5 Highly Recommended

ISSUE DATE: 1-07-2021

Direct Assets Review
Australian Unity Healthcare Property Trust

Fund financial position	30 April 2021
TOTAL ASSETS	$2552.6M
DEBT	$663.4M
GEARING:(LVR)	31% (COVENANT 50%)
GEARING (DEBT/ASSETS)	26%
WHOLESALE UNIT (ENTITLEMENT OFFER)	$2.29[1]
NAV PER WHOLESALE UNIT	$2.27[2]

Portfolio summary	
NO. OF PROPERTIES	67
PROPERTY TYPE	HOSPITALS 61.1%; MEDICAL CENTRE/OFFICE 29.3%; DEVELOPMENT SITE 2.3%; AGED CARE 7.3%
PROPERTY LOCATION	QLD 41.5%; VIC 33.9%; NSW 19.7%; WA 2.5%, SA 2.4%
WTD AVG LEASE EXPIRY	15.7 YRS
OCCUPANCY	98.3%

Trust returns	Lonsec estimates*
WHOLESALE UNITS	AVG FY22-23
DISTRIBUTION PER UNIT	10.0C
PRE-TAX YIELD @ $2.29[1] / $2.27[2]	4.37% /4.41%
TAX DEFERRED	60%

* Lonsec estimates of 10-year internal rate of return and distributions.

Other Fund details	
APIR CODES	WHOLESALE UNITS (AUS0112AU)
DISTRIBUTION PAID	QUARTERLY
MINIMUM INVESTMENT	$5,000 (THEREAFTER $1,000 LOTS)
INVESTMENT TERM	OPEN-END
REDEMPTIONS	LIMITED WITHDRAWALS (QUARTERLY)
RESPONSIBLE ENTITY / MANAGER	AUST. UNITY FUNDS MANAGEMENT LTD (AUFM)
MANAGER FUND HOLDING	5% (POST CAPITAL CHANGES)

Manager fees and expenses (W/Sale Units)	
BUY/SELL SPREAD	1.50%/0.50%
ANNUAL FEES & COSTS	0.84% (GROSS ASSETS)/ 1.29% (NET ASSETS)
PERFORMANCE FEE	NIL

1: Entitlement Offer price is 12 July 2021 Application price - expected to be $2.29 (including buy spread).
2: NAV as at 28 June 2021.

Recent Events

- Canada-based NorthWest Healthcare Properties (NorthWest) has made four cash offers for all the units in AUHPT, the latest on 15 June 2021 at $2.70 per Wholesale Unit ($2.76 per Retail Unit; $1.69 per Class A Unit)[1]. NorthWest owns 5.1% of units (plus options on 11.1%) in AUHPT and has called a unit-holder meeting to vote on its proposal, scheduled for 19 July 2021.

  (1: including distributions).
- The Transfer Resolution is a Special Resolution and to be approved requires at least 75% of the value of Units voted on the resolution to be in favour. If the Trust Scheme becomes effective and implemented, NorthWest will become the owner of all of the AUHPT units. Unit-holders that don't vote may find their holdings compulsorily acquired.
- In addition, NorthWest announced **a $400m Premium Cash Offer** which would allow AUHPT unitholders to receive the consideration irrespective of whether NorthWest's Proposal is successful or not. This is conditional upon:
  - submission of a proxy in favour of the NorthWest Proposal and;
  - not participating in the Entitlement Offer announced by Australian Unity.
- The Independent Expert's report in the NorthWest Scheme Booklet (28 May 2021) values the AUHPT Wholesale Units in a range of $2.31 - $2.49. (refer document for Retail and Class A Units). The report is based on publicly available information without any input from AUFM.

Lonsec Comment:

NorthWest Cash Offer/Premium Cash Offer

Lonsec is not in a position to make a recommendation on the NorthWest proposal. AUHPT unit-holders should seek advice from their Financial Advisor regarding their specific circumstances and investment portfolio asset allocation decisions.

For further information refer to:

NorthWest Premium Cash Offer for units in AUHPT dated 15 June 2021.

Australian Unity Funds Management Premium Cash Offer dated 22 June 2021.

- On 9 June 2021 **AUHPT** announced:
  - Placement to **Dexus** @$2.60 ($180m).
  - Placement to **AU Strategic Holdings** @ $2.60 ($20m).
  - **Entitlement Offer** (~$120m) to all AUHPT unit-holders at the Application Price as at 12 July 2021 calculated in accordance with the Constitution and including the buy spread – expected to be $2.29. Closes 12 July 2021.

Australian Unity Healthcare Property Trust

- On 22 June 2021 AUFM announced a **New Australian Unity Premium Cash (Redemption) Offer** to existing AUHPT unit-holders @ $2.70 per Wholesale Unit[2] (the same price as the NorthWest Premium Cash Offer). The total offer is $80m.
- The Australian Unity Premium Cash Offer does not require the investor to Vote. Offer closes 23 July 2021. It is conditional upon not participating in the Entitlement Offer announced by Australian Unity.

(2: $2.76 per Retail & $1.69 per Class A Unit).

Lonsec Comment:

AUHPT Entitlement Offer

This Offer is at the effective price as at 12 July 2021, expected to be ~$2.29. This is less than the recent placement made to cornerstone investor Dexus and AU Strategic Holdings. Lonsec believes the AUHPT has solid long-term income and growth prospects and there are few alternative investments of similar quality and size within unlisted and listed healthcare markets in Australia.

