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Fund Research & Ratings
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Unlisted Property Fund Report

Laverton North Property Fund

August 2019

Industrial cold storage site targeting 8.25%+ distributions

For wholesale and sophisticated investors only

Laverton North Property Fund

Contents

About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research covers sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

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Laverton North Property Fund

August 2019

The Laverton North Property Fund ("the Fund") is an unlisted property fund that provides an opportunity to invest in an industrial cold storage facility located in Laverton North (west Melbourne), Victoria. The Fund's Manager, KM Property Fund ("the Manager") is seeking to raise $14.4M through the offer of 14.4M units at $1.00 per unit ("the Offer"). Funds raised will be used in conjunction with bank debt to acquire the industrial asset at 5-17 Leslie Road & 6-10 Pipe Road ("the Property"). The Offer is available to wholesale and sophisticated investors only as defined in the Information Memorandum.

The Property consists of a blast freezing facility with a range of large warehouses, distribution centres and a two-storey-office building located in an industrial precinct in the western corridor of Melbourne. The Fund is purchasing the Property as part of a sale and leaseback with Austco Polar, which will commit to a new 15-year lease over the whole site. Austco Polar is a subsidiary of Wingara AG Limited (ASX: WNR) and specialises in the processing, storage and marketing of high quality Australian agricultural produce for export markets.

The Property exhibits attractive investment metrics with: (1) a Weighted Average Lease Expiry (WALE) of 15.0 years (by income) with the lease providing 10+10 year options; (2) 100% occupancy; (3) a triple net lease with fixed annual rent increases of 3.5% p.a. and a ratchet clause for options; (4) a 30,315 sqm site with net lettable area (NLA) of 15,139 sqm situated on five adjoining lots; and (5) a unconditional guarantee from Wingara Limited to cover the rent on the Property.

The Fund should be seen as a core investment strategy with the Manager seeking to maintain strong relationships with the tenant and looking to improve operating costs of the site. Core Property considers the value of the Property to be dependent on maintaining the specialist tenant, which has been a profitable cold storage and distribution business. We note the acquisition price of $21.0M (net of GST refund) is below the replacement cost of $37.8M for the facility as assessed by the independent valuer. Perhaps a good indication of the embedded value in the property. The valuer also estimates to be valued at around $15.0M assuming the property is vacant.

The Fund will have an initial five-year debt facility with an assumed average cost of debt of 3.70%. The Manager will fully hedge the interest rate for the term of the facility. The initial debt facility of $13.65M will be reduced to $9.65M upon the successful establishment of the Fund (from a minimum subscription of $4.0M). The initial Loan to Valuation Rate (LVR) of 42.5% is below the bank LVR covenant of 55.0% and the initial Interest Coverage Ratio (ICR) of 4.9x is well above bank ICR covenant of 2.0x. Core Property notes that the initial fund term is 6.8 years and that the Manager will need to renew or extend the debt facility for the full term of the Fund. A change in market conditions upon renewal or extension may impact unitholder returns and is dependent on prevailing market conditions.

The Fund will have an initial NTA of $0.88 per unit, with most of the dilution coming from stamp duty.

Fees charged by the Fund are considered to be low compared to what Core Property has seen in the market (see Figure 5: Fees In Perspective).

The Manager is forecasting an 8.25% (annualised) distribution yield in FY20, increasing to 8.50% in FY21. Core Property estimates the Fund to deliver an Internal Rate of Return (IRR) of between 9.8% - 11.5% based on the Manager's assumptions and assuming a +/- 50 bps movement in the terminal capitalisation rate. Investors should note the calculations are based on the Manager's assumptions. The analysis includes the potential that investors may receive a capital gain or loss, based on market conditions.

Investor Suitability

Core Property considers the Fund will appeal to investors seeking a high distribution yield and are prepared to accept the risk from investing in a specialised industrial property with a long lease. Capital gains will be dependent on the Manager's ability to maintain and enhance the value of a specialised cold storage facility and distribution business as well as the performance of the Melbourne Industrial market, which is currently experiencing low vacancy, significant infrastructure investment and good rent growth. The Fund should be considered as part of a Core investment strategy. The Fund is illiquid, and investors should expect to remain invested for the minimum initial term of 6.8-years.

Recommended

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable Funds and not across all products.

Fund Details

Offer Open:	20 August 2019
Offer Closing Date:	19 October 2019[1]
Min. Investment:	$50,000, multiples of $10,000 therafter[2]
Initial NTA:	$0.88
Liquidity:	Illiquid
FY20 Forecast Distributions:	7.06 cpu (8.25 cpu annualised)
FY21 Forecast Distributions:	8.50 cpu
Distribution Frequency:	Quarterly
Fund Investment Period:	6.8 years to 30 June 2026

1. The Trustee may close the Offer earlier or extend the offer at its discretion. The Trust has a Minimum Subscription date of 19 September 2019 to raise $4.0M, which may also be amended at the Trustee's discretion provided that this does not exceed 12 months form the date of the IM.
2. The Trustee may waive or vary the minimum amount at its discretion.

Fund Contact Details

Mario Papaleo
Joint Managing Director
mpapaleo@kmpropertyfunds.com
(03) 9908 8902

Bernadette Spiteri
Head of Investment Services
bspiteri@kmpropertyfunds.com
(03) 9908 8903

Simon Ondaatje
Key Account Manager
sondaatje@kmpropertyfunds.com
(03) 9908 8904

Note: This report is based on the Laverton North Property Fund Information Memorandum dated 20 August 2019, together with other information provided by KM Property Fund.

Key Considerations

Management Experience: KM Property Funds was established in 2013 as Placer Property and was acquired by KordaMentha in August 2017 as part of its Investment Division. KordaMentha is a leading investment advisory firm, with over 380 staff across Australia, New Zealand and South East Asia. Senior management is experienced and skilled in property investment with each member having over 20 years' experience in real estate and funds management.

The Property: The Fund will invest in an industrial site consisting of five adjoining lots located at 5-7 and 9-17 Leslie Road & 6, 8 and 10 Pipe Road, Laverton North, Melbourne VIC. The site includes cold storage warehousing, freeze blasting facility and a 2-storey office building and is 100% occupied by Austco Polar, under a sale and leaseback arrangement for 15 years (with 10+10 year options). The 30,315 sqm site has a net lettable area (NLA) of 15,139 sqm. The lease is a triple net lease, with fixed annual increases of 3.5% p.a. with a make good provision, and a guarantee from the tenant's parent entity Wingara AG Limited (ASX: WNR) to cover the rent. The acquisition price is $21.0M (after $0.8M GST refund) and the independent valuation of $21.0M equates to $1,406 per sqm, at the mid to bottom end of the range of recent transactions in the west Melbourne Industrial sector ($529 – $3,168 per sqm).

