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**Australian REIT Income Fund**  
**Annual Management Report of Fund Performance**

**December 31, 2016**

The Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure, can be obtained at your request, and at no cost, by calling us at 1-866-998-8298; by writing to us at Harvest Portfolios Group Inc., 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; by visiting our website at [www.harvestportfolios.com](http://www.harvestportfolios.com); or on SEDAR at [www.sedar.com](http://www.sedar.com).

# Australian REIT Income Fund

## CORPORATE OVERVIEW

Harvest Portfolios Group Inc. (“Harvest”) is a Canadian Investment Manager focused on unique income generating investment products. Harvest was founded in 2009 and is focused on developing investment products that follow three investment criteria:

1. Clear investment objectives
2. Transparency
3. Income generation

Harvest endeavours to develop investment products that are clear in their mandate and easy for our investors to understand. We strive to be transparent, so that our investors can open their financial reports and know exactly what they own. Our funds are invested to provide investors with consistent monthly or quarterly income; therefore, we seek to invest our fund portfolios in well managed companies that have a history of steady cash flow and pay dividends.

## INVESTMENT PRODUCT

The Australian REIT Income Fund (“the Fund”) invests in a portfolio comprised primarily of Equity Securities listed on the ASX issued by Real Estate Issuers. The Fund will be actively managed to take advantage of opportunities within the Australian real estate sector with a focus on Real Estate Issuers that provide attractive current cash yield and/or capital appreciation opportunities.

# Australian REIT Income Fund

## PRESIDENT'S MESSAGE

Australian REIT Income Fund

Unitholder letter March 2017

Dear Valued Unitholder,

2016 can be characterized as another year of volatility as investors faced political uncertainty and tough market decisions. As the year started, markets continued their steady decline over economic concerns after the first Fed rate hike in almost a decade, only to bottom out in February and rally back up through the spring and summer. As September approached, the political rhetoric and steady diet of 2am Tweets unnerved markets leading to declines as the US election drew closer. As the event passed and the world woke up to the new realities of a Trump Presidency, the markets turned and rallied into the end of the year.

Looking ahead, we believe the U.S. will be a strong performer in the world market due to an economy that has been bubbling along with just under a 2% inflation rate and just over a 2% growth rate for the last 5 years. Any "Trump" effect would more than likely trickle down into the economy later in 2017 and 2018. That said, we know that markets are forward indicators of economic performance and should therefore give consideration to US corporate tax cuts and the potential tax break on the \$1 trillion USD sitting offshore in corporate coffers which would no doubt result in a positive effect on corporate earnings. Mr. Trump has also proposed to reduce regulation, which would have a fairly immediate impact on the Financial and Healthcare Industries and their abilities to expand and develop products.

Predicting markets and outcomes can be a frustrating experience and lends more credence to the old term "time in the market not timing the market". Regardless of short term events and market movements, Harvest focuses on industries, sectors or themes with long-term growth dynamics while collecting dividends and selling call options to generate income for our investors. Given our long-term view, we adhere to guiding investment principals which follow our mantra "*Investing doesn't have to be complicated*".

**Keep it Simple:** A complex product does not mean it is a better product. We want our investors to understand exactly what they are investing in and are comfortable that it meets their objectives.

**Transparent:** A portfolio should reflect what an investor thought they were buying. Check your statement or our website and "*know what you own*".

**Consistent income:** All of our funds provide consistent monthly or quarterly income.

2017 and beyond will provide its own steady diet of surprises and challenges, which is why the adherence to an investment philosophy and process helps maintain a calm mindset and long term view of the markets.

Harvest remains committed to its philosophy and we appreciate the confidence you have placed with us as an investor in our funds.

