180 YEARS | Australian Unity Real Wellbeing

Presentation – 5 February 2020

Australian Unity Office Fund 2020 Half Year Results

Webcast: https://webcasting.boardroom.media/broadcast/5e1bd70dfaf62d3f0d924777

Teleconference: https://s1.c-conf.com/diamondpass/10003574-invite.html

to register for the teleconference, and to obtain dial in number, conference passcode, and unique access PIN

Important Notice and Disclaimer

The information provided in this presentation has been prepared by Australian Unity Investment Real Estate Limited ABN 86 606 414 368 AFS Licence 477434 (AUIREL), as responsible entity of the Australian Unity Office Fund ARSN 113 369 627 (Fund).

The information provided in this presentation is general information only. It is to be read in conjunction with the Australian Unity Office Fund Interim report for the half year ended 31 December 2019 lodged with the ASX on 5 February 2020. It is not intended to be investment or financial product advice and should not be relied upon as such. Investors or potential investors should make their own assessment of, or obtain professional advice about, the information contained in this presentation to determine whether it is appropriate for them. The presentation is not an offer or invitation for subscription or purchase of units in the Fund.

Certain statements in this presentation may constitute forward-looking statements or statements about future matters (including forecast financial information) that are based upon information known and assumptions made as of the date of this presentation. These statements are subject to internal and external risks and uncertainties that may have a material effect on future business. Actual results may differ materially from any future results or performance expressed, predicted or implied by the statements contained in this presentation. As such, undue reliance should not be placed on any forward looking statement. Past performance is no guarantee to future performance. Nothing contained in this presentation nor any information made available to investors or potential investors is, or shall be relied upon as, a promise, representation, warranty or guarantee, whether as to the past, present or future by the Fund, AUIREL or any other person (including any director, officer or any related body corporate of AUIREL), except as required by law.

All information in the presentation is current as at 31 December 2019 unless otherwise stated. Any dollar ($) reference is Australian dollars unless otherwise stated. Roundings of the figures provided in this document may result in some discrepancies between the sum of components and the totals outlined within this document including in the tables and percentage calculations.

AOF’s Results

AOF's 2020 half year result highlights

180 YEARS | Australian Unity Real Wellbeing

Delivering on key objectives

Vision	To be Australia's leading income focused office A-REIT								
	Portfolio Construction			Capital Management			Investment Return		
Key objectives	A portfolio of Australian metropolitan and CBD office assets diversified by geography, tenants and lease expiry			A robust capital structure, with conservative gearing, that can withstand cycles and enable growth			Deliver stable, sustainable income returns via quarterly distributions with the opportunity for capital growth		
Key outcomes	Continued asset growth	Strong leasing outcomes	Metropolitan markets continue to provide strong returns	NTA per unit increased	Debt diversified by financier and term	Gearing within target range	FFO and DPU guidance remains	Strong total unitholder return	Significant potential upside from proposed development at Parramatta
	Total assets \$693 million[1] (\$677 million at 30 June 2019)	Occupancy at 95.2%[1] (95.3% at 30 June 2019)	Investors attracted to affordability, infrastructure and accessibility of metro markets	NTA per unit \$2.85[1] (\$2.79 at 30 June 2019)	Debt term 2.6 years[1] (3.1 yrs at 30 June 2019)	Gearing at 29.9%[1,3] (29.5% at 30 June 2019)	FY20 FFO guidance of 17.3 – 17.7 cpu[2]	82%[4] since IPO compared to the S&P/ASX A-REIT 300 Index of 39%[4]	Indicative feasibility shows additional \$0.20 to \$0.40 cpu[5]

1. As at 31 December 2019
2. For 12 months to 30 June 2020 subject to no material change in market conditions and no unforeseen events
3. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash
4. For the period from 20 June 2016 (the IPO date) to 28 January 2020 and assumes distributions are invested at the prevailing market price on the ex-distribution date
5. Based on a number of publicly available current property market assumptions, plus an assumption that additional units are only issued to fund the Parramatta development to maintain gearing at ~30%, and AOF's target fully-let yield on build cost, including tenant incentives, of between 7% and 8%. The range also reflects different coupon payment assumptions during construction.

Financial Results

Financial results

Half year 2020 – key financial metrics

Key metric	1H FY20	1H FY19	Change
Statutory net profit	$23.02m	$13.09m	↑ +$9.93m
FFO[1]	$14.41m	$14.36m	↑ +$0.05m
FFO per unit[1]	8.9 cents	8.8 cents	↑ +0.1 cents
Rental abatement incentives[2]	0.5 cents	0.5 cents	↔ -
FFO plus rental abatement incentives per unit[2]	9.4 cents	9.3 cents	↑ +0.1 cents
Distribution	$13.03m	$12.86m	↑ +$0.17m
Distribution per unit	8.0 cents	7.9 cents	↑ +0.1 cents
NTA per unit	$2.85	$2.67	↑ +$0.18

1. FFO means Funds From Operations
2. Incentives paid to tenants generally take three forms; rental abatement incentives, rent free incentives and fitout incentives. Funds From Operations has been assessed by adding back amortisation of rent free and fitout incentives; but not rental abatements incentives as these are generally expensed. As a result, different incentives provided to a tenant may result in a different FFO outcome. To ensure consistency of disclosure, the impact of adding back rental abatement incentives has also been shown

- Statutory net profit up $9.93 million driven by higher growth in asset revaluations in 1HFY20 compared to 1HFY19.
- Four assets were independently revalued as at 31 December 2019 (and as at 31 December 2018) resulting in an increase of $10.4 million over the preceding book value.
- Net profit includes $1.9 million of costs relating to the CHAB proposal which are reversed out in the FFO calculation.
- FFO and distribution up by $0.1 million driven by increased rental income, partly offset by increase in non-recoverable outgoings, responsible entity fees and other trust expenses.
- Higher NTA predominately due to increase in asset revaluations.

