

# ACIF Priority Fund Yearly Report

## Income Unit Class

For the period 1 July 2019 – 30 June 2020



## KEY FEATURES OF THE FUND

The ACIF Priority Fund\* (The Fund) has been established to allow Investors the opportunity to participate in an established investment vehicle that will invest in mezzanine finance loans and other real estate related investments as well as infrastructure investments.

The Trustee has appointed Australia China Investment Pty Ltd 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 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, infrastructure 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 making other real estate and infrastructure 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 Information Memorandum' that can be downloaded at <http://vascofm.com/>*

## GENERAL FUND PERFORMANCE

### Income Unit Class

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

- have a target return of 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 the investments have been maintained with two specialized infrastructure projects:

### Lucky Bay Port

Investments continue in 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 providing better cost and more efficient delivery of grain to main ship transport.

The investment strategy focuses on the provision of sub-ordinate debt that is secured against the project itself.

Project development was completed by October 2019, and the Lucky Bay Port commenced the grain export operations in the 2019-2020 season.

### Wallaroo Port

Investments have more recently commenced into the newer development

in Wallaroo, South Australia, associated 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 sub-ordinate debt strategy will be identical to that already successfully used with Lucky Bay.

The Wallaroo port is currently undergoing development approvals and the Wallaroo Trust expects to be operational for the 2022/23 harvest season.

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

The global COVID-19 pandemic has caused the largest contraction in global economic activity since the Great

Depression in the 1930s. In response to the virus' spread, countries have closed their borders and put in place containment

measures to limit the spread of the virus to prevent a collapse of the health system.<sup>1</sup>

In many countries, the monetary, fiscal and regulatory measures have far exceeded the response to the Global Financial Crisis (GFC).<sup>2</sup> This response has caused a forecast of 4.75 per cent contraction to the global economy in 2020.<sup>3</sup>

However, as countries are expected to ease containment measures, the global economy is forecast to expand by 5 per cent in 2021.<sup>4</sup> The positive outlook assumes that health restrictions are

gradually lifted with minor periodic outbreaks. Given this, the global recovery depends on their ability to prevent further outbreaks and remain open.<sup>5</sup>

According to the Federal government's July 2020 Economic and Fiscal Update, China's economy growth and quick recovery is greatly important for Australia as it accounts for approximately one-third of Australia's MTP. With Chinese GDP expected to grow this year, Australia's external outlook remains in a better

position than many other economies.<sup>6</sup>

<sup>1</sup> Commonwealth of Australia, *Economic and Fiscal Update*, July 2020: P17

<sup>2</sup> Commonwealth of Australia, *Economic and Fiscal Update*, July 2020: P17

<sup>3</sup> Commonwealth of Australia, *Economic and Fiscal Update*, July 2020: P17

<sup>4</sup> Commonwealth of Australia, *Economic and Fiscal Update*, July 2020: P20

<sup>5</sup> Commonwealth of Australia, *Economic and Fiscal Update*, July 2020: P23

<sup>6</sup> Commonwealth of Australia, *Economic and Fiscal Update*, July 2020: P24

## AUSTRALIAN ECONOMIC UPDATE

Australia is currently experiencing a once-in-a-century shock to its economy which is in large part due to the governments' public health response and lock down measures.<sup>7</sup> First going into lockdown in March 2020 due to a rapid escalation of COVID-19 infections, business owners have faced significant uncertainty ever since.

The federal government's July 2020 Economic and Fiscal Update documents shows that the Australian economy is

expected to decline by 3.75 per cent in calendar 2020.<sup>8</sup> To combat this contraction, government spending on health and welfare increased substantially in 2020.<sup>9</sup>

The Treasury believes that the worst of the economic consequences of the COVID-19 pandemic would have been felt in the June Quarter of 2020. This is as Australia's response to contain the spread of the virus has so far prevented the more severe health crises that have devastated many other countries.

The Australian economy is expected to perform better than all major advanced economies in 2020.<sup>10</sup> Real GDP is forecasted to fall a further -2.5 per cent

during the rest of 2020 – 2021, however, the economy is expected to return to positive growth in the second half of 2021.<sup>11</sup>

<sup>7</sup> Commonwealth of Australia, *Economic and Fiscal Update*, July 2020: P1

<sup>8</sup> KPMG, *The Federal Government's Economic and Fiscal Outlook*, July 2020: P3

<sup>9</sup> KPMG, *The Federal Government's Economic and Fiscal Outlook*, July 2020: P4

<sup>10</sup> KPMG, *The Federal Government's Economic and Fiscal Outlook*, July 2020: P4

<sup>11</sup> KPMG, *The Federal Government's Economic and Fiscal Outlook*, July 2020: P4

## SA ECONOMIC UPDATE

The South Australian economy has followed the global and national economies into a sharp recession with the State's final demand contracting by 1.0% in the March quarter, the largest quarterly decline since the September quarter of 2012.<sup>12</sup>

Household spending was hit sharply reflecting significantly weaker spending on hotels, cafes and restaurants amid restrictions on operations and uncertainty among consumers. Agriculture and wine exports are facing uncertainty given recent

tensions with China, on top of the impact from drought and bush fires earlier in the year.

The State's population however grew by its strongest rate in over seven years, rising by 1.0 per cent through the year to the March quarter 2020.<sup>13</sup>

The improvement in population growth for South Australia was a product of larger gains from overseas migration and smaller losses via interstate migration.<sup>14</sup> As the State's population growth has been heavily reliant on overseas migration, the closure of the nation's borders from 20th March 2020 will have a significant short-term

impact.

However, as the state suppressed the virus relatively early with no new reported COVID-19 cases since May 26, the State started lifting restrictions sooner, given this, a recovery in economic activity is likely.<sup>15</sup>

<sup>12</sup> Bank of South Australia, *State Economic Outlook*, 12 June 2020: P2

<sup>13</sup> <https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/mar-2020>

<sup>14</sup> <https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/mar-2020>

<sup>15</sup> National bank of Australia, *State Economic Overview*, August 2020

### 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 Trustees 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.



**John Wang**  
Managing Director

**James Forbes**  
Managing Partner