Core Property
Fund Research & Ratings
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Unlisted Property Trust Report

Centennial Property Group
CIL Enhanced Value Fund

October 2019

Industrial and logistics fund with unique blend of core and value add strategy, targeting 6.5%+ p.a. distributions

For Wholesale Investors only

CIL Enhanced Value 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 cover 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.

IMPORTANT NOTICE

CIL Enhanced Value Fund

October 2019

The CIL Enhanced Value Fund is an unlisted property fund that provides an opportunity to invest in a portfolio of industrial and logistics assets located in major capital cities in Australia. The Fund Manager is CIL Management Pty Ltd ("the Manager") and is part of Centennial Property Group ("CPG") a boutique property fund manager which focusses on value-added strategies for investors.

The Manager is seeking to raise $75M through the offer of 75M units at $1.00 per unit ("the Offer"). Funds raised will be used in conjunction with bank debt to acquire $150M - $200M of industrial and logistics assets by 30 April 2020. The Manager may also accept additional subscriptions of $25M. The Offer is available to wholesale investors only as defined in the Information Memorandum, with minimum subscriptions of $100,000.

The assets will comprise a unique combination of both core and value add style assets with expectations of income distributions in the range of 6.5% - 7.0% p.a. and paid quarterly on a fully invested portfolio. The Manager is targeting a portfolio composition that provides a solid base income and capital return with multiple options to add value around this. It is primarily looking to acquire assets that may be out of reach for most private investors yet too small for the large institutional funds where it is seeing strong deal flow and far less competition.

The current portfolio consists of three industrial assets in Brooklyn, Altona North and Truganina VIC acquired for a total of $62.7M. The three properties have a WALE of 4.2 years with a portfolio occupancy of 89.6%. The Brooklyn and Altona North assets are fully leased while the Truganina asset is currently vacant and the Manager is running a leasing campaign for new tenancies following recent refurbishments. The current portfolio reflects what the Manager is targeting via a mix of expiries to manage income risk and provide consistent distributions. However investors should be aware that as additional assets are added, the property portfolio metrics are likely to change.

The Fund has a debt facility in place with expiry in December 2021 and average cost of debt of 2.84% p.a. The Manager intends to hedge 40% - 50% of the debt once the target investment size has been achieved. The initial portfolio has a Loan to Valuation Ratio (LVR) of 50% and is below the bank LVR covenant of 65% and the initial Interest Cover Ratio (ICR) of 4.2x is well above the bank ICR covenant of 1.75x.

Fees charged by the Fund are at the low end of what Core Property has seen in the market, however it is noted that the Performance Fee is staggered, with the Manager able to receive 20% of the outperformance above an IRR hurdle of 9% p.a. The Performance Fee increases to 40% of the outperformance if the asset level IRR net of costs is above 18% p.a. It should be noted the Performance Fee is paid at the asset/Sub-Trust level when an asset is sold, which is not in line with common industry practice. There are no claw back provisions against other assets in the Fund and Core Property would prefer the Performance Fee to accrue when an asset is sold and only be paid when the whole Fund outperforms, to more closely align with investors interests.

Core Property estimates the current properties in the Fund to deliver an Internal Rate of Return (IRR) of between 8.6% - 13.1% based on the Manager's assumptions and assuming a +/- 50 bps movement in capitalisation rates over the initial five-year term. The Manager is targeting an IRR of 10% - 12%, at the mid to upper end of the range. Investors should note the calculations are based on the Manager's assumptions and a change in tenancy may impact distributions, the value of the Property and investor returns. The analysis includes the potential that investors may receive a capital gain or loss, based on market conditions.

Investor Suitability

The Fund is open to wholesale investors only as defined in the IM. Core Property considers the Fund will appeal to investors seeking a strong forecast distribution yield through an exposure to a portfolio of industrial and logistics assets located major capital cities to support demand.

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 5-7 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:	1 May 2019
Offer Close:	1 November 2019[1]
Min. Investment:	$100,000[2], increments of $25,000 thereafter
Unit Entry Price:	$1.00
Net Tangible Asset per unit:	$0.86[3]
Liquidity:	Illiquid
Forecast Distributions:	6.5 – 7.0 cpu[4]
Distribution Frequency:	Quarterly
Initial Investment Period:	5-7 years

1. The Manager may close the Offer at any time when sufficient commitments have been received.
2. The Manager may accept lower amounts at its discretion.
3. Assumes equity is fully allocated for 3 properties in the portfolio. NTA may change as additional properties are acquired and revalued.
4. Based on Manager's forecasts on a finalised portfolio by 30 April 2020.

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Fund - Website

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Note: This report is based on the CIL Enhanced Value Fund Information Memorandum dated 1 May 2019, together with other information provided by Centennial Property Group.

Key Considerations

Management: Boutique property fund manager with deep experience and a strong platform and track record of delivering value add strategies for institutions and high net worth investors.

Fund Structure: The Manager is seeking to raise up to $75M in equity with units offered at $1.00 per unit, by 1 November 2019. The Manager may accept oversubscriptions, with a total of $100M in equity. The industrial and logistics assets are acquired and held in separate Sub-Trusts to provide flexibility for the assets to be sold separately.

