



3rd September 2018

Dear Investor

ACIF Priority Fund – Property Unit Class

Investment Manager's Report

Welcome to our annual Investment Manager's Report for the Property Unit Class of the ACIF Priority Fund (Fund).

Australia China Investment Fund Pty Ltd is the Investment Manager of the Fund and has prepared this Investment Manager's Report to accompany the financial accounts prepared for the Fund by the trustee Vasco Investment Managers Limited for the year to 30th June 2018.

Investment Objectives

Since the inception of the Fund, it has been the objective of the Investment Manager to provide investors with investments that:

- are expected to provide a return averaging 9.0% per annum before tax which is deferred to the termination of the investment as promised in our Information Memorandum;
- allows the investor to, where possible, nominate the project to which the funds are applied, while the investment risk is pooled across all projects; and
- allows the investor to nominate an investment maturity term that enables them to have the proceeds applied to the settlement of a specific property purchase.

This report summarises the progress of the principal investments made by the Fund provides a brief update on the Australian economy and property market.



Principal activities

Last year the principal investment activity of the Fund during was the placement of a series of loans with the Caydon Property Group that met the specific investment objectives of the Fund.

This year we have continued to invest in accordance with our stated investment objectives and have made an investment with the Dovetail Group.

The Caydon Group

The Caydon Property Group is a privately owned Melbourne based specialist property developer. Their projects are located mainly in Melbourne with one project in Houston, Texas in the USA.

It has operated successfully for over 15 years and is a diverse developer with experience in residential, commercial, retail and hotels.

Most of the Group's residential projects are located in the inner suburbs of Melbourne.

As a result of nominations by our investors we placed funds with the following Caydon projects:

- Ivanhoe Apartments at Heidelberg
- Mason Square at Moonee Ponds

Many of our investors have personally inspected these projects with a number of apartment purchases having been made.

Ivanhoe Apartments at Heidelberg

The Ivanhoe Apartments project is located approximately 10km north-east of the Melbourne CBD, 500m from the Heidelberg Railway Station and the Austin Hospital one of Melbourne largest hospitals.

Located on one of the highest points in the Melbourne metropolitan area it is a landmark site with spectacular 360 degree views.

The site is 3,360 square metres in area and comprises one tower with a total of 248 residential apartments over 13 levels, in addition to 277 underground car parking lots, 688 sqm of retail space and 822 sqm of office space.

Construction was completed earlier this year and settlements commenced in May 2018 and are still continuing as at the date of this report.



Mason Square at Moonee Ponds

In 2016 the Caydon Group acquired a property of 13,390 square metres located in the centre of Moonee Ponds. This is an old established suburb some 6 km from the Melbourne CBD and is surrounded by quality retail, dining and entertainment venues with strong train and tram transport links to the CBD.

The purpose of the acquisition was to undertake a major urban renewal project in 3 stages, incorporating 4 buildings and containing an estimated 1400 apartments.

This development was supported by council as a major urban renewal project because of the level of community space provided.

At the time of writing, construction of Stage 1 of the project comprising 2 buildings (of 19 and 26 storeys respectively) is nearing completion and settlements are expected to commence soon.

Stage 2 is still under construction whilst Stage 3 construction is yet to commence.

Dovetail Group

The Dovetail Group is a privately owned boutique developer that specialises in projects in upper end of the market and located in Melbourne's eastern and bayside suburbs.

In accordance with its investment objectives the Fund has participated in the development of a substantial child care centre located in Station Street Aspendale.

This site is an attractive location for this type of project because of:

- the proximity of the site to schools and transport; and
- the population profile of the area.

Post investment monitoring

Since the investments were made we have had update briefings from the senior executives of both the Caydon and Dovetail Group and undertaken a number of site inspections

Our loan or investment agreements require that these groups will provide us with financial accounts [audited where applicable]. At the date of writing accounts for the 2018 year had not



yet been prepared.

The Australian Economy

The Australian economy is continuing to grow and has been growing consistently for over 20 years, with the current year on year Gross Domestic Product (GDP) growth being at a rate of 3.1%. This GDP growth rate is still within the guidelines set by the Reserve Bank in order to ensure that the economy continues to grow without excessive inflation.

Interest rates are at an all-time low for the Australian economy, whilst still above the rates prevailing in similar developed economies but are now starting to show an upward bias.

The Australian property market

The Australian property market is continuing to experience growth in property values with the national year on year growth to July 2018 being 5.1% notwithstanding declines in the Sydney, Darwin and Perth markets.

Commentators have continued to express some concern about the level of apartments coming onto the market in the central business districts of Melbourne and Brisbane. However, the Fund has not invested in any projects in this segment of the market.

Should you have any queries please do not hesitate to contact the writer at imortley@acifund.com.au.

Yours faithfully

Ian Mortley

Director