Financial results

Half year 2020 – capital management

	31 Dec 2019	30 Jun 2019	Change
Total borrowings[1]	$210.8m	$204.8m	+$6.0m
Total debt facilities	$220.0m	$220.0m	–
Gearing[2]	29.9%	29.5%	+0.4%
Weighted average cost of debt	3.6%	3.7%	-0.1%
Weighted average debt term to maturity	2.6 years	3.1 years	-0.5 years
Interest cover ratio	4.41x	4.57x	-0.16x
Weighted average interest rate of swaps[3]	2.0%	1.9%	+0.1%
Weighted average term of interest rate hedging	3.1 years	3.1 years	–

1. Total borrowings represent the bank loans and excludes unamortised borrowing costs
2. Gearing is interest bearing liabilities (excluding unamortised establishment costs) less cash divided by total tangible assets less cash
3. Excludes financier's margin, line fee and establishment fee, and excludes any forward dated interest rate swaps

- Debt diversified by three separate tranches and two major banks (CBA and NAB).
- Currently seeking to refinance a $70 million debt tranche which expires in June 2021.
- Borrowings were 81% hedged as at 31 December 2019.

180 YEARS | Australian Unity Real Wellbeing

Portfolio Management

Portfolio highlights

Strong leasing activity and further progress of development opportunity

180 YEARS | Australian Unity Real Wellbeing

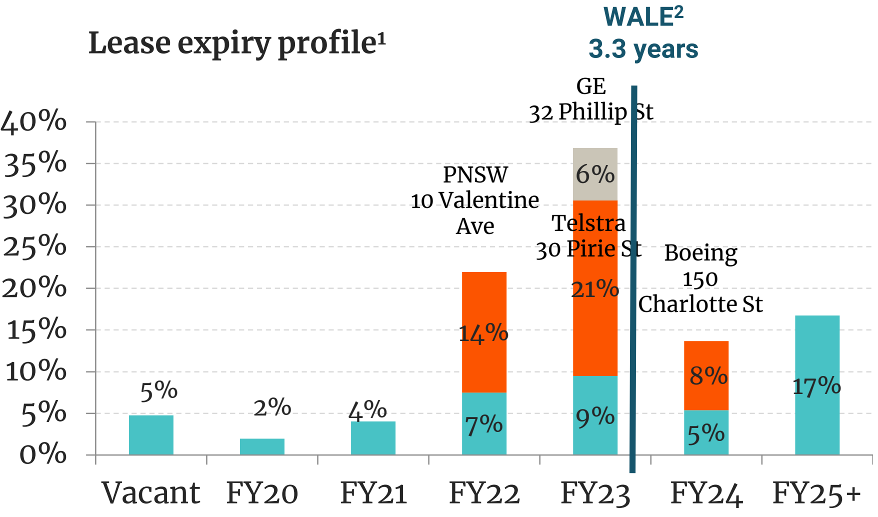
1	Occupancy remains consistently high– portfolio occupancy at 95.2%[1] (95.3%[1] at 30 June 2019)
2	Portfolio value increased by $17.4 million to $685.8 million reflecting cap rate compression, market rental growth and capital expenditure
3	Parliamentary Counsel has drafted legislation which increases the floor space ratio for the 2 Valentine Ave, Parramatta proposed development. Under the terms of the Gateway Determination, the timeframe for completing the amendment is by 29 February 2020
4	The development application for 2 Valentine Ave, Parramatta was lodged in August 2019 seeking to add a further ~20,000 sqm to the DA consent already received relating to the ~8,000 sqm building

1. Net Lettable Area

Leasing Summary

- Leasing activity of ~6,572 sqm during the 6 months to 31 December 2019:
  - ✓ comprising ~6,492 sqm (or ~6.0% NLA[1]) of completed leases (19 transactions)
  - ✓ and a further ~80 sqm (or ~0.1 % NLA[1]) of leasing deals under a non-binding Heads of Agreement (1 transaction)
  - ✓ of which ~1,100 sqm (or ~1.0% of NLA[1]) related to space which was vacant at 30 June 2019
- No significant single lease expiry until FY22 and only one vacancy of greater than 1,000 sqm
- Starting to actively engage with upcoming major lease expiries

Lease expiry profile[1]



Near-term key lease expiries (>1,000 sqm)

Property	Area (sqm)	% of Portfolio[3]	Expiry
64 Northbourne Avenue, Canberra	1,027	1.0%	Vacant
5 Eden Park Drive, North Ryde	1,252	1.2%	FY22
150 Charlotte Street, Brisbane	1,492	1.4%	FY22
10 Valentine Avenue, Parramatta	15,569	14.5%	FY22

