06 | Consolidated financial statements prepared for regulatory requirements under JSE Listings Requirements

Investec
Australia Property Fund

Directors' responsibility statement

The directors of Investec Property Limited (ABN 93 071 514 246), the responsible entity (**Responsible Entity**) of Investec Australia Property Fund (**IAP** or **the Fund**) are responsible for the preparation and fair presentation of the consolidated financial statements of the Fund.

The consolidated financial statements comprise the:

- consolidated statement of profit or loss and other comprehensive income for the year ended 31 March 2020
- consolidated statement of financial position at 31 March 2020
- consolidated statement of changes in equity for the year ended 31 March 2020
- consolidated statement of cash flows for the year ended 31 March 2020
- notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes
- in accordance with International Financial Reporting Standards (**IFRS**), the constitution of the Fund, the JSE Listings Requirements and the requirements of the Corporations Act 2001 (Cth) (**Corporations Act**).

The directors of the Responsible Entity are also responsible for such internal controls as they determine necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors of the Responsible Entity have made an assessment of the ability of the Fund to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The external auditor is responsible for reporting on whether the consolidated financial statements are fairly presented in accordance with the applicable financial reporting framework.

The consolidated financial statements of the Fund, as identified in the first paragraph, were approved under authority of the board of the Responsible Entity on 6 May 2020 and are signed on their behalf by:

Richard Longes
Independent non-executive chairperson

Dated at Sydney
6 May 2020

Graeme Katz
CEO

Dated at Sydney
6 May 2020

Report of the audit and risk committee

The audit and risk committee of the board of the Responsible Entity (**Audit and Risk Committee**) has pleasure in submitting this report to unitholders as recommended by the King IV Report on Corporate Governance for South Africa 2016 (**King IV Code**).

The Audit and Risk Committee is satisfied that it has considered and discharged its responsibilities in terms of its mandate and charter, the King IV Code and the Corporations Act.

As the Fund is a registered managed investment scheme under the Corporations Act it has Australian reporting obligations. The Fund is required to lodge audited consolidated financial statements with the Australian Securities and Investments Commission (**ASIC**). This is in addition to the Fund's reporting obligations in South Africa. The Audit and Risk committee is satisfied that the Fund has discharged all of its reporting obligations in Australia and South Africa.

The Audit and Risk Committee carried out its duties by inter alia, reviewing the following:

- financial management reports
- external audit reports
- management's risk assessment
- compliance reports

Significant matters the Audit and Risk Committee has considered this year in relation to the consolidated financial statements are:

- audit quality
- audit independence
- valuation of investment properties
- related party transactions
- borrowing classifications, derivatives and debt covenants
- going concern

The abovementioned information, together with interaction with the external and internal auditors, management and other invitees attending meetings in an ex officio capacity, enabled the Audit and Risk Committee to conclude that the risk management process and systems of internal financial control have been designed and were operating effectively during the financial period.

The Audit and Risk Committee is satisfied:

- its members have the requisite financial skills and experience to contribute to its deliberations
- with the independence and effectiveness of the external auditor, including the provision on non-audit services and compliance with the Fund's policy in this regard
- the Responsible Entity has complied with the JSE Listings Requirements and the principles of the King IV Code applicable to the Fund
- it considered and approved that audit fee payable to the external auditors in respect of the audit for the year ended 31 March 2020 as well as their terms of engagement and scope of the audit
- that the appointment of the external auditor is in compliance with the Corporations Act and the JSE Listings Requirements
- with the effectiveness of the internal audit function and that the system of internal financial control in all key material aspects is effective and provides reasonable assurance that the financial records may be relied upon for the preparation of the consolidated financial statements
- with the expertise and experience of the chief financial officer and the overall adequacy and appropriateness of the finance function

The Audit and Risk Committee, having fulfilled the oversight role regarding the reporting process and the annual report, recommends for approval by the board of the Responsible Entity, the annual report and the consolidated financial statements for the year ended 31 March 2020.

Sally Herman
Chairperson

Sydney
6 May 2020

Directors’ report

The directors of the Responsible Entity present their report together with the consolidated financial statements of the Fund for the year ended 31 March 2020.

The Fund is an Australian-domiciled real estate investment trust (**REIT**) which is registered as a managed investment scheme in Australia under the Corporations Act and is subject to regulatory oversight by ASIC. The manager of the Fund is Investec Property Management Pty Limited (ABN 63 161 587 391), which is a wholly-owned subsidiary of Investec Bank plc.

The Fund was listed on the exchange operated by JSE Limited (**JSE**) on 23 October 2013. The Fund was listed on the exchange operated by ASX Limited (**ASX**) on 28 May 2019 and following this the Fund is dual primary listed on the ASX and JSE. The unit code on both the JSE and the ASX is IAP and the ISIN is AU0000046005. Units in the Fund are quoted on both the JSE and the ASX and can be moved between the South African sub-register and the Australian sub-register. Unitholders can elect where their units are traded by holding their units on either the South African sub-register or the Australian sub-register.

Directors of the Responsible Entity

The following persons were directors of the Responsible Entity during the year from 1 April 2019 up to the date of the annual report, unless otherwise stated:

Richard Longes	Independent non-executive chairperson
Sally Herman	Lead independent non-executive director and chairperson of the Audit and Risk Committee
Hugh Martin	Independent non-executive director
Georgina Lynch	Independent non-executive director (appointed 1 July 2019)
Stephen Koseff	Non-executive director
Sam Leon	Non-executive director
Graeme Katz	Executive director

Directors of the Manager

The following persons were directors of Investec Property Management Pty Limited (**Manager**) during the year from 1 April 2019 up to the date of the annual report:

Graeme Katz	Executive director
Zach McHerron	Executive director
Kristie Lenton	Executive director

Company secretary

The company secretary of the Responsible Entity during the year from 1 April 2019 up to the date of the annual report was Paul Lam-Po-Tang.

Principal activities

The principal activity of the Fund is to invest in real estate assets.

Fund objectives and investment philosophy

The Fund’s strategy is to invest in office, industrial and retail properties in major metropolitan cities or established commercial precincts in Australia and New Zealand.

The objectives of the Fund are to:

- deliver income and capital returns to unitholders over time
- grow and diversify its asset base
- maintain a strong corporate governance framework

The Fund’s investment philosophy focuses on making investment decisions based on sound underlying property fundamentals, enhancing the quality of the portfolio and identifying opportunities to unlock additional value through active asset management. The Fund adheres to this philosophy by utilising the skills of an experienced and well-connected management team with a presence in the Fund’s key geographies of Sydney, Melbourne and Brisbane, and through a commitment to sound balance sheet management.

Review of operations

A detailed review of operations is included in the introduction from the chairperson and the CEO on page 3 of the annual report.

Financial result

The following table summarises the statutory profit for the year ended 31 March 2020 and provides a comparison to the year ended 31 March 2019.

AUD'000	31 March 2020	31 March 2019
Revenue, excluding straightline rental revenue adjustment	96 696	88 539
Straightline rental revenue adjustment	4 407	930
Property expenses	(21 341)	(18 226)
Net property income	**79 762**	**71 243**
Other operating expenses[62]	(13 653)	(6 951)
Net finance costs	(12 684)	(14 542)
Other income	7	165
Fair value adjustments	5 524	3 184
Total comprehensive income attributable to unitholders	**58 956**	**53 099**

As at 31 March 2020, the Fund's net assets per unit attributable to unitholders was AUD1.32 (31 March 2019: AUD1.30).

Funds from operations

The Responsible Entity targets distributions of between 80% and 100% of the Fund's funds from operations (**FFO**) each year, and will report distributions as a percentage of FFO and adjusted FFO (**AFFO**)

FFO is calculated in accordance with the Property Council of Australia's "Voluntary Best Practice Guidelines for Disclosing FFO and AFFO" published in December 2017 (**Property Council Guidelines**), determined by adjusting statutory net profit (under Australian Accounting Standards (**AAS**)) for non-cash and other items such as property revaluations, derivative mark-to-market impacts, amortisation of tenant incentives, gain/loss on sale of investment properties, straightline rental revenue adjustments, non-FFO tax expenses/benefits and other unrealised and one-off items.

AFFO is calculated in accordance with the Property Council Guidelines, being FFO adjusted for maintenance capital expenditure, cash and cash equivalent incentives (including rent free incentives) given to tenants during the period and other one-off items which have not been adjusted in determining FFO.

A reconciliation of the statutory profit to FFO and AFFO is set out below for the year ended 31 March 2020. A comparison to the year ended 31 March 2019 is not included due to the Fund operating under a different distribution policy prior to listing on the ASX in May 2019.

The previous distribution policy was to distribute all of the Fund's distributable income, which comprised the higher of statutory net profit under AAS (subject to certain adjustments), and taxable income. Under AAS, statutory net profit includes certain non-cash items which are adjusted to determine distributable income, being straightline rental revenue and fair value adjustments (including adjustments on investment property, interest rate swaps and foreign currency). Distributions, as well as items such as tenant incentives and maintenance capital expenditure, were funded from a combination of the Fund's free cash flows and debt.

AUD'000	FY20
Total comprehensive income attributable to unitholders	58 956
Adjusted for:	
Fair value adjustments	(5 524)
Straightline rental revenue adjustment	(4 407)
Amortisation of incentives	1 531
Other one-off items[63]	5 339
FFO	**55 895**
Maintenance capital expenditure	(2 138)
Leasing fees and cash incentives	(1 345)
AFFO	**52 412**
Weighted average units	571 380
Units in issue at reporting date	611 298

62 Other operating expenses includes AUD5.3 million of transaction costs in relation to the ASX listing process included within the consolidated statement of profit or loss and other comprehensive income.

63 Transaction costs in relation to the ASX listing process included within other operating expenses in the consolidated statement of profit or loss and other comprehensive income.

Directors' report
(continued)

	FY20
Basic and diluted earnings per unit (cents)	10.32
FFO (cpu)	9.78
AFFO (cpu)	9.17

The directors of the Responsible Entity are responsible for compiling FFO and AFFO on the basis of the "Applicable Criteria" specified in the JSE Listings Requirements, including JSE Guidance Letter: Presentation of pro forma financial information dated 4 March 2010, and in this section entitled funds from operations.

A copy of KPMG Inc.'s independent reporting accountant's report in respect of the non-IFRS information described above is available on the Fund's website at www.iapf.com.au.

As a result of the Fund listing on the ASX part way through a distribution period, a special distribution was paid to unitholders for the period 1 April 2019 to 27 May 2019 (as disclosed in the product disclosure statement issued in May 2019 as part of the ASX listing (**PDS**)). The special distribution paid for the period 1 April 2019 to 27 May 2019 was 1.59 cpu for a total of AUD7.6 million, as outlined in the annual report for the year ended 31 March 2019 and the PDS. This distribution was paid under the Fund's previous distribution policy.

The interim distribution paid to unitholders was for the period 28 May 2019 to 30 September 2019, as outlined in the distribution declaration released on 31 October 2019. The final distribution to be paid to unitholders is for the period 1 October 2019 to 31 March 2020.

Details of the interim and final distributions (which exclude the period 1 April 2019 to 27 May 2019) are as follows:

	28 May 2019 to 31 March 2020
FFO (AUD'000)	48 052
AFFO (AUD'000)	44 771
Distributions declared/paid (AUD'000)	45 829
Distributions declared/paid (cpu)	7.50
Distributions as a percentage of FFO (%)	89.2
Distributions as a percentage of AFFO (%)	95.7

Unitholders who held units on the JSE prior to the ASX listing in May 2019 and continue to hold their units on the JSE will have received three distributions attributable to the financial year 1 April 2019 to 31 March 2020. Details of these distributions are as follows:

	pre-WHT	post-WHT
Special distribution for the period 1 April 2019 to 27 May 2019 (cpu)[64]	1.59	1.46
Interim distribution for the period 28 May 2019 to 30 September 2019 (cpu)[65]	3.20	2.91
Final distribution for the period 1 October 2019 to 31 March 2020 (cpu)[65]	4.30	4.20

Details about distribution components under the attribution managed investment trust or AMIT regime (only relevant for the full year distribution) including "Fund Payment" amounts (only relevant for foreign holders) and AMIT cost base adjustments are included in the distribution announcements and will also be made available on the Fund's website at www.iapf.com.au on or before the relevant distribution date.

64 Paid under the Fund's previous distribution policy.

65 Paid under the Fund's current distribution policy, which became effective on 28 May 2019.

Interests of the Responsible Entity

The Responsible Entity has delegated the management of the Fund to the Manager. The Responsible Entity was not paid any fees during the year. The following fees were paid to the Manager during the year:

AUD	2020	2019
Asset management fee	6 572 831	5 761 459
Property management fee[66]	1 551 363	1 305 528

The Investec group (comprising Investec Limited and Investec plc, being the head entities of the dual listed companies structure, and each of their subsidiaries (**Investec Group**)) unitholding in the Fund at reporting date is as follows:

	2020	2019
Investec Bank Limited	56 128 379	72 172 172

Property portfolio

A detailed review of the property portfolio is included from page 7 of the annual report. Note 9 to the consolidated financial statements describes the basis for determining fair value of the Fund's properties.

Outlook and guidance

While the board of the Responsible Entity (**Board**) is comfortable with the Fund's balance sheet position and portfolio composition, given the current uncertainty surrounding both the local and global economy as a result of the COVID-19 pandemic, the Board will not be providing forward looking guidance at this time. The Board will continue to monitor the impact of the COVID-19 pandemic on the Fund and will update the market as necessary.