Sincerely,

*Signed* "Michael Kovacs"

Michael Kovacs  
President and Chief Executive Officer

## **Australian REIT Income Fund**

### **ANNUAL MANAGEMENT DISCUSSION OF FUND PERFORMANCE**

The annual management report of fund performance contains financial highlights but does not contain the complete annual financial statements of the Fund. For your reference, the annual financial statements of the Fund are attached to the annual management report of fund performance. You may obtain additional copies of these documents at your request, and at no cost, by calling toll free at 1(866) 998-8298; by writing to us at Harvest Portfolios Group Inc., 710 Dorval Drive, Suite 209, Oakville, Ontario, L6K 3V7; or by visiting our website at [www.harvestportfolios.com](http://www.harvestportfolios.com); or on SEDAR at [www.sedar.com](http://www.sedar.com).

Unitholders may also contact us using one of these methods to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure record, or quarterly portfolio disclosure.

### **INVESTMENT OBJECTIVES AND STRATEGY**

The Fund's investment objectives are to provide unitholders with:

- (i) stable monthly cash distributions; and
- (ii) the opportunity for capital appreciation

To seek to achieve its investment objectives, the Fund invests in an actively managed portfolio comprised primarily of Equity Securities listed on the ASX issued by Australian real estate investment trusts and to a lesser extent, issuers principally engaged in the real estate industry in Australia.

The Fund's manager, Harvest Portfolios Group Inc. ("Harvest") has retained Macquarie Investment Management Global Limited ("Macquarie" or "Portfolio Manager") to provide portfolio management services to the Fund. On November 14, 2016, the Fund received notice that as a result of internal restructuring, an affiliate of the Portfolio Manager, Macquarie Investment Management Global Limited, would replace Macquarie Private Portfolio Management Limited to provide portfolio management services to the Fund effective January 31, 2017.

The Fund invests in Real Estate Issuers in various sectors, including industrial, residential, office, retail and other real estate sectors and from time to time may invest in debt securities.

Harvest believes that Australian REITs offer attractive income and an opportunity for capital gains.

### **RISK**

The risks associated with investing in the Fund are as described in the prospectus. There were no material changes to the Fund over the period that affected the overall level of risk of the Fund.

### **RESULTS OF OPERATIONS**

The Australian REIT Income Fund returned 13.44% for Series A and 13.75% for the Series F for the year ending December 31, 2016 versus the S&P ASX 200 Accumulation A-REIT Index return of 8.63% for the year. The primary divergence in performance is a result of the index being highly concentrated with significant weightings to select holdings that are beyond the maximum thresholds allowed by the Fund's investment restrictions.

Despite the volatility early in the year in broader global equity markets, the Australian REIT market continued to perform well through the period. Australian economic data through the end of the period started to show signs of moderation and resulted in a cut in the Reserve Bank of Australia (RBA) cash target rate to 1.75% in May and a further cut to 1.5% in August. This had a positive impact on many higher yielding equities in particular the REITs. Volatility heading into the November U.S. election was enhanced for all sectors with the underlying Australian REITs declining from the start of August through early November. Despite expectations for potentially higher U.S. interest rates, the underlying REITs rallied significantly following the election through the end of the year. The Fund remained hedged back to the Canadian dollar during the period.

The Fund remained invested in an actively managed portfolio of listed Australian Real Estate Issuers during the period to meet its objectives of (i) stable monthly distributions; and (ii) the opportunity for capital appreciation.

# Australian REIT Income Fund

## RECENT DEVELOPMENTS

The Fund renewed its normal course issuer bid program for the period from May 11, 2016 to May 10, 2017 which allows the Fund to purchase up to 276,543 Series A units of the Fund for cancellation by way of a normal course issuer bid through the facilities of the Toronto Stock Exchange and other Canadian markets. During the year ended December 31, 2016 and 2015, no Series A units were purchased for cancellation.

## RELATED PARTY TRANSACTIONS

There were no related party transactions during the reporting period, except for management fees and other expense reimbursements paid to Harvest, as noted below in Management and Other Fees.

