

## ASX Announcement – Australian Unity Office Fund

11 November 2016

### Annual General Meeting

The first Annual General Meeting (AGM) of the Australian Unity Office Fund (AOF) is to be held on Friday 11 November 2016.

Attached are the following addresses to be delivered by:

- Peter Day – Chairman
- Grant Nichols – Fund Manager

**ASX code:**

AOF

**Issuer**

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### About AOF

AOF is an ASX-listed REIT that wholly owns a diversified portfolio of eight office properties located across Australian metropolitan and CBD markets in Sydney, Adelaide, Melbourne, Brisbane and Canberra.

**Australian Unity Office Fund**  
**Annual General Meeting**  
**11 November 2016**

**Peter Day: Chairman's Address**

Good morning Ladies and Gentlemen and welcome to the first Annual General Meeting of the Australian Unity Office Fund, following the successful listing of the fund on the ASX on 20 June 2016. My name is Peter Day, and I am the Chairman of Australian Unity Investment Real Estate Limited which is the Responsible Entity of the Australian Unity Office Fund.

In particular I would like to welcome any unitholders that are in the audience, and look forward to meeting you after the meeting.

Welcome to Luke Slater, Partner, Ernst & Young. Luke was the Ernst & Young partner responsible for the audit of the financial statements of the Fund for the year ended 30 June 2016, and is available to answer questions regarding the audit.

I would also like to welcome Kate Logan and Britt Hawkins of PricewaterhouseCoopers. PricewaterhouseCoopers is responsible for the audit of the Fund's compliance plan, and has also recently been appointed as the auditor of the Fund for FY17.

Turning to the agenda for today:

I will firstly provide some information regarding directors, management, the Initial Public Offering process that occurred during June and recap some financial highlights for FY16.

Grant Nichols, the fund manager of the Australian Unity Office Fund will then provide you with an update on AOF since listing and an outlook for the remainder of the 2017 financial year. After which there will be an opportunity for unitholders to ask questions.

I will now move to my address.

You will note from the Notice of Meeting that there are not formal items of business to be voted on at this AGM. AOF is not actually required to have an AGM, however we believe that the AGM presents an important opportunity for unitholders to hear from and speak with directors and management.

As this is the first AGM for AOF, there are no minutes for tabling from the prior year.

Being the first AGM of AOF, I would like to take the opportunity to introduce each of your directors.

As mentioned earlier my name is Peter Day and I am the independent chairman of AUIRE and also a member of the audit and risk committee. I am currently a director of Ansell, Alumina, Boart Longyear and SAI Global, and I have had senior roles at Bonlac, Rio Tinto, CRA and Amcor.

Don Marples is also an independent director on the AUIRE board, and is the chairman of the Audit & Risk Committee. Don has over thirty years' experience in senior management roles

in real estate funds management, infrastructure and investment banking including roles at Fortius Funds Management, Commonwealth Bank and Lend Lease.

Eve Crestani is a non-executive director on the board, and brings over thirty five years of experience to the board in law, business consulting and financial services. Eve is a director of booking.com and Zurich Australia, and until recently was a director of Australian Unity Limited and chairman of Mercer Superannuation Australia Limited. Eve is also a member of the Audit & Risk Committee.

Kirsty Dullahide is our executive director and General Manager of Strategy for Australian Unity Wealth. In this role Kirsty has been involved in the establishment of several joint venture businesses, and mergers and acquisitions including property and mortgage funds.

Our fifth director is Greg Willcock and is unfortunately unable to be at the AGM today. Greg is a non-executive director of AUIRE, and is also a director of Australian Unity Limited, and chair of Big Sky Building Society Limited. Greg has over thirty years of experience in banking and financial services in Australia, the UK and the US, with seven years in risk management and strategy at National Australia Bank.

Emma Rodgers and Liesl Petterd, the company secretaries of AUIRE, are also in attendance.