Subsequent events to reporting date

During the year the Fund contracted to sell 757 Ann Street, Fortitude Valley QLD for AUD94 million which was classified as investment property held for sale as at 31 March 2020. The sale settled post the reporting date on 1 April 2020, which is the point the Fund is considered to have lost control of the asset. Proceeds from the sale were used to repay a portion of the Fund's debt.

The COVID-19 pandemic has created unprecedented uncertainty of the economic environment, in particular the continued lack of market transactions which are ordinarily a strong source of evidence for valuations of investment properties. Actual economic events and conditions in future may be materially different from those estimated by the Fund at reporting date. In the event the COVID-19 pandemic impacts are more severe or prolonged than anticipated, this may have further adverse impacts to the fair value of the Fund's portfolio and a future price achieved if a property is sold. At the date of the annual report, an estimate of the future effects of the COVID-19 pandemic on the Fund's portfolio cannot be made, as the impact will depend on the magnitude and duration of the economic downturn, with the full range of possible effects unknown.

Further considerations in relation to the COVID-19 pandemic are included in the going concern disclosure on page 103 and property valuations in note 9 to the consolidated financial statements.

Other than the above matters, there is no other item, transaction or event of a material or unusual nature likely that have arisen since the end of the financial year and up until the date of the annual report which significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in subsequent years.

Significant changes in state of affairs

There have been no significant changes in the nature of the Fund's activities during the period.

Directors' interest in units

The directors' interest in units is set out in note 16 to the consolidated financial statements.

66 The Manager has been contracted to perform property management services. The Manager has sub-contracted certain of these services to third party property managers who received a fee from the Manager.

Directors' report

(continued)

Directors' remuneration

No fees are paid by the Fund to the directors or officers of the Manager.

Directors of the Responsible Entity who are employees or directors of Investec Group entities are not remunerated by the Fund for their services as directors of the Responsible Entity. The remuneration of independent, non-Investec Group associated and non-executive directors is limited to the director's fees and reimbursement of reasonable expenses incurred for purposes of attending Board meetings.

Accordingly, directors' remuneration for the year to 31 March 2020 was as follows:

For the period to 31 March 2020 AUD'000	Salary (including emoluments paid by Investec Group)	Directors' fees	Fees for other services	Provident pension fund and medical aid contributions	Bonuses	Total
Directors						
Richard Longes[67]	–	165	–	–	–	165
Sally Herman[68]	–	120	–	–	–	120
Hugh Martin[68]	–	100	–	–	–	100
Georgina Lynch (appointed 1 July 2019)[68]	–	75	–	–	–	75
Stephen Koseff[69]	–	20	–	–	–	20
Sam Leon[67]	–	60	–	–	–	60
Graeme Katz[70]	155	–	–	–	–	155
Total	**155**	**540**	**–**	**–**	**–**	**695**

Directors' remuneration for the year to 31 March 2019 was as follows:

For the period to 31 March 2019 AUD'000	Salary (including emoluments paid by Investec Group)	Directors' fees	Fees for other services	Provident pension fund and medical aid contributions	Bonuses	Total
Directors						
Richard Longes[71]	–	37	–	–	–	37
Sally Herman[72]	–	56	–	–	–	56
Hugh Martin[72]	–	45	–	–	–	45
Stephen Koseff[73]	–	13	–	–	–	13
Sam Leon[73]	–	19	–	–	–	19
Graeme Katz[74]	155	–	–	–	–	155
Total	**155**	**170**	**–**	**–**	**–**	**325**

67 Richard Longes' and Sam Leon's directors' fees are paid by the Investec Group. Their fees are not a cost to the Fund.

68 Sally Herman, Hugh Martin and Georgina Lynch are independent, non-Investec Group associated and non-executive directors of the Responsible Entity and their remuneration is paid by the Fund. Ms Herman is also remunerated for her role as chairperson of the Audit and Risk Committee.

69 Stephen Koseff receives fees for his services to the Investec Group and is not separately remunerated for his services as a director of the Responsible Entity. An estimate of attributable fees has been provided based on market related non-executive directors' fees and proportion of time allocated to the Fund, however Mr Koseff is not remunerated out of the Fund.

70 Graeme Katz is not separately remunerated for his services as chief executive officer of the Fund and director of the Responsible Entity as he is remunerated by the Investec Group. The amount disclosed represents an allocation of his remuneration commensurate with his role as an executive director of the Responsible Entity but is not a cost to the Fund.

71 Apportionment of directors' fees paid by the Investec Group that are attributable to the Fund. Richard Longes is not separately remunerated for his services as a director of the Responsible Entity as he is remunerated by the Investec Group for his services as a director of other entities within the Investec Group. An estimate of attributable fees has been provided based on market related non-executive director and chairperson fees and proportion of time allocated to the Fund. Mr Longes is not remunerated out of the Fund.

72 Sally Herman and Hugh Martin are independent, non-Investec Group associated and non-executive directors of the Responsible Entity and their remuneration is apportioned between all funds managed by the Responsible Entity based on gross asset value. Ms. Herman is also remunerated for her role as chairperson of the Audit and Risk Committee.

73 Stephen Koseff and Sam Leon receive fees for their services to the Investec Group and are not separately remunerated for their services as directors of the Responsible Entity. An estimate of attributable fees has been provided based on market related non-executive directors' fees and proportion of time allocated to the Fund, however these directors are not remunerated out of the Fund.

74 Graeme Katz is not separately remunerated for his services as chief executive officer of the Fund and director of the Responsible Entity as he is remunerated by the Investec Group. The amount disclosed represents an allocation of his remuneration commensurate with his role as an executive director of the Responsible Entity but is not a cost to the Fund.

Contracts with directors

The Fund does not have any contracts with directors of the Responsible Entity.

Corporate governance

The Fund's corporate governance framework is set out on page 27 of the annual report.

Audit and risk committee

The audit and risk committee comprising independent non-executive directors meets regularly with the senior management of the Manager and the external auditors to consider the nature and scope of the assurance activities and the effectiveness of the risk and control systems.

Auditors

KPMG have been appointed by the Responsible Entity as auditors of the Fund.

Subsidiaries

The Fund has a number of wholly-owned trusts which hold the Fund's property assets. Details of subsidiaries are set out in note 17 to the consolidated financial statements.

Major unitholders

The Fund's major unitholders are set out on page 128 of the annual report.

Management and administration

The Fund is managed by the Manager which is a wholly-owned subsidiary of the Investec Group. The Manager provides fund management services and property management services to the Fund under the terms of a management agreement. The Manager has in turn outsourced certain of the property management services to property management companies, namely Knight Frank Australia Pty Ltd, MaxiServ Pty Limited, Norwest Commercial and Industrial Real Estate Pty Limited, Kiwi Property and Abacus Property Group.

Indemnification

Under the Fund's constitution the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or fights in relation to the Fund.

The Fund has not indemnified any auditor of the Fund.

Provision of non-audit services by auditor

The Fund may decide to employ the auditor, KPMG, on assignments in addition to their statutory audit duties. Details of the amounts paid to the auditor, which includes the amounts paid for non-audit services and other assurance services, are set out in note 4 to the consolidated financial statements.

Directors have considered the non-audit services and other assurance services provided by the auditor during the financial year. In accordance with advice received from the Audit and Risk Committee, the directors are satisfied that the provision of non-audit services is compatible with, and did not compromise, the general standard of auditor independence imposed by the Corporations Act for the following reasons:

- all non-audit services have been reviewed by the Audit and Risk Committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants

Insurance premiums

No insurance premiums are paid out of the Fund's assets in relation to insurance cover for the Responsible Entity, its officers and employees or the auditors of the Fund.

Environmental regulation

The Fund's operations are not subject to any significant environmental regulation under Commonwealth, State or Territory legislation.

Rounding off

The Fund is of a kind referred to in ASIC Class Order 2016/191 dated 24 March 2016 and in accordance with that ASIC Class Order, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

Additional financial report

As a result of the Fund being dual primary listed on both the JSE and ASX, the Fund's financial report for the year ended 31 March 2020 are required to be audited by auditors in both Australia and South Africa to meet the regulatory requirements in both jurisdictions. Due to the varying reporting requirements in Australia and South Africa, two sets of consolidated financial statements have been prepared, where the differences in the two are largely presentation driven. Both copies of the consolidated financial statements are included in the annual report.

Signed in accordance with a resolution of the directors of the Responsible Entity.

Richard Longes
Independent non-executive chairperson

6 May 2020

Graeme Katz
CEO

6 May 2020

Independent auditor's report to the unitholders of Investec Australia Property Fund

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Independent Auditor's Report

To the Unitholders of Investec Australia Property Fund

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Investec Australia Property Fund (the Group) set out on pages 95 to 125, which comprise the consolidated statement of financial position as at 31 March 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, segmental analysis and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Investec Australia Property Fund as at 31 March 2020, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the group in accordance with the sections 290 and 291 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised January 2018), parts 1 and 3 of the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (Revised November 2018) (together the IRBA Codes) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities, as applicable, in accordance with the IRBA Codes and in accordance with other ethical requirements applicable to performing audits in South Africa.

KPMG

The IRBA Codes are consistent with the corresponding sections of the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) respectively. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investment property and property held for sale Refer to accounting policy note 1.10 and note 9 to the consolidated financial statements	
Key audit matter	How the matter was addressed in our audit
The valuation of investment property (AUD1 085 million) and property held for sale (AUD 94 million) is a key audit matter as investment property represents a significant asset on the consolidated statement of financial position at year end. The properties being valued at fair value increased the judgment applied by us when evaluating evidence available. This was further heightened with the existence of the COVID-19 pandemic, decreasing market transactions which are ordinarily strong sources of evidence regarding fair value, along with greater concerns of the ability of tenants to meet lease obligations. The Group approached the heightened uncertainty risk using internal methodologies and through the use of external valuation experts.	Our audit procedures included the following: • We assessed the Group's process regarding the valuation of investment property, including specific considerations of the impact of COVID-19 relating to the Group's risk rating of properties and the resulting valuation approach; • We assessed the Group's methodologies used in the valuations of investment property for consistency with accounting standards and Group policies; • We assessed the scope, competence and objectivity of external experts engaged by the Group and internal valuers;

Independent auditor's report to the unitholders of Investec Australia Property Fund
(continued)

Valuation of investment property and property held for sale Refer to accounting policy note 1.10 and note 9 to the consolidated financial statements	
Key audit matter	How the matter was addressed in our audit
This necessitated additional audit procedures and effort to evaluate the multiple methods and the amplified approach, including assessing the Group's risk ratings to properties using a COVID-19 lens, which included consideration of tenant covenant strength, weighted average lease expiries, rental reversion levels and whether tenant relief has been requested. We focused on the significant forward looking assumptions the Group applied in external and internal valuation models with particular considerations to the impact of COVID-19 including: • discount rates: these are complicated in nature and differ due to the asset classes, geographies and characteristics of individual investment properties; • capitalisation rates (cap rates): reflects the yield that an investor would look to recover their investment in a particular class of asset. COVID-19 has resulted in transactional evidence and other market data points being difficult to obtain; and • forecast cash flows including: market rental income, leasing and rental relief assumptions. These assumptions are more judgmental because the extent of the uncertainty of how COVID-19 may impact on future tenant cash flows and leasing activity.	• For the total portfolio, taking into account the asset classes, geographies and characteristics of individual investment properties, we assessed the appropriateness of adopted discount and cap rates and market rental income through comparison to market analysis published by industry experts, recent market transactions, other market data points available, inquiries with the Group and historical performance of the investment properties. We assessed these sources for what reasonable expectations existed at year end date versus those issues or observations emerging since year end and their impact to the Group's values; • We assessed the appropriateness of the Group's leasing and rental relief assumptions against each property's actual rental income, weighted average lease expiry and actual vacancy levels, the Group's tenant credit risk assessment and expected rental relief arrangements with consideration of industry views; • We agreed a sample of actual rental income, weighted average lease expiries and vacancy levels within both internal and external valuations to tenancy schedules as per lease agreements;

KPMG

Valuation of investment property and property held for sale Refer to accounting policy note 1.10 and note 9 to the consolidated financial statements	
Key audit matter	How the matter was addressed in our audit
We paid particular attention to knowledge and sources of information available regarding market conditions specific to year end, versus those uncertainties or market knowledge at different dates, given how the impacts of business disruption and resultant government measures from COVID-19 are changing rapidly the dynamic of markets. Due to the significant judgement and assumptions applied by the directors, the involvement of external experts, the significance of the balance and the work effort from the audit team, the valuation of investment property was considered a key audit matter.	• Consulted with our real estate valuation specialists to gain an understanding of prevailing market conditions including existence of market transactions and application of the Group's valuation methodologies; • For one property, where the valuation was based on a contractual sales price, we compared the value to the signed sales contract; and • We assessed the disclosures in the financial statements including checking the sensitivity analysis calculations, using our understanding obtained from our testing, against accounting standards requirements. This was considered in light of changes and uncertainties of COVID-19 that existed at year end date and up until issuance of our audit report.