## MANAGEMENT AND OTHER FEES

The Fund pays its manager, Harvest, a management fee, plus applicable taxes, calculated based on the average daily net asset value (“NAV”) and paid monthly in arrears, based on an annual rate of 1.30% of the NAV of the Fund. The Manager pays Macquarie, a fee for its portfolio advisory service, from the management fee received from the Fund, calculated on the basis of the Fund’s NAV. The Fund pays service fees to registered dealers on Series A units at a rate of 0.40% of the average daily NAV, plus applicable taxes, per annum of the Fund. No service fee is charged to Series F units. Service fees are accrued daily and paid monthly to the Manager, who in turn pays the dealers quarterly.

At its sole discretion, the Manager may waive management fees or absorb expenses of the Fund. During the year there were no fees waived or absorbed. The management expense ratios of the Fund with and without the waivers and absorptions are reported in the Ratios and Supplemental Data table below.

### Operating expenses

The Fund is responsible for operating expenses relating to the carrying on of its business, including custodial services, interest, taxes, legal, audit fees, transfer agency services relating to the issue and redemption of units, and the cost of financial and other reports, costs and expenses for the Fund’s Independent Review Committee (“IRC”), including fees and expenses of the IRC members and compliance with applicable laws, regulations and policies. The Manager pays for such expenses on behalf of the Fund, except for certain expenses such as interest, and is then reimbursed by the Fund.

### Other expenses

The Manager will be reimbursed by the Fund for all reasonable costs, expenses and liabilities incurred by the Manager for performance of services on behalf of the Fund in connection with the discharge by the Manager of its duties hereunder. Such costs and expenses may include, without limitation: mailing and printing expenses for reports to unitholders and other unitholder communications; a reasonable allocation of salaries, benefits and consulting fees; independent directors of the Manager and other administrative expenses and costs incurred in connection with the Fund’s continuous public offering and other obligations. These expenses are allocated by the Manager on a reasonable basis, across all of the Harvest Portfolios Group Inc. funds, and series of each applicable fund. These expenses were \$59,698 for year ended December 31, 2016 (2015 - \$97,981) and are included in the unitholder reporting costs on the Statements of Comprehensive Income.

During the Fund’s offerings, certain offering expenses such as costs of creating the Fund, issuance of warrants, the cost of printing and preparing the prospectus, legal expenses of the Fund, certain remuneration to directors and/or officers of the Manager and other out-of pocket expenses incurred by the agents together with the agent’s fees payable by the Fund are included in the carrying amount of the Fund’s obligation for net assets attributable to holders of redeemable units. At the initial public offering, directors and/or officers of the Manager were remunerated \$23,493.

## LOAN FACILITY

The Fund established a loan facility with a Canadian chartered bank for the purpose of acquiring assets for the portfolio and such other short term funding purposes as may be determined from time to time and in accordance with the investment strategy. The loan is interest bearing at a rate of 0.9% per annum for \$10,000,000, (December 31, 2015 - 0.852% for \$15,000,000), secured against the assets of the Fund and the amount of the loan has a maximum amount available based on the net asset value of the Fund. The outstanding balance on the loan facility was \$10,000,000 at December 31, 2016 (December 31, 2015 - \$15,000,000). The amount of borrowings ranged between \$10,000,000 and \$15,000,000 during the year (2015 - \$15,000,000 and \$28,000,000).

## Australian REIT Income Fund

The initial interest paid on the drawdown and renewal of the Banker's Acceptance (BA's) is deferred and amortized over the term of the BA's, which mature on January 20, 2017 for the loan. The unamortized portion of the deferred interest was \$9,870 at (December 31, 2015 - \$10,072) and is netted against the loan facility balance on the Statements of Financial Position. For the year ended December 31, 2016, the Fund recorded interest expense of \$254,848 (2015 - \$434,113).

### RECOMMENDATIONS OR REPORTS BY THE INDEPENDENT REVIEW COMMITTEE

The Independent Review Committee tabled no special reports and made no extraordinary material recommendations to management of the Fund during the year ended December 31, 2016.

