established the Audit and Risk Committee, which is responsible for developing and monitoring the Fund's risk management policies. The Audit and Risk Committee reports regularly to the Board on its activities.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Audit and Risk Committee oversees how management monitors compliance with the Fund's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund. The Audit and Risk Committee is assisted in its oversight role by Investec Internal Audit, which undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

20.4 Credit risk

Credit risk is the risk of financial loss to the Fund if a client or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from derivatives, as well as trade and other receivables. There is no significant concentration of credit risk as exposure is spread over a large number of counterparties.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure.

The Fund applies the lifetime ECL model to manage the credit risk of financial assets carried at amortised cost in accordance with the accounting policy described in Note1.9.1 to the consolidated financial statements.

The Fund has determined that no ECL is required to be recognised as at 31 March 2021.

20.5 Market risk

a. Interest rate risk

The Fund is exposed to interest rate risk and adopts a policy of ensuring that at least 75% of its exposure to changes in interest rates on borrowings is on a fixed basis. This is achieved by entering into variable for fixed rate swap instruments. All such transactions are carried out within the guidelines set by the Audit and Risk Committee. As a consequence, the Fund is exposed to fair value interest rate risk in respect of the fair value of its interest rate financial instruments, which will not have an impact on distributions. Short-term receivables and payables and investments are not directly exposed to interest rate risk.

At 31 March 2021, 78.3% of the Fund's interest rate exposure was hedged. Therefore, for the year ended 31 March 2021, a 1% increase/decrease in interest rates on the variable rate borrowings would have an immaterial impact on the Fund's profit, assuming all other variables remain constant.

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b. Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's policy is to seek to minimise its exposure to liquidity risk by balancing its exposure to interest rate risk and to refinancing risk. In effect the Fund seeks to borrow for as long as possible at the lowest acceptable cost. The Fund regularly reviews the maturity profile of its financial liabilities and will seek to avoid concentration of maturities through the regular replacement of facilities, and by using a selection of maturity dates.

The tables below set out the maturity analysis of the Fund's financial liabilities based on the undiscounted contractual cash flows.

Cash flows are monitored on a monthly basis to ensure that cash resources are adequate to meet the funding requirement of the Fund.

AS AT 31 MARCH 2021 A$'000	WITHIN 1 YEAR	1–2 YEARS	2–5 YEARS	OVER 5 YEARS	TOTAL	CARRYING VALUE
Long-term borrowings[1]	7,758	7,758	195,691	169,156	380,363	341,514
Trade and other payables	8,124	1,994	2,335	1,079	13,532	13,532
Distributions payable	27,696	–	–	–	27,696	27,696
Total liabilities	**43,578**	**9,752**	**198,026**	**170,235**	**421,591**	**382,742**

AS AT 31 MARCH 2020 A$'000	WITHIN 1 YEAR	1–2 YEARS	2–5 YEARS	OVER 5 YEARS	TOTAL	CARRYING VALUE
Long-term borrowings[1]	7,758	7,758	195,688	174,256	385,460	345,487
Trade and other payables	12,417	1,273	742	2,830	17,262	17,262
Distributions payable	26,305	–	–	–	26,305	26,305
Total liabilities	**46,480**	**9,031**	**196,430**	**177,086**	**429,027**	**389,054**

The table below outlines the Fund's LVR[2] at the end of the year.

A$'000	2021	2020
Investment properties	1,225,356	1,084,958
Investment property under development	11,600	–
Investment property held for sale	–	94,000
Total property value	**1,236,956**	**1,178,958**
Carrying value of interest bearing borrowing	341,514	347,315
Less: Cash and cash equivalents	(6,810)	(17,128)
Net value of borrowing	**334,704**	**330,187**
Current ratio of interest bearing borrowings to value of investment property (%)	**27.06**	**28.00**

20.6 Derivatives

Derivative instruments are used to hedge the Fund's exposure to any increases in interest rates on variable rate loans. Interest rate swap contracts are entered into whereby the Fund hedges out its variable rate obligation to provide a maximum fixed rate obligation. Details of the interest rate fixed for variable swap instruments are as follows:

FINANCIAL INSTITUTION	NOTIONAL AMOUNT $'000	START DATE	END DATE	FIXED RATE
31 March 2021				
Australia and New Zealand Banking Fund	30,000	24-Dec-19	24-Dec-24	1.06%
Westpac Banking Corporation	20,000	22-Mar-21	24-Mar-25	0.64%
Westpac Banking Corporation	67,303	11-Dec-17	12-Dec-26	2.58%

FINANCIAL INSTITUTION	AMOUNT $'000	START DATE	END DATE	FIXED RATE
31 March 2020				
Australia and New Zealand Banking Fund	30,000	24-Dec-19	24-Dec-24	1.06%
Westpac Banking Corporation	67,303	11-Dec-17	12-Dec-26	2.58%

1. Cash flows in relation to long term borrowings take into account interest payments and the effect of interest rate swaps.
2. LVR is a non-IFRS measure.