Emphasis of matter

We draw attention to note 20 Subsequent events to the consolidated financial statements, which describes the unprecedented uncertainty of the economic environment at the date of signing the consolidated financial statements due to the impacts of COVID-19, in particular the continued lack of market transactions which are ordinarily a strong source of evidence for valuations of investment properties. Actual economic events and conditions in future may be materially different from those estimated by the Group in their valuations, since anticipated events frequently do not occur as expected. In our judgement, this issue is fundamental to the users' understanding of the financial report, the financial position and performance of the Group. Our opinion is not modified in respect of this matter.

Independent auditor's report to the unitholders of Investec Australia Property Fund
(continued)

Other information

The directors are responsible for the other information. The other information comprises the information included in the document titled "Investec Australia Property Fund Annual Report 2020 | Integrated annual report and consolidated financial Statements", which includes the Directors' responsibility statement, Report of the audit and risk committee and the Directors' report. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Independent auditor's report to the unitholders of Investec Australia Property Fund

(continued)

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Investec Australia Property Fund for seven years.

KPMG Inc.
Registered Audit

Per Tracy Middlemiss
Registered Auditor
Chartered Accountant (SA)
Director
6 May 2020

Consolidated statement of profit or loss and other comprehensive income

For the year ended 31 March 2020

AUD'000	Notes	2020	2019
Revenue excluding straightline rental revenue adjustment		96 696	88 539
Straightline rental revenue adjustment		4 407	930
Revenue	2	**101 103**	**89 469**
Property expenses	3	(21 341)	(18 226)
Net property income		**79 762**	**71 243**
Other operating expenses	4	(13 653)	(6 951)
Operating profit excluding fair value adjustments		**66 109**	**64 292**
Fair value adjustments	5	5 524	3 184
Finance costs	6	(12 774)	(14 636)
Finance income		90	94
Other income		7	165
Total comprehensive income attributable to unitholders		**58 956**	**53 099**
Basic and diluted earnings per unit (cents)	8	10.32	11.09

The notes on pages 103 to 125 are an integral part of the consolidated financial statements.

Consolidated statement of financial position

As at 31 March 2020

AUD'000	Notes	2020	2019
ASSETS			
Non-current assets		**1 084 958**	**1 069 211**
Investment property	9	1 084 958	1 062 767
Financial instruments held at fair value		–	6 444
Current assets		**115 594**	**14 200**
Cash and cash equivalents	11	17 128	7 792
Receivables and other assets	10	4 466	6 408
Property held for sale	9	94 000	–
Total assets		**1 200 552**	**1 083 411**
EQUITY AND LIABILITIES			
Equity		**808 161**	**621 477**
Contributed equity	12	696 402	515 203
Retained earnings		111 759	106 274
Non-current liabilities		**353 669**	**401 614**
Long–term borrowings	13	345 487	375 163
Trade and other payables	14	4 845	5 265
Financial instruments held at fair value		3 337	21 186
Current liabilities		**38 722**	**60 320**
Borrowings	13	–	28 635
Trade and other payables	14	12 417	6 898
Distributions payable	7	26 305	24 787
Total equity and liabilities		**1 200 552**	**1 083 411**
Number of units in issue ('000)		611 298	478 802
Net asset value per unit (AUD)[75]		1.32	1.30

The notes on pages 103 to 125 are an integral part of the consolidated financial statements.

75 Net asset value per unit is calculated by dividing net asset by the number of units in issue.

Consolidated statement of changes in equity

For the year ended 31 March 2020

AUD'000	Contributed equity	Retained earnings	Total unitholder's interest
Balance at 1 April 2018	**515 203**	**102 160**	**617 363**
Total comprehensive income attributable to unitholders	–	53 099	53 099
Issue of ordinary units	–	–	–
Distributions paid/payable to ordinary unitholders	–	(48 985)	(48 985)
Balance at 31 March 2019	**515 203**	**106 274**	**621 477**
Total comprehensive income attributable to unitholders	–	58 956	58 956
Issue of ordinary units	181 199	–	181 199
Distributions paid/payable to ordinary unitholders	–	(53 471)	(53 471)
Balance at 31 March 2020	**696 402**	**111 759**	**808 161**

The adjustment made to retained earnings on the impact of applying IFRS 16 Leases is nil.

The notes on pages 103 to 125 are an integral part of the consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 March 2020

AUD'000	Notes	2020	2019
Cash flows from operating activities			
Rental income received		107 027	87 349
Property expenses		(26 849)	(17 241)
Fund expenses		(14 514)	(9 836)
Security deposits received		–	763
Cash generated from operations		**65 664**	**61 035**
Finance income received		90	95
Finance costs paid		(12 023)	(15 064)
Distribution paid to unitholders		(51 672)	(48 186)
Net cash from/(used in) operating activities	15	**2 059**	**(2 120)**
Cash flows from/(used in) investing activities			
Investment property acquired		(81 000)	(54 394)
Acquisition costs and capital expenditure		(10 547)	(4 706)
Net cash outflow used in investing activities		**(91 547)**	**(59 100)**
Cash flows from financing activities			
Borrowings raised	13	62 701	78 294
Repayment of loans	13	(120 800)	(16 500)
Proceeds from issue of units	12	184 116	–
Payment related to capital raising	12	(2 917)	–
Payment of termination of hedging	19	(24 276)	–
Net cash inflow from financing activities		**98 824**	**61 794**
Net increase in cash and cash equivalents		9 336	574
Cash and cash equivalents at beginning of the period		7 792	7 218
Cash and cash equivalents at end of the period	11	**17 128**	**7 792**

The notes on pages 103 to 125 are an integral part of the consolidated financial statements.

Segmental analysis

The Fund has determined the reportable segments to be on two separate segments, as follows:

1. The Fund's investment properties are made up of office and industrial assets. This is the first segment basis determined to be relevant to report and is consistent with the sectoral spread disclosure on page 10 of the annual report.
2. The Fund's investment properties are geographically spread over the states of Australia and New Zealand. These disclosures are consistent with the geographical spread disclosure on page 11 of the annual report.

For the year ended 31 March 2020 AUD'000	Office	Industrial	Total
Statement of profit or loss and other comprehensive income			
Revenue from external customers, excluding straightline rental revenue adjustment	72 146	24 550	96 696
Straightline rental revenue adjustment	3 569	838	4 407
Revenue	**75 715**	**25 388**	**101 103**
Property expenses	(18 185)	(3 156)	(21 341)
Net property income	**57 530**	**22 232**	**79 762**
Fair value adjustments – investment property	24 298	(4 104)	20 194
Fair value adjustments – foreign currency revaluation	1 340	–	1 340
Total segment results	**83 168**	**18 128**	**101 296**
Other operating expenses			(13 653)
Fair value adjustment on interest rate swaps			(15 760)
Fair value adjustment on foreign currency			(250)
Finance costs			(12 774)
Finance income			90
Other income			7
Profit for the year			**58 956**
Statement of financial position extracts at 31 March 2020			
Investment property balance 1 April 2019	822 867	239 900	1 062 767
Acquisitions	–	81 000	81 000
Transfer to property held for sale	(94 000)	–	(94 000)
Foreign currency revaluation on property	1 340	–	1 340
Acquisition costs and capital expenditure	5 084	4 166	9 250
Straight–line rental revenue receivable	3 569	838	4 407
Fair value adjustments	24 298	(4 104)	20 194
Investment property at 31 March 2020	**763 158**	**321 800**	**1 084 958**
Other assets not managed on a segmental basis			115 594
Total assets as at 31 March 2020			**1 200 552**

Segmental analysis

(continued)

For the year ended 31 March 2020 AUD'000	VIC	QLD	SA	WA	NSW	ACT	NT	NZ	Total
Statement of profit or loss and other comprehensive income									
Revenue from external customers, excluding straightline rental revenue adjustment	15 154	18 559	2 009	3 704	34 032	9 276	1 184	12 778	96 696
Straightline rental revenue adjustment	(667)	409	(60)	375	2 289	78	267	1 716	4 407
Revenue	**14 487**	**18 968**	**1 949**	**4 079**	**36 321**	**9 354**	**1 451**	**14 494**	**101 103**
Property expenses	(2 927)	(4 121)	(186)	(692)	(7 765)	(1 305)	(99)	(4 246)	(21 341)
Net property income	**11 560**	**14 847**	**1 763**	**3 387**	**28 556**	**8 049**	**1 352**	**10 248**	**79 762**
Fair value adjustments –- investment property	(1 704)	7 554	(1 185)	(2 045)	19 478	(6 369)	(2 973)	7 438	20 194
Fair value adjustments -– foreign currency revaluation	–	–	–	–	–	–	–	1 340	1 340
Total segment results	**9 856**	**22 401**	**578**	**1 342**	**48 034**	**1 680**	**(1 621)**	**19 026**	**101 296**
Other operating expenses									(13 653)
Fair value adjustment on interest rate swaps									(15 760)
Fair value adjustment on foreign currency									(250)
Finance costs									(12 774)
Finance income									90
Other income									7
Profit for the year									**58 956**
Statement of financial position extracts at 31 March 2020									
Investment property balance 1 April 2019	201 500	206 850	9 251	29 500	391 851	100 898	–	122 917	1 062 767
Acquisitions	–	–	25 500	26 500	–	–	29 000	–	81 000
Transfer to property held for sale	–	(94 000)	–	–	–	–	–	–	(94 000)
Acquisition costs and capital expenditure	2 972	(13)	295	1 819	1 033	241	1 806	1 097	9 250
Foreign currency revaluation on property	–	–	–	–	–	–	–	1 340	1 340
Straightline rental revenue receivable	(667)	409	(60)	375	2 289	78	267	1 716	4 407
Fair value adjustments	(1 704)	7 554	(1 035)	(2 195)	19 478	(6 369)	(2 973)	7 438	20 194
Investment property at 31 March 2020	**202 101**	**120 800**	**33 951**	**55 999**	**414 651**	**94 848**	**28 100**	**134 508**	**1 084 958**
Other assets not managed on a segmental basis									115 594
Total assets as at 31 March 2020									**1 200 552**

For the year ended 31 March 2019 AUD'000	Office	Industrial	Total
Statement of profit or loss and other comprehensive income			
Revenue from external customers, excluding straightline rental revenue adjustment	67 680	20 859	88 539
Straightline rental revenue adjustment	295	635	930
Revenue	**67 975**	**21 494**	**89 469**
Property expenses	(15 698)	(2 528)	(18 226)
Net property income	**52 277**	**18 966**	**71 243**
Fair value adjustments – investment property	12 315	2 854	15 169
Fair value adjustments – foreign currency revaluation	162	–	162
Total segment results	**64 754**	**21 820**	**86 574**
Other operating expenses			(6 951)
Fair value adjustment on interest rate swaps			(13 714)
Fair value adjustment on foreign currency			1 567
Finance costs			(14 636)
Finance income			94
Other income			165
Profit for the year			**53 099**
Statement of financial position extracts at 31 March 2019			
Investment property balance 1 April 2018	770 922	215 774	986 696
Acquisitions	29 750	19 450	49 200
Foreign currency revaluation on property	2 515	–	2 515
Acquisition costs and capital expenditure	7 004	1 186	8 190
Straightline rental revenue receivable	375	635	1 010
Fair value adjustments	12 301	2 855	15 156
Investment property at 31 March 2019	**822 867**	**239 900**	**1 062 767**
Other assets not managed on a segmental basis			20 644
Total assets as at 31 March 2019			**1 083 411**

Segmental analysis

(continued)

For the year ended 31 March 2019 AUD'000	VIC	QLD	SA	WA	NSW	ACT	NZ	Total
Statement of profit or loss and other comprehensive income								
Revenue from external customers, excluding straightline rental revenue adjustment	14 306	17 952	1 034	2 566	33 807	7 094	11 780	88 539
Straightline rental revenue adjustment	21	307	(26)	221	704	(47)	(250)	930
Revenue	**14 327**	**18 259**	**1 008**	**2 787**	**34 511**	**7 047**	**11 530**	**89 469**
Property expenses	(2 491)	(3 649)	(70)	(335)	(6 916)	(1 061)	(3 704)	(18 226)
Net property income	**11 836**	**14 610**	**938**	**2 452**	**27 595**	**5 986**	**7 826**	**71 243**
Fair value adjustments – investment property	12 766	2 485	(134)	262	(1 127)	52	866	15 169
Fair value adjustments – foreign currency revaluation	–	–	–	–	–	162	–	162
Total segment results	24 602	17 095	804	2 714	26 468	6 200	8 691	86 574
Other operating expenses								(6 951)
Fair value adjustment on interest rate swaps								(13 714)
Fair value adjustment on foreign currency								1 567
Finance costs								(14 636)
Finance income								94
Other income								165
Profit for the year								53 099
Statement of financial position extracts at 31 March 2019								
Investment property balance 1 April 2018	167 700	203 150	9 401	29 000	388 351	69 623	119 471	986 696
Acquisitions	19 450	–	–	–	–	29 750	–	49 200
Acquisition costs and capital expenditure	1 554	908	10	17	3 922	1 520	326	8 257
Foreign currency revaluation on property	–	–	–	–	–	–	2 515	2 515
Straightline rental revenue receivable	21	307	(26)	221	704	(47)	(250)	930
Fair value adjustments	12 775	2 485	(134)	262	(1 126)	52	855	15 169
Investment property at 31 March 2019	**201 500**	**206 850**	**9 251**	**29 500**	**391 851**	**100 898**	**122 917**	**1 062 767**
Other assets not managed on a segmental basis								20 644
Total assets as at 31 March 2019								**1 083 411**

The notes on pages 103 to 125 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Corporate information

The financial report of the Fund for the year ended 31 March 2020 was authorised for issue in accordance with a resolution of the directors of the Responsible Entity on 6 May 2020.

