

MA Prime Logistics Fund

Investor update

June 2023



The MA Prime Logistics Fund (**Fund**) invests in institutional grade Australian industrial and logistics real estate assets.



Investment Summary

The MA Prime Logistics Fund (**Fund**) aims to provide investors with exposure to the Australian industrial and logistics real estate market via a diversified multi-asset property portfolio.

The Fund's objective (**Investment Objective**) is to capitalise on the sector's strong tailwinds and deliver investors with reliable quarterly income distributions and the potential for long-term capital growth.

The Fund's 2023 target annual distribution is 5.5 cents per unit (**cpu**) paid quarterly.

MA Prime Logistics Fund Investor Update

MA Investment Management Pty Ltd (ACN 621 552 689) is a Corporate Authorised Representative of MA Asset Management Ltd (ACN 142 008 535) (AFSL 427 515)

Important Information

This update has been prepared by MA Investment Management Pty Ltd (ACN 621 552 896), the appointed Manager of the Fund and is subject to the disclaimer at the end of this document. MAAM RE Limited ACN 135 855 186 (AFSL335783) is the trustee of the Fund (the **Trustee**.)



Investment strategy

The Fund's strategy (**Investment Strategy**) is to develop a single-sector, multi-asset real estate fund with a principle focus on gaining exposure to high quality industrial and logistics assets. In order to achieve this, the Fund will either invest directly in these types of assets or via the MA Logistics Fund (**MALF**).

The Manager will capitalise on the firm's expertise and deep networks within the Australian real estate industry to identify opportunities across sub-sectors and geographies.

The Manager will seek to achieve the Investment Strategy by employing a rigorous asset acquisition and portfolio construction process, underpinned by a robust risk management framework to ensure each asset meets the Fund's Investment Objective.



Historical fund performance (as at 30 June 2023)

	3 MONTHS	6 MONTHS	12 MONTHS	SINCE INCEPTION (P.A.) ¹
Total Return²	(2.9%)	(3.2%)	(1.0%)	8.1%



FUND OVERVIEW	
Assets Under Management of the strategy³	\$262.4 million ⁴
Fund Inception Date	14 December 2020 ⁵
Fund Term	5 years ⁶
Target 2023 Distribution	5.5 cpu
Distribution Frequency	Quarterly in arrears
Closing Unit Price at 30 June 2023	\$1.0631 (Ex Distribution)
Declared June 2023 Distribution	1.375 cpu
Target September 2023 Distribution	1.375 cpu

INVESTMENT MANAGEMENT



Matthew Lane
Managing Director



Henry Bradley
Executive Director



¹ December 2020

² Total Return calculated in accordance with the standards set out by the Financial Services Council (**FSC**) of which MA Financial is a member and reflect the value of a continuing investors investment assuming the reinvestment of all distributions and net of all fees.

³ On a look-through basis including investments held by MALF

⁴ Includes the 'as if complete' value of the Regency Park Facility

⁵ Date of initial allotment

⁶ Five (5) year initial investment term with rolling 5-year terms as set out in the Fund's Information Memorandum



Portfolio overview

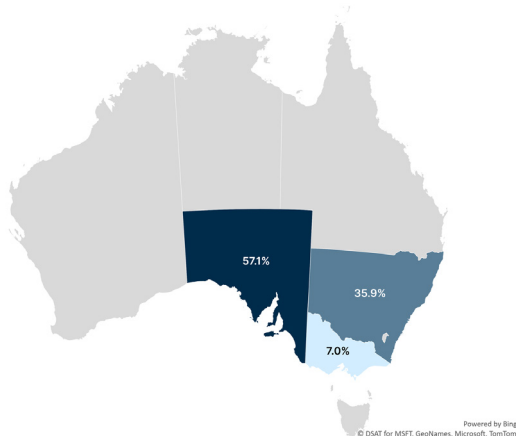
ASSET ⁷	GROSS LETTABLE AREA	GROSS ASSET VALUE	RENTAL INCREASE	OCCUPANCY RATE	WEIGHTED AVG. LEASE EXPIRY
Direk Refrigerated Logistics Facility	11,113 sqm	\$70.0 million	3.50%	100%	12.2 years
M3 Logistics Facility	6,767sqm	\$13.2 million	2.75%	100%	5.1 years
Sara Lee Facility	19,566 sqm	\$65.8 million	3.00%	100%	18.2 years
Regency Park Facility*	15,869 sqm	\$49.0 million ⁸	3.00%	100% ⁹	8.8 years ⁹
Packcentre Logistics Facility	9,423 sqm	\$22.4 million	3.00%	100%	12.5 years
SA Police Facility	9,856 sqm	\$19.5 million	2.75%	100%	5.2 years
Port Botany & South Windsor Industrial land and construction (Real Estate Credit Facility)		\$22.5 million			
Total Portfolio	72,594 sqm	\$262.4 million	3.12%	100%	12.3 years