Fund structure: KordaMentha has effectively underwritten the Fund via the purchase of Acquisition Units via KordaMentha Investments Pty Ltd. The Fund will require a minimum subscription of $4.0M to proceed. The balance of monies received under the Offer will be used to redeem KordaMentha's acquisition units.

Fund Strategy: While a triple-net lease structure requires minimal assistance from the Manager, it will look to work with the tenant to improve operational efficiencies at the Property and consequently look to improve the tenant's profitability. The site consists of five titles which also provides flexibility for rezoning and restructuring.

Debt Profile: The Fund has established a five-year debt facility with a major bank for $13.65M, being reduced to $9.65M at the start of the Fund term. The interest rate will be 100% hedged for the duration of the debt facility with an assumed average all-in cost of debt of 3.70%. The initial LVR is expected to be 42.5% against a covenant of 55% (with a review event if it breaches 50%). The LVR is forecast to peak at 42.5% in FY20 against a 55% bank covenant, and the Manager will need to renew or establish new debt facilities for the remainder of the Fund term.

Initial NTA: The Fund's initial NTA is $0.88 per unit with most of the dilution coming from stamp duty.

Distributions: The Manger is forecasting distributions to be 8.25% p.a. in FY20 (annualised) and 8.5% in FY21.

Fees: Core Property considers the Fund's fees to be low when compared to what has been seen in the market (see Figure 5: Fees in Perspective). Performance Fees are 20% over a 9.5% IRR hurdle, with the hurdle rate slightly lower than the industry average of 10%.

Total Return: The Fund is estimated to deliver an Internal Rate of Return (IRR) of 9.8% - 11.5% based on the Fund's +/- 50 bps sensitivity to capitalisation rates (see the *Financial Analysis section*). Investors should be aware the Fund is exposed to a capital gain or loss based on the sale price of both assets and the overall market conditions, which may deliver an IRR outside of this range.

Illiquid investment: Investors must accept that by their very nature, unlisted property funds are illiquid and should remain invested for the initial 6.8-year term of the Fund. The Manager may extend the Fund for up to two years subject to a Special Resolution (75% of votes in favour). The Manager does not provide any withdrawal facility during the initial term of the Fund and Investors should expect to remain fully invested during this period.

Investment Scorecard

Management Quality

★★★★★

Governance

★★★★☆

Portfolio

★★★★☆

Income Return

★★★★☆

Total Return

★★★★☆

Gearing

★★★☆☆

Liquidity

★☆☆☆☆

Fees

★★★☆☆

Key Metrics

Fund Structure

An unlisted property fund investing in an industrial site located in Laverton North, Victoria.

Management

Experienced Australian fund manager with demonstrable experience in property syndication. Good mix of executive and non-executive Directors. Ability to draw upon the wider skill base of the parent being KordaMentha.

Property Portfolio

No of Properties:	Single site spread across 5 titles
Acquisition Price:	$21.0M (after the receipt of $0.8M in GST credits)
Property Valuation:	$21.0M
Property Location:	Laverton North, VIC
Property Sector:	Industrial
Key Tenant:	Austco Polar Cold Storage – 100% of income
Occupancy:	100%
WALE:	15 years (at 23 August 2019)

Return Profile

Forecast Distribution:	FY20: 7.06 cents per unit (8.25 cpu annualised) FY21: 8.50 cents per unit
Distribution Frequency:	Quarterly, in arrears
Tax advantage:	FY19: 64.59% tax deferred distributions FY20: 56.02% tax deferred distributions
Estimated Levered IRR (pre-tax, net of fees):	9.8% - 11.5%
Investment Period:	6.8 years to 30 June 2026

Risk Profile

Property/Market Risk:	Capital at risk will depend on an industrial property with a single tenant, located in Laverton North, Victoria.
Interest Rate Movements:	Interest rates will be hedged for the first five years of the Fund. Any change in the cost of borrowings may impact the distributable income in the remaining term of the Fund.
Property Specific Risks:	Property investments are exposed to a change in vacancy rates (noting the Property has a single tenant), prevailing market rents, and economic supply and demand.

For a more detailed list of the key risks, refer to the Risks section (Section 4) of the Information Memorandum.

Fees Paid

Core Property considers the fees paid to the Manager to be low when compared to what Core Property has seen in the market (see Figure 5: Fees in Perspective).

Entry Fees:	Nil
Exit Fees:	Nil
Property Acquisition Fee:	2.85% of purchase price.
Property Disposal Fee:	Nil, however, the Fund may incur fees if an external agent is appointed to sell the Property
Ongoing Management Fees:	- Management Fee of 0.75% p.a. of the Gross Asset Value (GAV) of the Fund - Fund Expenses of 0.39% p.a. (est.) of GAV.
Performance Fee:	20% of the outperformance of the Fund over an equity IRR of 9.5% (pre-tax, net of fees).

Debt Metrics

Initial Debt / Facility Limit:	$9.65M/$9.65M
Loan Period:	5 Years to Aug 24
Initial LVR / Loan Covenant:	42.5% / 55.0%
Initial ICR / Low ICR / ICR Covenant:	4.9x / 4.9x / 2.0x

Legal

Offer Document:	Information Memorandum, 20 August 2019
Wrapper:	Unlisted Unit Fund
Trustee:	KordaMentha Funds Management (AFSL 441845). The Trustee may appoint KM Property Funds as the new Trustee of the Fund.
Manager:	KM Property Funds (ACN 164 635 885, AFSL 442806)

Fund Overview

The Fund is a closed-ended, unlisted property fund that invests in an industrial site in Laverton North, west Melbourne, Victoria. The Fund has an initial term of 6.8 years and the Manager is targeting distributions of 8.25% p.a. in the first year (annualised), increasing to 8.5% p.a. in the second year.

KM Property Funds ("the Manager") is seeking to raise $14.4M in equity through the issue of 14.4M units at $1.00 per unit ("the Offer"). The Fund has a minimum investment of $50,000, however the Manager may accept lesser amounts at its discretion.

The Property consists of cold storage warehousing, freeze blasting facilities and a 2-storey office located on a single site at 5-17 Leslie Road & 6-10 Pipe Road, Laverton North, Victoria ("the Property"). The site is spread across 5 separate titles all leased to a single tenant, Austco Polar under a new 15-year sale and leaseback arrangement on a triple net lease commencing upon settlement of the Property on 22 August 2019. Income is supported by fixed annual increases of 3.5% p.a. and a guarantee from the tenant's parent entity Wingara AG Limited (ASX: WNR). The Property will be acquired for $21.0M, (after an expected GST credit of $0.8M), which is in line with the independent valuation of $21.0M.