Fund Strategy: The Manager has well-defined investment criteria, and aims to, acquire and manage, a mix of core and value add industrial and logistics assets located in major Australian cities. The Weighted Average Lease Expiry (WALE) of the overall Fund is targeted at 3+ years. The Manager is targeting a portfolio of $150M - $200M to be acquired by 30 April 2020. Development may be undertaken if it is only on surplus or underutilized land and must not represent more than 15% of the Gross Asset value of the Sub-Trust.

Property Portfolio: The current portfolio consists of three industrial assets acquired for $62.7M in total, with an average WALE of 4.2 years, and with an average occupancy of 89.6%.

- The Brooklyn VIC asset was acquired for $34.8M and consists of 31,571sqm of gross lettable area (GLA) fully leased to 9 tenants with a WALE of 3.4 years.
- The Altona North VIC asset with a GLA of 16,144sqm was acquired for $20.7M and is an industrial asset fully leased to Seaway Logistics with a WALE of 7.3 years.
- The Truganina VIC asset was acquired for $11.0M and consists of an office and 4 semi-detached warehouse units with 5,530sqm of GLA, which is currently vacant. The Manager is currently undertaking a lease-campaign to fill the space, following recent refurbishment, as well as looking at developing an area of surplus land on the rear of the property.

The Manager intends to grow this portfolio from $62.7M currently, to reach around $150M - $200M by 30 April 2020. As the portfolio increases in size, the Manager aims to maintain the property portfolio characteristics as defined in its mandate and investment criteria. It aims to provide a mix of assets that provide a solid base income and capital return with multiple options to add value on top of this. It is primarily looking to acquire assets that may be out of reach for most private investors yet too small for the large institutional funds where it is seeing strong deal flow and far less competition. The Manager is targeting a portfolio that aims to provide a mix of expiries to manage income risk and provide consistent distributions.

Debt Profile: The Fund has a debt facility maturing on 10 December 2021 on its current three properties for $31.4M at an average all-in cost of 2.84% p.a. The Loan to Valuation Ratio (LVR) is 50%, against a bank LVR covenant of 65%. The average Interest Coverage ratio (ICR) of 3.0x is above the bank ICR covenant of 1.75x. On a fully invested basis, Core Property expects the portfolio LVR to be at or below 50% although individual properties may have a higher initial LVR if they are longer leased core assets.

Initial NTA: The Fund's initial NTA is $0.86 per unit with the majority of the dilution due to stamp duty and upfront due diligence costs.

Distributions/Total Returns: The Fund is currently paying distributions of 6.5% p.a. and the Manager is targeting 6.5% - 7.0% p.a. once the portfolio has been finalised. Core Property estimates the Fund to deliver a five-year IRR of 8.6% - 13.1% 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 this range.

Fees: Core Property considers the management fees to be at the low end of what has been seen in the market (*see Figure 5: Fees in Perspective*). Performance Fees are 20% for any outperformance over an IRR of 9% and up to and including an IRR of 18%, and 40% above an IRR of 18%. Performance Fees are charged at the asset/Sub-Trust level. Core Property would prefer this to be charged at the Fund level to more closely align with investors interests.

Illiquid investment: Investors must accept that by their very nature, unlisted property funds are illiquid and expect to remain invested for the initial term of the Fund. During the 5-7 period the Manager will provide a strategy for the properties and will only hold the properties if it obtains a simple majority of votes by investors.

Investment Scorecard

Management Quality	★★★★☆
Governance	★★★☆☆
Portfolio	★★★☆☆
Income Return	★★★☆☆
Total Return	★★★★☆
Gearing	★★★☆☆
Liquidity	★☆☆☆☆
Fees	★★★☆☆

Key Metrics

Fund Structure		
An open-ended unlisted property fund investing in a portfolio of industrial assets with each property to be held in a separate Sub-Trust.		
Management		
Centennial Property Group is a boutique property investment group specializing in actively managed property investments, developments and property-backed lending. Established in 2012, it has acquired $889M of properties and currently has over $400M of Assets Under Management. Management and staff of CPG will subscribe for a minimum $2.5M of units in the Fund on the same terms and conditions as other investors.		
Property Portfolio	**Current (October 2019)**	**Target (30 April 2020)**
No. of Properties:	3	-
Acquisition Price:	$62.7M	$150M - $200M total
Property Locations:	Brooklyn, Altona North & Truganina VIC	Capital cities on Eastern seaboard
Property Sector:	Industrial & Logistics	Industrial & Logistics
Key Tenants:	Seaway Logistics (30.3% of GLA)	TBA
Occupancy:	89.6%	TBA
WALE:	4.0 years (by income)	3+ years

Return Profile	
Forecast Distribution:	6.5% - 7.0% (FY20+, once fully invested)
Distribution Frequency:	Quarterly
Tax advantage:	Subject to properties being acquired.
Estimated Levered IRR (pre-tax, net of fees):	8.6% - 13.1% over 5 years
Investment Period:	5-7 years

Risk Profile	
Property/Market Risk:	Capital at risk will depend on a portfolio of industrial and logistics properties located on the eastern seaboard of Australia, with properties to be acquired through to 30 April 2020. Investors will be exposed to a potential capital gain or loss, based on market conditions.
Interest Rate Movements:	The Fund will be exposed to any changes in the cost of borrowings which may impact the distributable income from the underlying investments as well as distributions from any potential properties that the Fund may acquire. The Fund currently does not hedge any portion of the debt however the Manager intends to do so once the portfolio has been finalised.
Property Specific Risks:	Property investments are exposed to a change in vacancy rates (including a key tenant lease expiries), prevailing market rents, and economic supply and demand.