* Development asset. Stage 1 reached practical completion on 16th December 2022 and Stage 2 completion forecast in Q3 2023

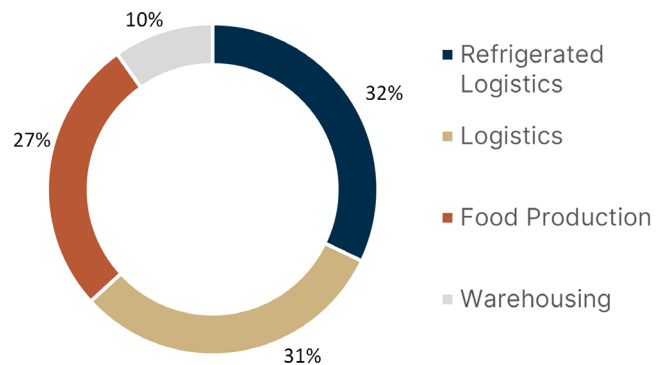


Portfolio composition

GEOGRAPHY BREAKDOWN (BASED ON NET PROPERTY INCOME)



SUB SECTOR BREAKDOWN¹⁰ (BASED ON NET PROPERTY INCOME)



⁷ Consistent with the Information Memorandum the Fund will either invest directly in these real estate assets or via the MA Logistics Fund

⁸ 'As if complete' value

⁹ Includes new 8 year lease anticipated to commence 1 August 2023 on the remaining current vacant tenancy

¹⁰ Includes development assets and excludes real estate credit assets



Fund Performance

Fund update

Investment Strategy update

Since inception in December 2020, the Fund has delivered on its investment strategy to develop a single-sector, multi asset real estate fund with a focus on high quality industrial and logistics assets. It has achieved this by acquiring, either directly or via its investment in the MA Logistics Fund, six assets across Victoria, New South Wales and South Australia and two real estate credit facilities within the industrial sector to manage liquidity.

The Fund has delivered a total return of 8.1% p.a.¹¹ since inception with the portfolio being backed by a weighted average lease expiry of 12.3 years (as at 30 June 2023) and an average fixed rental growth profile of 3.1% p.a.

In line with the Manager's investment thesis, the industrial and logistics sector continues to benefit from positive tailwinds which has seen strong income growth in certain markets. While the fundamentals of the industrial and logistics sector remain strong, investors have become cautious on real estate asset pricing stemming from the material rise in debt costs. This is reflected in the 4% rise in the Reserve Bank of Australia Cash Rate since May 2022, and the rise in the 10-year government bond rate by approximately 2.5% since June 2021 to now sit at around 4.0%¹². Consequently, real estate valuers have started to ease out capitalisation rates.

Despite the rise in capitalisation rates, the industrial sector has outperformed all other core real estate sectors due to strong market rental growth off-setting some of the impact of rising capitalisation rates.

Given the material rise in debt costs and the continued uncertainty around asset pricing, the Trustee continues the temporary pause of new applications into the Fund. The Trustee and Manager will review this pause on a quarterly basis while assessing broader economic forecasts.

While the Fund is temporarily closed to new applications, the portfolio is broadly well placed to benefit from market rental growth being experienced in each of the asset sub-markets.

The Manager continues to actively manage the portfolio through proactive tenant engagement and asset management to create value and stability for the Fund's performance. The Manager is continuing to explore value add initiatives within the portfolio which include potentially incorporating roof top solar arrays deriving income from licence fees. This initiative will also assist with tenant sustainability targets while reducing carbon footprints.

Asset update

The Manager is continually reviewing the assets within the portfolio. Key updates across the portfolio during the quarter are as follows:

Direk Refrigerated Logistics Facility, SA

The property is leased to a wholly owned subsidiary of Eagers Automotive Ltd (ASX: APE) (**Eagers**). Importantly, Eagers market capitalisation is c.\$3.7bn. Eagers previously sub-let the premises to Scott's Refrigerated Logistics. Despite this sub-leasing arrangement, Eagers continues to be contractually bound to pay rent and maintain the premises in accordance with its lease. Pleasingly they continue to comply with these obligations.