20.7 Capital Management

In terms of its Constitution, the Fund's gearing ratio must not exceed 60%. The Fund is funded partly by unit capital and partly by external borrowings.

In terms of its covenants entered into during the year, the Fund is committed to a maximum value of external borrowings of 55% of the value of investment property and investment assets. In practice, the Fund aims to keep gearing levels between 30% and 40% over the long term. At 31 March 2021, the nominal value of borrowings less cash equivalents was equal to 27.06% of the value of investment property.

The board's policy is to maintain a strong capital base, comprising its unitholders' interest, so as to promote investor, creditor and market confidence and to sustain future development of the business. It is the Fund's stated purpose to deliver medium to long-term sustainable growth in distributions per unit. Distributable income is distributed on a six monthly basis. The board monitors the level of distributions to unitholders. There were no changes in the Fund's approach to capital management during the year. The Fund is not subject to externally imposed capital requirements.

21. Subsequent events

On 19 April 2021 the Fund announced that it had entered into agreements to acquire two industrial facilities to be acquired on a fund-through basis, being 57–83 Mudgee Street, Kingston QLD for a total land consideration of A$3.1 million which is expected to be completed in December 2021 and Lot 24 Dunhill Crescent, Morningside QLD for a total land consideration of A$1.3 million which is expected to be completed in November 2021.

Other than the above matters, there is no other item, transaction or event of a material or unusual nature likely that have arisen since the end of the financial year and up until the date of the annual report which significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in subsequent years.

KPMG

Independent Auditor's Report

To the Unitholders of Irongate Property Fund I (formerly Investec Australia Property Fund I)

Opinion

We have audited the ***Financial Report*** of Irongate Property Fund I (the Fund).

In our opinion, the accompanying Financial Report of the Fund is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group***'s financial position as at 31 March 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 31 March 2021.
- Consolidated statement of profit or loss and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended.
- Notes including a summary of significant accounting policies.
- Directors' Declaration.

The ***Group*** consists of the Irongate Property Fund I and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with 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 Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KPMG

Valuation of investment properties ($1,225m)	
Refer to accounting policy note 1.10 and note 9 of the Financial Report	
The key audit matter	**How the matter was addressed in our audit**
The valuation of investment properties are a key audit matter as they are significant in value (being 98% of total assets). The properties being valued at fair value increased the judgement applied by us when evaluating evidence available in light of the COVID-19 pandemic. The Group approached the uncertainty risk using internal methodologies and the use of external valuation experts. We focused on the significant forward looking assumptions the Group applied in external and internal valuation models with considerations of the impact of COVID-19 including: • Discount rates: these are complicated in nature and differ due to the asset classes, geographies and characteristics of individual investment properties; • Capitalisation rates (cap rates): reflects the yield that an investor would look to recover their investment in a particular class of asset; and • Forecast cash flows including: market rental income and leasing assumptions.	Our procedures included: • Understanding the Group's process regarding the valuation of investment properties, including specific considerations of the impact of COVID-19; • Assessing the Group's methodologies used in the valuation of investment properties for consistency with accounting standards and Group policies; • Assessing the scope, competence and objectivity of external experts engaged by the Group and internal valuers; • For the total portfolio, taking into account the asset classes, geographies and characteristics of individual investment properties, we assessed the appropriateness of adopted discount and cap rates and market rental income through comparison to market analysis published by industry experts, recent market transactions, other market data points available, inquiries with the Group and historical performance of the investment properties; • Assessing the appropriateness of the Group's leasing assumptions against each property's actual rental income, weighted average lease expiry and actual vacancy levels; • Checking a sample of actual rental income, weighted average lease expiries and vacancy levels within both internal and external valuations to tenancy schedules as per lease agreements; and • Assessing the disclosures in the financial report including checking the sensitivity analysis calculations, using our understanding obtained from our testing, against accounting standard requirements. This was considered in light of the impact of COVID-19 on the portfolio.

KPMG

Other Information

Other Information is financial and non-financial information in Irongate Property Fund I's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Irongate Funds Management Pty Ltd (formerly Investec Property Limited) (the Responsible Entity) are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Group's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf This description forms part of our Auditor's Report.

KPMG

KPMG

Paul Thomas

Partner

Sydney

5 May 2021

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