ACIF Priority Fund

Yearly Report

Income Unit Class

For the period 1 July 2018 – 30 June 2019

KEY FEATURES OF THE FUND

The ACIF Priority Fund – Income Unit Class* (**Fund**) was established to allow investors the opportunity to achieve attractive returns through investing in a range of secured and unsecured real estate related investments including real estate and infrastructure funds, loans to developers, and equity in development projects.

The Trustee appointed Australia China Investment Fund Pty Ltd (**Investment Manager**) as the Investment Manager for the purposes of marketing the Fund to prospective Investors, completing due diligence on target investments and managing the investments of the Fund with a view to achieving target returns for investors. The Investment Manager brings extensive expertise to the management of the Fund.

The Fund offers Investors:

a) an investment and management team with a proven track record in financing, real estate investment management and funds management; and
b) an opportunity to invest in high return/medium risk real estate investment opportunities.

Investment Objective and Strategy

Returns will be generated via making loans or other making other real estate related investments including:

(i) direct real estate investments;
(ii) loans to property developers;
(iii) acquisition of equity in development projects;
(iv) acquisition of interests in real estate funds.
(v) acquisition of mortgage backed interests in infrastructure funds.

** Further information in relation to the Fund is available via the ACIF Priority Fund – Income Unit Class Information Memorandum that can be downloaded at http://vascofm.com/*

GENERAL PERFORMANCE

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

- have a target return of averaging 9.5% per annum before tax which is paid quarterly over the investment term;
- the security provided over the investment is by way of either first or second ranking mortgage over infrastructure assets.

Over the last 12-months, investments have been maintained in the Lucky Bay Port infrastructure project via the ICAM Duxton STC Land Trust.

Lucky Bay Port

The Income Unit Class continues to hold interests in the developments in Lucky Bay, South Australia, associated with the development and construction of a special purpose shallow water port that utilises the latest trans-shipping technology aimed at provided better cost and more efficient delivery of grain to main ship transport.

The investment strategy of the ICAM Duxton STC Land Trust focuses on the provision of subordinate debt that is secured against the project itself.

Project development is expected to be completed by November 2019, with the Lucky Bay Port commencing grain export operations in the 2019-2020 season.

The Lucky Bay Port is targeting 500,000 - 800,000 tonnes per annum of throughput from grain growers in the Eyre Peninsula over the next seven years. Following the Project being fully financed and the Port part developed and vessel material handling systems completed this year, the focus will turn to maximising operational revenue and efficiency.

Wallaroo Port

In the coming months, it is anticipated that investments will be made via the ICAM ACIF Land Trust, which is seeking to develop and expand costal land in Wallaroo, South Australia. This new development in Wallaroo, South Australia, is associated with the development and construction of a special purpose shallow water sister port to Lucky Bay. While an independent port facility, it will utilise the same trans-shipping technology and ship as Lucky Bay.

The Wallaroo Port will provide for the bulk storage, handling and export of grain from the North, Mid North and Yorke Peninsula grain districts in South Australia. The subordinate debt strategy will be similar to that already successfully used with Lucky Bay via the ICAM Duxton STC Land Trust.

Project development is expected to be completed in November 2020, with the Wallaroo Port commencing grain export operations in the 2020/21 grain harvest season. The Wallaroo Port is targeting circa 500,000 tonnes per annum of throughput from grain growers in the Yorke Peninsula over the next five years.

GLOBAL MARKET UPDATE

According to NAB Group Economics:

‘After modest improvement in Q1, partial indicators in major advanced economies (AEs) point to renewed easing in growth in Q2. Growth is expected to slow further in the second half of 2019 driven largely by the US economy.

Following on from the tariff-induced uncertainty in May, financial markets have generally trended higher from early June. With global growth slowing, the policy outlook has turned more dovish and a reduction in central bank policy rates is likely both across AEs – led by the Fed – but also EM economies, where there has already been some policy easing so far this year.

The resumption of talks between the US and China is a welcome development. However, with the eventual outcome unclear, uncertainty remains elevated and it is likely to be a drag on investment.

Moreover, possible future US trade action is not limited to China – the US may introduce auto tariffs or target ‘currency manipulators’ at some point. Other risks to the outlook include geopolitical issues (e.g. Brexit or oil supply disruptions) and US fiscal policy.