1. Net Lettable Area
2. Weighted Average Lease Expiry
3. As at 31 December 2019 by Net Lettable Area

Valuation summary

Uplift driven mainly by cap rate compression and market rent growth

	Property	Current cap rate	Cap rate change[1]	Market rental[2]	Market rental change[2]	31 Dec 2019 book value	Change in book value[3]
Single or Dominant Tenant Assets	30 Pirie St, Adelaide	7.25%	n/a[6]	$471/sqm gross[4]	n/a[6]	$125.4m	$0.9m
	10 Valentine Ave, Parramatta	5.75%	n/a[6]	$477/sqm net[4]	n/a[6]	$122.2m	$2.2m
	150 Charlotte St, Brisbane	5.75%	-25bps	$633/sqm gross[4]	+$5/sqm	$104.5m	$2.5m
	32 Phillip St, Parramatta	5.50%	-25bps	$523/sqm net[4]	+$8/sqm	$68.5m	$3.5m
	5 Eden Park Dr, North Ryde	6.00%	n/a[6]	$320/sqm net[4]	n/a[6]	$66.0m	$0.0m
Multi Tenant Assets	468 St Kilda Rd, Melbourne	5.25%	No change	$390/sqm net[4]	+$15/sqm	$82.5m	$2.0m
	2 Eden Park Dr, North Ryde	6.00%	-25bps	$321/sqm net[4]	+$4/sqm	$51.0m	$3.6m
	241 Adelaide St, Brisbane	7.50%	n/a[6]	$600/sqm gross[4,5]	n/a[6]	$41.1m	$2.1m
	64 Northbourne Ave, Canberra	7.00%	n/a[6]	$400/sqm gross	n/a[6]	$24.5m	$0.5m
Total (T) / weighted average(A)		6.13% (A)	-8bps (A)			$685.8m	+$17.4m

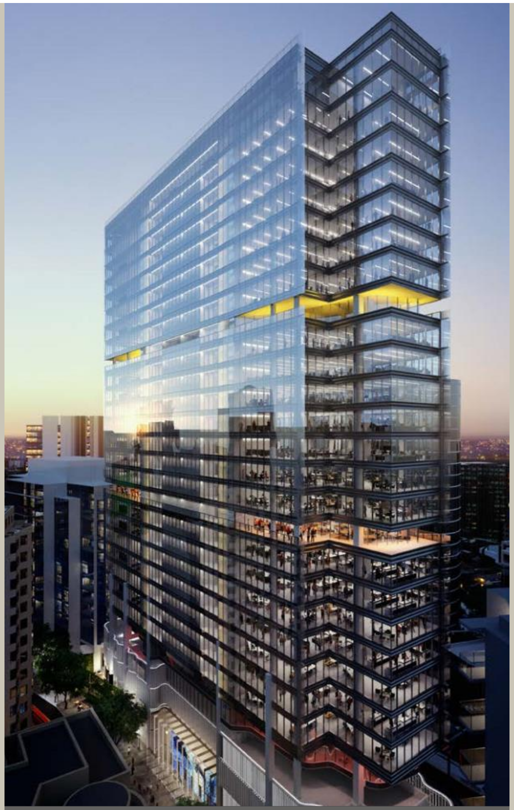
1. Change in valuation capitalisation rate since 30 June 2019 as set out in the independent valuations obtained as at 31 December 2019
2. Market rental as set out in the latest independent valuation. Market rental change refers to the change in market rents between the 31 December 2019 valuation and the 30 June 2019 valuation
3. Change in valuation from 30 June 2019 book value
4. Office component
5. Excludes The Brisbane Club who only pay outgoings under the terms of their lease as part of the leasehold nature of this property
6. Not independently revalued as at 31 December 2019

Properties independently revalued at 31 December 2019

- Approx half of portfolio revalued in line with Valuation Policy
- Capitalisation rate compression and increasing market rents contributed to the valuation increases
- Portfolio weighted average capitalisation rate now 6.13%
- Portfolio average capital value at $6,372 per sqm
- The valuation of 10 Valentine Ave, Parramatta does not take into account any development potential

2 Valentine Ave, Parramatta

Further progress of development opportunity



Artist impression of 2 Valentine Avenue, Parramatta, NSW

Two planning matters are progressing in parallel, while at the same time we are in the market seeking a tenant pre-commitment.