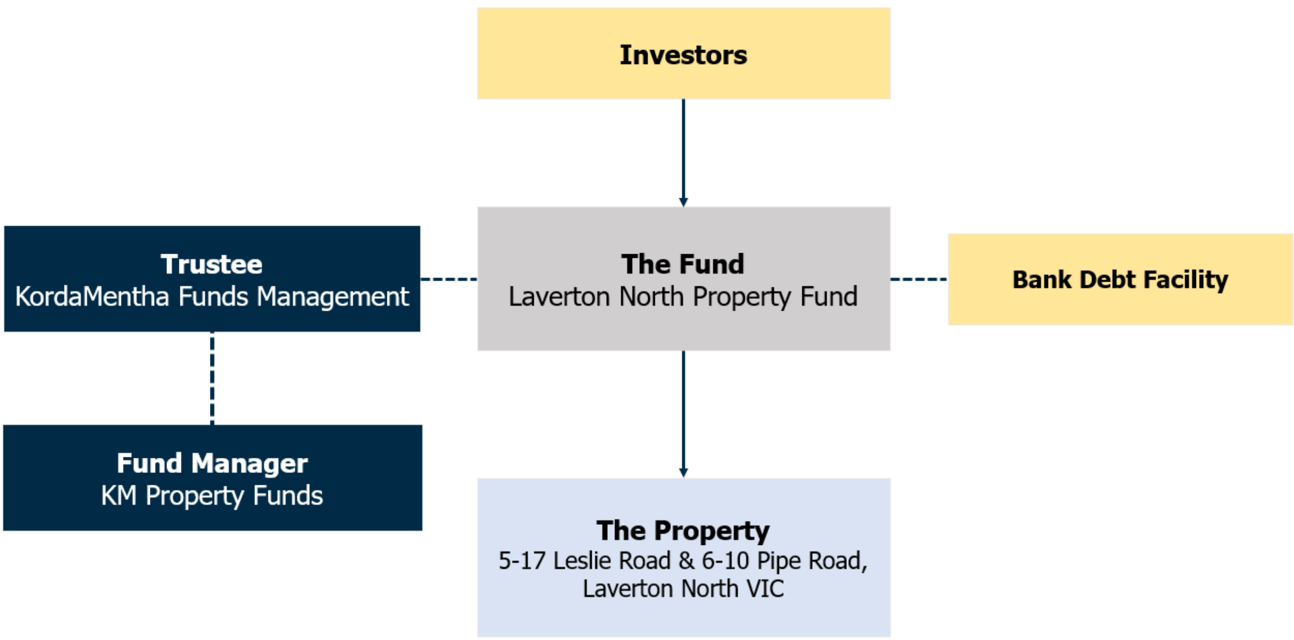
KordaMentha has effectively underwritten the Offer through the purchase of Acquisition Units by KordaMentha Investments Pty Ltd to fund the deposit and settlement of the Property on 23 August 2019. As part of the Offer, the Fund will need to achieve a minimum subscription of $4.0M on or before 19 September 2019 in order to proceed. The minimum subscription amount will be used to reduce debt to $9.65M (from $13.65M), reducing the Fund's initial Loan to Valuation Ratio (LVR) to 42.5% (after the $0.8M GST refund is also applied to pay down debt). Amounts raised in excess of $4.0M will be used to redeem Acquisition Units into Ordinary Units for investors.

In the event the minimum subscription amount is not achieved, investors will have their application monies returned in full. Investors will not receive any interest from the applicant's monies.

The Fund should be considered illiquid and investors should expect to remain invested for the Fund's initial term of 6.8 years. The term of the Fund may extend beyond the initial term by up to 2 additional years if approved by more than 75% of votes cast.

A summary of the Fund structure is provided below.

Figure 1: Fund structure



Source: Core Property

Fund Strategy

The Fund's goal is to provide unitholders with regular, reliable and considerably tax deferred income with the potential of capital growth. The Manager has identified a few options which they believe can potentially increase the property value. One such initiative involves active management of the asset on an ongoing basis to increase the net property income by reducing certain property operating costs.

Liquidity / exit strategy

The Trustee intends to terminate the Fund in 6.8 years, on or about 30 June 2026 ("the Initial Period"). On or before this date, the Trustee will offer Unitholders the opportunity to vote on a Special Resolution (requiring 75% of the votes cast to be voted in favour) to extend the Fund by a further two years. If Unitholders wish to wind up the Fund, the Property will be offered for sale to the Lessee (Austco Polar) at a price to be determined by two independent valuations. If the Lessee does not wish to acquire the Property, it will be offered to the market for sale. The Trustee may sell the Property prior to the end of the Initial Period if it considers it to be in the best interest of Unitholders.

The Trustee may also continue to operate the Fund beyond the Initial Term only if it receives Unitholder approval by:

- Fund term extension – for two years, provided a Special Resolution (75% of votes cast) is passed.
- Fund term renewal – for an extension of up to six years, provided a Special Resolution (75% of votes cast) is passed and
    - All Unitholders who wish to exit are able to do so at the prevailing NAV per Unit, and
    - If at least 50% of Units on issue notify the Trustee that they wish to exit, the trustee may require all units on issue to be sold, redeemed or otherwise disposed of at NAV per unit.

Apart from this, the Fund does not offer any liquidity facility. Investors should consider the Fund to be illiquid and be prepared to invest more the minimum initial term of 6.8 years to 30 June 2026.

Sources & Application of funds

The Information Memorandum sets out the sources and application of funds under the terms of the Offer.

Figure 2: Sources and Application of funds

	$M	% of purchase price	% of total funds
Sources of funds			
Equity subscriptions	14.4	65.9%	59.7%
Bank Debt	9.7	44.5%	40.3%
Total source of funds	**24.1**	**110.5%**	**100%**
Application of funds			
Purchase price of property (incl GST)	21.8	100%	90.5%
Acquisition Costs (Stamp Duty & Costs)	1.3	6.0%	5.4%
Debt & Fund establishment costs	0.2	0.8%	0.8%
Acquisition Fee	0.6	2.8%	2.5%
Working Capital & Other	0.2	0.9%	0.8%
Total application of funds	**24.1**	**110.5%**	**100%**

Source: KordaMentha

Debt Facility & Metrics

The Manager has agreed to terms from a large national bank for a five-year $13.7M debt facility to fund the acquisition of the Property. The Fund, upon achieving the minimum subscription amount of $4.0M will pay this down to $9.7M, equivalent to a Loan to Valuation (LVR) ratio of 46.2%. The Manager expects to receive a GST Credit refund for $0.8M, which will be used to reduce the LVR to 42.5%. The five-year debt facility is assumed to be hedged at an all-in-cost of debt 3.70%.

