

Australia China Investment Fund

Yearly Report

For the period 1 July 2019 – 30 June 2020



KEY FEATURES OF THE FUND

The Australia China Investment Fund* remains a specifically designed SIV qualifying investment fund. The Fund has been established to allow Investors the opportunity to participate in an investment vehicle that will invest in a portfolio of active real estate and infrastructure related investments in the Australian market.

The Fund offers Investors:

a) an investment and a management team with a proven track record in financing, real estate investment management and funds

management;

b) an opportunity to invest (indirectly) in real estate and infrastructure investment opportunities that may not otherwise be publicly available; and

c) a strategy to invest in real estate and infrastructure projects with significant growth potential as well as other real estate and infrastructure related opportunities such as the provision of loan funds.

The minimum investment term remains at 4 years, with a target return of 7.5% to investors after Fund fees and expenses.

The trustee of the Fund is Vasco Trustees Limited, an Australian company limited by shares. The Trustee is the holder of an AFSL and is regulated by ASIC. The Trustee is an experienced trustee and manager of wholesale unit trust schemes that invest in real estate and infrastructure assets.

The Trustee has appointed Australia China Investment Fund Pty Ltd, an experienced manager of real estate investments, as Investment Manager of the Fund.

** Further information in relation to the Fund is available via the 'Australia China Investment Fund Information Memorandum' that can be downloaded at <http://vascofm.com/>*

GENERAL FUND PERFORMANCE

The principal investment activity for the Fund during the period changed from an investment in the Sky One Project to an investment in the Wallaroo Port Infrastructure Project.

Sky One Project

The Sky One project is located at Box Hill which is a major suburban hub in metropolitan Melbourne, Australia.

The Sky One development is principally the development of a high-quality modern building construction consisting of 35 floors and 8 levels of basement car parks.

It includes 440 apartments and 3500 square meters of retail and commercial space. Sky One also provides a good range of amenities as expected of a luxury landmark apartment building with a very high standard lobby and entrance area with concierge on hand to assist residents.

Construction was completed in 2019 and the settlement was also completed in the first quarter of 2020.

Wallaroo Port

Following the completion of Sky One Project, the Investment Manager made an investment from the Fund into the Wallaroo Port project as first mortgage debt.

The Wallaroo Port will involve the development and construction of a second special purpose shallow water port in Wallaroo, South Australia. Given its geographical location, only 61 kilometers from its sister port Lucky Bay, there is the opportunity to utilise the same transshipment 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.

Project development is expected to be completed at the end of 2021 with the Wallaroo Port commencing grain export

operations in the 2021/22 grain harvest season. Wallaroo Port is targeting circa 500,000 tonnes per annum of throughput from grain growers in the Yorke Peninsula over the next four years.

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.

Portside land has been acquired with contract for bunker land executed and settlement subject to satisfaction of conditions precedent, totaling over 80 hectares.

D131 application for State Sponsorship (expedited approvals) has been approved. The project can now proceed with lodgment of the Development Application.

The project finalised conceptual and detailed engineering design including project costings. Most major construction works packages are now tendered in the market with selected contractors targeted for bids.

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.¹

In many countries, the monetary, fiscal and regulatory measures have far exceeded the response to the Global Financial Crisis (GFC).² This response has caused a forecast of 4.75 per cent contraction to the

global economy in 2020.³

However, as countries are expected to ease containment measures, the global economy is forecast to expand by 5 per cent in 2021.⁴ 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.⁵

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.⁶

¹ Commonwealth of Australia, Economic and Fiscal Update, July 2020: P17

² Commonwealth of Australia, Economic and Fiscal Update, July 2020: P17

³ Commonwealth of Australia, Economic and Fiscal Update, July 2020: P17

⁴ Commonwealth of Australia, Economic and Fiscal Update, July 2020: P20

⁵ Commonwealth of Australia, Economic and Fiscal Update, July 2020: P23

⁶ 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.⁷ 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 2020.⁸ To combat this contraction, government spending on health and welfare increased substantially in 2020.⁹

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 2020.¹⁰ 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 2021.¹¹

⁷ Commonwealth of Australia, Economic and Fiscal Update, July 2020: P1

⁸ KPMG, The Federal Government's Economic and Fiscal Outlook, July 2020: P3

⁹ KPMG, The Federal Government's Economic and Fiscal Outlook, July 2020: P4

¹⁰ KPMG, The Federal Government's Economic and Fiscal Outlook, July 2020: P4

¹¹ 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 2012.¹²

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 2020.¹³

The improvement in population growth for South Australia was a product of larger gains from overseas migration and smaller losses via interstate migration.¹⁴ 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.¹⁵

¹² Bank of South Australia, State Economic Outlook, 12 June 2020: P2

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

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

¹⁵ National bank of Australia, State Economic Overview, August 2020

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INVESTMENT FUND

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