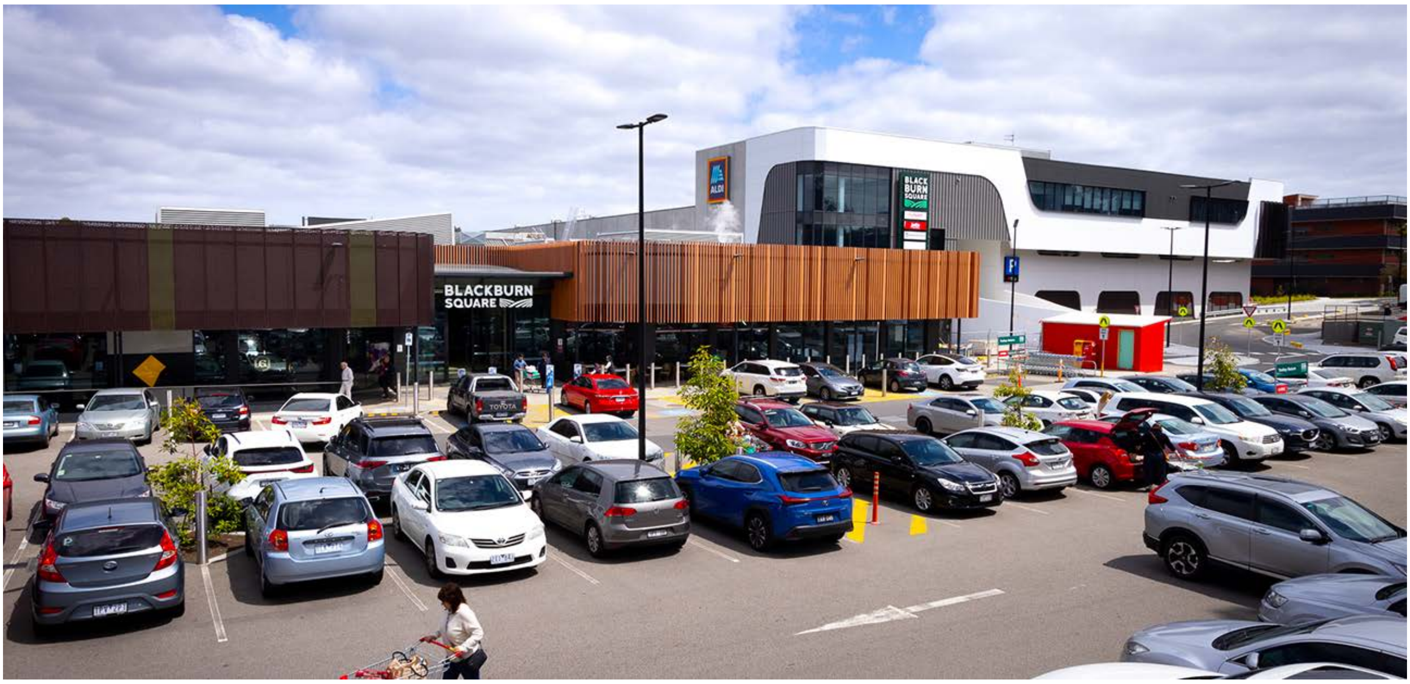
Australian Unity
Real Wellbeing
180 YEARS

Diversified Property Fund

Fund Update
31 December 2023

Established in August 2006, the Australian Unity Diversified Property Fund (Fund) currently holds 7 properties* in New South Wales, Victoria and Western Australia. The Fund aims to deliver a stable income stream with the potential for capital growth. *Consolidated for reporting purposes.



