

ASX Announcement – Australian Unity Office Fund

21 November 2017

Annual General Meeting

The Annual General Meeting (AGM) of the Australian Unity Office Fund (AOF) is being held on Tuesday 21 November 2017.

Attached are the addresses delivered by:

- Peter Day – Chairman
- Grant Nichols – Fund Manager

ASX code:

AOF

Issuer

Australian Unity Investment Real Estate
Limited

ABN 86 606 414 368

AFSL 477434

Enquiries:

Australian Unity Office Fund Investor
Services

1300 721 637 or

+61 2 8016 2890

(outside Australia)

Contact details:

Australian Unity Limited

114 Albert Road

South Melbourne VIC 3205

Tel: 13 29 39

About AOF

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

This announcement is issued by Australian Unity Investment Real Estate Limited ABN 86 606 414 368 AFSL 477434 (AUIREL). AUIREL is a wholly owned subsidiary of Australian Unity Limited ABN 23 087 648 888.

Australian Unity is a health, wealth and living organisation providing products and services designed to help people thrive. More than one million Australians have created a bright future with us. Our businesses span operations providing healthcare, financial services, and retirement and living services, employing more than 7,500 people across Australia.

Australian Unity Office Fund

Annual General Meeting

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Peter Day: Chairman's Address

Good morning everyone and welcome to the second Annual General Meeting of the Australian Unity Office Fund. My name is Peter Day and I am the Chairman of Australian Unity Real Estate Investment 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. It is 10am and I have been informed that a quorum is present, so I am pleased to declare the meeting of Australian Unity Office Fund open.

We pay our respects, and acknowledge the traditional custodians of the land on which this meeting takes place, and also pay respect to Elders both past and present.

You will note from the Notice of Meeting that there are no 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.

I will begin by introducing you to the Board of Directors and the management team of AOF. To my left are Non-Executive Directors Eve Crestani, Don Marples and Greg Wilcock, and Executive Director Kirsty Dullahide, noting that Don Marples is also the Chairman of the Audit and Risk Committee.

With us today from the management team are Grant Nichols, AOF's Fund Manager, Simon Beake, AOF's Portfolio Manager, and Giovanna Reale AOF's Asset Manager. Emma Rodgers and Liesl Petterd the company secretaries of AUIREL are also in attendance.

I would also like to acknowledge the broader management team, many of whom are in the audience today. The strong performance AOF has experienced to date is a function in large part of their dedication and commitment in delivering AOF's strategy.

PricewaterhouseCoopers is also in attendance, represented by George Sagonas. George is the PricewaterhouseCoopers partner responsible for the audit of the

financial statements of the Fund for the year ended 30 June 2017, and is available to answer questions regarding the audit.

Before we proceed further, it's important to note that the information in this presentation is general information only and should be read in conjunction with AOF's Annual Financial Report lodged with the Australian Securities Exchange.

I would like to highlight that all reports and disclosure documents are also available on the AOF website, australianunityofficefund.com.au

Copies of the minutes of the 2016 Annual General Meeting of AOF are available at this meeting if unitholders wish to review them.

Turning to the agenda for today:

I have already provided some information regarding directors, and will comment further on management, AOF's strategy and recap some financial highlights from Financial Year 2017.

Grant Nichols, AOF's fund manager will then provide you with some further details on the FY17 performance, along with an update on activities that have occurred since 30 June 2017.

After the formal presentation, we will invite unitholders to ask any questions they may have and to join us for refreshments following the close of the meeting.

Looking at the financial year 2017 in review, we are very pleased to report that AOF has performed strongly since listing on the Australian Securities Exchange in June 2017, surpassing the financial forecasts specified in the Product Disclosure Statement for FY17.

Specific key highlights for AOF's first full financial year since listing in June 2016 include:

- AOF producing a 22.1% total return to unitholders based on change in NTA plus distributions;
- AOF delivering an FFO of 17.1 cents per unit, against a PDS forecast of 16.4 cents per unit;
- AOF achieving a statutory net profit of \$60.6 million (earnings and revaluations), being approximately \$42.6 million greater than the PDS forecast; and

- AOF's NTA increasing by nearly 14% from its PDS forecast position at allotment.