As previously advised, Eager's sub-tenant, Scott's Refrigerated Logistics (**Scott's**), was placed into liquidation on 3 April 2023. In May 2023, the sub-lease was formally disclaimed and operational control was handed back to Eagers.

During the Scott's business 'wind down mode' and the liquidation phase, Eagers and the Fund's Property Manager, RetPro oversaw Korda Mentha's (receiver and Manager of Scott's) continued operation of the property and removal of their stock. During this time, the RetPro property management team frequently worked out of the site to ensure it was appropriately maintained and secured. As a consequence of their active involvement, when the property was formally handed back to Eagers in May, RetPro was well positioned to take over operational control of the property on behalf of the head Lessee.

Since Eagers took over operational control, the Manager is pleased to confirm they have continued to fulfill their lease obligations including the payment of rent, outgoings and maintenance of the premises. It is also noted that they are temporarily utilising the property for storage of some 600 cars over the hardstand.

As Eagers do not envisage their own long term occupation of the facility, they appointed CBRE as the exclusive leasing agent to assist them with securing a new sub-tenant to occupy the facility. Importantly, Eagers are required to seek landlord and Trustee approval for any future replacement sub-tenant to ensure the terms and covenants are satisfactory. The Manager continues to maintain continued open dialogue with Eagers and the leasing agents to ensure the facility is occupied as soon as possible to a suitable sub-tenant. Currently Eagers has not formally put forward any proposed sub-tenant, however the Manager understands they are working with a few parties to occupy the space. While it may take longer than Eagers would prefer, the Manager remains confident they will secure a sub-tenant.

¹¹ Total Return calculated in accordance with the standards set out by the Financial Services Council (**FSC**) of which MA Financial is a member and reflect the value of a continuing investors investment assuming the reinvestment of all distributions and net of all fees.

¹² Reserve Bank of Australia as at 30 June 2023

Sara Lee Facility, NSW

The Manager notes that as at 30 June 2023 Sara Lee (Lessee) are currently in two months arrears. The Manager has been in regular communications with the Sara Lee management team to ensure these arrears are paid as soon as possible.

Sustainability

The Manager continues to engage with the tenants within the portfolio to deliver solar photo-voltaic systems (**Solar PV**) through Power Purchase Agreements (**PPA**) with Solar Bay, a provider who would be responsible for funding of the systems, delivery, operations and maintenance for the tenure of the PPA.

Tenants within the portfolio are seeking a capital light solution for the provision of renewable energy. The Manager wishes to satisfy the desire to incorporate sustainability and ESG initiatives across the portfolio. The PPA approach to solar implementation provides a cost-effective strategy to install Solar PV, providing cost savings to the tenants.

Following initial introductions and consultations with the tenants and Solar Bay, the Manager continues to have a good level of interest with Packcentre at Hallam having a preliminary engineering assessment undertaken to assess the roof structure in supporting the proposed solar array. Sara Lee at Lisarow and Eagers at Direk have also expressed interest with preliminary assessments to be undertaken.

Under the proposed arrangement with Solar Bay, income from roof top license agreements can be derived to the Fund. This will add additional income to each asset where the tenant agrees to incorporate this solar initiative.

Leasing

During the quarter, two of the pre-leased warehouses reached practical completion at the Regency Park development. This triggered the lease commencements at 560 Grand Junction Rd (Sydney Tools) from 12 May 2023 and 564 Grand Junction Rd (Southcott Pty Ltd) from 20 May 2023.

The remaining warehouse (562 Grand Junction Rd) has terms agreed with MaxiParts Pty Ltd, one of Australia's largest commercial truck and trailer parts companies, for an eight-year lease term. This lease is anticipated to commence 1 August 2023 and will confirm completion of the entire project. Importantly the rent struck on this deal reflects the significant market rental growth across the asset since the initial pre-leased agreed terms of the Sydney Tools and Southcott leases. This demonstrates the passing rent on the earlier pre-committed tenancies is well below current market rates, supporting the potential to achieve long term positive rental reversion.

Distributions

The Manager is pleased to report the Trustee declared a 1.375 cpu distribution for the June quarter, equating to a 5.5 cpu annualised distribution in-line with the revised guidance as noted in the December 2022 quarterly update.

As mentioned in the previous quarterly updates, the Manager continues to monitor the interest rate environment while ensuring a framework to a defensive approach of capital management is maintained given the potential for further increased borrowing costs.