- The initial LVR of 42.5% is well below the bank LVR covenant of 55.0%. Core Property calculates that the value of the Property must fall by 22.7% for the LVR covenant to be breached.
- The initial Interest Coverage Ratio (ICR) is 4.9x against a bank ICR covenant of 2.0x. Core Property calculates the net operating income must fall by 63.2% for this covenant to be breached.

Investors should be aware that any change in the final debt terms may impact final returns provided by the Fund. Given that the term of Fund is 6.8-years, it is assumed that the Manager will refinance the debt on similar terms.

Figure 3: Debt Metrics

Details	Metric
Bank	National Australia Bank
Security	First ranked mortgage secured against the Property
Debt Facility Limit / Settlement	$13.7M / $9.7M
Initial Draw Down	$9.7M, reducing to $8.9M upon receipt of GST refund
Initial Loan Period	5 years
% Hedged	100%
Assumed all-in cost of Debt	3.70%
Initial LVR / Peak LVR / LVR Covenant	42.5% / 42.5% / 55.0%
Initial interest covered ratio / bank covenant	4.9x / 2.0x
Amount by which valuation will have to fall to breach LVR covenant	22.7%
Amount by which income will have to fall to breach ICR covenant	63.2%

Source: KordaMentha, Core Property

Fees Charged by the Fund

Overall, Core Property considers the ongoing management fees charged to be appropriate and at the low end what has been seen in the market (0.7% – 1.1%). Core Property notes that the performance fee on the Fund is calculated at 20% of the Fund's performance above an IRR of 9.5%. This is slightly lower than the industry average of 10%. Investors should be aware that if the Trustee raises any additional capital outside the Offer in the IM, that it may charge a capital raising fee of 3% of the application monies received.

Figure 4: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry/Establishment Fee	Nil	
Exit Fee	Nil	
Establishment and Placement Fee (Acquisition Fee)	2.85% of the purchase price of the property.	The Acquisition Fee is above what Core Property has typically seen in the industry of 1.5% - 2.0%.
Sale Fee (Disposal Fee)	Nil	The Fund does not charge a Disposal Fee, which are typically around 1.0% - 2.0%. However, the Fund may incur disposal costs if an external agent is appointed.
Management Fee	Total Management Fees of around 0.75% of the Gross Asset Value (GAV) of the Fund	We consider the Fees to be at the low end of the range of what we have typically seen in the industry (0.7% - 1.1% p.a. of GAV).
Administration Costs & Expenses	Costs and expenses are estimated at 0.39% p.a. of the GAV of the Fund	
Performance Fee	20% (excluding GST) of the Fund's performance above an IRR of 9.5% p.a. after fees and costs.	Fee is in line with industry expectations. The hurdle rate slightly lower than the industry average of 10%.

Source: KordaMentha, Core Property

All-in fee analysis

Core Property has analysed the fees that accrue to the Manager over the term of the Fund as a percentage of all cash flow generated after deducting interest costs by before management fees and performance fees.

Core Property estimates that KordaMentha is entitled to 5.8% of the total cash flow. Core Property considers the fees paid to the Manager to be low when compared to similar products, which are typically around 7% - 9%. In terms of the fees paid to the Manager, Core Property estimates that 26.7% of the estimated fee is paid upfront and the remainder relates to ongoing management fees. Core Property stresses that these are estimates of how much investors will receive and not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

Figure 5: Fees in Perspective

Core Property estimates that for every $1.00 of equity invested the Fund can return:	Amount per $1.00 unit
Principal repayment to investors:	$1.00
Income and capital gains to investors:	$0.78
Total cash to investors:	**$1.78**
Acquisition fee:	$0.03
Base management fee:	$0.08
Disposal fee:	-
Fees for the Manager (excluding disposal/admin):	**$0.11**
Total cash generated by Fund:	**$1.89**
Fees = % of total cash generated (before fees)	5.8%
Fees= % of gains (before fees)	12.3%
Up-front fee vs total fees	26.7%

Source: Core Property estimates

The Property

The Property is an industrial site of 30,315 sqm comprising multiple buildings on five separate titles with an NLA of 15,139 sqm. A section of the site was built during the 1960s, with extension to the warehouse facilities made in the 1990s and the 2000s. This construction subsequently expanded the site from 5-7 Leslie Road to include 9-17 Leslie Road.

The Property is a combination of cold blasting facilities, industrial warehouses used as a cold storage and a 2-storey office building that is occupied by the head office in the north east corner. The site is fully leased to Austco Polar Pty Ltd on a 15-year term and is used for the freezing and cold storage of food products, primarily meat, for domestic and international distribution.

The site is situated within a major logistics hub in Laverton North, 15km to the west of the Melbourne CBD. Its location is considered strategic being near key infrastructure of the Western Ring Road, Westgate Freeway interchange and the Port of Melbourne.

Figure 6: 5-7 & 9-17 Leslie Road and 6, 8 & 10 Pipe Road, Laverton North, Victoria

Source: Knight Frank, KordaMentha

Valuation of the property

An independent valuation was undetaken by Knight Frank in July 2019 valuing the Property at $21.0M, in line with the acquisition price of $21.0M (after the receipt of an expecetd $0.8M in GST credit).

Figure 7: Property summary

5 – 7 and 9 – 17 Leslie Road and 6, 8 & 10 Pipe Road, Laverton North, VIC	
Title	Freehold Title
Construction Date	Est. 1960s, 1990s and 2000s
Ownership	100%
Site Area	30,315 sqm
Gross Lettable Area	14,932 sqm
Net Lettable Area	15,139 sqm
Major Tenant	Austco Polar Cold Storage Pty Ltd
Weighted Average Lease Expiry (WALE)	15.0 years
Occupancy	100%
Initial net passing income	$1.79M
Net market income (fully leased)	$1.79M
Purchase price	$21.0M (after the receipt of an expected $0.8M in GST credit)
Valuation (DCF)	$21.0M
Passing initial yield	8.50%
Cap rate	8.50%
Valuer	Knight Frank Valuations
Value/sqm	$1,406 per sqm
Valuer's unleveraged 10-year IRR	8.3%

Source: Knight Frank Valuations, KordaMentha

Leases, tenants and income

The Property is 100% occupied and leased to a single tenant, Austco Polar Pty Ltd. Under a sale and lease back arrangement, the tenant will enter into a new lease for 15 years commencing in August 2019. The lease has fixed annual increases of 3.5% p.a. with two 10-year options to extend by the tenant. The lease is a triple net structure with the landlord able to recover all outgoings from the tenant. The lease is supported by a bank guarantee for 9-months' rent and outgoings.