The pleasing results achieved in FY17 have delivered on the primary AOF 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, AOF's strategy continues to be:

- Investing in quality Australian office properties located in metropolitan and CBD markets
- Growing net property income (NPI) while enhancing capital values
- Delivering sustainable and growing income returns via quarterly distributions to unitholders
- Targeting gearing of below 40%, with gearing currently at around 33%
- Maintaining a portfolio diversified by geography, tenants and lease expiry profile through investment into existing properties or through acquisitions.

Specifically relating to that final point, AOF has recently completed its first acquisition since listing, being the building located at 150 Charlotte St, Brisbane. We believe this acquisition is complementary to the AOF strategy and will assist AOF in delivering its primary objective of delivering sustainable income returns with the potential for capital growth.

During the year the board and management have been involved in various activities to support AOF as part of its usual day to day operations, and its commitment to best practice governance arrangements as a listed property fund.

The board has also been involved in reviewing and refining aspects of AOF's strategy at both a fund and property level, including assessment of opportunities to generate income and value growth. At board meetings we engage in regular dialogue with management, conduct site visits, and invite industry experts to present on topics such as property and capital market conditions, valuations and regulatory changes.

The management of AOF is conducted by Australian Unity Property, which sits within the Wealth and Capital Markets platform of the broader Australian Unity group. Established in 1998, Australian Unity Property currently has over \$2.4 billion

in funds under management across a number of unlisted and listed property funds, covering the office, healthcare, retail and industrial sectors.

Rather than being employed directly by the Fund, the dedicated management team of AOF, being Grant Nichols, Simon Beake and Giovanna Reale, and other supporting services are provided under investment management and property management agreements with companies within Australian Unity Real Estate Investment. In this way AOF and the board are able to draw on the resources, infrastructure and expertise of the broader Australian Unity Group. As a board we monitor these arrangements carefully both as to levels of capability applied and the economics charged back to AOF. We have found these arrangements to be exemplary and we will continue to ensure they remain so.

I would now like to invite Grant Nichols the fund manager of the Australian Unity Office Fund to provide an update on the Fund's performance for Financial Year 2017 and provide an update on activities that have occurred since 30 June 2017.

Grant Nichols: Fund Manager's Address

Thank you Peter and good morning everyone. I am pleased to present a summary of AOF's full year results to 30 June 2017 and provide an outlook for the year ahead.

As Peter mentioned, AOF delivered strong performance in its first full year listed on the Australian Securities Exchange, producing a 22.1% total return to unitholders based on change in NTA plus distributions.

In FY17 AOF generated Funds From Operations of \$24 million or 17.1 cents per unit, which was 0.7 cents greater than the PDS forecast 16.4 cents per unit. The increased Funds From Operations allowed AOF to pay distributions 15 cents per unit over the period, which was 0.2 cents per unit greater than the PDS forecast.

The primary reason for the increase in FFO was better than forecast leasing outcomes, particularly the renewal of the Commonwealth Government at 5 Eden Park Drive, North Ryde and the renewal of NuSkin, the largest tenant at 2 Eden Park Drive, North Ryde. These positive leasing outcomes also sustained a solid portfolio lease expiry of 4.6 years and 93.5% occupancy as at 30 June 2017.

Net tangible assets per unit increased from \$1.96 to \$2.23 over the course of FY17. This increase was predominantly due to an increase in the portfolio's value by \$48.3 million which I will detail a little later during this presentation.

During FY17 Contract Pharmaceutical Services of Australia renewed their approximate 6,300 sqm tenancy for a further eight year term from their current 30 June 2018 expiry at 5 Eden Park Drive, North Ryde. This was an important lease renewal for AOF as Contract Pharmaceutical Services of Australia was the largest near term lease expiry, and their lease extension will assist AOF in continuing to deliver sustainable income returns to unitholders.

The AOF management team has a strong track record of renewing key tenants within the AOF portfolio, having renewed every major AOF tenant at least once. This is the second time the management team has renewed Contract Pharmaceutical Services of Australia for a long lease term.