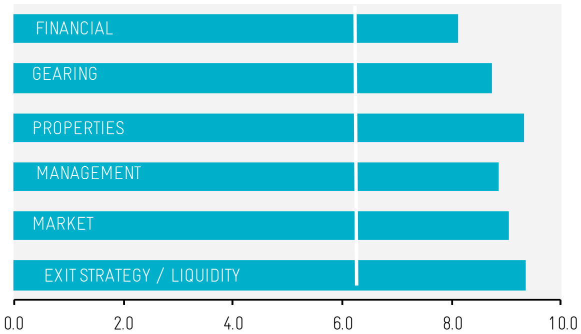
AUHPT opens for investment for limited time periods.

Furthermore, the expected 12 July 2021 entry price for Wholesale Units is less than the $2.70 already offered by both NorthWest and Australian Unity Strategic Holdings.

AUHPT Premium Cash (Redemption) Offer

Lonsec is not in a position to make a recommendation on this offer from AUHPT. AUHPT unit-holders should seek advice from their Financial Advisor regarding their specific circumstances and investment portfolio asset allocation decisions. (Note: unit-holders cannot participate in the Entitlement Offer and Premium Cash/Redemption Offer).

Lonsec ratings of critical determinants



Lonsec Opinion and Rating Rationale

- Lonsec has maintained a '**Highly Recommended**' rating on the **AUHPT Wholesale Units**. This is based on a long-term assessment of the Trust's future prospects as well as AUFM's track record of utilising funds raised from its intermittent capital raisings.
- **High quality management team** with deep experience in healthcare. The team has been expanded in recent years to widen its specialty healthcare experience. AUFM has a track record of delivering solid returns on direct property trusts.
- **Recent total returns** have been strong despite the rapid growth in the size of the AUHPT and equity inflows. Over the past five years to April 2021, the Wholesale Units have delivered total returns (net of fees) of 14.9% p.a. based on the Net Asset Value (est. 18.8% based on the $2.70 cash offers available). Over the almost 20 years since inception, the total return is an impressive 12.0%p.a. (at NAV).
- AUHPT provides a **diversified exposure** to the healthcare sector including private and public hospitals, medical centres, aged care and other social infrastructure via listed investments.
- **Tenants are of the Trust are of high quality** and the Trust has developed a relationship with many of them over an extended period of time. These include Healius, Ramsay Healthcare and Healthe Care (private hospitals), Infinite Care (aged care) and the Queensland State Government (public hospitals.)
- Income streams are underpinned by **long-term leases** (20+ years at hospitals) with high quality healthcare providers. The portfolio WALE of 15.7 years is the highest in Lonsec's unlisted property peer group.
- There is potential for **expansion of AUHPT's existing facilities and development of new properties** without exposing investors to excessive risk. Furthermore, AUHPT has teamed with Dexus (new cornerstone investor) and will enter into a development co-operation agreement to explore opportunities for investment in the Australian healthcare real estate sector.
- The industry has **solid demographic trends** supporting the portfolio's cash flows and this expansion.
- **Estimated distribution yields** for Wholesale Units are lower than the peer group average. However, the current yield must be considered against the high quality of real estate and cash flows together with the long-term growth prospects of the AUHPT.
- The Trust has an exposure to a variety of healthcare assets (including aged care). However, the Trust owns the land and buildings and leases the assets to specialist operators. As a result, the Trust is **not exposed to operational risks or earnings**.
- **Gearing** for the Trust is relatively low for an unlisted entity (LVR 31%/Debt to Assets 26% at April 2021), although noting the extensive development pipeline and acquisition opportunities. This provides excellent headroom to the bank covenant of 50% and compares well to the peer group average gearing of 38% (LVR). The level of gearing will vary upon the level of acquisitions and equity being raised (post these raisings 20%), with the Trust's target gearing range being 30%-45%.
- The **overall fee structure** for Wholesale Units is slightly lower than Lonsec sector averages, noting that the buy spread has been reduced and there is no performance fee.
- **Regular Withdrawal Offers** for AUHPT Wholesale Units will be limited to 2.5% of net assets per quarter (10% p.a.). This is above average for the sector. In addition, the Manager may make **one-off offers** such as the Premium Cash Offer.

Australian Unity Healthcare Property Trust

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- The **Australian Unity Healthcare Property Trust (AUHPT or 'the Trust')** is an unlisted property trust which invests predominantly in a portfolio of direct healthcare property assets, with a small exposure to listed A-REITs; and varying levels of cash reserves.

Property Sector	Portfolio Target Range
HOSPITALS	50% - 100%
MEDICAL CENTRES/MIXED USE	0% - 50%
AGED CARE FACILITIES	0% - 20%
UNLISTED PROPERTY FUNDS	0% - 10%
LISTED A-REITS	0% - 10%
CASH/OTHER	0% - 20%

- The Trust has a primary focus on delivering regular income, plus the opportunity for long-term capital growth from a diversified portfolio of healthcare property and related assets.
- The Manager will selectively develop suitable long-term expansion and/or improvement strategies for the properties.
- The Trust may maintain an exposure to listed A-REIT's for diversification and liquidity.
- While the returns of the Trust are expected to be less volatile than equities and listed property securities investments, investors should be aware that the Trust may experience periods of negative returns and that there is a risk of incurring capital loss on the Trust.
- As such, Lonsec considers the Trust suitable for medium to high-risk profile investors with a five+ year investment time horizon. The Trust will generally sit within the growth component of a balanced portfolio.
- Forward looking estimates of returns are either sourced from the PDS forecasts or Lonsec estimates based on data supplied by the Manager, external valuation reports or other third party data sources deemed to be reliable, but are not a guarantee of future performance.

Risk assessment

Lonsec rates the **key risk factors** associated with the AUHPT in the following table, which are assessed in the overall context of both competing unlisted property funds and relative to other asset classes.

