ACIF Prosperity Fund

Yearly Report

For the period 1 July 2019 – 30 June 2020

KEY FEATURES OF THE FUND

The ACIF Prosperity Fund* remains a specifically designed SIV qualifying investment fund. It accesses a broad range of qualifying investments such as emerging companies, venture capital and real estate. Specialist investment managers have been selected for each asset class which include Emerging Companies, Venture and the Balancing Unit Class typically associated with real estate.

The minimum investment term remains at 4 years, with some unit classes still requiring a minimum term of 5 years.

The Trustee and Custodian of the Fund remains as Vasco Trustees Limited (Vasco), an Australian company limited by shares. The Trustee of the Sub-Funds is DHF Investment Managers Pty Ltd. DHF Investment Managers Pty Ltd is a corporate authorised representative of Vasco. Vasco is the holder of AFSL (licence no 34486) and is regulated by ASIC. Vasco is an experienced trustee and custodian of equity, venture capital, real estate debt funds; and The Trustee has appointed Australia China Investment Fund Pty Ltd, an experienced manager of real estate investments, as Investment Manager of the Fund. DHF Investment Managers Pty Ltd as trustee of the Sub-Funds has also appointed Australia China Investment Fund Pty Ltd as the investment manager of the Sub-Funds.

** Further information in relation to the Fund is available via the 'ACIF Prosperity Fund Information Memorandum' that can be downloaded at http://vascofm.com/*

GENERAL FUND PERFORMANCE

Emerging Companies Unit Class

The ACIF Prosperity Fund Information Memorandum contemplates performance of the ACECUC Units will depend solely upon the performance of the Cyan EC Fund. While Cyan Investment Management Pty Ltd has experience in making and managing investments of the type contemplated by the Cyan EC Fund, there was no assurance the Cyan EC Fund would achieve the targeted outperformance of the S&P/ASX Small Ordinaries Accumulation Index or an absolute return over the long term (e.g. 7-10 years) in excess of 10% per annum.

The ACIF Prosperity Fund Information Memorandum contemplates performance for the APVECUC Units will depend solely upon the performance of the Prime Value EC Fund. While Prime Value Asset Management Limited has experience in making and managing investments of the type contemplated by the Prime Value EC Fund, there was no assurance the Prime Value EC Fund will achieve their performance objective.

The Investment Manager is pleased to report that results from FY19/20 report that the investment objectives for the Emerging Companies Unit Class have been consistent with that stated in the related Information memorandum.

Venture Capital or Private Equity Fund

Private Equity funds in which Vantage's funds have commitments and have made further investments into underlying companies of which some have been exited or sold in the past year. Those exits have generated significant returns over the original cost of the investment into those companies and are expected to deliver an average gross IRR to VPEG of nearly 30% across an average hold period of 3.7 years as contemplated in the ACIF Prosperity Fund Information Memorandum.

The Investment Manager is pleased to report that results from FY19/20 report that the investment objectives for the Venture Capital asset class have been consistent with that stated in the related Information memorandum.

Balancing Fund

The ACIF Prosperity Fund Information Memorandum contemplates performance of the ABIUC Units will depend on the Investment Manager's ability to carry out the proposed investment strategy successfully. It also contemplates the ACIF Balancing Fund's investments will achieve a targeted rate of return for the ABIUC Units of 4.5% per annum over a four-year term.

The Investment Manager is pleased to report that results from FY19/20 report that the investment objectives for the Balancing Fund asset class have been consistent with that stated in the related Information memorandum.

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 ECOMOMIC 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*

AUSTRALIA CHINA INVESTMENT FUND

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