Later in the meeting we will hear from Grant Nichols, the fund manager of the Australian Unity Office Fund. Also with us from the AOF management team are:

- Simon Beake, Portfolio Manager
- Giovanna Reale, Asset Manager
- Mark Pratt, the General Manager of Real Estate Investment
- Mark Lumby, Head of Commercial Property

Rather than being employed directly by the Fund, the management team dedicated to AOF, and other supporting services are provided under investment management and property management agreements with companies in the Australian Unity Group. In this way AOF and the board are able to draw on the resources, infrastructure and expertise of the broader Australian Unity Group.

As you are aware the Australian Unity Office Fund successfully listed on the Australian Securities Exchange on 20 June 2016. Since that time the board and management have been involved in various activities to support AOF as part of its usual day to day operations, and also the additional governance and systems required as a listed fund. These have included:

- ASX Regulatory Requirements including the preparation and lodgement of the Financial Statements and Annual Report for the year ended 30 June 2016, and AOF's first Governance Statement.
- Investor engagement which has involved Mark Pratt, Grant Nichols and me meeting with several of our larger unitholders in Melbourne, Sydney and New Zealand. The AOF

website has also continued to be developed and populated with information for unitholders.

- Distributions to 30 June 2016 and 30 September 2016 in line with the PDS forecast.
- At board meetings we also regularly review and refine aspects of the AOF strategy at both a fund and individual property level, including assessment of opportunities to generate income and value growth. This includes regular dialogue with management, site visits, and industry experts on topics such as property and capital market conditions, valuations and regulatory changes.

Moving now to the Fund itself.

The Australian Unity Office Fund that you have chosen to invest in has the Investment Objective of providing Unitholders with sustainable income returns via quarterly distributions and the potential for capital growth over the long term by investing in a diversified portfolio of Australian office properties.

To achieve this objective, the AOF strategy is to:

- Invest in quality Australian office assets located in metropolitan and CBD markets
- Grow net property income (NPI) and enhance capital values
- Deliver sustainable and growing income returns via quarterly distributions to unitholders
- Target gearing below 40%, with gearing currently at around 30%
- Maintain a portfolio diversified by geography, tenants and lease expiry profile through investment into existing properties or through acquisitions.

The 2016 financial year delivered several highlights for the Fund, many of which were associated with the listing of the fund and initial public offer.

Some of the 2016 highlights include:

- Leasing approximately 30% of the portfolio, including the renewal of the NSW State Government over all of the office space at 10 Valentine Avenue, Parramatta;
- Receiving strong unitholder support for the listing, with over 99% of existing unitholders who voted, voting in favour of resolutions to allow the listing to occur;
- Raising \$152 million through an Initial Public Offering of units;
- Providing full liquidity to existing unitholders who did not wish to continue investment as a listed unitholder by meeting 100% of withdrawal requests;
- Reducing gearing to approximately 30%;
- A \$14.4 million valuation uplift compared to 30 June 2015;
- Successfully refinancing the \$140 million debt facility via 3 and 5 year tranches; and

- Providing an average distribution yield of 8.6% for the one year to 30 June 2016 based on AOF's net asset value.

I would now like to welcome Grant Nichols the fund manager of the Australian Unity Office Fund to provide an update on AOF since listing and outlook for the remainder of the 2017 financial year. Grant is responsible for the management and strategic direction of the Fund, and has over 10 years of experience in the property industry in funds and asset management roles largely at Investa Property Group and Australian Unity.

### **Grant Nichols: Fund Manager's Address**

Thank you Peter and good morning to unitholders and guests.

This morning I will provide you with an update on AOF since listing, and conclude with our outlook for the remainder of the 2017 financial year.

Since listing our focus has been on delivering on the objectives detailed in the Product Disclosure Statement, particularly providing sustainable income returns to our unitholders. To that end, our first quarterly distribution of 3.7 cents per unit was paid on 14 October 2016, which was consistent with the PDS forecast.

AOF's distribution is paid from AOF's funds from operations. We maintain two separate asset level strategies:

- holding a combination of assets underpinned by a single or dominant tenant; and
- assets that are multi-tenanted where no one tenant represents more than 30% of the property's income.