For a more detailed list of the key risks, refer to Section 8: "Risks" of the Information Memorandum.

Fees Paid	
Core Property considers the Fees charged by the Fund to be at the low end of what has been seen in the market (see Figure 5: Fees in Perspective).	
Entry Fees:	Nil
Exit Fees:	Nil
Acquisition Fee:	2.0% of purchase price.
Sale Fee (Disposal Fee):	1.0% of sale price.
Management Fees:	- Management Fee: 0.7% p.a. of GAV. - Development Fee: on arms-length terms, subject to a maximum of 4% of the amount expended - Leasing Fee: on arms-length terms
Performance Fee:	20% of the Sub Trust's outperformance above an IRR of 9.0% and up to and including 18%. 40% of the Sub Trust's outperformance over an IRR of 18%.[1]

Note: Performance Fees are charged at the Sub-Trust level. Core Property would prefer this to be charged at the Fund level to more closely align to investors interests.

Debt Metrics – as at October 2019	
Initial Debt / Facility Limit:	$31.4M / $31.4M
Loan Period:	Expiry 10 December 2021
Initial LVR / LVR Covenant:	50% / 65%
ICR / ICR Covenant:	3.0x / 1.75x

Debt Metrics are based on the portfolio of 3 assets valued at $62.7M and is likely to change as additional properties are acquired.

Legal	
Offer Document:	CIL Enhanced Value Fund Information Memorandum, dated 1 May 2019
Wrapper:	Unlisted Property Trust
Trustee:	CIL Enhanced Value Pty Ltd (ACN 630 454 394)
Manager:	CIL Management Pty Ltd (ACN 625 631 049)

Fund Overview

The Fund is an unlisted property fund that invests in industrial and logistics assets located in capital cities on the eastern seaboard of Australia. The Manager, CIL Management Pty Ltd ("the Manager") is part of the Centennial Property Group ("CPG") a boutique property investment group specialising in actively industrial and logistics managed property investments, developments and property-backed lending. The Enhanced Value Fund (EVF) was established to replicate the characteristics of the investment properties previously acquired by CPG in its CIL Fund I and CIL Fund II.

The EVF will have an initial term of 5-7 years. During this period the Manager aims to acquire and manage a portfolio of industrial and logistics assets with an estimated value of $150M - $200M. At the end of the initial term or prior, the properties are expected to be sold unless and until the Manager obtains a simple majority of investor votes to retain the property in the portfolio. The Manager will look to exit assets at the point it feels will maximise returns for investors which may be within the 5-7 year period. Any surplus capital not required by the fund will be returned to investors at this point.

The Manager is seeking to raise up to $75.0M of equity by 1 November 2019 via the issue of up to $75M units at $1.00 per unit. The proceeds will be used, in conjunction with debt, to acquire up to $150M of properties by 30 April 2020 to complete the investment mandate. The Manager may also accept oversubscriptions to bring the total equity raised to $100M to facilitate the acquisition of up to $200M in properties. Any excess equity that is not used for property investment will be returned to investors. Management and staff of CPG will subscribe for a minimum of $2.5M of units in the Fund on the same terms and conditions, providing a strong alignment of interests for investors.