Level of assessed risk	Low	Med	High
OPERATIONAL EARNINGS			
BUSINESS	●		
LEASING	●		
CAPITAL GAIN VS. INCOME		●	
DIVERSIFICATION	●		
MARKET VOLATILITY	●		
FINANCIAL			
LEVERAGE (GEARING)		●	
REFINANCING	●		
INTEREST COST / HEDGING		●	
CURRENCY	●		
COUNTERPARTY		●	
SUPPORT TO DISTRIBUTIONS	●		
MANAGEMENT & OTHERS			
EXPERIENCE	●		
INDEPENDENCE	●		
RELATED PARTY TRANSACTIONS	●		
LIQUIDITY		●	

- Overall, Lonsec considers the risk assessment for AUHPT to be **low/medium** due to the highly specialised nature of the buildings, together with geographic and healthcare operator diversification.
- **Leasing risk** is deemed to be low with the portfolio WALE of 15.7 years and the portfolio having 157 tenants. A number of major tenants have invested significant capital in existing premises which limits the availability of alternative accommodation.
- **Capital Gain vs. Income** is deemed medium given that property funds have a higher element of capital risk than some other asset classes (e.g. cash or bonds).
- **Gearing risk** is based on the target range of 30%-45% and is deemed medium risk in comparison to other investment classes (including listed property trusts), where there is lower or no gearing (some wholesale property funds).
- **Interest Costs / Hedging** is judged medium as only a portion of the drawn-debt will be hedged.
- **Counterparty risk** is judged medium as the Trust loaned **Infinite Care** (a major tenant) $92m to fund fit-out capital expenditure. At the time of review the loan balance is $65m.
- The **liquidity risk** for Wholesale Units is deemed medium to high given the Trust has significant exposure to illiquid assets (direct property) and the regular redemption facility is limited and at the discretion of the RE. However, investors are from time to time may be offered Redemption Offers.

Australian Unity Healthcare Property Trust

1 Property Portfolio

1.1 Portfolio overview

AUHPT Property Portfolio Composition (April 2021)

Category	No. Props	% Total
PRIVATE HOSPITALS	15	61
MED. CENTRES /CLINICS	22	29
DEVELOPMENT SITES	22	2
AGED CARE FACILITIES	7	7
TOTAL	**67**	**100**

- The direct property portfolio had a book value of $2,334.2m (91.4% of total) as at 30 April 2021.
- Given that established quality Australian healthcare assets have been difficult to acquire, the Manager actively targets 'brown-field' (expansion) and 'green-field' (new) developments, in conjunction with well-regarded healthcare operators like Ramsay Health Care and Queensland Health.
- The Trust's other assets include a small allocation to ASX-listed Arena REIT ($82m); Loan Receivable from Infinite Care ($65m); Cash ($44m) and other assets ($27m). These comprise 8.6% of the total assets.

1.1 Portfolio Key Issues

Strengths

- The Trust's income is underpinned by a mix of high quality tenants, including many well-known private healthcare service providers.
- Established relationships with Healius Ltd (formerly Primary Healthcare), Ramsay Health Care and Healthe Care will also help provide the Trust with access to a future pipeline of new healthcare assets.
- There are strong opportunities to increase the Trust's net operating income within the existing properties via expansion and repositioning/refurbishment. The Manager has a history of creating value for investors via this type of development.
- The non-discretionary nature of healthcare spending and the longstanding nature of leasing contracts in the industry, provides investors with an exposure to stable and long-term income streams.
- Exposure to favourable medium term demographic trends and growth in the private healthcare sector.

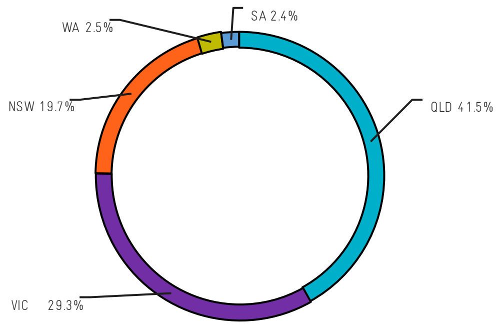
Weaknesses

- Some of the properties are custom designed and specialised in nature. There are limited alternatives in the short-term to lease to other tenants.
- Private healthcare insurance membership has been reducing slightly since 2016 due to rapidly rising premiums.
- The Trust is focused on one property sub-sector, so is less diversified than some unlisted property funds.

Portfolio Snapshot – Existing Properties

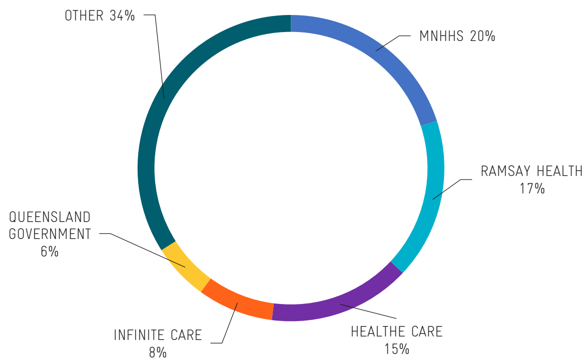
The following graphs provide a summary of the Trust's geographic and tenancy allocations, and WALE.

Geographic Exposure



Source Australian Unity. As at 30 April 2021.