### FINANCIAL HIGHLIGHTS

The following tables present selected key financial information about the Fund and are intended to help you understand the Fund's financial performance for the year ended December 31, 2016 and past periods. This information is derived from the Fund's annual financial statements and past audited annual financial statements.

#### Series A

<b>THE FUND'S NET ASSETS PER UNIT</b>								
	<b>2016</b>		<b>2015</b>		<b>2014</b>		<b>2013</b>	
Net assets - beginning of year <sup>2</sup>	\$	10.57	\$	10.06	\$	8.44	\$	11.18
<b>Increase (decrease) from operations</b>								
Total revenue		0.68		0.35		1.11		0.67
Total expenses		(0.38)		(0.36)		(0.37)		(0.35)
Realized gains (losses) for the year		1.20		0.11		(0.45)		(0.73)
Unrealized gains (losses) for the year		0.11		0.52		2.05		(1.85)
<b>Total increase (decrease) from operations<sup>1</sup></b>	\$	1.61	\$	0.62	\$	2.34	\$	(2.26)
<b>Distributions<sup>3</sup></b>								
From net investment income		-		-		(0.32)		-
From dividends		-		(0.18)		-		-
Return of capital		(0.66)		(0.48)		(0.34)		(0.50)
<b>Total annual distributions<sup>3</sup></b>	\$	(0.66)	\$	(0.66)	\$	(0.66)	\$	(0.50)
<b>Net assets - end of year<sup>1,7</sup></b>	\$	11.31	\$	10.57	\$	10.06	\$	8.44

<b>RATIOS AND SUPPLEMENTAL DATA</b>								
	<b>2016</b>		<b>2015</b>		<b>2014</b>		<b>2013</b>	
<b>Total net asset value</b>	\$	21,671,695	\$	29,221,142	\$	51,247,139	\$	44,835,165
Number of units outstanding		1,915,416		2,764,434		5,094,234		5,311,384
Management expense ratio <sup>4</sup>		3.40%		3.36%		4.39%		13.38%
Management expense ratio before waivers or absorptions <sup>4</sup>		3.40%		3.36%		4.39%		13.37%
Trading expense ratio <sup>5</sup>		0.19%		0.28%		0.16%		0.67%
Portfolio turnover rate <sup>6</sup>		11.52%		30.23%		73.61%		32.19%
<b>Net asset value per unit</b>	\$	11.31	\$	10.57	\$	10.06	\$	8.44
<b>Closing market price (HRR.UN)</b>	\$	10.78	\$	9.79	\$	9.58	\$	7.99

# Australian REIT Income Fund

## Series F

THE FUND'S NET ASSETS PER UNIT	2016	2015	2014	2013
Net assets - beginning of year <sup>2</sup>	\$ 11.78	\$ 10.92	\$ 8.77	\$ 11.60
<b>Increase (decrease) from operations</b>				
Total revenue	0.76	0.32	1.25	0.69
Total expenses	(0.38)	(0.35)	(0.35)	(0.33)
Realized gains (losses) for the year	1.16	0.03	(0.86)	(0.75)
Unrealized gains (losses) for the year	0.32	1.90	2.43	(1.92)
<b>Total increase (decrease) from operations<sup>1</sup></b>	<b>\$ 1.86</b>	<b>\$ 1.90</b>	<b>\$ 2.47</b>	<b>\$ (2.31)</b>
<b>Distributions<sup>3</sup></b>				
From net investment income	-	-	(0.32)	-
From dividends	-	(0.27)	-	-
Return of capital	(0.66)	(0.39)	(0.34)	(0.50)
<b>Total annual distributions<sup>3</sup></b>	<b>\$ (0.66)</b>	<b>\$ (0.66)</b>	<b>\$ (0.66)</b>	<b>\$ (0.50)</b>
<b>Net assets - end of year<sup>1, 7</sup></b>	<b>\$ 12.72</b>	<b>\$ 11.78</b>	<b>\$ 10.92</b>	<b>\$ 8.77</b>