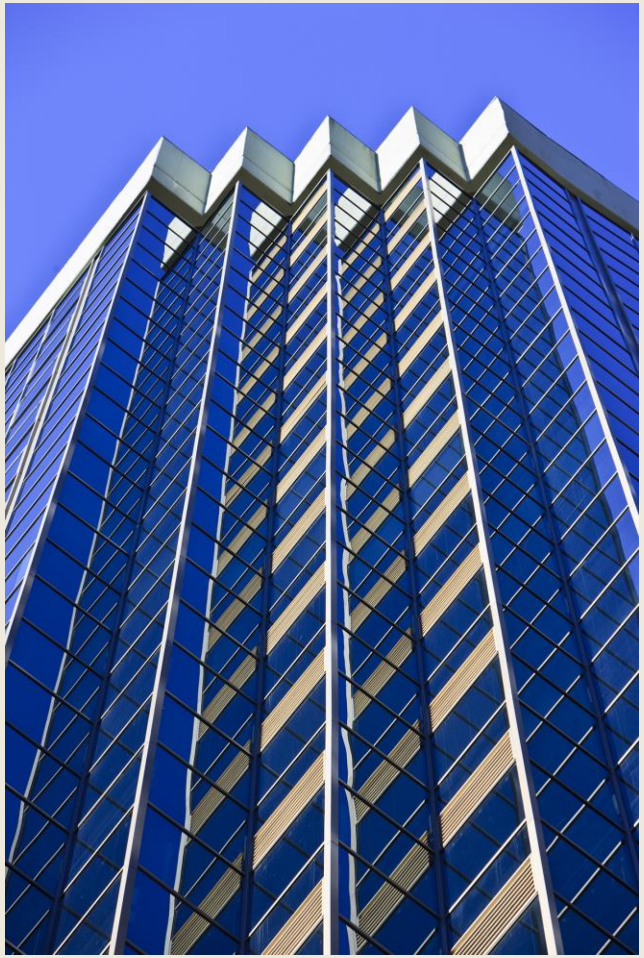
- **Site Specific Planning Proposal:** The Planning Proposal has received Council endorsement for a reference design of 13.25:1 FSR, an increase from the current FSR of 6.9:1. The NSW Department of Planning provided its Gateway Determination on 29 May 2019 and Parramatta Council subsequently endorsed the proposal on 8 October 2019. Parliamentary Counsel has completed drafting the LEP amendment and it is now awaiting gazettal. The Gateway Determination states that timeframe for completing the amendment is 9 months from Gateway Determination, being 29 February 2020.
- **Development Application**: This was lodged in August 2019 seeking to add a further ~20,000 sqm to the development consent already received relating to the ~8,000 sqm building. City of Parramatta Council has advised that they intend to be in a position (provided they consent to the DA) to approve the development in the weeks following gazettal of the Site Specific Planning Proposal.
- **Pre-commitments**: We are working actively with leasing briefs currently in, and about to come to, market with significant state and federal government requirements included in those briefs.
- **Approvals:** Commencement of the development is subject to a number of conditions being satisfied including board approval, securing a tenant to pre-commit part or all of the building, signing a major works contract with a builder and obtaining finance.

https://www.youtube.com/watch?v=wzmnZAegr0w

Other Activity

Responsible Entity ownership change
Australian Unity and Keppel Capital

- Keppel Capital is a premier asset manager in Asia with assets under management of approximately S$33 billion as at end-2019.
- Subject to customary conditions being satisfied, on or before 28 February 2020, Australian Unity Limited will transfer all of the issued capital in AUIREL (the responsible entity for AOF) to a joint venture company owned equally by wholly owned subsidiaries of Australian Unity and Keppel Capital
- While the ownership of AUIREL will change, it will not impact AOF's strategy of providing sustainable income returns with the potential for capital growth over the long term by investing in a diversified portfolio of Australian office assets.
- Australian Unity Funds Management Limited and Australian Unity Property Management Pty Limited remain as AOF's investment manager and property manager, respectively under the existing arrangements with AUIREL.
- Each of Australian Unity and Keppel Capital will be entitled to have one director on the AUIREL board; however, the composition of AUIREL's board will continue to be a majority of independent directors.
- Australian Unity's existing policy dealing with potential conflicts of interest will continue to apply with this new joint venture company.



Fund Manager Change

James Freeman

- James Freeman commences as Fund Manager for AOF on 24 February 2020
- James has over 20 years of experience across property and financial markets with experience in both listed and wholesale funds management platforms, including Mirvac and Investa Property Group
- He also brings valuable funds management experience to AOF having worked as the Assistant Fund Manager for the Investa Commercial Property Fund, growing funds under management to over $3 billion
- Mark Lumby will take a broader business leadership role within Australian Unity once James has been embedded as the new Fund Manager

CHAB proposal

‘No current intention of making a further offer for all of the units in AOF’

- CHAB Office Pty Limited as trustee for the CHAB Office Trust (**CHAB**), an entity associated with Abacus Property Group and Charter Hall Group, made an offer to acquire all units of AOF for $3.04 cash per unit that it did not already hold by way of a trust scheme reduced by any distributions announced or paid other than the 3.95 cent distribution announced on 21 June 2019 (**Scheme**).
- The requisite majority of unitholders did not vote in favour of the Scheme.
- AUIREL and CHAB terminated the Scheme Implementation Agreement after the unitholder meeting.
- CHAB has said that ‘it has no current intention of making a further offer for all of the units in AOF’.
- Costs associated with the scheme are estimated to be ~$1.9 million and are excluded from the FFO calculation.