The Fund is domiciled in Australia. The Responsible Entity is incorporated and domiciled in Australia.

The nature of the operations and principal activities of the Fund are described in the directors' report.

The registered office of the Responsible Entity is located at:

Level 23, Chifley Tower
2 Chifley Square
Sydney
New South Wales
2000
Australia

Reporting entity

The Fund is an Australian registered managed investment scheme under the Corporations Act. The Fund is a for profit entity.

The consolidated financial statements of the Fund as at and for the year ended 31 March 2020 comprise the Fund and its subsidiaries (**Group**).

Working capital management

The Fund utilises its monthly cash flows to pay down its debt facility whilst maintaining the facility limit. The Fund will draw this cash back from the debt facility in order to pay the final distribution in June 2020. This results in the most efficient use of the Fund's cash flows.

Going concern

The Fund has prepared an assessment of its ability to continue as a going concern, taking into account all available information for a period of 12 months from the date of issuing the consolidated financial statements.

The impact of the COVID-19 pandemic has resulted in a portion of the Fund's tenants experiencing challenging and uncertain times. Whilst the situation is evolving, the Responsible Entity remains confident that the Fund will be able to continue as a going concern which assumes the Fund will be able to continue trading and realise assets and discharge liabilities in the ordinary course of business for at least 12 months from the date of the consolidated financial statements. In reaching this position, the following factors have been considered:

- the Fund has cash of AUD17 million as at 31 March 2020 and has adequate levels of liquidity through AUD66.9 million[76] of available debt lines to be drawn if required
- the Fund's tenant exposure where the potential credit risk is more severe including hospitality and accommodation, tourism, education and retail is approximately 3.3% of the total tenant revenue base
- the Fund has prepared for several scenarios assuming the COVID-19 pandemic continues for three, six and 12 months, stress testing operating cashflows and in all cases the Responsible Entity expects the Fund to remain solvent
- the Fund's WADE is 7.4 years[76], with the earliest tranche maturing in March 2023[76]
- the Fund's debt is fixed or hedged to a level of 95.8%[76]
- the Fund's gearing sits at 22.2%[76] with a covenant level of 55%
- the Fund's interest cover ratio at 31 March 2020 was 5.2x with a covenant level of 2.0x
- stress testing of the covenants results in adequate levels of headroom from both a gearing and interest cover ratio perspective. While debt compliance may come under pressure, the Fund does not expect any potential covenant breaches for a period of 12 months from the date of the consolidated financial statements.

The outcome of all of the above leads the Responsible Entity to determine that the Fund's financial position is strong, and it will be able to meet its debts as and when they fall due for at least a period of 12 months from the date of the consolidated financial statements.

The consolidated financial statements have therefore been prepared on a going concern basis.

76 Includes the impact of the sale of 757 Ann Street, which settled post the reporting date on 1 April 2020 and the debt restructure, which occurred post the reporting date on 3 April 2020.

Notes to the consolidated financial statements

(continued)

1. Accounting policies and basis of preparation

1.1 Basis of preparation

1.1.1 Statement of compliance

The annual financial statements are prepared in accordance with and compliance with International Financial Reporting Standards and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial pronouncements as issued by Financial Reporting Standards Council.

1.1.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- derivative financial instruments are measured at fair value
- investment property is measured at fair value

1.1.3 Functional and presentation currency

The consolidated financial statements are presented in AUD, which is IAP's functional currency.

IAP is of a kind referred to in ASIC Class Order 2016/191 dated 24 March 2016 and in accordance with that ASIC Class Order, all financial information presented in AUD has been rounded to the nearest thousand unless otherwise stated.

1.1.4 Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires the Board to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or the period of the revision and future periods if the revision affects both current and future periods.

Due to the COVID-19 pandemic, estimation uncertainty at balance date, that may have a significant risk of resulting in a material adjustment to the carrying amounts of assets within the next financial year relates to the valuation of investment properties. Refer to note 9 to the consolidated financial statements for information on best estimates used in the valuation of investment properties.

1.2 Basis of consolidation

1.2.1 Controlled entities

The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of controlled entities are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

All subsidiaries are 100% owned trusts and controlled by the Group with no restrictions.

1.2.2 Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-Group transactions, are eliminated.

1.3 Segmental reporting

Determination and presentation of operating segments

The Group has the following operating segments:

- office properties
- industrial properties

The above segments are derived from the way the business of the Group is structured, managed and reported to the chief operating decision-makers. The Group manages its business in the office and industrial property sectors where resources are specifically allocated to each sector in achieving the Group's stated objectives.

Segment results include revenue and expenses directly attributable to a segment and the relevant portion of enterprise revenue and expenses that can be allocated on a reasonable basis to a segment. Segment assets comprise those assets that are directly attributable to the segment on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period on investment property in each segment.

1.4 Revenue recognition

The Group recognises revenue that depict the transfer of promised good or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Rental income

Revenue from investment property in terms of leases comprises gross rental income and recoveries of operating costs, net of GST. Rental income is recognised in profit or loss on a straightline basis over the term of the rental agreement where the revenue under the lease terms is fixed and determinable. For leases where revenue is determined with reference to market reviews or inflationary measures, revenue is not straightlined and is recognised in accordance with lease terms applicable for the period.

Recoverable outgoings

Within the Group's lease arrangements, certain services are provided to tenants (such as utilities, cleaning and maintenance) which are accounted for within IFRS 15 Revenues from contracts with customers. As the Fund has the primary responsibility in delivering these services revenues are recognised on a gross basis. A portion of the consideration within the lease arrangements are allocated to revenue for the provision of services based on the standalone selling method. The service revenue is recognised over time as services are provided and based on the annual estimates, with the estimates reconciled at least annually. These are invoiced monthly based on an annual estimates basis. The consideration is due 30 days from the invoiced date.

1.5 Lease incentives and commissions

Any lease incentives provided to a tenant under the terms of a lease such as fit-outs or cash incentives are first capitalised to investment property and then recognised as an expense or reduction in revenue on a straightline basis over the term of the lease.

Leasing commissions paid to agents on signing of lease agreements are recognised as an expense on a straightline basis over the term of the lease.

1.6 Finance income

Finance income includes interest earned on cash invested with financial institutions which are recognised in the profit or loss on an accrual basis using the effective interest method.

1.7 Finance costs

Finance costs include interest expense and other borrowing costs which are recognised in the profit or loss on an accrual basis using the effective interest method.

1.8 Earnings per unit

Basic earnings per unit is determined by dividing the profit or loss of the Group by the weighted average number of units outstanding during the financial year.

There are no instruments in issue that could potentially result in a dilution in earnings per unit in the future. Headline earnings is profit for the period adjusted for certain remeasurements such as investment property fair value adjustments. As required by the JSE Listings Requirements headline earnings per unit is calculated using Circular 1/2019.

1.9 Financial instruments

The Fund recognises financial instruments when it becomes party to the contractual provisions of the instrument.

Financial instruments are initially recognised at their fair value plus, for financial assets or financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liabilities. All other transaction costs are recognised in profit or loss immediately.

Any gains or losses on these instruments arising from fair value adjustments, where appropriate, do not affect distributable earnings.

The Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Fund is recognised as a separate asset or liability. The Fund derecognises a financial liability when its contractual obligations are discharged, cancelled or expired.

1.9.1 Trade and other receivables

Trade and other receivables are subsequently measured at amortised cost using the effective interest method, less any allowance under the expected credit loss (**ECL**) model.

At each reporting period, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit-impaired when one or more events that has a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Group recognises loss allowances at an amount equal to lifetime ECL on trade and other receivables. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the trade receivables and are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. The Group analyses the age of outstanding receivable balances and applies historical default percentages adjusted for other current observable data as a means to estimate lifetime ECL, including:

- significant financial difficulty of a tenant
- default or delinquency by a tenant

Debts that are known to be uncollectable are written off when identified. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or significant delinquency in payments are considered indicators that the trade receivable is impaired.

1.9.2 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in fair value. Cash and cash equivalents are subsequently measured at amortised cost.

1.9.3 Trade and other payables

Trade and other payables are subsequently measured at amortised cost using the effective interest method. Any gains or losses on derecognition of trade and other payables are recognised in profit or loss.

1.9.4 Derivative financial instruments

The Group utilises derivative financial instruments to hedge its exposure to interest rate risk arising from its financing activities. The Group does not hold or issue derivative financial instruments for trading purposes. Derivatives are not designated as hedges for accounting purposes and are accounted for at fair value. After initial recognition, all derivative instruments are subsequently recorded in the statement of financial position at fair value, with gains and losses recognised in profit or loss.

1.9.5 Borrowings

Long-term borrowings are subsequently measured at amortised cost using the effective interest method. Borrowings are classified as non-current unless they are repayable within 12 months.

1.10 Investment property

Properties held by the Group which are held for rental income or capital appreciation are classified as investment properties. Investment properties are initially recognised at cost including transaction costs. Investment properties are subsequently measured at fair value, with fair value gains and losses recognised in profit or loss. Investment property consists of land and buildings, installed equipment that is an integral part of the building and land held to earn rental income. The fair value of investment property also includes components relating to lease incentives and straightline rental receivables. Costs incurred subsequent to initial acquisition are capitalised when it is probable that future economic benefits will flow to the Group those costs can be reliably measured.

An investment property is classified as held for sale as it will be recovered principally through a sale transaction rather than through continuing use. The asset is available for sale in its present condition subject only to terms that are usual and customary for sales of such assets. Basis of valuation of property held for sale is conditional sales contract. The sale is considered to be highly probable and expected to settle within the next 12 months.

A property interest under an operating lease is classified and accounted for as an investment property when it is held to earn rental income. Any such property interest under an operating lease classified as investment property is carried at fair value.

Should any properties no longer meet the Group's investment criteria and are sold, any profits or losses will be recognised in profit or loss.

Investment property is maintained, upgraded and refurbished where necessary, in order to preserve or improve the capital value as far as it is possible to do so. Maintenance and repairs which neither materially add to the value of the properties nor prolong their useful lives are recognised in profit or loss as an expense.

Notes to the consolidated financial statements

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Independent valuations are obtained on a rotational basis, ensuring that every property is valued at least once every 24 months by an external independent valuer.

The directors value the remaining properties that have not been independently valued annually on an open market basis. Directors' valuations are prepared by considering the aggregate of the net annual rental receivable from the properties and where relevant, associated costs, using the discounted cash flow method and the capitalisation rate method. The directors believe that their valuations accurately represent the fair value. Note 9 to the consolidated financial statements describes the basis for determining fair value of the Fund's properties.

Gains or losses on subsequent measurement or disposals of investment properties (calculated as the difference between the net proceeds from disposal and the carrying amount) are recognised in profit or loss. Such gains or losses are excluded from the calculation and determination of distributable earnings.

1.11 Lease agreements

A finance lease is a lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a financial lease.

The Group is party to numerous lease agreements in the capacity as lessor of the investment properties. All agreements are operating leases.

Where classified as operating leases, lease payable/receivable are charged/credited in the profit or loss on a straightline basis over the lease term. Contingent lease (if any) are accrued to the statement of profit or loss and other comprehensive income when incurred.

Initial direct costs incurred in negotiating and arranging an operating lease are recognised in profit or loss over the term of the lease.

1.12 Provisions, contingent liabilities and contingent assets

Provisions are liabilities of uncertain timing or amount, and are recognised as soon as the Fund has a legal or constructive obligation which will lead to an outflow of economic resources to settle the obligation as a result of a past event and a reliable estimate can be made of the amount of the obligation. Contingent assets and contingent liabilities are not recognised.

Provisions are measured by at the best estimate of expenditure to settle the present obligation.

1.13 Taxation

Under current income tax legislation, the Fund (as a REIT, which is a flow-through structure) is not subject to Australian income tax on any of the net income derived by the Fund, provided that its activities are limited to deriving rental income from real property directly or indirectly held by the Fund and deriving gains from sale of real property held for rental purposes; and it fully distributes its distributable income (as defined in the Fund's constitution), subject to amounts permitted to be retained, to investors year-on-year during or within three months after the relevant income year.

Furthermore, the Fund and management arrangements are structured to meet the required criteria to be classified as an Attribution Managed Investment Trust for Australian tax purposes. As an Attribution Managed Investment Trust, the Fund will be required to withhold tax in Australia at a concessional rate of 15% on distributions to individual and institutional investors in South Africa (including distributions of capital gains) to the extent that it is not a "tax deferred distribution", a distribution of interest income or non-Australian sourced income.

A 'tax deferred distribution' is the excess of cash distributed over the investors' proportionate share of the Australian taxable income of the Fund.

As the Fund is an Attribution Managed Investment Trust, the Responsible Entity will be required to withhold tax in Australia at 10% on Australian sourced interest income and 15% on other Australian sourced income to investors in South Africa.

The New Zealand sourced income is subject to the corporate tax rate in New Zealand of 28%, and is not subject to Australian withholding tax.

1.14 Unit capital

1.14.1 Ordinary unit capital

Units are classified as equity when the units are redeemable only at the Responsible Entity's option, and any distributions are discretionary. The issued unit capital represents the amount of consideration received for units issued in IAP.

