ACIF Priority Fund

Yearly Report

Property and Loan Unit Class

For the period 1 July 2018 – 30 June 2019

KEY FEATURES OF THE FUND

The ACIF Priority Fund – Property and Loan Unit Class* (**Fund**) has been established to allow investors with the opportunity to achieve attractive returns through either the provision of mezzanine finance loans or other real estate related investments with a developer.

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 mezzanine financing projects or other real estate related investments that would not otherwise be publicly available.

Investment Objective and Strategy

Returns will be generated via making mezzanine finance loans or other real estate related investments to a developer to finance residential property development.

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

GENERAL PERFORMANCE

Property and Loan Unit Class

Since the inception of the Property and Loan Unit Class, it has been the objective of the Investment Manager to make investments that:

- have a target return averaging 9.0% per annum before tax which is deferred to the termination of the investment;
- 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.

Over the last 12-months, investments have been maintained with two specialist property developers.

1. Caydon Property group

Investments continue in developments in Melbourne, Australia known as the 'Invanhoe Apartments at Heidelberg' and the 'Mason Square at Moonee Ponds'.

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

Construction was completed around May 2018 and, settlement and the sale of properties are still continuing as at the date of this report. The delay in settlement is considered consistent with property generally in Melbourne, with a significant credit retraction in the market from traditional loan providers, in many bases impacting on final settlement characteristics.

As there had been a delay in settlement beyond the expected terms of the loan, a 'Settlement Deed' was executed on 9th August 2019 to schedule all payments from Caydon Property Group to be made in staged payments completing in November 2019.

While there have been some delays in receiving final loan repayments from Caydon Property Group, there is still a high level of confidence that these repayments will be received as per the Settlement Deed.

2. Dovetail group

Investments continue with the Dovetail Group which is a privately-owned boutique developer that specialises in projects in the Melbourne property market with developments typically being located in Melbourne's eastern and bayside suburbs.

Investments continue in the development of a range of residential town houses in the bayside suburbs, together with a substantial child care centre located in Station Street, Aspendale.

The loans to the Dovetail 009 Unit Trust are due to be repaid in September 2019 and the Investment Manager has issued an 'Advance Notice of Upcoming Redemption' with an expectation that it will be fully satisfied.

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

John Wang
Managing Director

James Forbes
Managing Partner