Blackburn Shopping Centre, Blackburn VIC

Fund Facts as at 31 December 2023

Gross Asset Value	Unit Price	December Quarter Ordinary Distribution~
$520.85 m ($562.20m at 30 September 2023)	**$1.0336** exit price (cum distribution)	**1.26 cents per unit (CPU)** (1.26 CPU September 2023 quarter)

Gearing Ratio	Portfolio Occupancy	Weighted Average Lease Expiry (WALE)
45.21% (45.89% at 30 September 2023)	**98.4%** (leased by income)	**8.8 years** (by gross rental income)

~ distributions are paid monthly

Ratings / Awards

Recommended
Lonsec Research

Performance as at 31 December 2023

	3 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	7 yrs % p.a.	10 yrs % p.a.	Since inception % p.a.
Distribution return	1.16	4.16	6.72	7.10	7.31	7.74	7.86
Growth return	(4.51)	(11.12)	(1.16)	0.21	2.65	3.05	0.16
Total return	(3.35)	(6.96)	5.56	7.31	9.96	10.79	8.02
Benchmark distribution return	0.79	3.07	2.96	3.14	3.39	3.86	4.96
Benchmark total return	(2.92)	(7.16)	3.52	2.67	5.05	6.80	6.85

Inception date for performance calculations is 22 August 2006.
Returns are calculated after fees and expenses and assume the reinvestment of distributions. Past performance is not a reliable indicator of future performance.
The Fund's Benchmark distribution return is 1% p.a. above the average Commonwealth Government 10-year bond yield calculated on a rolling basis over the previous five-year period. The Fund's Benchmark total return is the MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index.

Contribution summary as at 31 December 2023

The relative contribution of major variables on growth returns over the last quarter and year.

Contributor	3 mths %	1 yr %
Property revaluations	(2.91)	(7.74)
Interest Rate Swaps (realised and unrealised marked to market movements)	(0.77)	(0.66)
Unrealised gains/losses on investments in listed/unlisted trusts	(0.75)	(1.64)
Performance fee	0.00	0.00
Other	(0.08)	(1.08)
Growth return	(4.51)	(11.12)

Return calculations are based on actual distributions reinvested, which may vary slightly to the performance table illustrated above. Past performance is not a reliable indicator of future performance. Property revaluations are calculated in accordance with accounting standards and includes capital expenditure, lease incentives and/or commissions (both of which are amortised), this represents the increase/decrease from the property book value immediately prior to valuation. 'Other' may include: retained earnings during the period, swap break costs, estimated gains distributed, realised gains/losses on property, distributions from prior period retained earnings, realised gains/losses from unlisted property trusts and non-material movements.

Key portfolio statistics as at 31 December 2023

Geographical allocation (by value)

State	No. assets	%
NSW	3	40.09
WA	3	31.77
VIC	1	28.14
Total	7**	100.00

** Consolidated for reporting purposes.

Sector allocation (by value)

Sector	No. assets	%
Retail	3	56.20
Convenience	2	28.76
Office	1	11.33
Industrial	1	3.71
Total	7**	100.00

** Consolidated for reporting purposes.

Top 5 tenants (by income)

Tenant	%
Ampol	24.51
Coles	9.99
Woolworths	8.36
Boeing	3.53
ALDI Foods Pty Ltd	3.31
Total	49.70

Property data

Number of properties	7**
Total number of tenants	151
WALE (by income)#	8.8 yrs
Occupancy rate (by income)	98.39%

** Consolidated for reporting purposes
# Excludes assets under development.

Financials

	$m
Gross assets	520.85
Total debt	235.50
Other liabilities^	6.39
Net assets	278.96

^ Other liabilities include a provision for the distribution.

Debt

Gearing (RG 46 ASIC definition)	45.21%
Loan-to-Value Ratio (LVR) (Financier's definition)	47.04%
Interest Cover Ratio (ICR) (RG 46 ASIC definition)	1.96 times
Interest Cover Ration (ICR) (Financier's definition)	2.06 times
Hedging (% of debt hedged)	55.20%

Valuations

Valuations during the quarter	3
Change in total direct property book value	-2.83%
Change in book value of the properties revalued	2.50%

* Change in book value over the quarter includes revaluation impacts along with capital expenditure and other minor variations but excludes acquisitions and disposals.