Wingara AG Limited, as the parent entity of the Lessee, Austco Polar, has guaranteed the rent for the full initial lease term of 15-years. The guarantee is expected to continue through the option period as well, if exercised.

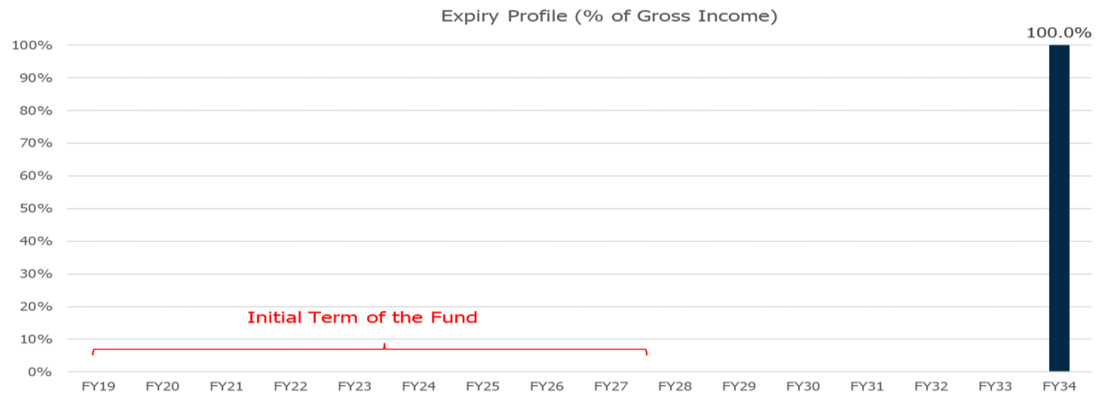
Core Property also notes that Austco Polar has five concurrent leases across its warehouse facilities at the Property. These concurrent leases are undertaken with its customers as well as third parties, and support around $1.4M p.a. of additional income for Austco Polar, equivalent to around 64% of gross rent.

Figure 8: Tenant Metrics

Type	Lease Expiry	Rent Review	Area (sqm)	% of GLA
Office	30 July 2034	3.5%	1,920 sqm	12.9%
Industrial	30 July 2034	3.5%	13,012 sqm	87.1%
Total			**14,932 sqm**	**100%**

Source: KordaMentha

Figure 9: Property Lease Expiry (by income)



Source: KordaMentha, Core Property

Wingara AG Ltd (ASX: WNR)

Wingara owns and operates assets that specialise in the storage, processing, and marketing of agricultural products for export markets. They operate these assets across two business divisions:

- **JC Tanloden** - JC Tanloden operates as a Fodder processors and marketer for fodder products including oaten, wheaten, barley, canola hay and straw. It owns two sites in Victoria with a combined 110,000t processing capability and 30,000t storage capacity. FY19 results reported revenue of $16.8M and EBITDA of $2.7M for this division.
- **Austco Polar** - Austco Polar Cold Storage was established in 1987 and was acquired by Wingara in 2018. It specializes in temperature-controlled facilities, blast freezing, storage and distribution for domestic and international clients. These facilities are broken down into four primary services being:
  1. Blast Freezing: This service focuses on freezing products with the current set up allowing approximately 8,000 units per day to be frozen.
  2. Storage: This service focuses on the storage of products. Austco has storage facilities with a maximum capacity of 15,000 pallets.
  3. Container Loading: As an export business, Austco can load 15 containers per day, with its current use being between 8-10 containers on average.
  4. Leasing: The storage facility can be leased out with both managed and unmanaged services.

  Core Property has sighted the historical financial summary for Austco Polar, provided by the Manager and notes that over the past 9 years the business has delivered revenues of between $9.1M – $12.5M and EBITDA of between $2.0M - $3.4M. Core Property has not audited these statements and has relied on the Manager to provide this information.

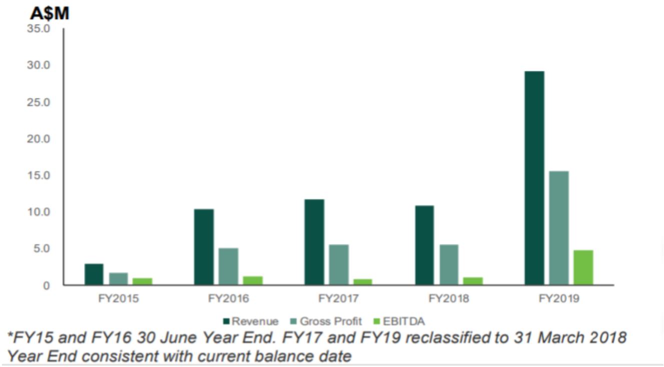
Financial Performance of tenant – FY19 Summary

Wingara in FY19 has posted strong growth across its Revenue, EBITDA and Total Assets over FY18 results, driven by the acquisition of Austco Polar in early 2018.

Within JC Tanloden, Oaten Hay is the primary product for exportation, and serves as a point of differentiation across the market given that Lucerne is the most widely exported fodder commodity worldwide. The benefits of Oaten Hay are that it improves milk production, especially in climates of cold and humid environments. This benefit has led to an accelerated demand in the China market in the past five years. Furthermore, the processing facility in Raywood, Victoria completed phase 1 of the development within 8 months, with throughput capacity of 150,000 MT p.a. The Raywood facility also received export approval from China; which is one of the only three processing facilities to receive such a licence in the past 3 years. This facility supports JC Tanloden's position in meeting the growth of Oaten Hay in the China market.

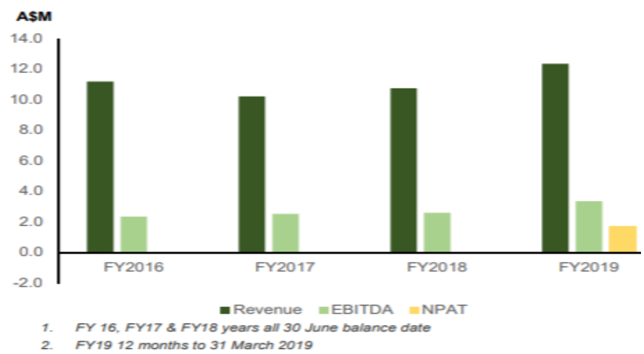
The Austco Polar business is considered defensive with significant barriers to entry for potential competitors. The replacement cost for these new facilities are typically estimated at $30M - $35M, with the new facilities needing to operate domestically for a year before being able to apply for an export license. The competitive landscape currently consists of 7 cold storage players in the Victorian area that have received such certifications including Austco Polar. The business itself has already benefited from the synergies of being acquired by Wingara with revenue growth to $12.3M in FY19 in comparison to its historical revenue of $10M - $11M.