Tenant Allocation (Update)



Source Australian Unity. As at 30 April 2021

Major tenants

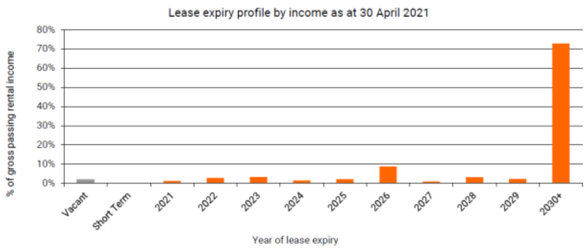
- **MNHHS** is the largest of 16 Hospital and Health Service providers that offer public health services in Queensland. Funding to operate the organisation is provided by the Queensland State Government.
- **Ramsay Health Care** (ASX Code: RHC) is Australia's largest private healthcare provider and one of the top five globally with over 480 hospitals and healthcare facilities worldwide.
- **Healthe Care** is the third largest corporate operator of private hospitals in Australia, operating a portfolio of 34 private healthcare facilities. Acquired by Chinese based Luye Medical Group Co in December 2015.
- **Infinite Care** is a residential care provider and developer. It currently operates five aged care homes in South Australia and has expanded its footprint into Queensland with a further six centres.
- **Healius Ltd** (ASX Code: HLS) is the largest medical centre operator in Australia and Australia's second largest pathology provider. The group operates 15 day hospitals; 97 pathology labs and 146 diagnostic imaging sites across Australia.
- **Qld Health** is a state government department which operates and administers the state's public health system. It has around 80,000 full-time equivalent employees and an annual budget of $17b.

Australian Unity Healthcare Property Trust

Lease terms

- The lease profile is strong with built-in annual rental growth in line with CPI (applicable to most private hospitals) and +3.5% to 4.0% p.a. applicable to the majority of medical clinics. There is a provision for market reviews generally every five years (and upon lease expiry).
- STARS (Surgical Treatment and Rehabilitation Service) lease terms to the Qld State Government involves annual rental increases of 1.5% for 20 years, with a review to actual CPI compounded since commencement, at the start of year 21.

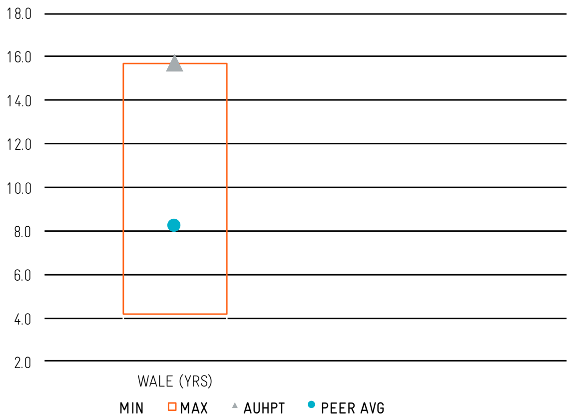
Lease Expiry profile



Source: Australian Unity. As at 30 April 2021.

- The Trust has a long WALE relative to other direct property funds that Lonsec assess. This mostly due the long leases often provided to hospital operators.

Weighted Average Lease Expiry Comparison



Development & Investment Pipeline

- The Trust has a strong **pipeline of investment opportunities** both from within the current portfolio and external opportunities through its relationships with private and government organisations.
- Material property developments, including new construction and expansion of brownfield sites, are generally only undertaken by the Trust where substantial leasing pre-commitments are in place and construction costs are capped through an arrangement with the tenant or builders.
- There are currently ~$450m of identified planned development projects in the pipeline with construction time-frames stretching out beyond 2025. AU has $500m of additional projects under active consideration or due diligence.

HPT Development Expenditure (est)	FY21	FY22	FY23
Beleura Private Hospital, VIC	23.6	2.0	
Peninsula Private Hospital, VIC	3.5	3.0	
Townsville Private Clinic, QLD	2.1		
Western Hospital, SA	9.7		
STARS, QLD	39.8		
Sunshine Private Hospital, VIC	9.8	58.3	34.4
Herston Private Hospital, QLD		0.5	37.5
Molendinar Medical Centre, QLD	7.0		
Kellyville Medical Centre, NSW	1.8	4.9	3.3
Kingswood Private Hospital 1, NSW	7.6	25.9	11.0
Greenfield' Aged Care VIC		33.0	21.0
Brownfield' Aged Care NSW 1		5.7	13.8
Brownfield Aged Care NSW 2		7.5	18.0
Weststate Private Hospital, QLD	8.0	30.2	15.4
QLD Private Hospital 2		6.5	75.0
Birtinya Medical Centre, QLD		10.5	30.0
Sub-total	**112.9**	**188.0**	**259.4**
Maintenance Capital	4.6	6.9	11.9
Total	**117.5**	**194.9**	**271.3**

Source Australian Unity. Amounts do not include land acquisitions.

Cornerstone investor Dexus

- Post the capital raisings and offers, Dexus will emerge with about 7% holding in AUHPT.
- Dexus has also entered into a **Standstill Agreement** with AUFM. While the term is confidential, "Dexus has highlighted its commitment to the long-term sustainable growth of AUHPT and its support of AUFM's management of AUHPT".
- Dexus has a strong healthcare property development pipeline of its own. This includes the **Bragg Centre Adelaide**, over which AUHPT has first right of refusal on 25% of this $440m project. This site is opposite Adelaide Hospital and one of AUHPT's own sites earmarked for pathology.

Australian Unity Healthcare Property Trust

1.2 Overview of direct fund investments by subsector.

SUBSECTOR	VALUE $M	LAST IND. VAL'N DATE	% PROP PORT.	NET INCOME $M	INCOME YIELD	LETT. AREA SQM	OCCUP.	CAP'N RATE	WALE (INC.) YRS
HOSPITALS	1388.14	2021	61.9%	65.55	4.72%	143,447	100.0%	4.80%	21.10
MEDICAL CENTRES	684.21	2020/21	30.5%	39.18	5.73%	80,014	96.3%	5.61%	6.48
AGED CARE	169.63	2020/21	7.6%	11.43	6.74%	58,714	100.0%	6.40%	21.43
TOTAL (EX DEVELOPMENTS)	**2241.98**		**100.0%**	**116.16**	**5.18%**	**282,175**	**98.3%**	**5.17%**	**15.70**
DEVELOPMENTS	92.18								
ARENA REIT INVESTMENT	81.82								
LOAN RECIEVABLES	65.41								
CASH	43.94								
OTHER	27.30								
TOTAL	**2552.63**								

1. Book value of direct property assets differs from the total appraised value due to capital expenditure and other minor variations.