Forecasts expect global growth of 3.2% in 2019 and 3.3% in 2020. These rates of growth are below par, but not in recession territory, as the shift in global policy settings is expected to limit the growth slowdown currently underway.’[1]

AUSTRALIAN ECOMOMIC UPDATE

The RBA cut rates by 25bp to a record 1.0% on 2 July but with global headwinds intensifying markets expect at least one more 25bps rate cut together with further easing of monetary policy to support the economy. [2]

Australia’s housing downturn is expected to come to an end towards the end of the year reducing the drag from falling housing wealth on consumer spending and making homebuilding more attractive again. Nevertheless, the labour market is expected to slacken further which will help contain inflation.[3]

Sustained immigration and increased labour force participation means that Australia’s labour force will keep expanding at a solid pace. Coupled with a rebound in productivity growth in line with global trends, Australia is expected to remain the fastest growing large advanced economy.[4]

SA ECONOMIC UPDATE

According to ANZ’s Stateometer, South Australia grew at an above-trend rate and accelerated as house prices continued to expand in contrast to the three biggest states.[5]

The slowdown in South Australia final demand over the past year was broadly based, reflecting weaker public sector spending growth in terms of both investment and consumption spending, a slowdown in household consumption, and weaker growth in business investment. In comparison, dwelling investment continued to expand at a solid pace.[3]

The South Australian unemployment rate (seasonally adjusted) was 5.9% in March 2019, up slightly from 5.7% in February.[6] This is now in line with the trend unemployment rate.

The Bank SA State Monitor indicates that, ‘Business confidence has softened marginally for the past two surveys, moving down slightly from the eight year high level reported in July last year.’[7]

‘Public sector spending grew quite strongly through the year and is currently the most significant driver of economic growth. Business investment in South Australia also showed moderate improvement.’[8]

Strong employment trends led to a rise in the labour force participation rate in SA. ‘Employment rose by 1.7 per cent through the year to May 2019, and aggregate hours worked rose more robustly, by 2.0 per cent.’[8]

As reported by CBRE, South Australia’s near-term economic prospects look better than most other states and long term prospects are also favourable with Adelaide set to benefit from providing much of Australia’s defence manufacturing, research, development and investment over the next two decades which will attract more white collar jobs and take the annual rate of growth of white collar employment over the five years to 1.3%.[9]

‘Aggregate spending growth in SA has softened over the past year and will continue to be quite subdued in 2019/20 at just 1.25 per cent. Real state final demand (SFD) rose by 1.7 per cent through the year to the March quarter 2019, down from 3.1 per cent over the previous year.’[8]

1. *NAB Group Economics, ‘The Forward View – Global: July 2019’, 11 July 2019 <https://business.nab.com.au/the-forward-view-global-july-2019-35623/>.*
2. *Capital Economics – Australia Economic Outlook, July 2019*
3. *Reserve Bank of Australia, ‘Statement by Philip Lowe, Governor: Monetary Policy Decision’, 2 July 2019.*
4. *Michael Heath, ‘RBA Monitoring Job Market ‘Closely’, to Adjust Rates If Needed’, Bloomberg, 16 July 2019 <https://www.bloomberg.com/news/articles/2019-07-16/rba-monitoring-job-market-closely-to-adjust-rates-if-needed>.*
5. *ANZ, ANZ Stateometer March Quarter 2019, 28 May 2019 <https://anzlive.secure.force.com/cms__Main?name=ArticleDetailsPublications&tags=Publications%2FQuarterly%2F%20Bi-Annuals%20and%20Annuals%2FANZ%20Stateometer&cid=a0F1O00000b90HQUAY>.*
6. *Australian Bureau of Statistics, ‘6202.0 – Labour Force, Australia, Mar 2019’, 18 April 2019 <https://www.abs.gov.au/Ausstats/abs@.nsf/Previousproducts/6202.0Main%20Features2Mar%202019?opendocument&tabname=Summary&prodno=6202.0&issue=Mar%202019&num=&view=>.*
7. *Bank SA, ‘The Bank SA State Monitor’, No.68 – March 2019 <https://www.banksa.com.au/content/dam/bsa/downloads/about_us/BankSA-State-Monitor-March-2019.pdf>.*
8. *SA Centre for Economic Studies (SACES), ‘Global and National Slow Down Affecting SA Economy’, 3 July 2019 <https://blogs.adelaide.edu.au/saces/2019/07/03/global-and-national-slow-down-affecting-sa-economy/>.*
9. *CBRE, Australia Viewpoint – Space, subs and science: is Adelaide becoming Australia’s smart city? June 2019.*

AUSTRALIA CHINA INVESTMENT FUND

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