Valuation

During the quarter, the Manager instructed two external independent valuations (30% by value of the portfolio) to be undertaken on the following assets:

- Regency Park Facility, SA – \$49.0m – This being the 'as if complete' valuation which reflects a gross increase of \$0.5m from the prior March adopted director valuation. This was due to higher income achieved across the Stage 2 warehouses following their final lettable area being slightly larger than originally projected. Importantly, Stage 2 is now fully committed (subject to final execution of the lease documentation for the MaxiParts tenancy) and has demonstrated strong market rental growth since the initial pre-leased warehouses were agreed. The MaxiParts warehouse is anticipated to reach practical completion on 31 July 2023.
- Packcentre Logistics Facility, Hallam VIC – \$22.4m – This reflects a decrease of \$1.35m from prior independent valuation with the valuer adopting softer capitalisation and discount rates (50 basis points), in-line with the weakening investment sentiment in the national industrial and logistics sector. The impact of this was partially offset by a higher market rent following the continued strong market rental growth experienced in the south-east Melbourne market.

The Director's also wrote back the Direk Refrigerated Logistics facility and Sara Lee facility due to the softening in market capitalisation rates since their last independent valuations in September 2022.

- Direk Refrigerated Logistics Facility, SA – \$70m – Reflecting a decline of \$3.5m. This is principally due to weakening investment sentiment in the national industrial and logistics sector. The Manager adopted a 50 basis point softer capitalisation rate from prior external independent valuation. The impact was partially offset by higher market rents following increased market rental growth, particular in cold storage.
- Sara Lee, Lisarow NSW – \$65.8m – Reflecting a \$3.25m decrease from prior external independent valuation. This is principally due to the expanding of the capitalisation rate by 50 basis points following the weakening in investment sentiment across regional assets in the industrial and logistics sector.

With the adoption of the softer capitalisation rates, the portfolio's book values fell by approximately 3% from the March 2023 book values. Importantly, ~86% of the portfolio's Gross Asset Value (four of six properties) has been valued either externally or undertaken a write back by the directors in June 2023 with the Manager endeavouring to ensure the portfolio is appropriately marked to market and reflecting the shift in investor sentiment. Overall, the portfolio market capitalisation rate is now ~5% which reflects the smooth cashflows stemming from a long WALE of 12.3 years and annual rent reviews of circa 3.1%.

Debt

The Fund has a loan facility with National Australia Bank (**Lender**) expiring in September 2024.

As at 30 June 2023, the Fund's gearing was 31.3%. This remains below the Fund's target gearing range of 35–45% in preparation of the future development payments of Regency Park. Given the rise in debt funding costs, the Manager will endeavour to keep gearing levels below the Fund's target gearing level. Complementing this approach, ~50% of the Funds forecast maximum debt is hedged to mitigate the impact of interest rate increases.

Under the Facility Agreement (**Agreement**) with the Lender, the Scott's underlease is a Material Document and therefore when Scott's went into receivership, the Lender issued a letter reserving their rights in relation to this potential event of default. Importantly, the Lender confirmed their decision to not exercise any rights in relation to this event of default at this time and would like to continue to work with the Manager to find a satisfactory outcome with the head Lessee (Eagers) to secure a replacement sub-tenant. The Manager has maintained continued regular communications with the Lender and head Lessee and remains positive of finding a solution to the current situation.



Market commentary¹³

The current macro-economic environment is proving to be a challenge for some business sectors as a result of stubbornly high inflation and increasing debt costs. A sharp slowing in demand is a key risk for businesses with inflexible cost bases with most businesses able to pass on higher input costs to rebuild their profit margins after the pandemic. Indebted businesses are more exposed to higher interest rates than larger businesses posing a risk for increased business distress, raising in the possibility of distressed tenants within the industrial and logistics sector.¹⁴

Over the past 12 months, unprecedented rental growth has been experienced across all markets due to an ongoing shortage of industrial property in the face of strong demand. This is reflected in the record low national vacancy rates, which was sitting at <1.0% at the end of Q1 2023.

Prime rents rose by 28% across the Eastern Seaboard cities over the year to the end of Q1 2023, with Sydney experiencing the strongest growth of 39%, followed by Brisbane (24%) and Melbourne (15%). Adelaide saw average prime net face rents increase by 7.29% over the six months to April 2023.

Sydney remains the tightest market at virtual gridlock of c.50,000 sqm with little relief in the short-term. Melbourne (174,330 sqm) has reached a cyclical low, and several precincts are expected to remain with very limited opportunities through mid-2023, despite some additional availability emerging.

Vacancy within existing industrial space fell to new lows across both the prime and secondary market with tenants taking immediately available options through the end of 2022 and into 2023, with less of a concern regarding grade as long as it was functional.