	Resolution 1 (75% threshold)			Resolution 2 (50% threshold)		
	Votes	%	% of IC	Votes	%	% of IC
For	53,147,330	62.82%	32.64%	53,077,600	62.60%	32.60%
Against	31,460,412	37.18%	19.32%	31,705,899	37.40%	19.47%
Total Votes	**84,607,742**	**100.00%**	**51.96%**	**84,783,499**	**100.00%**	**52.07%**

Starwood's intended offer

- On 29 January 2020, SOF-Xl Legs Holdings Limited (**Starwood**), a member of the Starwood Capital Group, announced its intention to make, itself or through an affiliate, an unsolicited all-cash off-market takeover offer for all outstanding units in AOF for $2.98 per unit reduced by any distributions received by unitholders after 29 January 2020 (**Intended Offer**).
- The announcement notes that investors representing an aggregate of 16.7% of AOF units have indicated their support for the Intended Offer by entering into pre-bid agreements with Starwood.
- The Intended Offer is subject to a number of conditions, including FIRB approval and a 90% minimum acceptance condition. Full details of the conditions are set out in the Starwood announcement.
- The Intended Offer is not subject to due diligence.
- An independent board committee (**IBC**) has been established by the Board of AUIREL to consider the Offer.
- The IBC does not believe the Intended Offer represents compelling value for AOF unitholders and based on the current terms, the IBC is presently minded to advise AOF unitholders to reject the Intended Offer once made.

Outlook

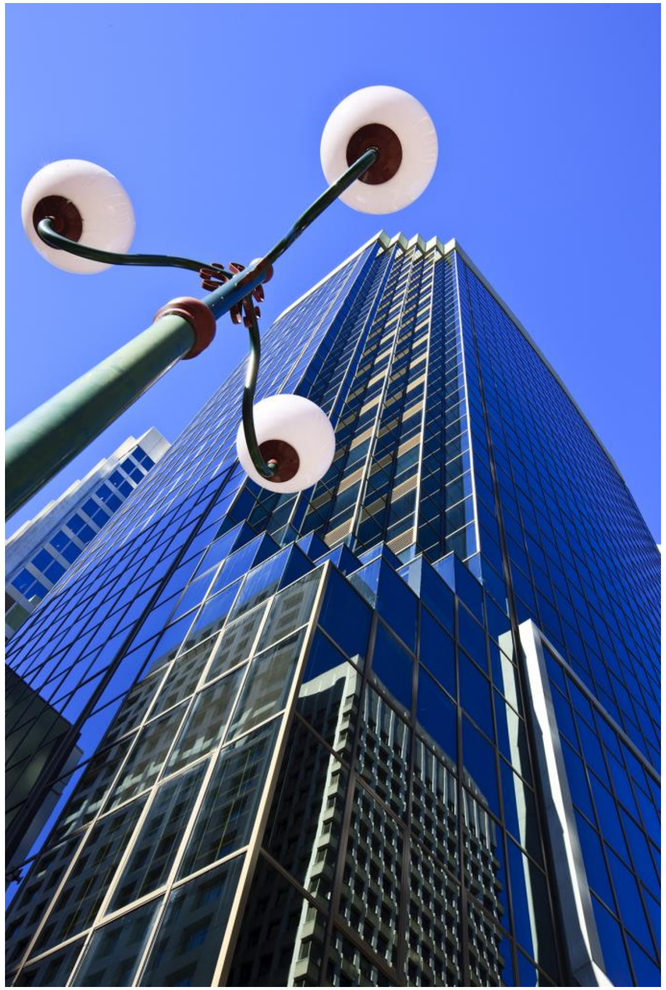
Outlook

Guidance

- FY20 FFO guidance reaffirmed of 17.3 – 17.7 cpu[1]
- FY20 distribution guidance reaffirmed of 16.0 cpu[1]

