

ACIF Priority Fund

Yearly Report

Wallaroo Infrastructure Unit Class

For the period 1 July 2018 – 30 June 2019



KEY FEATURES OF THE FUND

The ACIF Priority Fund – Wallaroo Infrastructure Unit Class* (**Fund**) has been established to allow investors with the opportunity to achieve attractive income and capital growth returns through the Fund's investment in the ICAM ACIF Lucky Bay 2 Trust, which is developing a specialist multi-commodity import and export facility in Wallaroo, South Australia.

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 a high return/medium risk infrastructure project.

Investment Objective and Strategy

Returns will be generated via acquiring units in the ICAM ACIF Lucky Bay 2 Trust and therefore, returns are dependent on the success of the investment in the ICAM ACIF Lucky Bay 2 Trust.

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

GENERAL PERFORMANCE

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

- provide entry level access to an infrastructure project that is not normally available as a public offering; and
- have the potential for above average returns over the medium to long term and in particular as assets transition to new owners and operators.

In June 2019, the Wallaroo Infrastructure Unit Class invested in the Wallaroo Port infrastructure project via the ICAM ACIF Lucky Bay 2 Trust.

Wallaroo Port

Investments have been made into the development and construction of a second special purpose shallow water port in Wallaroo, South Australia.

Given its geographical location, only 61 kilometres from its sister port Lucky Bay, there is the opportunity to utilise the same transhipment vessel between both ports increasing efficiencies while reducing costs.

While the Wallaroo Port is a completely independent port facility, it will utilise much of the same technology as used for the Lucky Bay Port.

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 investment strategy of the ICAM ACIF Lucky Bay 2 Trust focuses on the provision of equity units in the project that are secured against the project itself.

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.

The Wallaroo Port will consist of bulk ground grain storage facilities in the Wallaroo district, a special purpose shallow water port that is accessed by a land and sea jetty that will provide the loading capabilities from port grain storage to the transhipment vessel.

The Wallaroo Port facility will also include incoming grain quality sampling and testing, truck delivery and consignment equipment that includes drop load ramps, and powered delivery of grain to and from the bunker area through the jetty infrastructure.

The Wallaroo Port will utilise the latest transhipping technology aimed at providing better cost and more efficient delivery of grain to main ship transport.

The first phase of the Project development has commenced with the port site land having been purchased and negotiations are well on the way to acquire the site for the bulk ground grain storage facilities.

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 ECONOMIC 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.¹⁸

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.'¹⁸

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=a0F1000000b90HQUAY>.
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/ab_out_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.

DISCLAIMER:

This report has been prepared by Australia China Investment Fund Pty Ltd (ACIF) as a Corporate Authorised Representative of (No. 001234748) of D H Flinders Pty Ltd ACN 141 601 596 AFSL 353001 (DHF). ACIF is the Investment Manager of the ACIF Priority Fund (Fund), an unregistered managed investment scheme. ACIF's authority under its Corporate Authorised Representative Agreement with DHF is limited to general advice regarding the Fund only. Vasco Investment Managers Limited (Vasco) is the Trustee of the Fund. This document contains information about the potential issue of interests in the Fund to investors that are wholesale clients as defined in s761G of the Corporations Act 2001 (Cth) (Act) or sophisticated investors as defined in s761G of the Act. It is not intended to be used by any other persons in any other jurisdiction if and to the extent that to do so would be in breach of Australian laws, or the laws of any foreign jurisdiction. This report contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons) investment objectives, financial situation or particular needs, and should not be used as the basis for making an investment in the Fund. Neither Vasco, ACIF nor DHF make any representation as to the accuracy, completeness, relevance or suitability of the information, conclusions, recommendations or opinions contained in this report (including, but not limited to any forecasts made). No liability is accepted by any of these entities or their respective directors, officers, employees, agents or advisors for any such information, conclusions, recommendations or opinions to the fullest extent possible under applicable laws. This publication may contain forward looking statements regarding our intent, belief or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. ACIF does not undertake any obligation to revise any forward-looking statements to reflect events and circumstances after the date of this publication. Neither Vasco, ACIF nor DHF guarantee the repayment of capital, the performance of any investment or the rate of return for the Fund. Past performance is not necessarily indicative of future performance. This document is not an Information Memorandum for the purposes of the Act. Accordingly, it does not purport to contain all information that potential investors may need to make an informed assessment as to whether or not to invest in the Fund. Some numerical figures in this publication have been subject to rounding adjustments.



AUSTRALIA CHINA
INVESTMENT FUND

John Wang
Managing Director

James Forbes
Managing Partner