Beyond executing this lease renewal, AOF has completed a significant amount of other leasing during the year. To reiterate a point made in prior forums, AOF's dedicated management team take a very 'hands on' approach, with Giovanna, Simon and myself all engaging in the direct asset management of the underlying assets. We believe that this approach greatly assists AOF in meeting its portfolio objective of constructing an Australian metropolitan and CBD office portfolio that maintains diversification of geography, tenants and lease expiry profile, as it ensures that each of us are kept abreast of asset performance and prevailing market conditions.

During FY17, AOF completed 26 new leases totalling approximately 17,400sqm, which represents approximately 18% of the portfolio by area. Approximately 2,000sqm of these lease across nine separate transactions related to previously vacant space.

All eight properties were independently valued over the course of FY17, resulting in a \$48.3 million increase, with the total portfolio value increasing to \$441.1 million as at 30 June 2017. As a result of these valuation increases, the weighted average capitalisation or cap rate at 30 June 2017 was 7.5% and the average value per sqm was approximately \$4,500.

The \$48.3 million increase in portfolio value contributed to a 13.8% increase in net tangible assets to \$2.23 per unit as at 30 June 2017. The increase in value was driven

by positive leasing outcomes, increased market rents in most markets and an average capitalisation rate compression of 50bps across the portfolio.

Subsequent to 30 June 2017, the pro forma NTA per unit has reduced slightly to \$2.19 per unit as a result of the acquisition of 150 Charlotte St, Brisbane; AOF's first acquisition since listing.

150 Charlotte Street is a well located asset in the centre of the Brisbane CBD. This location provides excellent amenity being within close proximity to major bus, ferry and rail networks, and Brisbane's major shopping precinct, Queen St mall. This location is set to be improved further as it is in close proximity to the planned Albert St Cross River Railway Station, which will be Brisbane's second CBD railway station. The Cross River Rail will deliver a new 10.2 kilometre rail line between Dutton Park and Bowen Hills, including a 5.9 kilometre tunnel under the Brisbane River and the CBD.

The acquisition is complementary to AOF's balanced investment strategy of owning multi-tenanted properties and, in the case of 150 Charlotte St, dominant tenant office buildings located in CBD or metropolitan office markets. It is these dominant tenanted properties with long term lease agreements to investment grade tenants that underpins AOF's earnings profile, noting AOF's strong track record of renewing key portfolio tenants. In the case of 150 Charlotte St, over 60% of the income is derived from Boeing Defence Australia who has a lease in place until at least 30 June 2024. This Boeing tenancy is their Australian headquarters and incorporates a recent and specialised fitout.

The second largest tenant in the building is the Commonwealth of Australia, represented by the Department of Foreign Affairs and Trade. DFAT as they are otherwise known, is a tenant well known to Australian Unity as they currently occupy space in another property within the broader Australian Unity property portfolio.

AOF was attracted to this asset due to its strong tenancy profile, its location, strategic positioning within AOF's portfolio and low capital expenditure requirements. 150 Charlotte St was substantially refurbished in 2012, when approximately \$21 million was spent upgrading and repositioning the asset. As a result of this upgrade, there are minimal near term capital expenditure requirements.

The acquisition also improves portfolio diversification, increasing exposure to the improving Brisbane CBD office market, while increasing the scale of AOF's portfolio by approximately 24%.

As 150 Charlotte St is 100% occupied with a WALE of 5.7 years as at 30 June 2017, the acquisition improves both AOF's portfolio occupancy and WALE, with pro-forma occupancy increasing to 94.2% and the pro-forma WALE increasing to 4.8 years.

The acquisition also further enhances the already strong tenant lease covenants underpinning AOF's portfolio, with approximately 60% of the portfolio now deriving its income from Telstra, the State and Federal Government, Boeing and GE – all investment grade rated entities.

Looking at the office market outlook and we continue to see, to varying levels, improving tenant demand across Australia's major office markets.

The Sydney CBD remains below its long term vacancy average and incurred significant effective rental growth of approximately 25% during FY17. With limited supply throughout Sydney and its metropolitan market for the next few years, it is expected that vacancy rates in these markets will remain tight in the coming years. This should benefit AOF as approximately 39% of the portfolio is based in Sydney metropolitan markets.