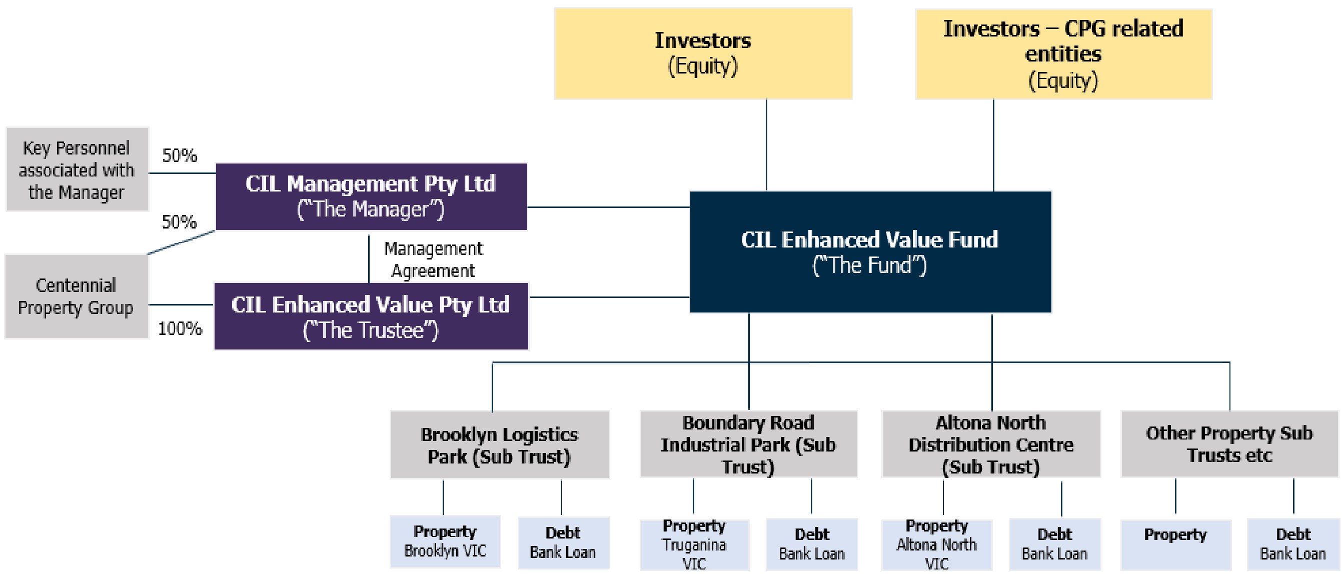
The Fund's portfolio at October 2019 consists of portfolio of three industrial assets acquired for $62.7M and currently valued at $66.5M. Combined, the assets have an occupancy of 89.6%with a weighted average lease expiry (WALE) of 4.2 years and portfolio capitalisation rate of 6.42%. The assets are all located in Victoria – at Brooklyn, Altona North and Truganina. Each individual property is held in a separate Sub-Trust by the Fund.

The Fund has a minimum investment of $100,000, with multiples of $25,000 thereafter, however the Manager may accept lesser amounts at its discretion. The Fund is open to wholesale investors only. The Manager and its associates intend to subscribe for a minimum of $2.5M of units in the Fund, providing an alignment of interests with other investors.

The Fund has paid quarterly distributions at a rate of 6.5% p.a. on a pro rate basis during 2019 and the Manager is targeting distributions of 6.5% - 7.0% p.a. for FY2020 onwards, based on the $1.00 per unit subscription price.

The Fund should be considered illiquid and investors should expect to remain invested for the Fund's initial term of 5-7 years to benefit from potential returns. A summary of the Fund structure is provided below.

Figure 1: Fund structure



Source: Core Property, Centennial

Investment strategy

The Fund intends to replicate the composition and profile of CPG's CIL Fund I and CIL Fund II which has acquired a number of smaller industrial assets (valued between $5M to $40M) on the eastern seaboard of Australia which, in its opinion, provides a compelling value proposition as the market is not as competitive as the institutional market of $40M+ assets. The Fund will focus on both a core and value add investment strategy for generic industrial and logistics assets with medium term lease expires where around 70% to 80% of the value of the asset is in the land. The Fund will look at locations primarily in capital cities on the Eastern seaboard within close proximity to major infrastructure, where land is constrained and at infill distribution locations that support online last mile delivery. Locations will also be considered it they provide strategic value via potential urban renewal or rezoning upside for investors. The Manager is targeting a portfolio that aims to provide a mix of expiries to manage income risk and provide consistent distributions.

The following is a summary of the key investment propositions of the Fund.

Figure 2: Investment Criteria

Category	Strategy
Mandate	Intention to replicate the composition and profile of the CIL Fund I and CIL Fund II, which has assets in QLD and VIC with properties of up to $40M in value acquired on 6.5%+ yields.
Property	Type: Mix of core and value add assets, no standalone development or "super-core" assets. Sector: Properties must be industrial or logistics only – no suburban office or high-tech business parks. Location: Properties must be located in major Australian cities – no regional locations.
Development	Only undertaken to realise opportunities to develop surplus or under utilised land. No raw/unzoned land. Not to represent more than 15% of portfolio Gross Asset Value at any point in time.
Fund Size	Targeting $150M - $200M close ended fund. All properties to be acquired prior to 30 April 2020.
Lease Term	Targeting 3+ years at the time of acquisition.
Gearing	Targeting 40% - 50% at fund level. The purchase price of a property must not result in the loan to valuation ratio for all properties held by the Trust to exceed 50% of the aggregate current market value of all the properties.
Acquisitions and Deployment	Intend to deploy capital over a 6-month period.
Distributions	Targeting 6.5% - 7.0% p.a. distributions, paid quarterly.
Target IRR	10% - 12%

Source: Centennial

Liquidity / exit strategy

Investors should view the Fund as illiquid in nature and expect to remain invested for the initial 5-7 year term of the Fund, commencing from the date of the first property acquired, Brooklyn VIC, in April 2019. During the period of 5-7 years, the Manager will make a recommendation regarding the propose future strategy of the Fund, based on prevailing market conditions. The Trustee will only make a decision to retain a property in the Fund beyond the Initial Forecast Investment term of 5-7 years with the prior approval of Investors by a simple majority.

The Manager has discretion to sell any property during the term of the Trust if it considers it to be in the best interests of investors. The Manager will look to exit assets at the point it feels will maximise returns for investors which may be within the 5-7 year period. Any surplus capital not required by the fund will be returned to investors at this point. No new assets will be acquired.