Figure 10: 5 Year Wingara Financial Performance



Source: Wingara

Figure 11: Austco Polar Financial Performance FY16 - FY19



Source: Wingara

Cold Storage Industry

According to IBIS world, the cold storage industry is forecast to expand over the next five years, driven by a growth in business inventories and demand for business process outsourcing. The rise in merchandise imports and exports will provide support to the overall general warehousing. Within Australia, the cold storage industry is made up of global players and domestic players. The global players that operate in Australia are:

- Americold Logistics
- ARGO Merchants Group
- NewCold Advanced Cold Logistics
- Emergent Cold Storage
- Oxford Logistics Group
- Montague Cold Storage Pty Ltd (acquired by Emergent Cold in February 2019).

Core Property notes that there has been some consolidation in the industry recently. Emergent Cold acquired Montague Cold Storage in February 2019 and have since proposed the acquisition of Oxford Logistics Group (under review from the ACCC). However, it is important to recognise that the risk from bigger players dominating the market is reduced given Austco's unique position. Austco has an export licence and have been able to leverage the relationships of Wingara's other subsidiary JC Tanloden in establishing new client relationships. These relationships provide a defensive position of Austco Polar from being squeezed by larger players. The overall risk to the strategy is contingent on Austco's ability to maintain its relationships with clients.

Market Sales Evidence

The figure below shows the comparable sales transactions for similar assets provided by the independent valuer, Knight Frank. The sales evidence suggest that the Property is being acquired at a reasonable price equivalent to $1,406 per sqm when compared to recent transactions ranging from $529 - $3,168 per sqm and the average of $1,543 per sqm.

Core Property notes from the sales evidence provided that cold storage facilities with vacant possession have sold at $1,025 - $1,269 per sqm, whilst occupied facilities have sold at between $1,496 - $3,168 per sqm (for WALEs of 6.4 – 12.3 years).

Figure 12: Recent sales evidence

Property Address	State	Sale Date	Sale Price	Current market Yield	GLA (sqm)	Price per sqm (GLA)
38-40 Tullamarine Park Road, Tullamarine	VIC	Dec-18	$22.0M	8.38%	17,332	$1,269
Regular shaped site with two purpose built cold storage facilities built circa 1970s and 1988 (with 2015 upgrades). Located close to Tullamarine Airport, the site was sold with vacant possession to Emergent Cold in Dec 2018.						
79-83 & 85 Cherry Lane, Laverton North	VIC	Sep-18	$24.5M	6.41%	17,211	$1,424
Pharmaceutical laboratory on a 20-year lease commencing August 2018 with 3.5% p.a. increases						
13 Ricky Way & 10 Jersey Drive, Epping	VIC	Jun-18	$15.7M	6.50%	10,493	$1,496
Office/warehouse with food production and cold storage facilities, constructed in 2008 and 2016 with WALE of 6.4 years at time of sale.						
235-239 Boundary Road, Laverton North	VIC	Feb-18	$15.0M	8.64%	19,875	$755
Former motor parts and accessories site constructed circa 1990s, sold with vacant possession.						
30-32 Westall Road, Springvale	VIC	May-17	$22.4M	6.50%	18,410	$1,217
Circa 1978 purpose-built manufacturing and distribution facility for personal hygiene products.						
137-143 Fitzgerald Road, Laverton North	VIC	May-17	$8.7M	9.17%	16,375	$529
Circa 1996 office/warehouse sold with vacant possession.						
101-103 William Angliss Drive, Laverton North	VIC	Dec-16	$28.1M	6.62%	8,871	$3,168
Refrigerated storage warehouse/distribution centre construction circa 2005 and extended circa 2013. Fully leased to Scott's refrigerated Freightways with 12.3 years expiring and fixed annual increases of 3.5% p.a						
45 Fulton Drive, Derrimut	VIC	Oct-16	$36.0M	6.59%	10,848	$3,008
Purpose built refrigerated logistics centre fully leased to Rand Transport with WALE 9.8 years and annual CPI increases.						
830 Wellington Road, Rowville	VIC	Jun-16	$9.0M	8.39%	8,801	$1,025
Cold storage/distribution facility constructed 1997, sold with vacant possession.						
Average			**$20.2M**	**7.5%**	**14,246**	**$1,543**
Range			**$8.7M - $36.0M**	**6.4% - 9.2%**	**8,801 - 19,875**	**$529 - $3,168**
5-17 Leslie Road, 6-10 Pipe Road, Laverton North	**VIC**	**Aug-19**	**$21.0M**	**8.5%**	**14,932**	**$1,406**

Source: Knight Frank

Market Rental Evidence

The figure below shows details of comparable site lease deals as provided by the independent valuer. The valuer considers the net face market rent of $120 per sqm to be below recent leases. Core Property notes that the most recent lease occurred in November 2017 and may not be reflective of the current market.

Figure 13: Recent comparable leasing deals

Property	Tenant	Commence Date	Area sqm	Rent per sqm
125 Foundation Drive, Truganina VIC	Laverton Cold Storage	November 2017	12,784 sqm	$174
128-134 Maffra Street, Coolaroo VIC	Central Meat Exports	June 2017	1,998 sqm	$210
16 Swann Drive, Derrimut VIC	DRT Logistics	February 2017	3,200 sqm	$164
1-3 Oxford Road, Laverton North VIC	SRT Logistics	March 2015	2,313 sqm	$158
7-23 Dunmore Drive, Truganina VIC	Montague Cold Storage (Laverton) Pty Ltd	November 2014	16,294 sqm	$206
71 Foundation Road, Truganina VIC	Woolworths Limited	April 2014	25,327 sqm	$206
99-103 William Angliss Drive, Laverton North VIC	Scott's Refrigerated Freightways	March 2014	8,871 sqm	$166
120-124 Cherry Lane, Laverton North VIC	CB Coldstorage Pty Ltd	September 2012	3,438 sqm	$194
5-17 Leslie Road, 6-10 Pipe Road, Laverton North	**Austco Polar Cold Storage**	**July 2019**	**14,932 sqm**	**$120**
Average			**9,906 sqm**	**$185**
Range			**1,998 – 25,327 sqm**	**$158 - $210**

Source: Knight Frank, Core Property

The Melbourne Industrial Market

The industrial market is seen as an attractive investment space as tailwinds in the e-commerce and logistics sector continues to support growth. In 2018, the Melbourne industrial market saw 45 transactions totaling $1B in value. The attractiveness in the market, in addition to strong investor demand and limited opportunities has resulted in a yield compression in the 12 months to January 2019. Melbourne Industrial yields are currently 6.00% - 6.50% range for Prime grade properties and 7.25% - 8.00% for secondary properties.