Transaction costs of an equity transaction are accounted for as a deduction from equity. All units are fully paid. The unitholders are entitled to receive distributions as declared from time-to-time and are entitled to one vote per unit at the annual general meeting of IAP. All units rank equally with regard to IAP's residual assets.

1.15 New accounting standards adopted by the Group

The Group applied the following accounting standards amendments that became mandatory for the first time during the reporting period:

IFRS 16 Leases

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

IFRS16 introduces a single on-balance sheet lease accounting model for lessees and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payment.

IFRS 16 substantially carries forward the lessor accounting requirement in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Fund has applied the modified retrospective approach to implement the new accounting standard of IFRS 16, and has selected to "grandfather" its previous assessment of existing contracts. The Fund operations involve leasing of investment properties. All rental agreements are operating leases. The impact to IAP upon adoption of IFRS 16 is nil for both current year and the comparative period.

1.16 Accounting standards applicable to the Group not yet effective

Amendments to IFRS 3 'Business Combinations – Definition of a Business'. IFRS 3 'Business Combinations – Definition of a Business' to clarify the definition of a business. This amendment applies prospectively to future acquisitions. It is not possible to determine if the amendment will have a material impact given the uncertainty in respect of such acquisition.

Amendments to IAS 1 and IAS 8 – Definition of Material IAS 1 and IAS 8 amended to clarify the definition of material as applied across all reporting standards. The intention of the amendment is to reduce and declutter financial reports and focus the user's attention on the key material items. the Group would look to review the disclosure in respect of non-material items

2. Revenue

AUD'000	2020	2019
Contracted rental income	83 907	77 474
Recoverable outgoings	12 789	11 065
Revenue, excluding straightline rental revenue adjustment	96 696	88 539
Straightline rental revenue adjustment	4 407	930
	101 103	**89 469**

3. Property expenses

AUD'000	2020	2019
Statutory expenses	(6 196)	(5 876)
Electricity	(2 059)	(1 694)
Insurance	(1 918)	(1 142)
Cleaning	(1 406)	(1 264)
Building management	(2 282)	(2 277)
Repairs and maintenance	(1 365)	(1 019)
Amortisation of incentives	(1 054)	(957)
Tenant rechargeable expenditure	(905)	(724)
Air-conditioning	(790)	(814)
Fire protection	(404)	(432)
Lift and escalators	(531)	(444)
Emergency generators	(479)	(513)
Gardening/landscaping	(227)	(168)
Consultancy fees	(318)	(216)
Leasing fees	(477)	(330)
Legal and marketing expenses	(158)	(160)
Non recoverable property expenses	(583)	(168)
Other property expenses	(189)	(28)
	(21 341)	**(18 226)**

4. Other operating expenses

AUD'000	2020	2019
Asset management fee	(6 573)	(5 761)
Auditor's remuneration[77]	(354)	(331)
Audit fee	(233)	(203)
Tax compliance fees	(121)	(128)
Directors' fees	(295)	(101)
Legal and consulting fees	(356)	(244)
ASX listing expenses	(5 339)	–
Other fund expenses	(736)	(514)
	(13 653)	**(6 951)**

77 All audit and tax services were provided by KPMG.

Notes to the consolidated financial statements

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5. Fair value adjustments

AUD'000	2020	2019
Fair value adjustments – investment property	20 194	15 178
Fair value adjustments – interest rate swaps	(3 337)	(13 714)
Losses on termination and restructure of hedges	(12 423)	–
Fair value adjustments – foreign currency revaluation	1 090	1 720
Total fair value adjustment	**5 524**	**3 184**

6. Finance costs

AUD'000	2020	2019
Interest paid on borrowings	(12 774)	(14 636)
Total finance costs	**(12 774)**	**(14 636)**

Refer to note 13 to the consolidated financial statements for details on borrowings.

7. Distribution per unit

Period for distribution	Total distribution AUD'000	Units in issue ('000)	Distribution per unit pre-WHT (AUD cents)	Distribution per unit post-WHT (AUD cents)
1 April 2019 – 27 May 2019	7 631	478 802	1.59	1.46
28 May 2019 – 30 September 2019	19 535	611 298	3.20	2.91
Half year to 31 March 2020	26 305	611 298	4.30	4.20
Total distribution for FY20	**53 471**		**9.09**	**8.57**
Half year to 30 September 2018	24 198	478 802	5.05	4.65
Half year to 31 March 2019	24 787	478 802	5.18	4.75
Total distribution for FY19	**48 985**		**10.23**	**9.40**

The interim distribution paid to unitholders for the period 28 May 2019 to 30 September 2019 includes those unitholders who participated in the placement which settled on 2 October 2019.

8. Earnings per unit

AUD'000	2020	2019
Reconciliation of basic earnings to headline earnings		
Profit for the period	**58 956**	**53 099**
Less: net fair value adjustment – investment property	(20 194)	(15 178)
Headline earnings attributable to unitholders	**38 762**	**37 921**
	Cents	**Cents**
Basic and diluted earnings per unit	10.32	11.09
Basic and diluted headline earnings per unit	6.78	7.92
Units in issue at the end of the year ('000)	**611 298**	**478 802**
Weighted average number of units in issue ('000)	**571 380**	**478 802**
Reconciliation of weighted average number of units in issue:		
Units at the beginning of the year ('000)	**478 802**	**478 802**
Placements ('000)	**132 496**	**–**

Headline earnings is profit for the period adjusted for fair value adjustments on investment property. Headline earnings are a measure of the Fund's earnings based solely on operational activities and in the case of the Fund will exclude fair value adjustments and profits or losses on sale of properties. As required by the JSE Listing requirements headline earnings per unit is calculated using Circular 1/2019.

9. Investment property

AUD'000	2020	2019
Cost	956 051	941 582
Accumulated fair value adjustment	115 549	110 516
Investment properties	1 071 600	1 052 098
Straightline rental revenue receivable	13 358	10 669
Carrying value	**1 084 958**	**1 062 767**
Movement in investment properties		
Balance at beginning of year	1 062 767	986 696
Acquisitions	81 000	49 200
Property held for sale	(94 000)	
Foreign currency revaluation on property	1 340	2 515
Acquisition costs and capital expenditure	9 250	8 190
Fair value adjustment on revaluation of investment properties (refer to note 5)	20 194	15 156
Straightline rental revenue adjustment	4 407	1 010
Carrying value at end of the year	**1 084 958**	**1 062 767**

Property to the value of AUD1 085.0 million (31 March 2019: AUD1 062.8 million) is held as security under the syndicated facility agreement drawn down to a value of AUD347.3 million (31 March 2019: AUD405.4 million).

All of the investment properties located in New South Wales, Victoria, South Australia, Queensland, Western Australia, Northern Territory and New Zealand are held under freehold interests. All of the properties located in the Australian Capital Territory are held under leasehold interests with earliest termination date in 2088 with no lease payment obligations.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to AUD20.2 million (31 March 2019: AUD15.2 million) and are presented in profit and loss in the line item 'fair value adjustment'.

Notes to the consolidated financial statements

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Property	Latest external valuation		Consolidated carrying value	Consolidated carrying value
AUD'000	Date	Valuation	2020	2019
Industrial				
47 Sawmill Circuit, Hume ACT	30-Sep-18	11 400	11 100	11 400
57 Sawmill Circuit, Hume ACT	30-Sep-18	10 350	9 500	10 350
24 Sawmill Circuit, Hume ACT	30-Sep-18	9 900	9 050	9 900
44 Sawmill Circuit, Hume ACT	30-Sep-18	11 300	10 400	11 300
2–8 Mirage Road, Direk SA	30-Sep-18	9 250	8 750	9 250
30–48 Kellar Street, Berrinba QLD	31-Mar-20	8 400	8 400	8 350
165 Newton Road, Wetherill Park NSW	30-Sep-19	25 500	25 250	23 450
24 Spit Island Close, Newcastle NSW	31-Mar-20	10 600	10 600	10 000
67 Calarco Drive, Derrimut VIC	31-Mar-20	10 150	10 150	9 700
66 Glendenning Road, Glendenning NSW	30-Sep-19	29 300	29 400	25 900
85 Radius Drive, Larapinta QLD	31-Mar-20	17 500	17 500	18 000
54 Miguel Road, Bibra Lake WA	30-Sep-19	31 000	30 100	29 500
24 Rodborough Road, Frenchs Forest NSW	31-Mar-20	22 250	22 250	21 000
6–8 and 11 Siddons Way, Hallam VIC	31-Mar-20	20 000	20 000	22 350
36–42 Hydrive Close, Dandenong South VIC	30-Sep-19	20 500	20 150	19 450
103 Welshpool Road, Welshpool WA	10-Oct-19	26 500	25 900	–
70 Grand Trunkway, Gillman SA	10-Oct-19	25 500	25 200	–
16 Dawson Street, East Arm NT	10-Oct-19	29 000	28 100	–
Office				
449 Punt Road, Cremorne VIC	31-Mar-19	57 000	58 800	57 000
35–49 Elizabeth Street, Richmond VIC	31-Mar-19	93 000	93 000	93 000
2404 Logan Road, Eight Mile Plains QLD	30-Sep-18	20 000	18 150	20 000
186 Reed Street, Greenway ACT	30-Sep-18	28 200	25 650	28 200
757 Ann Street, Fortitude Valley QLD	31-Mar-20	94 000	–	85 000
21–23 Solent Circuit, Baulkham Hills NSW	30-Sep-19	62 500	61 500	59 000
266 King Street, Newcastle NSW	31-Mar-20	77 000	77 000	75 000
113 Wicks Road, Macquarie Park NSW	31-Mar-20	29 000	29 000	26 500
324 Queen Street, Brisbane QLD	31-Mar-20	76 750	76 750	75 500
20 Rodborough Road, Frenchs Forest NSW	31-Mar-20	62 500	62 500	61 000
2 Richardson Place, Frenchs Forest NSW	30-Sep-19	102 000	97 150	90 000
100 Willis Street, Wellington NZ[78]	31-Mar-20	134 508	134 508	122 917
24 Wormald Street, Symonston ACT	08-Feb-19	29 750	29 150	29 750
Total			**1 084 958**	**1 062 767**
Property held for sale				
757 Ann Street, Fortitude Valley QLD	31-Mar-20	94 000	94 000	–
			94 000	**–**

78 Converted at spot rate of 1.02968 at 31 March 2020.

A. Valuation basis

The basis of valuation of investment properties is fair value. Fair values are based on market values, being the price that would be received to sell an asset in an orderly transaction between market participants at the reporting date.

As a result of the COVID-19 pandemic assessing fair value as at the reporting date involves uncertainties around the underlying assumptions given the constantly changing nature of the situation and the time between the reporting date and the date of the annual report. The COVID-19 pandemic is still at an early stage, and the length of time it will take the measures implemented by the Australian and New Zealand Governments to manage the effects of the COVID-19 pandemic on the broader economies and property markets, is still unknown.

As such, the valuation process for the Fund's results for the year ended 31 March 2020 has been adjusted compared to the process that would typically be followed and adopted in more normalised market conditions.

The Fund had largely completed the fair valuation assessment of the portfolio in mid-March 2020, in anticipation for 31 March 2020 reporting requirements, and draft valuations were presented to the Audit and Risk Committee for consideration. However, given the significant events and change in market conditions between the date these valuations were originally obtained and the reporting date, the Audit and Risk Committee determined that it was appropriate for all external valuations to be reassessed by the relevant independent valuers. Further, the Audit and Risk Committee determined that the information obtained from this process also inform the basis of reassessing each of the directors' valuations. This process was conducted having regard to the most recent understanding at balance date of Government restrictions, financial support packages and their associated anticipated timeframe, and the impact these may have on the Fund's properties.

To date, market evidence is difficult to obtain to support any material movement in property yields across the sectors in which the Fund has exposure. This is largely due to the early stage of the COVID-19 pandemic in Australia and New Zealand and the limited recent transaction activity.

While the current economic climate and the impacts of the COVID-19 pandemic in the medium to long term are still uncertain, the assessment undertaken to determine the fair value of the Fund's portfolio is based on the measures and process discussed below. This included an assessment of each individual tenant's specific situation and overlaying market factors in light of limited transaction activity as at the date of the annual report.

A risk assessment of each property in the portfolio was undertaken incorporating the following factors:

- tenant covenant (higher tenant covenant strength would indicate lower risk)
- weighted average lease expiry (WALE) (higher WALE would indicate lower risk)
- rent reversion to market (higher rent reversion would indicate higher risk)
- whether any of the tenant's had applied for rental support (expected or actual rental relief request would indicate higher risk)

Each factor above was considered along with other property specific factors as relevant to determine an overall risk rating for each property as low, medium or high. This was then used to inform the valuation approach to be adopted and the level of adjustments to assumptions originally applied in mid-March 2020 to reassess fair value.

The reassessed fair values were determined based on a mix of discounted cash flow (**DCF**) and midpoint (between DCF and capitalisation rate) approaches. Where the DCF approach was adopted, the value was sense checked to the capitlisation rate approach to ensure adopted value was reasonable. In determining whether the DCF or midpoint approach was adopted, the Fund applied the following approach:

- midpoint approach was adopted for properties where the risk assessment resulted in a low impact outcome
- DCF approach was adopted for properties where the risk assessment resulted in a medium to high impact outcome

Under the capitalisation rate method a property's fair value is estimated based on the normalised net operating income generated by the property, which is divided by the capitalisation rate.