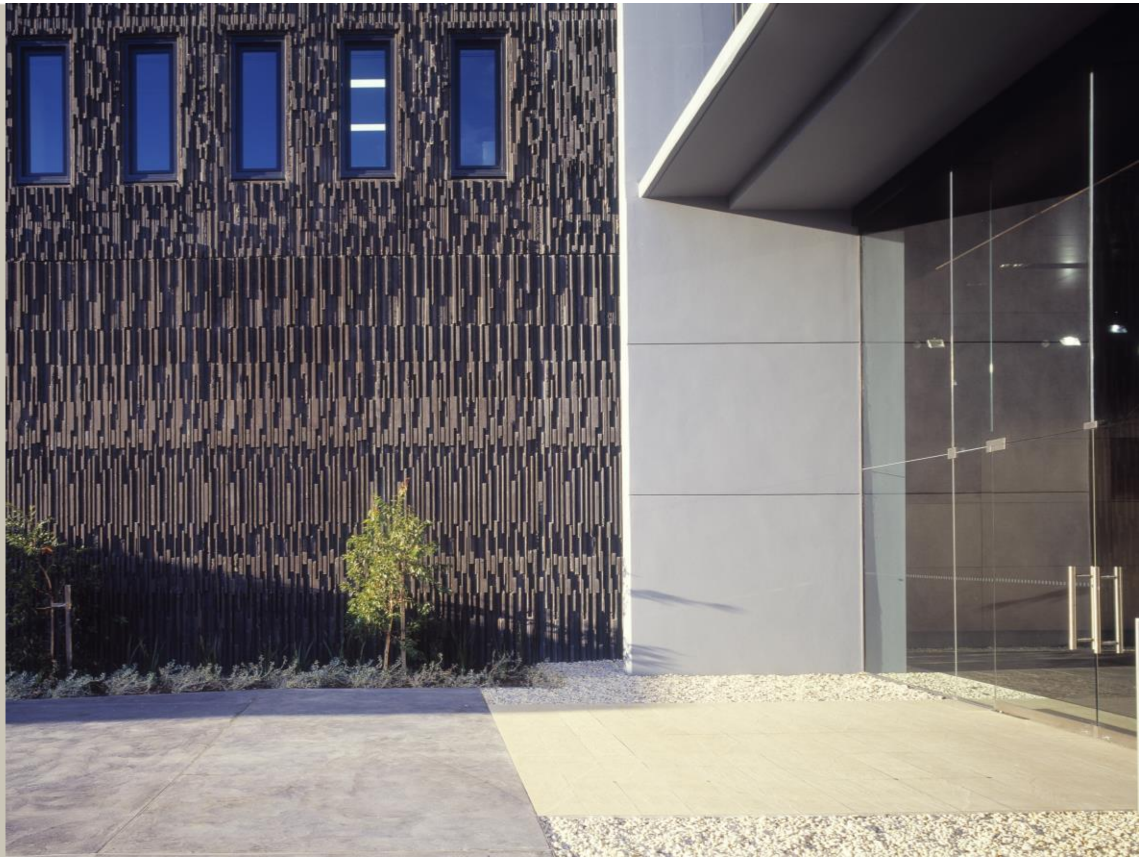
Immediate focus and outlook

- Address current vacancy and pending lease expiry risk, including major tenants
- Where possible, take advantage of improving leasing conditions to grow AOF's earnings
- Explore potential acquisitions that meet the strategic objectives of the fund
- Further progress the development opportunity at 2 Valentine Avenue, Parramatta
- Refinance a tranche of the loan facility expiring in June 2021
- Embed James Freeman as the new Fund Manager
- Potential admission to the S&P/ASX 300 index



1. For 12 months to 30 June 2020 subject to no material change in market conditions and no unforeseen events

Appendices



Income statement

6 months to 31 December 2019	1H FY20 ($'000)	1H FY19 ($'000)	Change ($'000)
Income Statement			
Rental income	29,464	30,259	(795)
Property expenses	(10,599)	(9,582)	(1,017)
Interest income	3	15	(12)
Net gain / (loss) on financial instruments held at fair value	249	(1,151)	1,400
Net fair value increment of investment properties	12,342	171	12,171
Total income net of property expenses	**31,459**	**19,712**	**11,747**
Expenses			
Responsible Entity fees	(2,057)	(1,958)	(99)
Borrowing costs	(3,840)	(3,954)	114
Other expenses	(2,545)	(706)	(1,839)
Total expenses, excluding property expenses	**(8,442)**	**(6,618)**	**(1,824)**
Net Profit	**23,017**	**13,094**	**9,923**

Reconciliation of statutory profit to Property Council FFO

6 months to 31 December 2019	1H FY20 ($'000)	1H FY19 ($'000)	Change ($'000)
Net Profit	23,017	13,094	9,923
Adjusted for:			
Straight lining of rental income and amortisation of leasing commissions and tenant incentives	1,940	(67)	2,007
Net (gain) / loss on financial instruments held at fair value	(249)	1,151	(1,400)
Net fair value increment of investment properties	(12,342)	(171)	(12,171)
Amortisation of borrowing costs	147	147	0
Once off adjustment*	1,900	202	1,698
Funds From Operations	**14,413**	**14,356**	**57**
Retained Earnings	(1,387)	(1,492)	105
Distributions	**13,026**	**12,864**	**162**

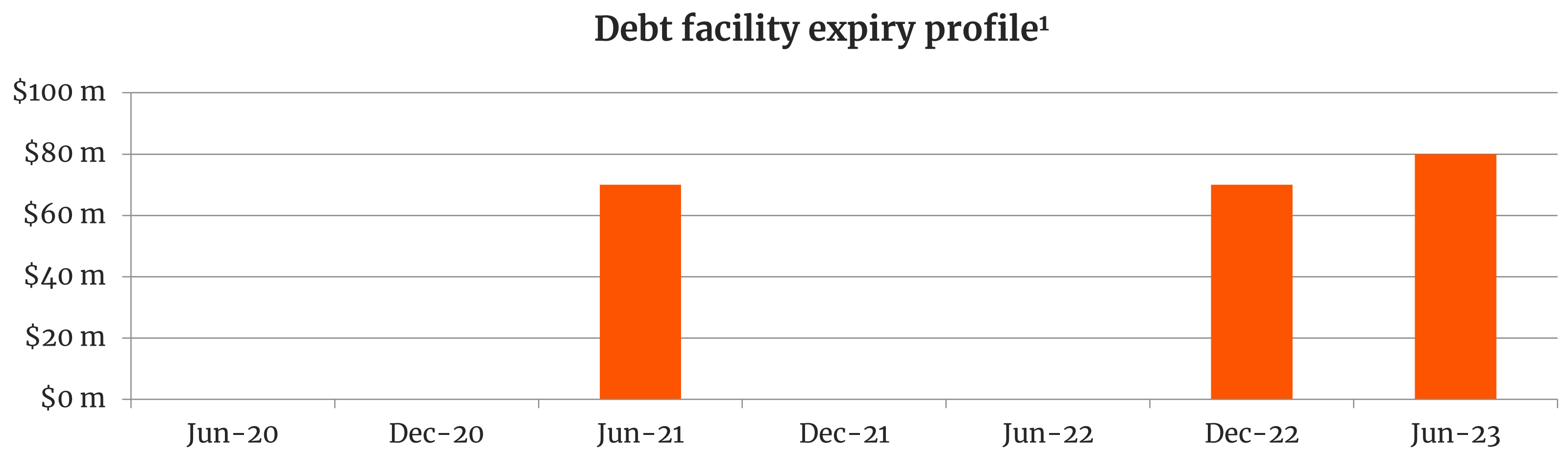
*The Fund incurred costs in relation to the CHAB transaction (1HFY20) and Starwood transaction (1HFY19) which did not proceed. As these costs are one off in nature, and not part of the underlying and recurring earnings or expenses of the Fund, the directors have excluded them from the FFO calculation.