Australian Unity Healthcare Property Trust

2 Financial Analysis

2.1 Income/Expenses analysis

Year	FY22e $m	FY23e $m
NET PROPERTY INCOME	117.26	128.33
A-REIT INCOME (ARENA)	3.88	3.88
INTEREST INCOME	3.78	2.32
TOTAL INCOME	**124.92**	**134.53**
M'MENT FEES AND EXPENSES	-20.34	-22.08
INTEREST EXPENSE	-13.64	-15.03
OTHER EXPENSES	-1.26	-1.28
TOTAL FUND EXPENSES	**-35.24**	**-38.40**
NET OPERATING INCOME	**89.68**	**96.13**
INCOME SUPPORT (RETAINED)	0.00	0.00
TOTAL DISTRIBUTION	**89.68**	**96.13**
W/SALE UNIT SHARE	80.2%	80.2%
NET DISTRIB (W/SALE)	**71.906**	**77.080**
W/SALE UNITS W/AVG (Mill)	754.1	741.9
DPU (W/SALE)	9.53c	10.39c

Assumptions underlying income

- Underlying the above near-term cash flow projections of the portfolio are assumptions made by the Manager with regard to potential vacancies, letting up allowances and capital expenditure.
- Australian Unity's budgeted **capital expenditure** for the next three years is low relative to the size of the overall portfolio and is primarily directed at funding developments rather than maintenance. It is expected to be funded from equity raisings, debt and cash flow.

2.2 Distribution / taxation

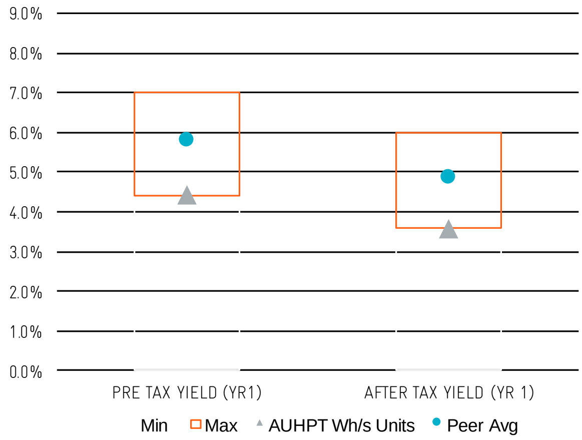
AUHPT estimated distribution yields

W/sale Units FY22/23	NAV[1]	Ent. Offer[2]
DISTRIBUTION/UNIT	10.0C	10.0C
UNIT ENTRY PRICE	$2.27	$2.29
PRE-TAX YIELD	4.41%	4.37%
TAX ADVANTAGED	60%	60%
YIELD AFTER 47% TAX	3.58%	3.55%
GROSSED-UP YIELD	6.76%	6.69%
YIELD AFTER 15% TAX	4.15%	4.10%
GROSSED-UP YIELD	4.88%	4.83%

1: As at 28 June 2021. 2: Expected Application price 12 July 2021 including buy spread.

Distribution yields peer comparison (Update)

- The following chart compares the estimated distribution yield of AUHPT at NAV with a sample of open-ended unlisted property trusts.



Tax rate of 47.0%

- The estimated distribution yield on the Wholesale Units at both NAV and the Entitlement Offer price is the lowest in the Lonsec peer group on both a pre-tax and after-tax basis. The tax deferred portion for the Trust is estimated at 60% given the recent completion of Herston STARs and the strong development pipeline.

2.3 Debt position / interest costs

- The Trust has one debt facility provided by a syndicate of three Australian banks and Australian Super. The funding is in five tranches with $752m due to be refinanced by January 2023.

AUHPT Debt Details (as at 30 April 2021)

Facility	Limit	Expiry
TRANCHE A (REVOLVING)	$220M	JAN '23
TRANCHE A2 (REVOLVING)	$150M	JAN '23
TRANCHE B (STARS - TERM)	$282M	JAN '23
TRANCHE C (DEVELOPMENT)	$100M	JAN '23
TRANCHE D (TERM)	$100M	JAN '25

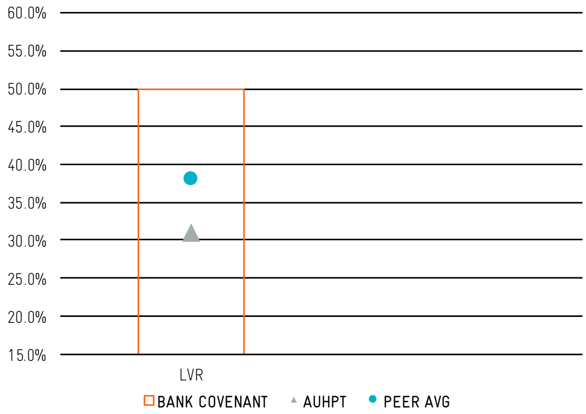
FACILITIES – LIMIT	$852M
DEBT DRAWN DOWN (APRIL 2021)	$663.4M
COST OF DEBT	2.4%
% DEBT HEDGED	61.5%
WTD AVG HEDGE TERM	2.5 YRS
LVR (APRIL 2021)	31%
LVR COVENANT	50.0%
ICR (YR TO 30 APRIL 2021)	6.72X
ICR COVENANT (BANK)	1.75X

Gearing peer comparison

- Trust gearing at April 2021 is 31% (LVR). This is low compared to the peer group average, but this will vary depending upon the level of acquisitions and equity being raised. Post the AUHPT capital raisings and redemption offer, gearing is estimated at 20%.