Figure 14: MelbourneIndustrial Rents

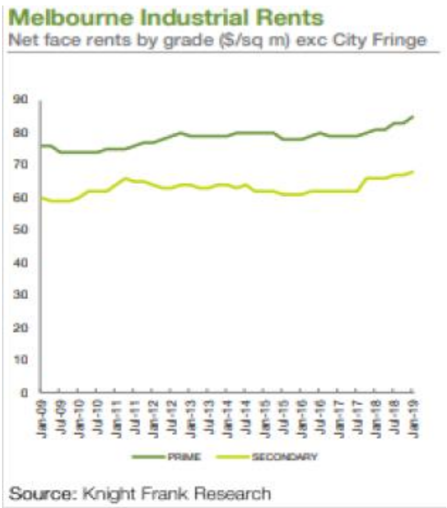


Figure 15: Melbourne Industrial Vacancy

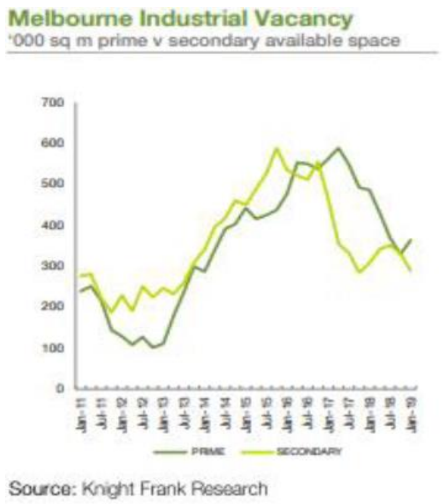
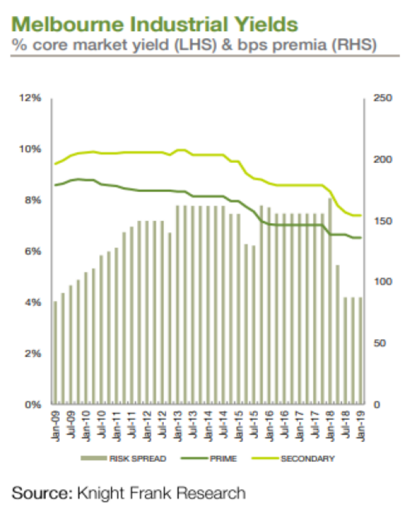


Figure 16: Melbourne Industrial Yields



Source: Knight Frank

Capital expenditure

Core Property notes that the lease is a triple net lease with the lessee, Austco Polar, required to reimburse any capital expenditure. The lease also has a make good provision requiring Austco Polar to ensure the Property is of the same state and condition at the end of the lease term.

Financial Analysis

Core Property has reviewed the financial forecasts by the Manager as provided in the IM. They key observations are:

- Forecasts are based on fixed annual rental growth of 3.5% p.a. for the forecast period, with valuation upside derived from higher rent in year 7 to deliver a higher exit price.
- Assumes an all-in cost of debt of 3.70% fully hedged for the forecast period. It is assumed that debt will continue to be hedged at 3.70% for the initial term of 6.8 years.
- Assumes the Property remains fully leased for the initial term of the Fund.
- The Manager is forecasting distributions of 8.25% p.a. (annualised) in the first year, increasing to 8.50% p.a. in the second year. Core Property estimates that, based on fixed annual rental growth of 3.5% p.a., distributions can increase to 9.7% p.a. in the seventh year of the Fund.

A summary of the Manager's forecasts from the Information Memorandum is presented in the table below:

Figure 17: Profit & Loss Forecast and Balance Sheet

Profit & Loss - Forecast $M	**FY20 (23 August 2019 – 30 June 2020)**	**FY21**
Net Property Income	**1.5**	**1.9**
Interest Income	0.0	0.0
Expenses (Management Fee, Admin costs, Finance costs)	-0.5	-0.6
Funds available for distribution	**1.1**	**1.3**
Cash distribution	**1.0**	**1.2**
Cash distribution per unit (cents)	7.06	8.50
Annualised distribution yield	**8.25%**	**8.50%**

Balance Sheet – Forecast $M	**On settlement (23 August 2019)**
Cash	0.2
Property value	21.0
Other assets (receipt of GST refund)	0.8
Total Assets	**22.0**
Interest-bearing debt	9.7
Capitalised borrowing costs	(0.3)
Total Liabilities	**9.4**
Net Assets	**12.6**
Units on Issue	**14.4**
NTA per unit	**$0.88**
Debt/ Total assets	**44.1%**
Bank LVR – drawn debt and debt facility limit	**46.2%**
Bank LVR – debt facility limit after GST refund	**42.5%**

Source: KordaMentha, Core Property

NTA Analysis

The starting NTA is an important consideration. It should be assessed in the context of statutory costs and fees paid to the Manager, which dilute investor's return over the term of the Fund. In this case, the starting NTA is $0.88 per unit, with most of the dilution coming from stamp duty costs.

Figure 18: Initial NTA

Amount per unit	$ per unit
Issue Price	$1.00
Less:	
Stamp duty	-$0.09
Debt & Fund Establishment costs	-$0.01
Managers Fee	-$0.04
Add back:	
Working capital & capitalised costs	$0.02
NTA per unit	**$0.88**

Source: Core Property

Expected Future Performance (IRR Sensitivity)

The three main performance drivers in a property syndicate are:

1. The property income profile (lease structure);
2. The terminal value upon the sale of the property (asset quality + market conditions); and
3. The cost of debt (depending on leverage).

Using these assumptions Core Property expects the Fund to deliver a 6.8-year Internal Rate of Return (IRR) in the range of 9.8% - 11.5%. The calculation is based on the Manager's forecasts and assumes a +/- 50 bps movement in the terminal capitalisation rate. Core Property notes that the interest rate on the debt facility has been hedged to 3.70%. Due to this hedging being in place, the performance of the Fund is less sensitive to interest rate movements and is more dependent on the terminal capitalisation rate of the Property.

Core Property notes the Manager is forecasting an IRR of 9.8%, based on an exit capitalisation rate of 9.00%

Investors should be aware the sensitivities include the potential for the valuation of the assets to increase or decrease (depending on market conditions) which will result in either a capital gain or loss for investors.