RATIOS AND SUPPLEMENTAL DATA	2016	2015	2014	2013
<b>Total net asset value</b>	<b>\$ 372,057</b>	<b>\$ 470,961</b>	<b>\$ 852,430</b>	<b>\$ 1,571,646</b>
Number of units outstanding	29,243	39,977	78,077	179,132
Management expense ratio <sup>4</sup>	3.00%	2.98%	3.60%	8.96%
Management expense ratio before waivers or absorptions <sup>4</sup>	3.00%	2.98%	3.60%	8.96%
Trading expense ratio <sup>5</sup>	0.19%	0.29%	0.16%	0.67%
Portfolio turnover rate <sup>6</sup>	11.52%	30.23%	73.61%	32.19%
<b>Net asset value per unit</b>	<b>\$ 12.72</b>	<b>\$ 11.78</b>	<b>\$ 10.92</b>	<b>\$ 8.77</b>

### Explanatory Notes:

- Net assets and distributions are based on the actual number of units outstanding at the relevant time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the reporting period. It is not intended that the Fund's net assets per unit table act as a continuity of opening and closing net assets per unit.
- Net assets, at the commencement of operations on March 21, 2013 was \$11.18, net of agents' commissions and issuance costs of \$0.82 per unit for Series A and net assets, at the beginning of the period was \$11.60, net of agents' commissions and issuance costs of \$0.40 per unit for Series F.
- Distributions were paid in cash or reinvested in additional units of the Fund.
- Management expense ratio ("MER") is based on total expenses (excluding commissions and other portfolio transaction costs) of the stated period and is expressed as an annualized percentage of daily average net asset value during the period. The MER for 2013, the year of inception, included agents' fees of \$3,367,379 and issue costs of \$962,108 for Series A and agents' fees of \$50,927 and issue costs of \$33,952 for Series F, which were treated as one-time expenses and therefore were not annualized. The MER without these costs is 4.74% for Series A and 4.29% for Series F. The MER for 2014, included agents' fee of \$119,247 and issue costs of \$101,651 for Series A, which were treated as one-time expenses and therefore were not annualized. The MER without these costs is 3.95% for Series A.
- The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average net asset value during the period.
- The Fund's portfolio turnover rate indicates how actively the Fund's portfolio advisor manages its portfolio investments. A portfolio turnover of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the period. The higher a Fund's portfolio turnover rate, the greater the trading costs payable by the Fund and the greater the chance of an investor receiving taxable capital gains. There is not necessarily a relationship between a high turnover rate and the performance of a Fund.
- Amounts reported for the 2016 to 2013 periods are reported in accordance with International Financial Reporting Standards.