Under the DCF method, a property's fair value is estimated using explicit assumptions about the benefits and liabilities of ownership over the property's life including an exit or terminal value. This involves the projection of a series of cash flows and to this, a market-derived discount rate is applied to establish the present value of the income stream.

In determining the specific assumptions to be adjusted, the Fund undertook the following process for each property:

1. Tenant engagement program and cashflow indicators

The Fund has implemented a detailed tenant engagement program. The program commenced in early 2020 to gain an understanding of the impact on the tenant base of recent events such as the Australian bushfires and the early stages of the COVID-19 pandemic. At that stage there were no material risks to valuations identified.

In mid-March 2020, as the uncertainty from the COVID-19 pandemic was becoming more evident, the program was re-instated. All tenants within the portfolio were communicated with a number of times in an attempt to understand the potential impacts of the COVID-19 pandemic on their business and how this might influence their ability to meet their lease obligations and their future leasing decisions. The information obtained from tenants has been used in determining forecast cash flows for each of the properties and in determining the fair value assessment.

2. Market indicators

The market indicators that were taken into account included:

- location of each property
- tenant industry type and the level of impact
- other market factors

The cashflow and market indicators as well as the risk assessment factors were considered in the reassessment to determine if adjustments should be made to discount rates, capitalisation rates, market rental growth in the short to medium term, levels of incentives, probability of tenant retention, downtime periods and leasing fees.

Notes to the consolidated financial statements

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B. Fair value assessment results

External valuations

External valuations were conducted for 11 properties in the portfolio for the second half of the year. External valuations were conducted by Colliers International, Urbis, Savills and CBRE who are all registered as Certified Practising Valuers with the Australian Property Institute.

Directors' valuations

The number of properties not externally valued was 19 as at 31 March 2020, where fair value was based solely on directors' valuations. At each reporting date, the directors update their assessment of the fair value of each property in accordance with the Fund's valuation policy.

Reassessment

In respect of external valuations, between the date of issuing draft valuation reports in mid-March 2020 and determining the fair value assessment for inclusion in the consolidated financial statements, the independent valuers adjusted a number of assumptions, including lower probabilities of tenant retention, longer lease up periods, lower market rental growth and softening capitalisation and discount rates where deemed appropriate.

The reassessment of fair value for properties utilising directors' valuations have undertaken the same adjustment process that the properties which were externally valued have undergone, including the changes in assumptions that have been applied on a case-by-case basis determined by the outcome of a risk assessment of each of the properties, consideration of cash flows and market indicators.

Across both external and directors' reassessment of fair value, for 13 properties the DCF approach was adopted and for 17 properties the midpoint approach was adopted.

C. Fair value hierarchy

The fair value for all investment properties AUD1 085.0 million (2019: AUD1 062.8 million) has been undertaken under the Level 3 fair value hierarchy, where unobservable inputs have been utilised in the valuation techniques. For all investment property that are measured at fair value, the current use of the property is considered the highest and best use.

Valuation techniques used to derive Level 3 fair values

For all classes of investment property the significant unobservable inputs below are used in the DCF and midpoint methods to determine the fair value measurement of investment property at the end of the reporting period.

Capitalisation rate	Increases/(decreases) in the capitalisation rate would (decrease)/increase estimated fair value	The rate at which net market income is capitalised to determine the value of a property. The rate is determined with regards to market evidence
Discount rate	Increases/(decreases) in the discount rate would (decrease)/increase estimated fair value	The rate of return used to convert a monetary sum, payable or receivable in the future, into present value. Theoretically it should reflect the opportunity cost of capital, that is, the rate of return the capital can earn if put to other uses having similar risk The rate is determined with regards to market evidence
Terminal yield	Increases/(decreases) in the terminal yield would result in (decreases)/increases in the estimated fair value	The capitalisation rate used to convert income into an indication of the anticipated value of the property at the end of the holding period when carrying out a discounted cash flow calculation. The rate is determined with regards to market evidence.
Market rent and rental growth	Increases/(decreases) in market rent and rental growth would increase/(decrease) estimated value	The rent at which a space could be let in the market including rental growth in future years at the date of valuation. Market rent includes gross rent and net rent. Gross rent is where outgoings are incorporated in the rent being paid. Net market rent is where the owner recovers outgoings from the tenant on a pro-rata basis (where applicable).

The following significant unobservable inputs have been considered to determine the fair value of measurement at the end of the reporting year:

- weighted average capitalisation rate of 6.57%, weighted average discount rate of 7.39% and weighted average terminal yield of 6.82%
- weighted average rental growth is 2.62% based on a 10 year period, noting that in the short term the rental growth adjustments are lower than the weighted average due to the impacts of the COVID-19 pandemic.

D. Sensitivity analysis

Due to the uncertainty the COVID-19 pandemic is currently having on property values, sensitivity analysis has been undertaken to further stress test the assessment of fair value undertaken for year-end reporting requirements.

The following sensitivity analysis is based on a range of potential capitalisation rate and discount rate movements on a portfolio basis compared to the capitalisation rates and discount rates adopted by the Fund at 31 March 2020, and are considered to be the key unobservable inputs that would be expected to have the most material impact on the fair values adopted if they moved.

As noted in A. Valuation basis the base case was the fair value for each property as at reporting date, where a combination of DCF and midpoint approaches was adopted. The stress testing performed was based on the same approach adopted for each property. For properties where the DCF approach was adopted, the stress testing was based on softening discount rates by 0.25% and 0.50%. Softening the capitalisation rates for properties where the DCF approach was adopted did not have an impact on the outcome. For properties where the midpoint approach was adopted, the stress testing was based on softening both the capitalisation rate and discount rate by 0.25% and 0.50%.

The below table is the outcome of the sensitivity analysis:

		Capitalisation rate movement		
	AUD'000	0%	0.25%	0.50%
Discount rate movement	**0%**	1 084 958	1 073 060	1 061 868
	0.25%	1 070 032	1 058 160	1 046 968
	0.50%	1 056 384	1 044 512	1 033 320

The results of the sensitivity analysis above demonstrates that stress testing the material unobservable inputs by the ranges disclosed would result in a movement of AUD51.6 million if discount rate and cap rate was softened by 0.50%. Even at this unlikely worst case scenario, this would not result in the Fund's financial position being materially impacted to the point the Fund would reconsider its position as a going concern.

E. Uncertainty around property valuations

The COVID-19 pandemic has impacted market activity in many sectors globally. The valuation assessment undertaken for reporting purposes has attached less weight to previous market evidence for comparison purposes to inform opinions of value. The current response to the COVID-19 pandemic means that the Fund has faced an unprecedented set of circumstances on which to base a judgement. In the event that impacts are more material or prolonged than anticipated, this may have further impact to the fair value of the Fund's property portfolio, and the future price achieved if a property is sold.

F. Contractual obligations/capital commitments

As at 31 March 2020, the Fund included forecast costs associated with the aluminium cladding panel assessment and remediation for four properties in the portfolio (31 March 2019: nil) within the valuation of these properties rather than a separate provision.

AUD'000	2020	2019
266 King Street, Newcastle NSW	70	–
2 Richardson Place, North Ryde NSW	500	–
449 Punt Road, Cremorne VIC	500	–
35–49 Elizabeth Street, Richmond VIC	1 000	–
	2 070	**–**

Other capital commitments relating to the investment properties are listed below: (31 March 2019: nil):

- 35–49 Elizabeth Street, Richmond VIC – AUD2.6 million construction works to enclose balcony space to create additional lettable area as part of a lease extension agreement with an existing tenant.

G. Leasing arrangements as lessor

The Fund leases office and industrial properties under operating leases. Contractual amounts due in terms of operating lease agreements are receivable as follows:

	2020	2019
Less than 1 year	84 978	85 224
Between 1 and 5 years	246 898	241 271
More than 5 years	104 484	102 763
	436 360	**429 258**

Investment property comprises a number of commercial properties and industrial that are leased to third parties. The significant majority of leases are subject to annual rent reviews that are fixed or indexed to consumer prices. Subsequent renewals are negotiated with the lessee and historically, the average renewal period is five years. No contingent rents are charged.

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10. Receivables and other assets

AUD'000	2020	2019
Prepaid expenses	3 391	2 384
Sundry debtors	1 075	4 024
Total receivables and other assets	**4 466**	**6 408**

11. Cash and cash equivalents

AUD'000	2020	2019
Cash held on call account	17 128	7 792
Total cash and cash equivalents	**17 128**	**7 792**

12. Contributed equity

AUD'000	2020	2019
Issued		
On establishment Dec 2012– 22 000 000 fully paid ordinary units	22 000	22 000
On listing on JSE Oct 2013 – 112 685 000 fully paid ordinary units	112 685	112 685
On completion of renounceable rights offer Oct 2014 – 111 896 298 fully paid ordinary units	121 501	121 501
On completion of renounceable rights offer Feb 2016 – 59 566 747 fully paid ordinary units	59 964	59 964
On completion of renounceable rights offer Mar 2017 – 108 004 819 fully paid ordinary units	143 462	143 462
Distribution re-investment plan Nov 2015 – 6 393 331 fully paid ordinary units	6 815	6 815
Distribution re-investment plan Jun 2016 – 9 818 121 fully paid ordinary units	12 008	12 008
Distribution re-investment plan Dec 2016 – 5 223 526 fully paid ordinary units	7 111	7 111
Unit buy back – 6 330 842 fully paid ordinary units	(8 000)	(8 000)
On completion of unit placement offer Nov 2017 – 49 545 454 fully paid ordinary units	60 055	60 055
On listing on ASX May 2019 – 76 923 077 fully paid ordinary units	101 366	–
On completion of unit placement offer October 2019 – 55 572 553 fully paid ordinary units	82 750	–
Fund establishment costs capitalised to contributed equity	(10 128)	(7 211)
Antecedent distributions paid	(15 187)	(15 187)
In issue at year end	**696 402**	**515 203**

Refer to unitholder information on page 128 of the annual report for further details.

13. Borrowings

AUD'000	Tranche expiry date	Interest rate	2020	2019
Loans – secured – bank debt				
ANZ Facility – Tranche G	30-Jun-22	BBSY + 1.35%[79]	20 000	20 000
ANZ Facility – Tranche H	01-Dec-22	BBSY + 1.35%[79]	75 000	75 000
ANZ Facility – Tranche I	07-Mar-23	BBSY + 1.45%[79]	15 000	19 000
Westpac Facility – Tranche M	28-Sep-21	BBSY + 1.35%[79]	46 500	50 000
Westpac Facility – Tranche N	28-Mar-23	BBSY + 1.45%[79]	40 815	101 740
ANZ and Westpac Facility – Tranche O	23-Dec-19	BBSY + 1.50%[79]	–	111 039
ANZ Facility – Tranche P	30-Sep-19	BBSY + 1.10%[79]	–	28 635
The Prudential Company of America	23-Dec-29	3.40%	150 000	–
Total long-term borrowings – secured			**347 315**	**405 414**
Capitalised loan establishment costs			(1 828)	(1 616)
Total value of interest–bearing borrowings			**345 487**	**403 798**
Movement in borrowings				
Balance at beginning of year			405 414	343 620
Interest charged			12 774	14 636
Interest paid			(12 774)	(14 636)
Additional borrowing acquired			62 701	78 294
Repayments			(120 800)	(16 500)
Closing balance at the end of the year			**347 315**	**405 414**

The Fund's gearing was 28.0% at 31 March 2020 (31 March 2019: 37.4%).

At 31 March 2020 the approved facility limit of the loan facility was AUD375.0 million with AUD 27.7 million undrawn.

The Fund's policy is to hedge at least 75% of interest rate risk. At 31 March 2020, 87.0% of borrowings were hedged using interest rate swaps or fixed rate debt, locking in a blended rate (including margin and line fees) of 3.03% for a weighted average 5.6 year term. The facility held with The Prudential Company of America has a make whole provision that may be triggered in certain circumstances where there has been a full or partial repayment during the term of the facility.

14. Trade and other payables

AUD'000	2020	2019
Security deposits	206	757
Income received in advance	2 221	2 389
Other payables	2 418	2 119
Trade and other payables-non current	**4 845**	**5 265**
Accrued expenses	2 698	2 228
Trade creditors	1 074	460
Income received in advance	2 667	2 040
GST payable	1 856	1 551
Other payables[80]	4 122	619
Trade and other payables-current	**12 417**	**6 898**

79 Varies based on gearing levels.

80 Other payables includes AUD2.9 million termination cost on hedges which was paid in April 2020.

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15. Reconciliation of cash flows from operating activities

AUD'000	2020	2019
Profit for the period	58 956	53 099
Adjusted for:		
Fair value adjustments – investment property	(20 194)	(15 178)
Fair value adjustments – derivatives	15 760	13 714
Fair value adjustments – foreign currency revaluation	(1 090)	(1 720)
Straightline rental revenue adjustment	(4 407)	(930)
Working capital movement		
Change in trade and other receivables	1 981	(1 935)
Change in trade and other payables	1 194	(984)
Change in capital expenses	1 531	–
Distributions paid	(51 672)	(48 186)
Net cash from operating activities	**2 059**	**(2 120)**

16. Related party transactions

Responsible Entity

The Responsible Entity is a member of the Investec Group.

Manager

The Manager is a member of the Investec Group. The Manager provides fund management services and property management services to the Fund.

Investec Group

The Investec Group comprises Investec Plc and Investec Limited and their subsidiary companies.