The following table shows our estimated IRR for the Fund based on the Manager's assumptions.

Figure 19: Pre-tax, 6.8-year IRR (after fees) sensitivity analysis

Terminal cap rate	Cost of debt 3.70% (assuming cost of debt is fully hedged for the duration of the fund)
8.00%	11.5%
8.25%	11.0%
8.50% (base)	**10.6%**
8.75%	10.2%
9.00%	9.8%

Source: Core Property

Management & Corporate Governance

Background of the Manager

KM Property Funds was established in July 2013 as Placer Property Limited with a primary objective to facilitate quality commercial property investment opportunities for investors seeking regular and reliable income. In August 2017 Placer Property was acquired by KordaMentha and now forms part of the Investment Division of its Real Estate Group. It was later renamed to KM Property Funds ("The Manager"). KordaMentha is a leading investment and advisory firm, with over 380 staff across Australia, New Zealand and South East Asia. Since 2007, KordaMentha Real Estate has advised or transacted on over $14.0B of property and has 38 real estate staff.

Property has reviewed the composition of the senior management team and consider it has the relevant skills and experience to operate the Fund successfully.

Figure 20: Management Team

Name & Role	Experience
Tom Davis Managing Director	Tom is an Executive Director and has been the Managing director since August 2017. He has been at KordaMentha since 2005 where he has worked on strategic property portfolio reviews, asset divestment, investment analysis and management. Tom is responsible for real estate investment advisory, principal investment and structured finance investment, transaction and asset management. He holds a Bachelor of Business (Property) from RMIT.
David Omond Joint Managing Director	David has more than 25 years' experience in commercial property management, development, funds management and corporate finance. He has held numeroud senior management positions at Heine Management, MCS Property and Centro Properties Group. David is a co-founder of KM Property Funds and was appointed Joint Managing Director in September 2013. David holds a Bachelor of Business (Property) from the University of South Australia.
Mario Papaleo Joint Managing Director	Mario has more than 20 years' experience in direct rela estate, listed and unlisted property investment and funds management, including working as a fund manager of Centro Retail Trust, as an Analyst and Syndicate Fund Manager for Heine Management Limited, as a consultant for Jebb Holland Dimasi as well as direct property and asset management experience for McDonald's Australia Limited Store Development Group. Mario is a co-founder of KM Property Funds and as appointed Joint Managing Director in September 2013. He holds a Bachelor of Business (Property) from RMIT University and a Graduate Diploma of Applied Finance and Investment from the Securities Institute of Australia.
Bernadette Spiteri Director of Investment Services	Bernadette has over 25 years' experience in financial services and has held senior executive management roles in distribution, marketing, product development and investor relations. She has worked with Bankers Trust Australia, MCS Property, Centro Properties Group, Portfolio Partners Limited and Orchard Funds Limited before joining KM Property Funds in January 2015. Bernadette is an affiliate member of the Financial Services Institute of Australasia (FINSIA).
Mary Barnett Chief Financial Officer	Mary has 20 years' experience in Australia and Singapore in managing bid pricing, consolidations, forecasts, budgets, tax and reporting obligations. She has worked with KordaMentha for 9 years nad is a Director. Prior to this Mary was the Financial Controller of the Real Estate Services division at United Group. Mary was appointed Chief Financial Officer in December 2017. She holds a Bachelor of Science Education, Mathematics from the University of Melbourne, a Masters in Practising Accounting from Monash University and is a Chartered Accountant.

Source: KordaMentha

Compliance and Governance

The Fund's compliance committee comprises three independent members, with Chairperson Nick Stretch (who is a partner of Denton's law firm), and independent directors Peter Flynn (Director at Intercommercial Property Group) and James Walsh.

Related Party Transactions

The Manager has a "Related Party and Conflict of Interest Policy" which addresses disclosure of conflicts of interests to unitholders and, if required, steps to manage the conflict in an appropriate manner.

The Manager has advised in the IM that a related party transaction was undertaken to fund the initial acquisition of the Property by the Fund. This involved KordaMentha Investment Pty Ltd acquiring the "Acquisition Units" to establish the Fund. KordaMentha Investment Pty Ltd is an associated entity of the Manager.

The Manager has also advised that the Property is being acquired in an off-market transaction from the vendor, Wingara AG Limited, which is a client of 333 Capital, which is part of the KordaMentha Group.

Past Performance

Since July 2013 KM Property Funds has established four other unlisted property funds:

- The NewActon East Property Fund was launched in September 2014 and has delivered distributions of 7.75% - 8.7% p.a. since inception. The Manager has advised the Fund has delivered an IRR of 10.7% p.a. since inception, after fees.
- The Stables Property Property Fund was launched in May 2016 and has delivered distributions of 7.6% p.a. since inception. The Manager has advised the Fund has delivered an IRR of 9.0% p.a. since inception, after fees.
- The 333 Exhibition Street Property Fund was launched in March 2018 with average distributions of 6.7% p.a. The Manager has advised the Fund has delivered an IRR of 17.6% p.a. since inception, after fees.
- The Cambridge Bedford Property Fund was launcehd in February 2019 and owns two office assets at 7 Laffer Drive, Bedford Park Adelaide and 89 Cambridge Drive, Cambridge, Hobart TAS. The Fund is targeting distributions of 8.5% during its initial year.

Investors should note that that past performance is not a reliable indicator of future performance as each fund, and its respective underlying property, has its own specific risks and attributes.

Appendix – Ratings Process

Core Property has developed a framework for rating property and property related investment product offerings in Australia. The methodology gives consideration to a number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product and underlying portfolio construction; strength and depth of management team, product structure, risk management, financial analysis, and likely outcomes.

It is important for financial planners and investors to view the recommendation and rating in the context of comparable products only and not across all products rated by Core Property.

The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

Rating	Definition
Highly Recommended	This is the highest rating provided by Core Property and is indicative of the product exceeding the requirements of our review process across a number of parameters.
Recommended	Indicates that the product has an above average grade profile across a number of Core Property's parameters and has the potential to deliver above average risk adjusted total returns.
Approved	Indicates that the product has met the aggregate requirements of Core Property's criteria. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.
Speculative	Core Property believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Core Property does not rule out investing in this product, investors should be very aware of, and be comfortable with the specific risks. The product may provide unique diversification opportunities, although concerns over one or more features mean that it may not be suitable for most investors.
Not Approved	Indicates that the product has failed to meet the minimum aggregate requirements of Core Property's criteria. While the product may have some positive attributes, Trusts in this category are considered high risk.

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