Australian Unity Healthcare Property Trust

- The AUHPT has significant coverage within the bank 50% LVR covenant. Even at a more normal gearing level (35%-40%) following the proposed development programme, the portfolio would be able to **withstand a 20%-30% reduction** in the value of the property portfolio before breaching its covenant.



- The Trust's **Interest Cover Ratio** of 6.7x is strong and compares favourably with the peer average of 6.3x.

Sensitivity analysis – interest costs

- All-up interest cost is currently 2.4% p.a. and 61.5% of this has been fixed for an average term of 2.5 years implying that interest costs will be relatively stable over the next few years.

2.4 Fee Structure

- The Manager is entitled to receive a number of fees and incurs other expenses related to the management of the Trust including:
  - Acquisition & Disposal of properties
  - Annual management fees and expenses
  - Disposal fees and expenses.
- Note that **property related costs** such as stamp duty and other expenses are not included in this analysis.
- **Acquisition and Disposal** of properties. As establishment costs occur, they are built into the Unit Price, with the following **Buy/Sell spreads** applying to enter and exit the Trust. These spreads are not an additional fee paid to the Manager, but are retained in the Trust to cover the costs of buying and selling assets.

AUHPT Unit Class	Buy	Sell
WHOLESALE	1.50%	0.50%
RETAIL[1]	1.50%	0.50%
CLASS A[1]	1.20%	0.50%

1: Closed to new investment.

- **Annual management fees** on the Wholesale Units comprise 0.65% p.a. plus expenses estimated at 0.19%p.a. (total 0.84% p.a.) of gross assets. Although the Manager calculates the management costs to be 1.08% of net assets for the year to June 2020, Lonsec's estimate is 1.29% on a net assets basis assuming a normalised gearing ratio of 35%.
- The AUHPT has a tiered base management fee where the fee of the Wholesale Units share of gross assets reduces to 0.50% p.a. above $2b.

Total fees comparison

- For comparative purposes with Lonsec's sample of unlisted funds, Lonsec has estimated the present value of total fees and expenses paid to the RE/Manager by the AUHPT over a ten-year period. This takes into consideration the differences in timing of initial establishment costs, on-going expenses and back-end performance/disposal fees and varying investment terms. In order to calculate performance fees, Lonsec assumes a 30% increase in the gross asset value over ten years.
- Lonsec's analysis shows the AUHPT's total fees to be lower than the peer group average for open-end funds on both a total asset basis and on a net assets basis. The reduction in buy spread and lower annual expenses account for this change.

Comparison of PV of total fees and expenses

	% Total Assets	% Net Assets
AUHPT	**6.4%**	**8.6%**
LONSEC AVG (OPEN END)	7.3%	10.7%

2.5 Balance Sheet / Net Asset Backing

Balance Sheet

As at end	30-Apr-21 $M
CASH	43.940
DIRECT PROPERTY VALUE	2,334.170
ARENA REIT HOLDINGS	81.820
LOAN RECEIVABLES	65.410
OTHER ASSETS	27.300
TOTAL ASSETS	2,552.640
DISTRIBUTIONS PAYABLE	0.000
PAYABLES	14.380
DEBT	663.400
TOTAL LIABILITIES	677.780
NET ASSETS	1,874.860
NET ASSETS WHOLESALE UNITS	1,439.174
NET ASSETS RETAIL/CLASS A	435.682
NO. WHOLESALE UNITS ISSUED (MILL)	652.256
NTA PER UNIT (WHOLESALE UNITS)	2.206
LVR (DEBT/BANK ASSET VALUE*)	30.93%
(DEBT/TOTAL ASSETS)	25.99%

(Bank Asset Value assessed on property assets).

Australian Unity Healthcare Property Trust

Net Asset Backing

	Pre Capital Changes	Post Capital Changes
NAV AUHPT W/SALE UNITS	$2.27	$2.30
ENTITLEMENT PRICE (EST).	$2.29	

- The Net Asset Value of the AUHPT increased as a result of the issue of new units at $2.60 (a premium of ~16% to the 9 June 2021 unit price). The result of this placement (Dexus $180m and Australian Unity Strategic Holdings $20m) was a ~3 cent boost to the unit price between 8 and 9 June 2021.
- On a comparative basis to other unlisted property funds, the expected entitlement entry price equates to a starting NAV of $0.99 per $1.00 invested (1% premium paid), slightly ahead of the Lonsec open-end average of $0.97 and the closed-end average of $0.90.

Australian Unity Healthcare Property Trust

3 Management

An assessment of Management is another key performance measure and is largely qualitative, focusing on the ownership, operating and reporting structure, property investment policy, and selection criteria. Capable and experienced management is vital to the success of the Trust. Previous performance is evaluated, but is not necessarily a guide to future returns.

3.1 The Responsible Entity (RE)

- The RE of the Australian Unity Healthcare Property Trust is **Australian Unity Funds Management Ltd** (AUFM), which holds AFSL No.234454.
- AUFM forms part of the broader Australian Unity Wealth & Capital Markets, which had $24.16b in assets and funds under management or advice as at 30 June 2020, with $4.9b managed within Australian Unity - Property.
- AUFM is a wholly owned subsidiary of **Australian Unity Limited** (AU) a mutual organisation whose core activities include Healthcare (health insurance); Wealth Management; Independent & Assisted Living; Personal Financial Services (banking and insurance).