Future prime availability has been somewhat replenished as speculative developments started construction, becoming a dominant factor in the leasing market. Speculative space accounted for more than two-thirds of available space with almost 194,500 sqm of that still under construction in Q1 2023. This has supported prime rental growth with speculative developments needing to set rents at a level which makes the project feasible, at times a further step upward for the market, given the changing market and financial dynamics. To date these rents have been accepted by tenants and thus rental growth has remained accelerated.

While demand for industrial space has continued to be strong, the frenetic leasing activity of late 2022 and into 2023 has eased. Tenants are now more likely to weigh their options with a view to controlling long-term fixed costs and more intensively interrogate their space needs.

The practice of taking additional growth space, if available, on the chance it may be needed in 12–18 months has largely ceased. As higher costs, particularly statutory costs, flow through there is a greater focus on outgoings particularly in Sydney. While major 3PL operators are still hungry for space with outsourcing appearing to increase, corporate occupiers are taking a slightly more cautious approach, with deals taking longer to eventuate.

A strong supply pipeline for 2023 will assist to ease the tight vacancy, particularly across the East Coast, but not completely quench the demand-driven imperative for modern industrial space, keeping upward pressure on rents. More supply is also being brought to market – this year a record c.2.5 million sqm is planned to be delivered across the Eastern Seaboard cities, which will help to alleviate the chronic shortage that has defined the market for many years. The undersupply issue will continue to persist, however, with greater tracts of land that could be released for industrial zoning still caught up in planning.

¹³ Knight Frank Research July 2023

¹⁴ Reserve Bank of Australia – Financial Stability Review – April 2023

The industrial market is now entering a more stable period, with the demand/supply imbalance set to reduce in favour of a more balanced market. Demand has cooled a little as consumer spending slows with the higher cost of living and supply chain improvements leading to a reduced need to hold significant stock levels.

Despite the change in conditions, rents remain higher than what they were historically and rent growth will continue and will certainly be stronger in some pockets where demand is the strongest amid ongoing undersupply. This period may provide some good opportunities for occupiers, with the vacancy rate starting to push out to a degree that will create more opportunities for tenants to have greater choice of stock.

Capital Market Impacts¹⁵

When compared to many major international markets, Australia continues to maintain a relatively strong economic growth outlook. Higher yields coupled with the weaker Australian dollar is making Australia an attractive destination for offshore investors. Australia has continued to top the list in terms of cross-border investment within the APAC region over the past couple years and this trend is expected to continue.

In the first half of calendar year 2023 the broader real-estate markets have experienced economic uncertainty and headwinds resulting in Australia's industrial market normalise after several very strong years of growth. Knight Frank expect this will continue to be the case for the next six to 12 months¹⁶.

The longer-term outlook for Australia's industrial market remains strong. While there is some uncertainty now about what the future holds economically, yields are expected to decompress further over the next 12 months as buyer and vendor expectations recalibrate. When interest rates start to moderate and fall in the medium term as predicted by experts, demand will likely rebound, which would see a return to stronger conditions.

Debt Markets¹⁷

In the June Board meeting, the RBA increased the Cash Rate to 4.10% following the RBA's aggressive tightening cycle delivering 400bp of rate increases since May 2022. The 10-year government bond rate has also increased markedly to around 4.2%¹⁸.

The RBA Board remains alert to the risk that expectations of ongoing high inflation contribute to larger increases in both prices and wages, especially given the limited spare capacity in the economy and the still very low rate of unemployment. Accordingly, it will continue to pay close attention to both the evolution of labour costs and the price-setting behaviour of firms.

The forward guidance states that, "some further tightening of monetary policy may be required to ensure that inflation returns to target in a reasonable timeframe, but that will depend upon how the economy and inflation evolve"¹⁹.

Rising interest rates and persistent higher inflation will continue to place pressure on yields which are expected to continue to decompress over the next 12 months as buyer and vendor expectations recalibrate.

The increased cost of debt for both institutional and private capital has lowered the appetite for investment in the industrial sector. Given this, average yields for Australian industrial assets continue on a decompression cycle that commenced mid-way through 2022.

15 JLL Research – Australia Industrial Preliminary Overview Q2 2023

16 Knight Frank Research July 2023

17 Reserve Bank of Australia, Media Release 6 June 2023

18 Reserve Bank of Australia as at 12 July 2023

19 Statement by Philip Lowe, Governor: Monetary Policy Decision 6 June 2023

MORE INFORMATION

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