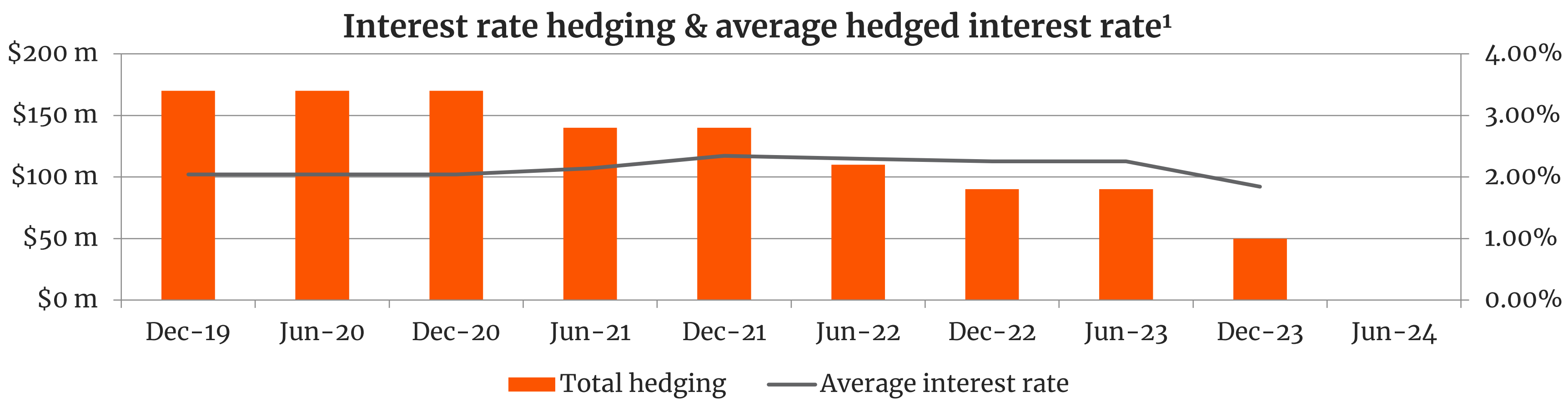
Balance sheet

180 YEARS | Australian Unity Real Wellbeing

	31 Dec 2019 ($'000)	30 Jun 2019 ($'000)	Change ($'000)
Assets			
Cash and cash equivalents	5,364	7,481	(2,117)
Receivables	1,641	1,117	524
Other assets	537	458	79
Investment properties	685,759	668,400	17,359
Total Assets	**693,301**	**677,456**	**15,845**
Liabilities			
Distributions payable	6,513	6,432	81
Payables	6,808	6,932	(124)
Financial liabilities held at fair value	5,894	6,143	(249)
Borrowings	210,086	203,940	6,146
Total Liabilities	**229,301**	**223,447**	**5,854**
Net Assets	**464,000**	**454,009**	**9,991**
Number of units on issue (million)	162.8	162.8	-
Net Tangible Assets per unit	$2.85	$2.79	$0.06
Gearing	29.9%	29.5%	0.4%