# Australian REIT Income Fund

## Past Performance

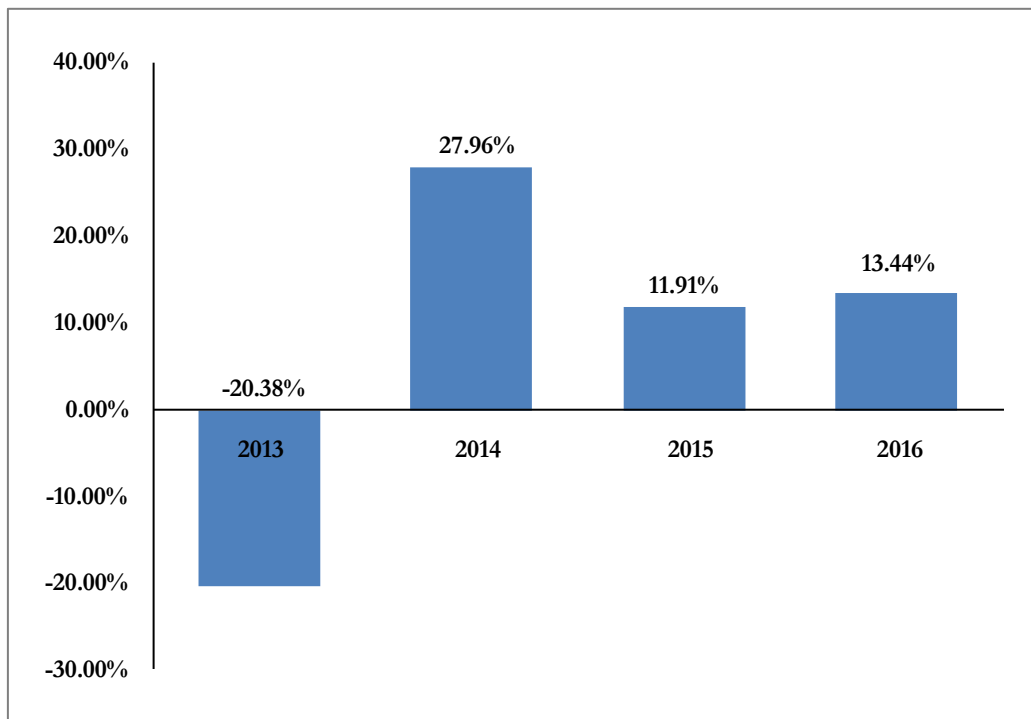
The performance information presented herein assumes all dividends of the Fund during the periods presented were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemptions, or other charges that would have reduced returns or affected performance. Past performance of the Fund is not necessarily indicative of how it will perform in the future.

## YEAR-BY-YEAR RETURNS

The following charts present the Fund's performance for each of the periods shown and illustrate how the Fund's performance varied. The charts show, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.

## Fund Performance

### Series A

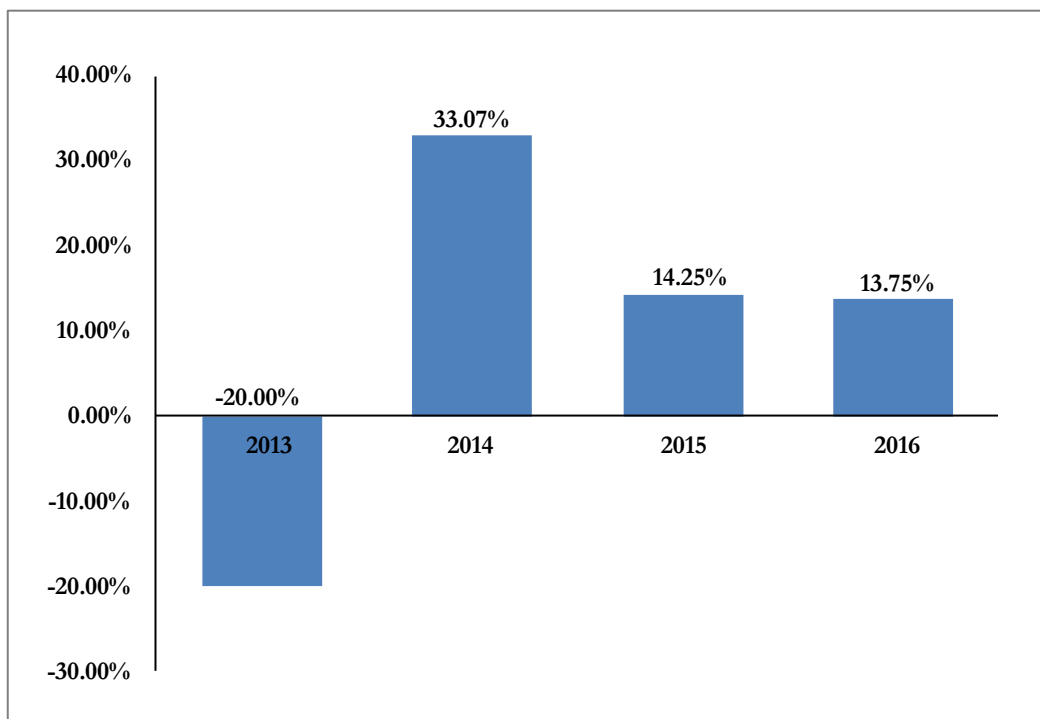


2013 represents the period from March 21 to December 31



# Australian REIT Income Fund

Series F



2013 represents the period from March 21 to December 31

## Australian REIT Income Fund

### ANNUAL COMPOUND RETURNS

The following table shows the annual compound returns for the Fund. All returns are in Canadian dollars, on a total return basis, net of fees.