Sydney metropolitan markets are also set to benefit from a substantial amount of transit infrastructure that is either under construction or in the planning phase. North Ryde is set to benefit from the Sydney Metro Northwest rail line and NorthConnex motorway, both of which are in advanced stages of construction. While in Western Sydney the Sydney Metro West, the Parramatta Light Rail, the WestConnex motorway and Badgery's Creek Airport, will all assist in cementing Parramatta as Sydney's second CBD.

Brisbane and Canberra appear to have reached peak vacancy during FY17, and both continue to impress on the upside. Brisbane recorded a healthy level of approximately 53,000sqm of positive net absorption during FY17, with limited supply forecast in the short to medium term.

Canberra has benefitted from improved levels of white collar growth and no significant new supply in almost a decade. Vacancy in Canberra remains somewhat divided between sub-markets and by grade, with the most desirable sub markets of

both Barton and Civic, where AOF's 64 Northbourne Ave is located, incurring very low prime grade vacancy rates and improving levels of tenant demand.

Leasing activity in Adelaide was tepid during FY17 due to a combination of limited additional tenant demand and low levels of natural lease expiry. Given AOF's exposure to Adelaide, many investors query what impact the current Adelaide market has on 30 Pirie St, and the major tenant, Telstra. There are three aspects of Adelaide's current vacancy of 16% worth noting. Firstly a significant proportion of the vacancy is sub-standard C and D grade space that does not really compete with 30 Pirie St, which is an A grade asset, In addition, many of these C and D grade buildings would be suitable for conversion to an alternate use if development sites were not so readily available. Secondly, the vacancy is rather disparate, and there are not significant amounts of large contiguous spaces available. And thirdly, the prevailing vacancy maintains a disconnect between market and pre-commitment rents, making it difficult to attract a pre-commitment and unattractive to speculatively develop new office buildings which would exacerbate supply.

The Melbourne CBD has had significant 12 month net absorption of over 160,000sqm, which makes the St Kilda Rd result of negative net absorption somewhat disparate. However, St Kilda Rd has been impacted by significant stock withdrawal for residential conversion, hence why St Kilda Rd incurred both a reduction in net absorption and vacancy. Longer term, we expect the St Kilda Rd market to further improve from the new Melbourne Metro railway currently under construction.

Nationally we continue to see the greatest amount of tenant activity occurring in the small tenant market. We expect that this will continue to benefit affordable, well located and well-presented buildings like AOF assets 468 St Kilda Road, Melbourne and 241 Adelaide St, Brisbane.

Given the outlook for Australian office markets, we believe AOF is well placed to deliver on its objective of providing unitholders with sustainable income returns with a portfolio underpinned by 94.2% occupancy, with no single significant lease expiry until 2022, and over 60% of the portfolio leased to investment grade tenants such as Telstra, Boeing, Government and GE.

To that end, barring unforeseen changes to operating conditions, we reiterate AOF's FFO guidance for the 2018 financial year of between 17.1 and 17.3 cents per unit, and distribution guidance of 15.6 cents per unit for the same period.

We remain focused on improving portfolio occupancy and believe AOF's portfolio will continue to benefit from improving tenant demand evidenced in the major office markets on Australia's eastern seaboard, particularly in the small tenant segment of the market. Investment demand is being generated from a diverse range of sources and is anticipated to remain elevated in both CBD and metropolitan markets which should support ongoing capital values.

In respect to growth, we will continue to assess potential acquisitions that are complementary to both our strategy and the existing portfolio. In doing so we will be cognisant of maintaining our conservative capital structure, respective of AOF's cost of capital and disciplined in our approach. We will also continue to investigate ways to enhance the value of AOF's existing portfolio, particularly the development potential at 10 Valentine Ave, Parramatta.

That concludes the formal part of the presentation and I would like to thank you for your continued support. I look forward to continuing to work with the Board and the Australian Unity management team in delivering strong performance to AOF unitholders.

I will now pass back to the chairman of AUIREL, Peter Day.

Peter Day: Conclusion

Thank you Grant for providing the update on the market and the portfolio, particularly our recent acquisition at 150 Charlotte Street Brisbane,

I now invite you to ask any questions that you may have of either management or the board. When asking questions please state your name, and also let us know if you are an AOF unitholder or a visitor at the AGM today.