From time to time, the Fund enters into transactions or arrangements with the Investec Group. These transactions are described below and are entered into on normal commercial terms.

Transactions with related parties AUD'000	2020	2019
Payments to Investec Group and its subsidiaries:		
Manager – subsidiary		
Asset management fee	6 573	5,761
Property management fee[81]	1,551	1,306
Investec Bank Limited – parent company		
Sponsor fee	17	24
Capital raising fees and listing costs	208	63
Investec Australia Limited – subsidiary		
Interest on swaps	1,529	828
Amounts owing to related parties:		
Manager – subsidiary		
Asset management fee payable	495	547

Key management personnel (KMP)

IAP does not employ any personnel in its own right. However it is required to have an incorporated responsible entity to manage its activities. The Responsible Entity is considered the KMP of the Fund. Furthermore the Responsible Entity has sub-contracted the management of IAP to the Manager which is also considered KMP. The directors of the Responsible Entity are Richard Longes (chairperson), Sally Herman, Hugh Martin, Georgina Lynch, Stephen Koseff, Sam Leon and Graeme Katz. The directors of the Manager are Graeme Katz, Zach McHerron and Kristie Lenton.

81 The Manager has been contracted to perform property management services. The Manager has sub-contracted this to third party property managers who receive this fee from the Manager.

KMP compensation

Employees or directors of entities within the Investec Group are not remunerated for their services as directors. The remuneration of any independent, non-associated and non-executive director appointed to the Board is limited to the reimbursement of reasonable expenses incurred by such person for purposes of attending Board meetings and the appropriate director's fees, unless the Responsible Entity determines otherwise. In respect of the independent, non-associated and non-executive directors, fees and expenses are reimbursed out of the Fund.

Individual directors' compensation disclosures

Directors' remuneration for the year to 31 March 2020 was as follows:

For the period to 31 March 2020 AUD'000	Salary (including emoluments paid by Investec Group)	Directors' fees	Fees for other services	Provident pension fund and medical aid contributions	Bonuses	Total
Directors						
Richard Longes[82]	–	165	–	–	–	165
Sally Herman[83]	–	120	–	–	–	120
Hugh Martin[83]	–	100	–	–	–	100
Georgina Lynch (appointed 1 July 2019)[83]	–	75	–	–	–	75
Stephen Koseff[84]	–	20	–	–	–	20
Sam Leon[82]	–	60	–	–	–	60
Graeme Katz[85]	155	–	–	–	–	155
Total	**155**	**540**	**–**	**–**	**–**	**695**

Directors' remuneration for the year to 31 March 2019 was as follows:

For the period to 31 March 2019 AUD'000	Salary (including emoluments paid by Investec Group)	Directors' fees	Fees for other services	Provident pension fund and medical aid contributions	Bonuses	Total
Directors						
Richard Longes[86]	–	37	–	–	–	37
Sally Herman[87]	–	56	–	–	–	56
Hugh Martin[87]	–	45	–	–	–	45
Stephen Koseff[88]	–	13	–	–	–	13
Sam Leon[89]	–	19	–	–	–	19
Graeme Katz[89]	155	–	–	–	–	155
Total	**155**	**170**	**–**	**–**	**–**	**325**

82 Richard Longes' and Sam Leon's directors' fees are paid by the Investec Group. Their fees are not a cost to the Fund.

83 Sally Herman, Hugh Martin and Georgina Lynch are independent, non-Investec Group associated and non-executive directors of the Responsible Entity and their remuneration is paid by the Fund. Ms Herman is also remunerated for her role as chairperson of the Audit and Risk Committee.

84 Stephen Koseff receives fees for his services to the Investec Group and is not separately remunerated for his services as a director of the Responsible Entity. An estimate of attributable fees has been provided based on market related non-executive directors' fees and proportion of time allocated to the Fund, however Mr Koseff is not remunerated out of the Fund.

85 Graeme Katz is not separately remunerated for his services as chief executive officer of the Fund and director of the Responsible Entity as he is remunerated by the Investec Group. The amount disclosed represents an allocation of his remuneration commensurate with his role as an executive director of the Responsible Entity but is not a cost to the Fund.

86 Apportionment of directors' fees paid by the Investec Group that are attributable to the Fund. Richard Longes is not separately remunerated for his services as a director of the Responsible Entity as he is remunerated by the Investec Group for his services as a director of other entities within the Investec Group. An estimate of attributable fees has been provided based on market related non-executive director and chairperson fees and proportion of time allocated to the Fund. Mr Longes is not remunerated out of the Fund.

87 Sally Herman and Hugh Martin are independent, non-Investec Group associated and non-executive directors of the Responsible Entity and their remuneration is apportioned between all funds managed by the Responsible Entity based on gross asset value. Ms. Herman is also remunerated for her role as chairperson of the Audit and Risk Committee.

88 Stephen Koseff and Sam Leon receive fees for their services to the Investec Group and are not separately remunerated for their services as directors of the Responsible Entity. An estimate of attributable fees has been provided based on market related non-executive directors' fees and proportion of time allocated to the Fund, however these directors are not remunerated out of the Fund.

89 Graeme Katz is not separately remunerated for his services as chief executive officer of the Fund and director of the Responsible Entity as he is remunerated by the Investec Group. The amount disclosed represents an allocation of his remuneration commensurate with his role as an executive director of the Responsible Entity but is not a cost to the Fund.

Notes to the consolidated financial statements

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Movements in securities

The movement during the reporting period in the number of ordinary units in IAP held directly, indirectly or beneficially, by each KMP, including their related parties, is as follows:

	Held at 31-Mar-2019	Purchases	Sales	Held at 31-Mar-2020
Directors				
Sam Leon	4 000 000	–	–	4 000 000
Graeme Katz	229 296	–	–	229 296
Richard Longes	–	56 819		56 819
Sally Herman	–	37 879		37 879
Georgina Lynch	–	67 493		67 493

The Investec Group unitholding in the Fund at reporting date is as follows:

	2020	2019
Investec Bank Limited	56 128 379	72 172 172

17. Group entities

The consolidated financial statements incorporate the assets, liabilities and results of the following controlled entities in accordance with the accounting policy described in note 1.2 to the consolidated financial statements. All subsidiaries are 100% owned trusts and controlled by the Group with no restrictions.

IAP enters into transactions with its wholly-owned trusts. These transactions mainly involve the payment of distributions between trusts and lending of funds between the trusts. Intertrust loans are repayable upon demand, unsecured and non-interest bearing.

Name of entity	Country of incorporation	Class of units	Equity holding	Intertrust loan balance 2020	Intertrust loan balance 2019
Investec Australia Hold Trust No. 1	Australia	Ordinary	100%	(17 526)	(49 220)
Investec Australia Sub Trust No. 1	Australia	Ordinary	100%	3 428	3 702
Investec Australia Sub Trust No. 2	Australia	Ordinary	100%	(2 016)	(2 060)
Investec Australia Sub Trust No. 3	Australia	Ordinary	100%	(3 427)	(573)
Investec Australia Sub Trust No. 4	Australia	Ordinary	100%	18	(143)
Investec Australia Sub Trust No. 5	Australia	Ordinary	100%	(1 477)	(1 309)
Investec Australia Sub Trust No. 6	Australia	Ordinary	100%	(7 210)	(8 159)
Investec Australia Sub Trust No. 7	Australia	Ordinary	100%	96	5
Investec Australia Sub Trust No. 8	Australia	Ordinary	100%	(239)	(142)
Investec Australia Sub Trust No. 9	Australia	Ordinary	100%	(51)	(69)
Investec Australia Sub Trust No. 10	Australia	Ordinary	100%	(2 333)	(2 108)
Investec Australia Sub Trust No. 11	Australia	Ordinary	100%	(117)	344
Investec Australia Sub Trust No. 12	Australia	Ordinary	100%	159	149
Investec Australia Sub Trust No. 13	Australia	Ordinary	100%	(357)	97
Investec Australia Sub Trust No. 14	Australia	Ordinary	100%	(2 501)	(2 942)
Investec Australia Sub Trust No. 15	Australia	Ordinary	100%	(767)	(233)
Investec Australia Sub Trust No. 16	Australia	Ordinary	100%	(2 731)	(2 065)
Investec Australia Sub Trust No. 17	Australia	Ordinary	100%	522	401
Investec Australia Sub Trust No. 18	Australia	Ordinary	100%	(632)	(41)
Investec Australia Sub Trust No. 19	Australia	Ordinary	100%	(2 988)	(3 015)
Investec Australia Sub Trust No. 20	Australia	Ordinary	100%	371	413
Investec Australia Sub Trust No. 21	Australia	Ordinary	100%	215	236
Investec Australia Sub Trust No. 22	Australia	Ordinary	100%	723	–
Investec Australia Sub Trust No. 23	Australia	Ordinary	100%	5	–
Investec Australia Sub Trust No. 24	Australia	Ordinary	100%	(5 335)	–

Intertrust loan balances are eliminated on consolidation.

18. Parent entity disclosures

AUD'000	2020	2019
As at, and throughout the year ended, 31 March 2020 the parent of the Group was Investec Australia Property Fund.		
Result of parent entity		
Profit for the year	63 560	54 378
Total comprehensive income for the year	**63 560**	**54 378**
Financial position of parent entity at year end		
Current assets	880	4 415
Total assets	**851 129**	**596 459**
Current liabilities	28 502	6 205
Total liabilities	**145 771**	**77 175**
Net assets	**705 358**	**519 284**
Total equity of parent entity comprising of:		
Contributed equity	696 402	515 203
Retained earnings	8 956	4 081
Total equity	**705 358**	**519 284**

19. Financial risk and capital management

19.1 Total financial and non-financial assets and liabilities

As at 31 March 2020 AUD'000	Financial instruments measured at fair value	Non-financial instruments measured at fair value	Amortised cost	Total
The table below sets out the Fund's accounting classification of each class of financial and non-financial asset and liability and their fair values at 31 March 2020				
ASSETS				
Non-current assets				
Investment property	–	1 084 958	–	1 084 958
Current assets				
Cash and cash equivalents	–	–	17 128	17 128
Receivables and other assets	–	–	4 466	4 466
Property held for sale	–	94 000	–	94 000
Total assets	**–**	**1 178 958**	**21 594**	**1 200 552**
LIABILITIES				
Non-current liabilities				
Long-term borrowings	–	–	345 487	345 487
Financial instruments held at fair value	3 337	–	–	3 337
Trade and other payables	–	–	4 845	4 845
Current liabilities				
Trade and other payables	–	–	12 417	12 417
Distributions payable	–	–	26 305	26 305
Total liabilities	**3 337**	**–**	**389 054**	**392 391**

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As at 31 March 2019 AUD'000	Financial instruments measured at fair value	Non-financial instruments measured at fair value	Amortised cost	Total
The table below sets out the Fund's accounting classification of each class of financial and non–financial asset and liability and their fair values at 31 March 2019				
ASSETS				
Non-current assets				
Investment property	–	1 062 767	–	1 062 767
Financial instruments held at fair value	6 444	–	–	6 444
Current assets				
Cash and cash equivalents	–	–	7 792	7 792
Receivables and other assets	–	–	6 408	6 408
Total assets	**6 444**	**1 062 767**	**14 200**	**1 083 411**
LIABILITIES				
Non-current liabilities				
Long–term borrowings	–	–	375 163	375 163
Financial instruments held at fair value	21 186	–	–	21 186
Trade and other payables	–	–	5 265	5 265
Current liabilities				
Borrowings	–	–	28 635	28 635
Trade and other payables	–	–	6 898	6 898
Distributions payable	–	–	24 787	24 787
Total liabilities	**21 186**	**–**	**440 748**	**461 934**

Cash and cash equivalents; receivables and other assets; trade and other payables are measured at amortised cost and approximate fair value. The fair value of "long term borrowings at amortised cost" has been estimated by market interest rate at each year end.

19.2 Fair value hierarchy – financial instruments

In the case of financial instruments whose carrying amount is not the same as their theoretical fair value. The fair value has been calculated as follows:

a. **The fair value of "long term borrowings at amoritsed cost" has been estimated by market interest rate at year end**

For financial instruments whose carrying amount is equivalent to their fair value, the measurement processes used are defined as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – inputs other than quoted prices included within Level 1 that are observable for the assets and liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3 – inputs for the assets and liabilities that are not based on observable market data (unobservable inputs)

AUD'000 Fair value and carrying amount	Carrying amount	Fair Value Level 1	Level 2	Level 3	Total
As at 31 March 2020					
Financial assets not measured at fair value					
Cash and cash equivalents	17 128	–	–	–	–
Receivables and other assets	4 466	–	–	–	–
	21 594	**–**	**–**	**–**	**–**
Financial liabilities not measured at fair value					
Trade and other payables	43 567	–	–	–	–
Long term borrowings	345 487	–	373 053	–	373 053
	389 054	**–**	**373 053**	**–**	**373 053**
Financial liabilities measured at fair value					
Interest rate swaps	3 337	–	3 337	–	3 337
	3 337	**–**	**3 337**	**–**	**3 337**
As at 31 March 2019					
Financial assets not measured at fair value					
Cash and cash equivalents	7 792	–	–	–	–
Receivables and other assets	6 408	–	–	–	–
	14 200	**–**	**–**	**–**	**–**
Financial assets measured at fair value					
Interest rate swaps	6 444	–	6 444	–	6 444
	6 444	**–**	**6 444**	**–**	**6 444**
Financial liabilities not measured at fair value					
Trade and other payables	36 950	–	–	–	–
Long term borrowings	403 798	–	378 989	–	378 989
	440 748	**–**	**378 989**	**–**	**378 989**
Financial liabilities measured at fair value					
Interest rate swaps	21 186	–	21 186	–	21 186
	21 186	**–**	**21 186**	**–**	**21 186**

b. **Details of changes in valuation techniques**

There have been no significant changes in valuation techniques during the year under review.

c. **Significant transfers between Level 1, Level 2 and Level 3**

There have been no transfers between Level 1, Level 2 and Level 3 during the year.