We believe these two types of assets complement each other in meeting the objectives of AOF. Single or dominant tenant buildings allow us to obtain long term leases which underpin sustainable income returns. On the other hand, multi-tenant buildings allow the fund to be continually exposed to market conditions, and potentially higher rents, without substantial lease expiry risk.

As Peter mentioned, 2016 was a particularly strong year for leasing with approximately 30% of the portfolio leased by area. Leasing is a primary focus of AOF's management team, and all three of the dedicated management team, Giovanna Reale, Simon Beake and I, engage in the direct asset management of the underlying assets to ensure we are kept abreast of asset performance and prevailing market conditions.

The leasing momentum generated in 2016 has been sustained and we have completed approximately 4,400 sqm of leasing since listing in June 2016, with a further approximate 4,300 sqm subject to signed heads of agreement. Combined, this equates to approximately 9% of the AOF portfolio during the last five months. Not including those leases subject to signed heads of agreement, these transactions have resulted in AOF having a WALE of 4.6 years and occupancy of 94.6% as at 31 October 2016. The total leasing has been spread across 15 separate transactions and we continue to see solid demand for sub-1,000 sqm tenants in most markets, which is beneficial to the multi-tenanted portion of our portfolio that targets the small tenant market.

A significant portion of the recent leasing has occurred at 2 Eden Park Drive, North Ryde. Since listing, six separate leasing transactions totalling 4,373 have been executed or are subject to signed heads of agreement. This has increased occupancy to 100% and assuming that all signed heads of agreement progress, the building's WALE will increase from 2.6 years to 3.4 years. On average, rents achieved in these recent lease transactions have been approximately 12% above the market rents specified in the most recent valuation completed in April 2016. 2 Eden Park Drive has had a strong management focus for the last year or so, which has pleasingly resulted in a significant improvement from the building's position at 30 June 2015, when the building had vacancy of approximately 35% and a WALE of 1.8 years.

Very strong support remains for Australian office markets albeit there is some inconsistency between markets. Sydney and Melbourne and their associated metropolitan markets are performing particularly well, experiencing strong leasing and investment demand. This has positive implications for AOF, as 56% of the portfolio is weighted to these markets. By comparison Perth is experiencing increasing vacancy and deteriorating fundamentals, a market which AOF has no exposure to. Vacancy rates in both Canberra and Brisbane appear to have stabilised, and both markets are experiencing improving net absorption and investor interest. Tenant demand remains tepid in Adelaide, but the market remains comparatively attractive from a price point perspective for both investment and accommodation. More broadly, investment demand in Australia remains very strong and it appears that current pricing levels will be sustained for at least the short-medium term.

AOF is well positioned to deliver on its specified objectives, given the leasing completed to date, prevailing market conditions and as AOF has no near term single lease expiry representing more than 5% of portfolio income.

We have also sustained a relatively conservative debt level with gearing approximately 30%. This is consistent with the pro forma balance sheet detailed in the PDS. AOF's weighted average borrowing's maturity is 3.6 years which is diversified by tenure and by financier. The fund currently has hedging in place which covers 67% of the principal amount outstanding, and has \$21 million of undrawn debt to fund capital expenditure and other working capital.

Given AOF's portfolio and strong capital position, we consequently reiterate our distribution forecast of 14.8 cents per unit for FY17, subject to no unforeseen events.

Part of AOF's strategy is to construct a portfolio that enhances the diversification of geography, tenants and lease expiry profile. To this end, management has been evaluating potential capital transactions to meet this strategy. Noting that market conditions are very competitive, we will only seek to deal where we see value or an opportunity to enhance our ability to provide competitive, sustainable income returns with the opportunity for growth.

In conclusion, management would like to thank unitholders for supporting the transition of the Australian Unity Office Fund into an ASX listed fund, and welcomes new and existing unitholders who participated in the initial public offer. We're committed to delivering on our objectives and providing strong, sustainable income returns for all unitholders.

**Peter Day: Conclusion**

Thank you Grant, I would now like to open the floor to questions from investors. As mentioned earlier, myself, Grant and the broader management team are available to answer questions. In addition Luke from Ernst & Young is able to answer questions regarding the conduct of the financial audit.