Sources & Application of funds

The Manager intends to acquire all properties in the Fund prior to 30 April 2020. Core Property has calculated the sources and application of funds for the three properties in the Fund as October 2019, on the basis that all capital has been fully allocated. Investors should note the following calculations only represent the three properties in the Fund as at October 2019 and the amounts will change upon further acquisitions in the Fund.

Figure 3: Sources and Application of Funds – based on current portfolio of three assets at October 2019

	$M	% of purchase price	% of total funds
Sources of funds			
Equity subscriptions	$36.6M	58.3%	53.8%
Bank debt	$31.4M	50.0%	46.2%
Total sources of funds	**$67.9M**	**108.3%**	**100.0%**
Application of funds			
Purchase price	$62.7M	100%	92.3%
Costs (Acquisition Costs, Fees)	$4.0M	6.4%	5.8%
Managers Fee	$1.3M	2.0%	1.8%
Working Capital & Capital Expenditure Reserves	-	-	-
Total application of funds	**$67.9M**	**108.3%**	**100.0%**

Source: Core Property

Debt Facility & Metrics

The Fund currently has a debt facility with NAB which is used to acquire the existing properties. The debt facility is expanded as each new property is acquired, with the debt being held in each Sub-Trust, with cross collateralisation, at an all-in-average cost of debt of 2.84%. The debt is currently not hedged however the Manager intends to hedge between 40% - 50% of the debt once the portfolio has been finalised. The debt facility has a maturity date of 10 December 2021 across all the properties, and the Manger will need to renegotiate this facility beyond this period.

The current three properties in the portfolio were each acquired on a Loan to Valuation Ratio (LVR) of 50% against a bank LVR covenant of 65%. Core Property calculates that the value of the Property must fall by 23% for the bank LVR covenant to be breached. The Interest Coverage Ratio (ICR) is 3.0x against a bank ICR covenant of 1.75x. Core Property calculates the net operating income must fall by 42% for this covenant to be breached. Investors should be aware that any change in the cost of debt may impact investor returns.

Figure 4: Debt Metrics

Details	Metric
Bank	NAB
Security	First ranked security on property held at the Sub-Trust with cross collateralization.
Debt Facility Limit/ drawn debt	$31.4 / $31.4M
Loan Period	All debt facilities expire on 10 December 2021
% Hedged	0%. The Manager intends to hedge between 40%-50% of the debt once the portfolio is finalised.
Average cost of debt	2.84%
Initial LVR / Peak LVR / LVR Covenant	50% / 50% / 65%
Initial interest covered ratio (Lowest ICR) / ICR covenant	3.0x /3.0x / 1.75x
Amount by which valuation will have to fall to breach LVR covenant	23.0%
Decrease in rent income to breach ICR covenant	42.3%

Source: Core Property, Centennial

Fees Charged by the Fund

Overall, Core Property considers the fees charged to be at the mid-point of what has been seen in the market (see All-in fee analysis below).

Core Property notes that the Performance Fee on the Fund is calculated at 20% of the Fund's performance above an IRR of 9.0% p.a, where the IRR is up to an including 18%. The threshold of 9.0% p.a. is lower than what has typically been seen in the market (10%). Investors should also note:

- Where the IRR is in excess of 18%, the Manager is entitled to receive a Performance Fee of 40% of the amount in excess of 18%.
- The Performance Fee is calculated at the Sub-Trust level where each asset is held. Core Property notes that this will result in Performance Fees being paid to the Manager as each asset is sold and equity is returned to investors. We note that this not in line with common industry practice. Core Property would prefer Performance Fees be more closely aligned to investors by being accrued as each asset is sold and only paid when the total Fund has outperformed.

Figure 5: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry Fee:	Nil	
Exit Fee:	Nil	
Acquisition Fee:	2.0% of purchase price (+GST)	Core Property considers the Fee to be at the high end of the industry average of 1.0% - 2.0%.
Sale Fee (Disposal Fee):	1.0% of sale price (+GST)	The Disposal Fee covers any external agency selling costs and is in the low end of the industry average of around 1.0% - 2.0%.
Fees & Expenses:	- Management Fee of 0.7% (+GST) of GAV. - Development Fee (if undertaken): on arms length terms, and at or below market rates, subject to a maximum of 4% of the amount expended. - Leasing Fee (charged on the securing, extension or renewal of leases): on arms length terms and at or below market rates - Costs & Expenses: at cost	Core Property considers the Management Fee to be at the low end of what we have typically seen in the industry (0.7% - 1.1% p.a. of GAV). Other Fees appear appropriate.
Performance Fee:	20% of the Sub Trust's outperformance over an IRR of 9%, where the IRR is up to and including 18%. 40% of the Sub Trust's outperformance over an IRR of 18%.	Core Property considers the IRR threshold of 9% to be at the lower end of what has been seen in the market. Investors should note the Manager is entitled to a Performance Fee of 40% of any returns where the IRR is in excess of 18%. Core Property notes the Performance Fee is payable at the Sub-Trust level and thereby incentives the Manager to outperformance on each asset. Core Property would prefer Performance Fees be accrued as each asset is sold and only paid when the whole Fund has outperformed, to more closely align to investors interests.