Derivative financial instruments consist of interest rate hedging instruments. Interest rate hedging instruments are valued based on broker quotes and are tested for reasonableness by discounting future cash flows using an observable market interest rate curve at the dates when the cash flows will take place.

Notes to the consolidated financial statements

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19.3 Other financial risk management considerations

The financial instruments of the Fund consist mainly of cash and cash equivalents, including deposits with banks, borrowings, derivative instruments, trade and other receivables and trade and other payables. The Fund purchases or issues financial instruments in order to finance operations and to manage the interest rate risks that arise from these operations and the source of funding.

The Fund has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

The Board has overall responsibility for the establishment and oversight of the Fund's risk management framework. The Board has established the Audit and Risk Committee, which is responsible for developing and monitoring the Fund's risk management policies. The Audit and Risk Committee reports regularly to the Board on its activities.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

The Audit and Risk Committee oversees how management monitors compliance with the Fund's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund. The Audit and Risk Committee is assisted in its oversight role by the Investec Group's internal audit function, which undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit and Risk Committee.

19.4 Credit risk

Credit risk is the risk of financial loss to the Fund if a client or counterparty to a financial instrument fails to meet its contractual obligations, and arises from derivatives, as well as trade and other receivables. As at 31 March 2020 the receivables and other assets was largely made up of prepaid expenses.

There is no significant concentration of credit risk as exposure makes up a small component of the Fund's assets. The fund applies the lifetime ECL model to manage the credit risk of financial assets carried at amortised cost in accordance with the accounting policy describes in note 1.9.1 to the consolidated financial statements.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure.

The Fund applies the lifetime ECL model to manage credit risk of financial assets carried at amortised cost in accordance with the accounting policy described in note 1.9.1 to the consolidated financial statements.

The Fund has been further impacted by the COVID-19 pandemic and the measures taken by Governments and the private sector to respond to the outbreak. In addition to the health and societal issues, this has begun to cause disruptions to businesses and economic activity. As a result of this, the Fund has undertaken the following activities to assess and manage the impact on tenants which form the revenue base of the Fund and tenants' credit risk:

- implemented a tenant engagement program, to assess which tenants are impacted and might not able to meet their rental obligations
- assessing tenants on a case by case basis in order to determine the level of support required
- held weekly (and ad hoc where required) meetings to update and make decision on tenant actions
- performed a tenant composition analysis where the potential credit risk is more severe including hospitality and accommodation, tourism, education and retail to assess the level of impact to the Fund's portfolio

As a result of the above the Fund has determined that no ECL has been recognised as at 31 March 2020 (31 March 2019: nil).

19.5 Market risk

a. Interest rate risk

The Fund is exposed to interest rate risk and adopts a policy of ensuring that at least 75% of its exposure to changes in interest rates on borrowings is on a fixed basis. This is achieved by entering into variable for fixed rate swap instruments. All such transactions are carried out within the guidelines set by the Audit and Risk Committee. As a consequence, the Fund is exposed to fair value interest rate risk in respect of the fair value of its interest rate financial instruments, which will not have an impact on distributions. Short-term receivables and payables and investments are not directly exposed to interest rate risk.

At 31 March 2020, 87.0% of the Fund's interest rate exposure was hedged. Therefore, for the year ended 31 March 2020, a 1% increase/decrease in interest rates on the variable rate borrowings would have an immaterial impact on the Fund's profit, assuming all other variables remain constant.

b. Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's policy is to seek to minimise its exposure to liquidity risk by balancing its exposure to interest rate risk and to refinancing risk. In effect the Fund seeks to borrow for as long as possible at the lowest acceptable cost. The Fund regularly reviews the maturity profile of its financial liabilities and will seek to avoid concentration of maturities through the regular replacement of facilities, and by using a selection of maturity dates.

The tables below set out the maturity analysis of the Fund's financial liabilities based on the undiscounted contractual cash flows.

As at 31 March 2020 AUD'000	Within 1 year	1–2 years	2–5 years	Over 5 years	Total	Carrying value
Long-term borrowings[90]	7 758	7 758	195 688	174 256	**385 460**	**345 487**
Trade and other payables	12 417	1 273	742	2 830	**17 262**	**17 262**
Distributions payable	26 305	–	–	–	**26 305**	**26 305**
Total liabilities	**46 480**	**9 031**	**196 430**	**177 086**	**429 027**	**389 054**

As at 31 March 2019 AUD'000	Within 1 year	1–2 years	2–5 years	Over 5 years	Total	Carrying value
Long-term borrowings[90]	42 144	12 697	398 448	–	**453 289**	**403 798**
Trade and other payables	6 898	1 740	893	2 631	**12 162**	**12 162**
Distributions payable	24 787	–	–	–	**24 787**	**24 787**
Total liabilities	**73 829**	**14 437**	**399 341**	**2 631**	**490 239**	**440 748**

Cash flows are monitored on a monthly basis to ensure that cash resources are adequate to meet the funding requirements of the Fund.

AUD'000	2020	2019
Value of investment property	1 084 958	1 062 767
Value of property held for sale	94 000	–
Total property value	**1 178 958**	**1 062 762**
Carrying value of interest bearing borrowing	347 315	405 414
Less: Cash and cash equivalents	(17 128)	(7 792)
Net value of borrowing	**330 187**	**397 622**
Current ratio of interest bearing borrowings to value of investment property (%)	28.0	37.4

90 Cash flows in relation to long term borrowings take into account interest payments and the effect of interest rate swaps.

Notes to the consolidated financial statements

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19.6 Derivatives

Derivative instruments are used to hedge the Fund's exposure to any increases in interest rates on variable rate loans. Interest rate swap contracts are entered into whereby the Fund hedges out its variable rate obligation to provide a maximum fixed rate obligation. Details of the interest rate fixed for variable swap instruments are as follows:

Financial institution	AUD'000	Start date	End date	Fixed rate
31 March 2020				
Australia and New Zealand Banking Group	30 000	24-Dec-19	24-Dec-24	1.06%
Westpac Banking Corporation	67 303	11-Dec-17	12-Dec-26	2.58%

Financial institution	AUD'000	Start date	End date	Fixed rate
31 March 2019				
Investec Bank plc	30 435	25-Jun-16	25-Feb-24	2.44%
Investec Bank plc	60 870	25-Jun-16	25-Feb-26	2.57%
Investec Bank plc	30 435	25-Jun-16	25-Feb-25	2.51%
Investec Bank plc	55 000	01-Dec-16	25-Dec-23	2.18%
Westpac Banking Corporation	20 000	01-Mar-17	01-Mar-22	2.35%
Australia and New Zealand Banking Group	25 000	20-Oct-17	20-Oct-24	2.46%
Australia and New Zealand Banking Group	12 500	20-Oct-17	20-Oct-25	2.54%
Australia and New Zealand Banking Group	12 500	20-Oct-17	20-Oct-27	5.68%
Westpac Banking Corporation	67 303	11-Dec-17	12-Dec-24	2.30%
Westpac Banking Corporation	55 000	14-Mar-19	25-Dec-23	2.38%
Westpac Banking Corporation	30 435	14-Mar-19	25-Feb-24	2.41%
Westpac Banking Corporation	30 435	14-Mar-19	25-Feb-25	2.53%
Westpac Banking Corporation	60 870	14-Mar-19	25-Feb-26	2.66%
Westpac Banking Corporation	20 000	14-Mar-19	01-Mar-22	2.00%
Westpac Banking Corporation	12 500	14-Mar-19	20-Oct-25	2.61%
Westpac Banking Corporation	25 000	14-Mar-19	20-Oct-24	2.49%
Westpac Banking Corporation	12 500	14-Mar-19	20-Oct-27	2.81%

During the year, the Fund secured AUD150 million of 10 year fixed rate funding at an all-in rate of 3.40%. The proceeds were used to repay some of the existing tranches with ANZ and Westpac. The Fund also restructured and terminated some of the existing interest rate swaps to maintain a hedge percentage within the policy guidelines of at least 75%. At year end, 87.0% of borrowings were hedged using interest rate swaps or fixed rate debt (31 March 2019: 77.5%). The total termination and restructure costs incurred were AUD 27.2 million. Losses on termination and restructure of AUD12.4 million (31 March 2019: nil) are included within the fair value adjustments in the consolidated statement of profit or loss or other comprehensive income. Details of the restructured and terminated trades are listed below.

Statement of financial position extracts at 31 March 2020	AUD'000
Financial instrument held at fair value 31 March 2019 – net liability	14 742
Losses on termination and restructure of hedges	12 423
Payment of termination of restructure of hedges	(24 276)
Termination and restructure cost payable	(2 889)
Fair value adjustments – interest rate swaps as at 31 March 2020	3 337
Financial instruments held at fair value at 31 March 2020	**3 337**

Financial institution	AUD'000	Start date	End date	Termination date	Termination cost AUD'000
Investec Bank plc	30 435	25-Jun-16	25-Feb-24	20-Dec-19	703
Investec Bank plc	60 870	25-Jun-16	25-Feb-26	20-Dec-19	2 225
Investec Bank plc	30 435	25-Jun-16	25-Feb-25	20-Dec-19	916
Investec Bank plc	55 000	01-Dec-16	25-Dec-23	20-Dec-19	1 289
Westpac Banking Corporation	20 000	01-Mar-17	01-Mar-22	19-Dec-19	206
Australia and New Zealand Banking Group	25 000	20-Oct-17	20-Oct-24	19-Dec-19	676
Australia and New Zealand Banking Group	12 500	20-Oct-17	20-Oct-25	19-Dec-19	422
Australia and New Zealand Banking Group	12 500	20-Oct-17	20-Oct-27	19-Dec-19	563
Westpac Banking Corporation	55 000	14-Mar-19	25-Dec-23	19-Dec-19	815
Westpac Banking Corporation	30 435	14-Mar-19	25-Feb-24	19-Dec-19	449
Westpac Banking Corporation	30 435	14-Mar-19	25-Feb-25	19-Dec-19	417
Westpac Banking Corporation	60 870	14-Mar-19	25-Feb-26	19-Dec-19	964
Westpac Banking Corporation	20 000	14-Mar-19	01-Mar-22	19-Dec-19	272
Westpac Banking Corporation	12 500	14-Mar-19	20-Oct-25	19-Dec-19	162
Westpac Banking Corporation	25 000	14-Mar-19	20-Oct-24	19-Dec-19	352
Westpac Banking Corporation	12 500	14-Mar-19	20-Oct-27	19-Dec-19	155
Westpac Banking Corporation – restructure to 2.58%	67 303	11-Dec-17	12-Dec-24	19-Dec-19	1 837
Losses on termination and restructure of hedges					**12 423**

19.7 Capital management

Under the Fund's constitution, the Group's gearing ratio must not exceed 60%. The Fund is funded partly by unit capital and partly by external borrowings.

In terms of its covenants entered into during the year, the Group is committed to a maximum value of external borrowings of 55% of the value of investment property and investment assets. In practice, the Group aims to keep gearing levels between 30% and 40% over the long term. At 31 March 2020, the nominal value of borrowings less cash and cash equivalents was equal to 28.0% (31 March 2019: 37.4%) of the value of investment property.

The Board's policy is to maintain a strong capital base, comprising its unitholders' interest, so as to promote investor, creditor and market confidence and to sustain future development of the business. It is the Fund's stated purpose to deliver medium to long-term sustainable growth in distributions per unit. Distributable income is distributed on a six monthly basis. The Board monitors the level of distributions to unitholders. There were no changes in the Fund's approach to capital management during the year. The Fund is not subject to externally imposed capital requirements.

20. Subsequent events

During the year the Fund contracted to sell 757 Ann Street, Fortitude Valley QLD for AUD94 million which was classified as investment property held for sale as at 31 March 2020. The sale settled post the reporting date on 1 April 2020, which is the point the Fund is considered to have lost control of the asset. Proceeds from the sale were used to repay a portion of the Fund's debt.

The COVID-19 pandemic has created unprecedented uncertainty of the economic environment, in particular the continued lack of market transactions which are ordinarily a strong source of evidence for valuations of investment properties. Actual economic events and conditions in future may be materially different from those estimated by the Fund at reporting date. In the event the COVID-19 pandemic impacts are more severe or prolonged than anticipated, this may have further adverse impacts to the fair value of the Fund's portfolio and a future price achieved if a property is sold. At the date of the annual report, an estimate of the future effects of the COVID-19 pandemic on the Fund's portfolio cannot be made, as the impact will depend on the magnitude and duration of the economic downturn, with the full range of possible effects unknown.

Further considerations in relation to the COVID-19 pandemic are included in the going concern disclosure on page 103 and property valuations in note 9 to the consolidated financial statements.

Other than the above matters, there is no other item, transaction or event of a material or unusual nature likely that have arisen since the end of the financial year and up until the date of the annual report which significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in subsequent years.

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