AUFM Board

Name	Position
ROHAN MEAD	EXECUTIVE DIRECTOR
DARREN MANN	EXECUTIVE DIRECTOR
ESTHER KERR-SMITH	EXECUTIVE DIRECTOR

- The Board of AUFM sits beneath the board of AU which consists of six Non-Executive Directors and one Executive Director. The AU board prescribes the risk framework in which AUFM must operate.

3.2 Management Team

Key Personnel – AU Investments /Healthcare PT

- Details of the senior management team are outlined in the PDS.
- The Trust is managed by a dedicated team of 17 led by the GM of Healthcare Property, **Chris Smith**. Smith joined Australian Unity Investments in 2001 and has over 20 years' experience in portfolio and property management, having previously held senior roles with JLL and Coles Myer.
- Over the last 1-2 years, the Healthcare Property team has been expanded, and now possesses a deeper level of specialist industry expertise. While there is some key person risk with Chris Smith's long-standing knowledge of the sector and the AUHPT portfolio, the AU real estate team comprises a number of experienced senior executives.
- The broader AU property team comprises of over 60 staff involved in the management of the funds, property portfolios and mortgages. The business is well-resourced with a depth of experience in property investment; asset and funds management; and property development.
- The AUHPT management team is also able to draw on additional support, such as corporate finance, risk management and due diligence assistance, from within the AU Group if required.

3.3 Investment Style / Process

Investment style

- The Trust is a capital partner of choice for established healthcare operators in acquiring and developing sites, in order to enhance the lessees business operations, while adding value to the underlying real estate, which is owned by the Trust.

Investment management process

- AUFM establishes both a broad macro-economic framework, meshed with a deep analysis of the drivers of value for the property sub-sectors. It is worthy of note that AUPL has developed a model to estimate value, upon which it bases its strategic three-year business plans, setting benchmark allocation ranges for the various property sectors.
- AU has a firm view of the critical elements in the risk / return equation, providing a good strategy guideline for which to **time acquisitions** in the various property sectors. Buying and selling well can be a significant driver of returns.
- AU's **balance sheet financial strength** can, if necessary, be utilised to assist the property division to make acquisitions, while external equity is raised.
- In addition, active management through tenant and asset management initiatives can add value to the portfolio and fund performance. This rigorous process incorporates a **detailed annual strategic review** (with monthly reviews) of the property portfolio, including an examination of the expected returns for each property over 3 - 5 year periods.
- Asset management teams develop and execute business plans for each property, which incorporate strategies for leasing, capital expenditure, holding or selling assets, maintenance and management contracts.
- **Detailed modelling** is undertaken by analysts and portfolio managers. The use of external property software (MRI Investment Management) is utilised as an input into AU's proprietary fund models. Lonsec is provided with AU's forward estimated data (usually 3 years) based on a number of assumptions. The process is thorough and enables various scenarios to be run quickly to analyse the impact on the property portfolio.

On-going property management

- AUFM has entered into a Master Management Services Agreement with Australian Unity Property Management (AUPM), to provide the Fund with asset management, leasing services, rent reviews and development management (if required). Each development project will be subject to a separate written agreement, with the fees and costs determined on an arm's-length basis at market rates.
- Australian Unity has appointed Colliers, K2, Burgess Rawson and Savills to provide property management and accounting services for the Trust's properties.
- These companies are established and reputable third-party property managers with sufficient scale, resourcing, infrastructure and property management systems to efficiently manage the property portfolio under guidance from AU personnel.

Australian Unity Healthcare Property Trust

Potential conflict of interest / related party issues

- The RE may from time-to-time engage related parties to provide property services to the Fund.
- However, the Manager has a clearly defined **Conflicts of Interest Policy** and **guidelines for related-party transactions**. This policy is wide-ranging and includes guidelines specifically relating to identifying, disclosing and resolving such issues as highlighted above. Potential conflicts of interest are reviewed by senior management.
- The AUFM Board has the ultimate responsibility for ensuring related-party transactions entered into are conducted in accordance with the relevant policies and guidelines.

3.4 Previous fund / trust performance

- Australian Unity has a good track record in managing domestic unlisted property trusts, having been a manager and operator of funds since 1993.
- The AUHPT's distribution return has been sustained in the 5.0%-8.0% p.a. range for Wholesale Units since inception. The growth return for the Wholesale Unit class has been 3%-4% p.a. over the long term. The Trust has delivered strong returns on a total return basis averaging 12.0% p.a. since its inception in February 2002.
- Over the last five years, AUHPT Wholesale Units have recorded a total return of 14.89%p.a. (based on the Net Asset Value) and an estimated 18.8%p.a. (based on the $2.70 cash offers available). This compares to Lonsec's average return for open-end property funds of 11.06%p.a.
- During the last 12 months, the Wholesale Units have returned 24.09% (at NAV) and 47.0% (@$2.70 cash offers).

Australian Unity Performance

AUHPT Wholesale Unit Performance – to 30 April 2021

	1 yr (%)	3 Yrs (%p.a.)	5 Yrs (%p.a.)	10 Yrs (%p.a.)	Incept* (%p.a.)
TOTAL RETURN	25.09	13.92	14.89	11.80	12.27
LONSEC AVG OPEN-END FUNDS	11.28	9.22	11.06	N.A.	N.A.

Net of fees. *Inception date is 28 February 2002.

Investors are reminded that past performance is not a guarantee of future returns.