Source: Centennial, 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 but before management fees and performance fees.

Core Property estimates the Manager is entitled to 6.8% of the total cash flow. Core Property considers the fees paid to the Manager to be in the middle when compared to similar products, which are typically around 7% - 9%. In terms of fees paid to the Manager, Core Property estimates that 29.8% of the estimate fee is paid upfront and the remainder relates to ongoing management fees. Core Property stresses that these estimates of how much investors will receive are not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

Figure 6: Fees in Perspective – over an estimated five-year period

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:	$0.58
Total cash to investors:	**$1.58**
Acquisition fee:	$0.03
Base management fee:	$0.06
Disposal fee:	$0.02
Debt Arrangement fee:	$0.00
Fees for the RE (excluding disposal/admin):	**$0.11**
Total cash generated by Fund:	**$1.69**
Fees = % of total cash generated (before fees)	6.8%
Up-front fee vs total fees	29.8%

Source: Core Property estimates

The Property Portfolio

The Fund is targeting a total portfolio value of $150M - $200M by April 2020. The current portfolio, as at October 2019, consists of three properties acquired for a total of $62.7M, with an average occupancy of 89.6% and a Weighted Average Lease Expiry (WALE) of 4.2 years. The three properties currently in the portfolio are:

- **600-604 Geelong Road, Brooklyn VIC** ("Brooklyn Distribution Park") is a fully leased industrial and logistics park located in Brooklyn, approximately 9km west of the Melbourne CBD. The property consists of five freestanding industrial buildings and a café leased to 9 tenants including Storage King, Bag Trans, JBS, Crown, New World Whisky and FBT Transwest. The property has a total site area of 71,700 sqm with gross lettable area of 31,571 sqm.
- **11-25 Toll Drive, Altona North VIC** is a 47,500 sqm industrial site located in Melbourne's inner west industrial precinct of Altona North. The property has a gross lettable area of 16,144 sqm and is fully leased to multinational tenant Seaway Logistics, a diversified transport and logistics provider, with a WALE of 7.25 years. The Manager intends to work with the tenant to enable an early renewal or lease extension in order to unlock the surplus land at the site to deliver upside value at the location.
- **383 Boundary Road, Truganina VIC** is a 27,500 sqm high profile industrial site located in Melbourne's western industrial precinct of Truganina. With 5,530sqm of gross lettable area, the site was acquired vacant, with the intention to lease up the standalone warehouse/office and 4 semi-detached warehouse units. The site also has 15,000sqm of undeveloped vacant land with development approval for 10,000 sqm of additional floor space which the Manager will seek to develop or sell to a third party.

Figure 7: 600-604 Geelong Road, Brooklyn VIC

Figure 8: 600-604 Geelong Road, Brooklyn VIC

Figure 9: 11-25 Toll Drive, Altona North VIC

Figure 10: 11-25 Toll Drive, Altona North VIC

Figure 11: 383 Boundary Rd, Truganina VIC

Figure 12: 383 Boundary Rd, Truganina VIC

Source: Savills, Google images

Property Valuations

The key property metrics of the current portfolio are presented below. Independent valuations were undertaken by Savills as part of the acquisition of the properties. The Fund has a policy to undertake an independent valuation at least once every two years and also prior to the sale of a property.

Figure 13: Portfolio summary – as at October 2019

	600 Geelong Rd, Brooklyn VIC	11-25 Toll Drive, Altona North VIC	383 Boundary Rd, Truganina VIC	Total / Average
Title	Freehold	Freehold	Freehold	**Freehold**
Acquisition Date:	June 2019	August 2019	August 2019	**June/August 2019**
Ownership	100%	100%	100%	**100%**
Site Area	72,700 sqm	47,510 sqm	27,498 sqm	**147,708 sqm**
Net Lettable Area	31,571 sqm	16,144 sqm	5,530 sqm	**53,245 sqm**
Major Tenant	Bag Trans (25.8% of NLA)	Seaway Logistics (100% of NLA)	unoccupied	**Seaway Logistics (30.3% of NLA)**
Weighted Average Lease Expiry	3.4 years	7.25 years	unoccupied	**4.2 years**
Occupancy	100%	100%	0%	**89.6%**
Initial Net Passing Income	$2.1M	$1.2M	-	**$3.3M**
Net Market Income (fully leased)	$2.3M	$1.3M	$0.6M	**$4.2M**
Purchase Price	$34.776M	$20.7M	$7.3M	**$62.7M**
Valuation	$34.776M	$20.7M	$11.0M	**$66.5M**
Initial Passing Yield	6.10%	6.40%	N/A	**4.94%**
Capitalisation Rate	6.50%	6.25%	6.50%[1]	**6.42%**
Valuer	Savills (April 2019)	Savills (May 2019)	Savills (May 2019)	**Savills**
Valuer's Discount Rate	6.75%	6.75%	7.25%	**6.83%**
Value/sqm	$1,102 per sqm	$1,282 per sqm	$1,312 per sqm	**$1,249 per sqm**
Valuer's unleveraged 10-year IRR	6.78%	6.80%	7.21%	**6.86%**