For comparison purposes, a benchmark of the S&P/ASX 200 Accumulation A-REIT Index (the “Index”) is used. While the Fund uses this benchmark for long-term performance comparisons, it is not managed relative to the composition of the Index. As a result, the Fund may experience periods when its performance is not aligned with the Index, either positively or negatively. The return of the Index is calculated without the deduction of management fees and fund expenses whereas the performance of the Fund is calculated after deducting such fees and expenses. Please see the “Results of Operations” section of this report for a discussion on recent performance.

<b>Investment Return %</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>10 Years</b>	<b>Since Inception</b>
Fund Performance Series A (%)	13.44	17.55	-	-	7.05
Fund Performance Series F (%)	13.75	20.03	-	-	8.97
S&P/ASX 200 Accumulation A-REIT Index (%)	8.63	18.87	-	-	11.50

## Australian REIT Income Fund

### SUMMARY OF INVESTMENT PORTFOLIO

The Portfolio by Sector chart below provides a portfolio breakdown based on the total transactional net asset value of the Fund's portfolio holdings. A detailed breakdown of the Fund's holdings is available in the "Schedule of Investments" section of the Fund's annual financial statements.

As at December 31, 2016

Top Holdings	% of Net Asset Value
Dexus Property Group	14.9
The GPT Group	14.4
Scentre Group	14.2
Mirvac Group	14.1
Stockland	13.9
Goodman Group	13.5
Westfield Corporation Limited	13.4
Vicinity Centres	8.5
Charter Hall Group	5.6
Goodman Plus Trust, Preferred	5.5
Multiplex SITES Trust	4.6
Lend Lease Corp.	3.7
Aventus Retail Property Fund	2.6
Asia Pacific Data Centre Group	2.4
360 Capital Industrial Fund	2.2
Foreign currency forward contracts	1.8
Net other liabilities	(35.3)
<b>Total</b>	<b>100.0</b>

This summary of investment portfolio may change due to the ongoing portfolio transactions of the Fund. Quarterly updates of the Fund's investment portfolio are available from Harvest Portfolios Group Inc. at [www.harvestportfolios.com](http://www.harvestportfolios.com).

### SECTOR ALLOCATION

Sector	% of Net Asset Value
Real estate issuers	123.4
Other public issuers	10.1
Foreign currency forward contracts	1.8
Net other liabilities	(35.3)
<b>Total</b>	<b>100.0</b>

## Australian REIT Income Fund

### Head Office

710 Dorval Drive, Suite 209  
Oakville, ON L6K 3V7  
Phone Number: 416.649.4541  
Toll Free: 866.998.8298  
Fax Number: 416.649.4542  
Email: [info@harvestportfolios.com](mailto:info@harvestportfolios.com)

### CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document may contain forward-looking statements relating to anticipated future events, results, circumstances, performance or expectations that are not historical facts but instead represent our beliefs regarding future events. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions and other forward-looking statements will not prove to be accurate. We caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed or implied in the forward-looking statements. Actual results may differ materially from management expectations as projected in such forward-looking statements for a variety of reasons, including but not limited to market and general economic conditions, interest rates, regulatory and statutory developments, the effects of competition in the geographic and business areas in which the Fund may invest and the risks detailed from time to time in the Fund's prospectus or offering memorandum. We caution that the foregoing list of factors is not exhaustive and that when relying on forward-looking statements to make decisions with respect to investing in the Fund, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Due to the potential impact of these factors, the Fund does not undertake, and specifically disclaims, any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by applicable law.