Australian Unity Healthcare Property Trust

4 Market Analysis

Healthcare Property Overview

- The healthcare property sector is widely considered a relatively defensive sector, which has historically exhibited more stable return trends compared to traditional property sectors. This reflects the essential nature of healthcare services.
- In the short term the postponement of elective surgeries due to government COVID restrictions has impacted private hospital operators. However, as of December 2020 all Australian States, including Victoria, are able to offer elective surgeries with no caps.
- Despite this, market yields have continued to firm, driven by long term factors like Australia's ageing demographics, low interest rates, relatively long lease terms of assets and the emergence of new fund managers underpinning strong investor interest for healthcare assets.
- Healthcare assets are tightly held and there have been limited transactions in recent years. This is especially true for well-located properties that have expansion potential.

Aged Care Property Sector

- The national aged care residential services industry is highly fragmented. The three largest industry operators (by revenue) are Bupa Aged Care, Regis Healthcare and Opal Aged Care. Other key operators include Estia Health Ltd, Blue Care, Japara Healthcare Ltd and Lendlease.
- Australia's aged-care industry is heavily regulated by the Federal Government. The number, type and locality of aged-care services are determined by the Government in order to ensure that growth in places matches growth in the aged population. Approvals for new places are only likely to be granted if they will not result in the target number of places for a given region being exceeded. An annual Aged Care Approvals Round (ACAR) is used to allocate new places, in which industry operators are able to apply for funding for new services and places.
- The aged care sector is currently experiencing a period of transformation whereby funding avenues are changing from government funding (described above) to consumer funding. The commencement of the Royal Commission into Aged Care will also add a level of uncertainty over the short term.
- COVID-19 has impacted operators as aged care facilities have been placed under heavy restrictions. However, this varies greatly be state with those facilities in South Australia and Queensland being spared significant impacts relative to New South Wales and Victoria. While the operator of the Trust's six aged care properties, Infinite Care, has facilities in all these states the Trust only holds Queensland properties.
- Crucially, the Trust is an owner of aged care facilities as opposed to an operator. Therefore, it is sheltered from short term uncertainty due to regulatory factors and COVID-19 by its lease contracts. An ageing population and the resulting shortage of aged care beds indicate that the longer-term outlook of the sector is more promising.

5 Exit Strategy/Liquidity

The Manager currently provides **limited liquidity mechanisms**; thus investors should take a medium to long-term view of their investment (at least five years).

Regular quarterly liquidity offers:

— **Wholesale Units and Retail Units** 2.5% of Net Asset Value (NAV) available each quarter, subject to available funds.

— The Manager keeps a separate cash reserve of 20% of the NAV of **Class A Units** in order to facilitate redemption requests from larger investors via platforms. The majority of the cash reserve is held in a wholesale Australian Unity cash trust.

One-off liquidity offers:

— The Manager may make one-off redemption offers such as the Premium Cash Offers (PCO original and new) with approximately $80m allocated for the new PCO at the following prices:

  - Wholesale Units ($2.70)
  - Retail Units ($2.76)
  - Class A Units ($1.69).

— Note that scale-back mechanisms may apply if the Premium Cash Offer is oversubscribed.

6 Lonsec Methodology

The research methodology includes a rating process designed to assess the qualitative and quantitative factors of the investment. The process is consistent for comparable investment products, enabling projects to be individually rated, comparatively ranked, and to establish a Lonsec Research recommendation status for use by financial planners.

The rating determinants are:
Financial Analysis / Gearing
Properties
Management
Market Analysis
Exit Strategy

Lonsec Direct Assets research rating definitions

Highly Recommended	The **Highly Recommended** rating indicates that Lonsec has very strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered a preferred entry point to this asset class or strategy.
Recommended	The **Recommended** rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.
Investment Grade	The **Investment Grade** rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.
Fund Watch	The **Fund Watch** rating indicates that no new investment into this financial product is recommended. A significant change has occurred with the financial product and a detailed assessment of the change is needed and / or series of rectifying actions required prior to this rating being changed.
Screened Out	The **Screened Out** rating indicates that Lonsec currently does not have conviction that the financial product can generate risk adjusted returns in line with relevant objectives. The financial product currently has insufficient competitive advantages relative to its review peer group (if applicable).
Redeem	The **Redeem** rating indicates the financial product is no longer considered worthy of investment for any time period and investors should immediately redeem units from the financial product, subject to seeking financial advice. An adverse development has taken place that is considered detrimental to the interests of investors.

Financial Products withdrawn from research process

Capital Raising Closed	As the Trust is closed to new investment, it is no longer included on the Lonsec Recommended List and existing Lonsec research reports and ratings have been withdrawn from the Lonsec website. Going forward, Advisers should not rely on prior research in respect of this product. Lonsec will only be providing further updates should circumstances require. The Trust manager will have to obtain a new Lonsec rating for any new capital raising. Lonsec may also make a recommendation if a roll-over of investor capital is proposed or a liquidity offer is made. An investment in the Trust can be retained.
Discontinued Review	The **Discontinued Review** status is applied where a fund manager that has approached Lonsec and agreed to tender a financial product for assessment, subsequently elects to discontinue participating in the Review prior to its completion for any reason, other than the financial product being closed or unavailable to retail investors. The Discontinued Review status will be published on the Lonsec website.
Cease Coverage	The **Cease Coverage** status is applied to financial products where fund managers withdraw from the Lonsec research process after the research process has been completed.
Closed / Wind Up	The **Closed / Wind Up** status is applied to a financial product when the fund manager advises Lonsec that the financial product is being wound up and the capital is to be returned to investors.

Australian Unity Healthcare Property Trust

About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately owned and independent entity with a multi-brand strategy of providing leading financial services research and investment execution.

Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

Analyst Disclosure and Certification

Analyst remuneration is not linked to the rating outcome. The analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst(s) holdings may change during the life of this document. The analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the financial product(s) to which this document refers.

Date prepared

June 2021

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