Market commentary

While 2023 has seen a notable slowdown to prior economic growth, the Australian economy has proved resilient against the many local and overseas challenges faced over the year. The impacts of stubbornly high inflation and interest rates reaching their highest levels since 2011 has seen annual economic growth shrink from 3.8% over 2022 to a 12-month rate to September 2023 of 2.1%.

Economic growth in Australia has been supported by a strong rebound in both overseas migration and tourism levels together with ongoing low unemployment which have helped to partially offset falling consumer demand in times of challenging cost of living pressures. However conversely, such economic resilience together with services price growth and housing supply issues has led inflation in Australia to remain markedly above the RBA's desired target 2% - 3% range. While this has moderated from prior peaks, it remains above several of Australia's developed world counterparts. As a result, at its November 2023 meeting, the RBA raised the cash rate by a further 0.25%, bringing the total cash rate to 4.35% where it was held in December 2023. Positively, recent inflation data in the USA and parts of Europe has demonstrated a material reduction in inflation and while declines in Australia have lagged, the downward trend would imply we are at or near to peak interest rates. Following recent projections from the USA's Federal Reserve that they anticipate a cut in interest rates in 2024, market sentiment has pivoted somewhat to bring forward expectations of interest rate cuts, both overseas and within Australia, leading to significant equity market enthusiasm in the latter stages of 2023.

Notwithstanding the recent optimism regarding the possible end to escalating interest rates, volatility risk and market uncertainty remains. Over the short term, Australia's economic growth is forecast to remain subdued as businesses and consumers work through the current constrained growth environment. However, continued population growth and strong employment levels should act as a backstop.

Research data from Jones Lang LaSalle (JLL) indicates that the final quarter of 2023 saw muted tenant demand in the major CBD office markets of Sydney and Melbourne with negative net absorption (i.e., where take-up of office accommodation is lower than office space becoming vacant) recorded in both markets. This was most notable in the Melbourne CBD office market as vacancy levels increased from 16.2% last quarter to 18.2% in December 2023. The positive CBD office market stories remain Brisbane and Perth, which both recorded net positive absorption for the quarter and, along with the Adelaide CBD, achieved solid net adsorption for 2023. These markets have all benefited from their own respective drivers be it ongoing demand for raw materials (Perth) or elevated public infrastructure works (Brisbane) as well as being less exposed to downsizing large corporate occupiers. While Brisbane, Perth and Adelaide were less impacted by ingrained change of working habits resulting from the COVID-19 Pandemic, recent research from CBRE has highlighted that the return to the office continues to show a steady improvement over the past 12 months. In Q3 2023, the national average office attendance reached 71% of pre-COVID levels, well above the 54% recorded 12 months earlier, with mid-work week levels achieving peak attendance levels above this average in all markets excluding Melbourne. This thematic is expected to continue as corporate leaders seek to enforce requirements more stringently for staff office attendance with some companies reportedly linking office attendance to staff bonuses.

While continuing to perform well, 2023 has seen the Industrial property market cool somewhat from the remarkable performance experienced over recent years. Exceptionally low vacancy continues to limit tenant movement and will likely support rental growth over the short term, however, anecdotal evidence would suggest that some occupiers are pausing on relocation decisions until macroeconomic conditions stabilise, while the vacancy rate has increased marginally (off an extremely low base) for all major Australian markets (CBRE). Over the final quarter of 2023, JLL reports that industrial rents have continued to grow across all capital city markets excluding Perth. Despite this, the annual rate of growth experienced over 2023 has come down from the more than 25% experienced by most in 2022, to between 10%-20% in Brisbane, Sydney, and Melbourne markets in 2023. Continuing growth expectations for e-commerce in Australia, particularly from Food and Liquor operators, has seen last-mile locations continue to be highly desired with the South Sydney and Melbourne City Fringe submarkets. Capitalising on this dynamic and the limited land supply in these locations, some major landlords have turned to multistorey industrial developments with Goodman Group recently opening their first Australian offering of this kind in South Sydney.