Note 1: Capitalisation rate is based on a fully leased scenario. Source: Savills, Core Property

Leases, tenants and income

Key points on the tenancy profiles are:

- The largest single tenant is Seaway logistics which occupies the whole Altona North facility of 16,144 sqm. This accounts for 30.3% of the current portfolio (by NLA), with lease expiry in October 2026.
- **600-604 Geelong Road, Brooklyn VIC –** consists of five freestanding office/warehouse facilities with 9 tenancies which range in size from 55sqm to 8,133sqm. The property was initially developed circa 1980 and has a site coverage of 43% with additional hardstand areas. Average annual rent reviews are between 2.5% - 4.0% p.a.
- **11-25 Toll Drive, Altona North VIC –** consists of a cross-dock distribution facility constructed circa 2002 located within an established industrial location within the Toll Business Park with site coverage of 34%. The property is fully leased to Seaway Logistics for 10 years expiring October 2026 with fixed annual rent reviews of 3.25% p.a.
- **383 Boundary Road, Truganina VIC** – consists of four adjoining strata office/warehouse units completed in late 2018 located within an established industrial precinct of Truganina. All the units currently vacant, with the Fund recently settling the purchase in August and completed all repositioning works. The Manager has indicated it has a number of leasing proposals out and two offers to purchase the rear land, which has a development approval in place.

A summary of the tenancies is provided in the following table.

