

# ACIF Priority Fund Yearly Report

**Property and Loan 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 and funds management; and

b) an opportunity to invest in a mezzanine financing project or other real estate related investment that would not otherwise be publicly available.

### Investment Objective and Strategy

Returns will be generated via making a mezzanine finance loan or other real estate related investment to a developer to finance a residential property development. Loans may be unsecured. Returns to the Fund will be dependent on the success of the investments the Fund makes in development projects and the success of those developments because if the development is unsuccessful, then the developer may be unable to repay the loan amount and pay the interest charged on the loan or pay returns to Investors from the investment.

*\* 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

### Property and Loan Unit Class

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

- have a target return of 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 the investments have been maintained with two specialist

property developers:

### Caydon Property group

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

The investment at Ivanhoe 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 in around May 2018 and settlement and the sale of properties was completed in the first quarter of 2020.

As there had been a delay in settlement past 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. The payments are still continuing as at the date of this report.

### Dovetail group

Investments continue with the Dovetail Group which are 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 the bayside suburbs together with a substantial child care centre located in Station Street Aspendale.

The loans in the Dovetail 009 Unit Trust was completed in September 2019.

## 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,

## 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

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

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

<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

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

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