The Australian consumer continues to face pressure from a heightened cost of living and a decline in year-on-year real wages, however recent Australian Bureau of Statistics (ABS) data shows that seasonally adjusted retail spending grew strongly in November 2023. Whether this greater-than-expected growth, reflects an advancement of traditionally elevated holiday period sales by more cost-conscious consumers remains to be seen, however it demonstrates the ongoing willingness of Australians to spend in the face of financial challenges, supported by high levels of employment and household savings levels and supported by high levels of migration. JLL data reports that rents across retail property markets remained broadly flat for the December 2023 quarter. Over the last 12 months retail property rental growth levels have been largely positive, with the larger ASX listed centre operators recording positive re-leasing spreads amidst high occupancy levels. As tourism levels and office attendance have picked up, CBD retail property vacancy levels have declined over 2023 while prime rental growth rates have also turned positive. Like all commercial property sectors, transactional activity has been limited over 2023, however JLL data reports that total retail property transaction volumes were the highest of the three traditional sectors at c.$5.5bn supported by additional liquidity being recorded for larger shopping centre assets.

Overall, 2023 has been a testing year for commercial real estate, with interest rates continuing to rise, inflation levels remaining elevated and structural shifts in office worker patterns creating pricing pressures and a dislocation between buyers and sellers. Somewhat inevitably, property values have come under pressure, however, despite such tribulations, real estate markets have been resilient, most notably within the living, industrial and alternative property sectors. More prudent debt management together with flexibility from lenders has to date, resulted in minimal distressed asset sales driving a softer market landing in Australia. Looking forward macro-economic uncertainty remains, however, the 2023 Institutional Real Estate Allocations Monitor notes Asia Pacific-based Institutional investors expect to increase allocations to real estate in 2024. To this end, Australia is likely to remain attractive given ongoing migration levels and a relatively positive forecast economy, while potential interest rate cuts will also likely support transactional activity towards the second half of 2024.

Portfolio activity for this quarter

Property Sales

The Fund settled the disposal of 620 Mersey Road, Osborne, SA on 5th October 2023. The 8,006 sqm industrial/office property was sold for $46.0 million, in line with 30 June 2023 book value.

Proceeds from the sale were utilised to pay down fund borrowings.

Valuations

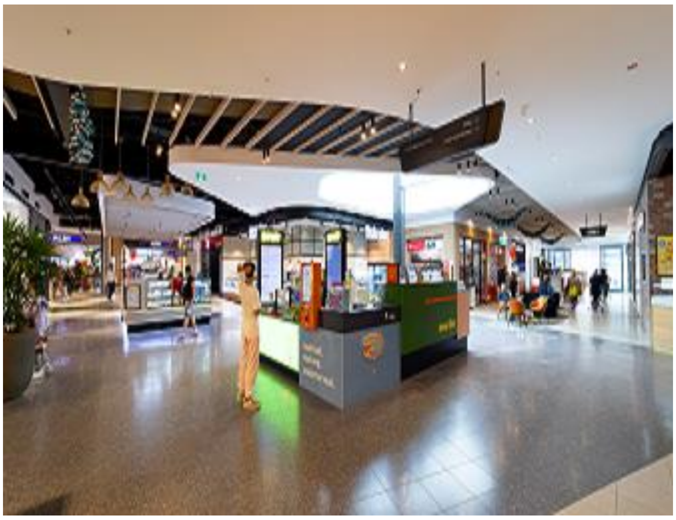
Three of the Fund's properties were independently valued during the December 2023 quarter, with a net decrease of ($7.73) million or (3.06%) from the properties' book value immediately prior to valuation.