Capital management





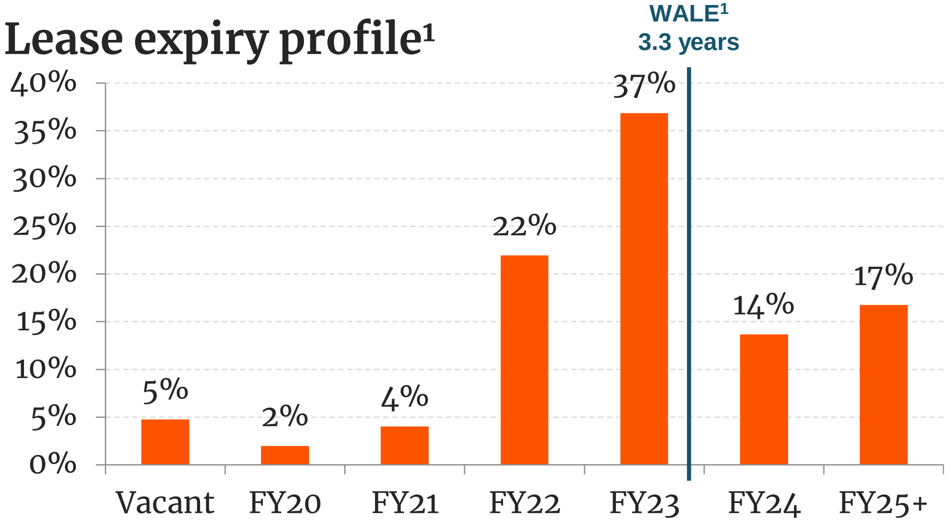
1. As at 31 December 2019

Key portfolio metrics as at 31 Dec 2019

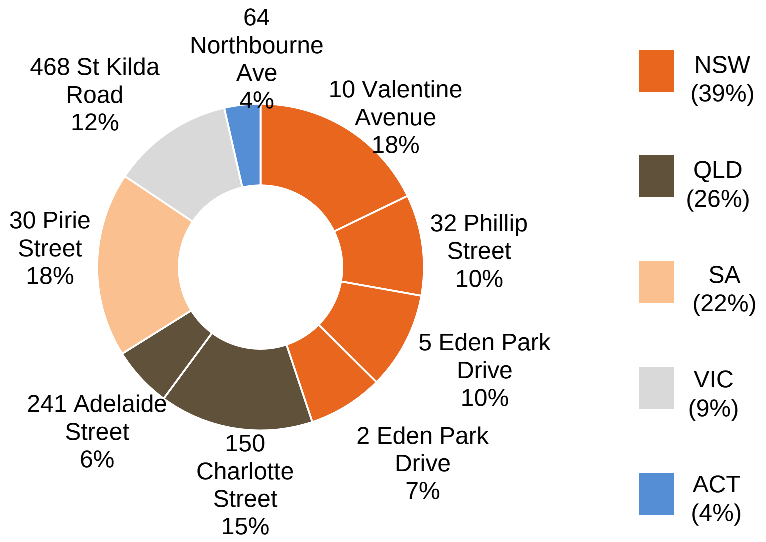
Key portfolio metrics

Number of properties	9
Occupancy[1]	95.2%
Portfolio Value	$685.8m
Weighted Average Capitalisation Rate	6.13%
WALE[2]	3.3 years
Net Lettable Area	107,614 sqm

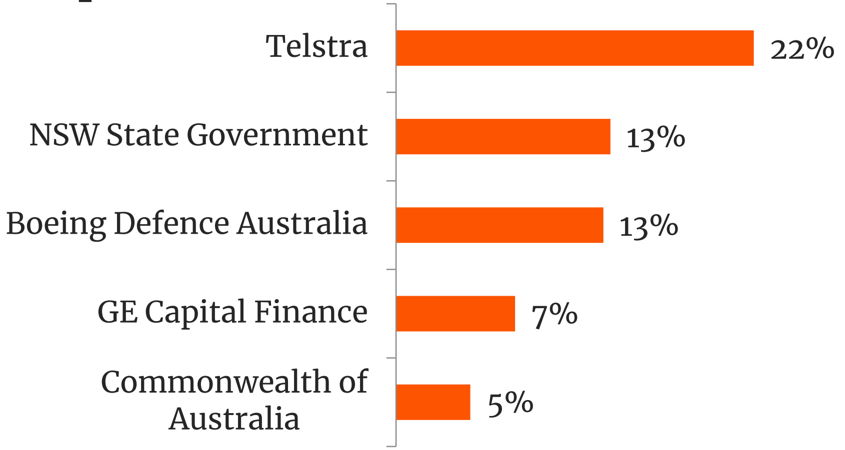
Lease expiry profile[1]



Geographic diversification[2]



Top 5 tenants[3]



1. As at 31 December 2019, by Net Lettable Area
2. As at 31 December 2019 by book value
3. As at 31 December 2019, by Gross Property Income

AOF's NTA and unit price performance

Steady capital growth and generally trading above NTA per unit

180 YEARS Australian Unity Real Wellbeing

Source: IRESS as at 28 January 2020

Investment portfolio

As at 31 December 2019

	Property	State	Book value	Cap rate	NLA (sqm)	WALE[1] (years)	Occupancy (by NLA)
Single or Dominant Tenant Assets	30 Pirie St, Adelaide	SA	$125.4m	7.25%	24,665	3.2	96.1%
	10 Valentine Ave, Parramatta	NSW	$122.2m	5.75%	16,020	2.4	97.3%
	150 Charlotte St, Brisbane	QLD	$104.5m	5.75%	11,081	4.1	97.8%
	32 Phillip St, Parramatta	NSW	$68.5m	5.50%	6,759	3.5	100.0%
	5 Eden Park Dr, North Ryde	NSW	$66.0m	6.00%	11,029	4.5	92.8%
Multi Tenant Assets	468 St Kilda Rd, Melbourne	VIC	$82.5m	5.25%	11,211	3.0	97.8%
	2 Eden Park Dr, North Ryde	NSW	$51.0m	6.00%	10,345	3.5	95.4%
	241 Adelaide St, Brisbane	QLD	$41.1m	7.50%	10,075	2.5	94.8%
	64 Northbourne Ave, Canberra	ACT	$24.5m	7.00%	6,429	4.1	77.3%
Total (T) / weighted average(A)			$685.8 (T)	6.13% (A)	107,614 (T)	3.3 (A)	95.2% (A)

1. As at 31 December 2019, by Gross Property Income. This excludes The Brisbane Club at 241 Adelaide Street, Brisbane as the tenant has approximately 43 years remaining on the lease and would thus distort the metric

180
YEARS

Australian Unity
Real Wellbeing