Valuation changes include:

- **Busselton Shopping Centre, WA** – ($4.25m) decrease in value compared to the book reflects the impact of capitalisation rate softening, from 5.85% to 6.00%, and additional development capital expenditure (construction costs & lease incentives) of $1.48 million since the previous valuation.
- **Blackburn Square Shopping Centre, VIC** – ($5.74m) decrease in value reflects the impact of capitalisation rate softening, from 5.38% to 5.50%, and additional development capital expenditure (predominantly construction costs) of $3.04 million since the previous valuation.
- **6-8 Geddes St Balcatta, WA (inc. 5 Kenhelm St)** – $2.27m uplift in value follows the 3-year extension of the Metcash lease and a recent CPI review.

Distributions

Ordinary cash payments of the Fund's regular income of 1.26 cents per unit were paid in the December 2023 quarter.



Blackburn Shopping Centre Interior, Blackburn VIC

Busselton Shopping Centre, Bussleton WA

Busselton Shopping Centre, Bussleton WA

Fund portfolio as at 31 December 2023

Property Details			Tenancy Details				Valuation Details			
Address	**Note**	**Lettable Area (sqm)**	**Major Tenant**	**Number of Tenants**	**Occupancy Rate (% by income)**	**WALE (years by income)**	**Current Valuation ($m)**	**Valuation Date**	**Capitalisation Rate (%)**	**Book Value ($m)**
Industrial										
6-8 Geddes Street, Balcatta, WA	-	9,961	IGA Distribution	2	100.0	2.9	18.65	Dec-23	6.00	18.65
Sub total				2			18.65			**18.65**
Retail										
Blackburn Square Shopping Centre, VIC	-	17,577	Coles	57	97.5	9.3	140.00	Nov-23	5.50	141.32
Busselton Central Shopping Centre, WA	-	13,314	Coles	34	95.0	7.0	86.00	Nov-23	6.00	86.17
Dog Swamp Shopping Centre, WA	-	8,076	Woolworths	35	100.0	6.4	54.80	May-23	5.88	54.72
Sub total				126			280.80			**282.21**
Convenience										
Wyong Service Centres, Wyong, NSW	-	4,286	Ampol	2	100.0	14.5	144.40	Jun-23	5.25	144.41
Sub total				2			144.40			**144.41**
Office										
1 and 2 Technology Place, Williamtown, NSW	-	7,557	Boeing	21	100.0	2.9	56.75	May-23	6.13	56.89
Sub total				21			56.75			**56.89**
Listed property										
Australian Unity Office Fund (AOF)										10.09
Cash and other assets										8.59
Total Cash and other assets										**18.68**
Total (T) / Weighted Average (A)				**151 (T)**	**98.39 (A)**	**8.8 (A)**	**500.6 (T)**		**5.64 (A)**	**520.85 (T)**

Notes

1 Valuation Policy - Regular valuation of underlying property assets is an important aspect of managing the Fund. Valuations are conducted by qualified independent valuers in accordance with industry standards. We also have a policy of generally obtaining independent valuations on Fund direct properties each year and, for assets under development, within an 18-month period. Additionally, as part of our active management approach, we may test asset values on market. At times we may enter arrangements at arm's length with third parties which may impact the value of assets within the portfolio including, but not limited to, put and call options in respect of all or part of an asset within the portfolio. If the value of an asset is impacted in this way, the value may replace the last independent valuation obtained.

2 Weighted Average Lease Expiry (WALE) by gross rental income. Vacancies are valued at market income. Assets under development excluded.

3 A market capitalisation rate is the rate, expressed as a percentage, that reflects the likely yield a property will generate over the medium term. It has regard to a property's unique characteristics and is a measure of the property's risk/return profile with higher rates reflecting higher risk and its function is to convert a property's income into value. The market capitalisation rate is assessed by the independent valuer by dividing the stabilised net property income of the property or a portfolio of properties by the assessed valuation of the property or portfolio, excluding costs of acquisitions and fees.

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