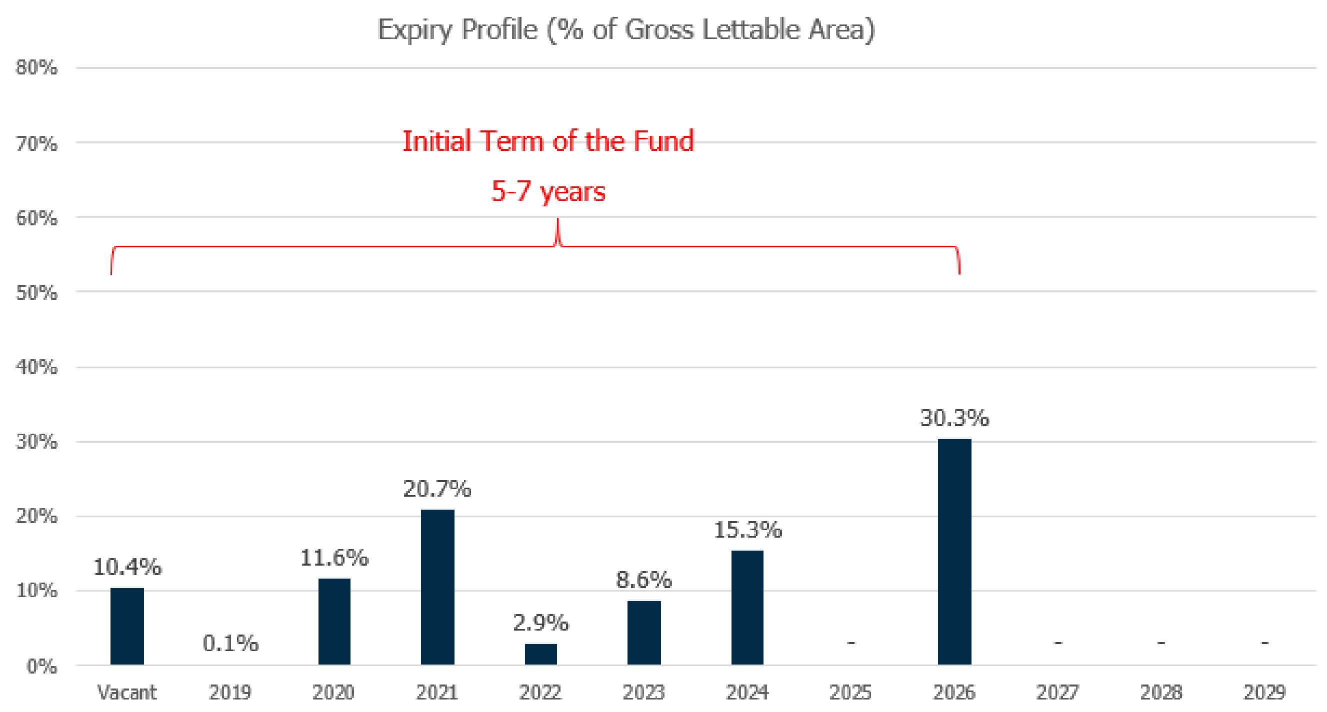
Figure 14: Tenant Metrics

Tenant	Lease Expiry	Options	Average Net Passing Rent (per sqm)	Rent Review	Area (sqm)	% of NLA
600 Geelong Rd, Brooklyn VIC						
Bag Trans Pty Ltd	Sep 24	5 years	70	Sep 19	8,133	25.7%
Storage Depot	Jul 20	4x5 years	63	Sep 19	6,188	19.6%
JBS Australia	Apr 21	4 years	68	May 20	5,661	17.9%
FBT Transwest	Jun 21	0.5+1 year	65	Jan 20	5,381	17.0%
New World Whisky	May 23		69	May 20	4,596	14.6%
Crown Melbourne	Feb 22		76	Mar 20	1,207	3.8%
Amipiyu Pty Ltd (Café)	Oct 22		113	Nov 19	350	1.1%
Fast Konnect Transport	Nov 19		181	-	55	0.2%
Eganamy Enterprises	Jan 26		-	Feb 20	Storage Yard	-
11-25 Toll Drive, Altona North VIC						
Seaway Logistics Pty Ltd	Oct 26	2x5 years	75	Nov 19	16,144	100%
383 Boundary Rd, Truganina VIC						
Vacant					5,530	100%

Source: Centennial, Savills

The figure below represents the Fund's weighted average lease expiry by GLA of the current three assets. The figure is representative of the Manager targeting a portfolio with a mix of expiries to manage income risk and provide consistent distributions for investors.

Figure 15: Property lease expiry (by GLA)



Source: Core Property

Market Sales Evidence

The table below shows the comparable sales transactions for similar assets as provided by the independent valuation reports undertaken in April/May 2019. The transactions suggest the Brooklyn and Altona North properties were priced in the line market, whilst the Truganina property appears to be priced at the high end of the market, reflecting the asset's strong location.

Figure 16: Recent transaction evidence

Property	GLA (sqm)	Sale Date	Sale Price	Equated Market Yield	IRR	Price per sqm	WALE
182-198 Maidstone St, Altona VIC	37,906	Feb-19	$41.2M	6.52%	6.96%	$1,087	2.57 yrs
414-416 Somerville Rd, Tottenham VIC	25,084	Feb-19	$22.0M	6.75%	7.63%	$877	3.10 yrs
1 International Drive, Westmeadows VIC	25,855	Oct-18	$42.0M	6.88%	7.83%	$1,631	2.27 yrs
2-10 Bliss Court, Derrimut VIC	9,715	Oct-18	$11.35M	6.35%	6.95%	$1,168	4.63 yrs
6 Albert St, Preston VIC	20,499	May-18	$30.5M	6.75%	6.77%	$1,488	2.09 yrs
600 Geelong Rd, Brooklyn VIC	**31,571**	**Jun-19**	**$34.776M**	**6.45%**	**6.78%**	**$1,102**	**3.45 yrs**
28-30 Marshall Court, Altona VIC	17,574	Feb-19	$29.5M	6.09%	7.07%	$1,679	5.60 yrs
182-198 Maidstone St, Altona VIC	37,906	Feb-19	$41.2M	6.52%	6.96%	$1,087	2.57 yrs
119-121 William Angliss Dr, Laverton North VIC	10,508	Dec-18	$12.0M	5.96%	6.73%	$1,153	0.80 yrs
2-10 Bliss Court, Derrimut VIC	9,715	Oct-18	$11.35M	6.35%	6.95%	$1,168	4.63 yrs
1 West Park Drive, Derrimut VIC	10,078	Aug-18	$10.6M	6.44%	7.12%	$1,052	4.58 yrs
21-23 & 25-27 Marshall Court, Altona VIC	15,285	Aug-18	$20.6M	6.35%	6.99%	$1,348	5.78 yrs
11-25 Toll Drive, Altona North VIC	**16,144**	**Aug-19**	**$20.7M**	**6.24%**	**6.75%**	**$1,282**	**7.49 yrs**
19-39 Studley Court, Derrimut VIC	23,529	Apr-19	$26.4M	Vacant	Vacant	$1,122	Vacant
40 Buys Court, Derrimut VIC	4,716	Apr-18	$5.9M	Vacant	Vacant	$1,251	Vacant
1 West Park Drive, Derrimut VIC	10,078	Aug-18	$10.6M	6.44%	7.12%	$1,052	4.58 yrs
28-30 Marshall Court, Altona VIC	17,574	Feb-19	$29.5M	6.09%	7.07%	$1,679	5.60 yrs
399 Boundary Rd, Truganina VIC	12,008	Nov-18	$15.55M	5.78%	7.10%	$1,295	10.32 yrs
20 Infinity Drive, Truganina VIC	11,580	Jun-18	$15.55M	6.15%	7.13%	$1,343	3.83 yrs
383 Boundary Rd, Truganina VIC	**5,527**	**Aug-19**	**$11.0M**	**Vacant**	**Vacant**	**$1,312 (GLA) $217 (rear development land)**	**Vacant**

Source: Savills

Market Rental Evidence

The following tables is a summary of comparable rents as provided by the independent valuer in April/May 2019. Based on the information in the valuation report, the net passing income at the Brooklyn and Altona North locations are around 6.6% and 5.3% below market levels. The vacant Truganina property is estimated to provide around $0.6M of net income on a fully leased basis.

Figure 17: Rental Evidence

Property	Lettable Area (sqm)	Net Passing Rent $ p.a.	Net Market Rent $ p.a.	Under /Over %
600 Geelong Rd, Brooklyn VIC	31,571	$2,121,572	$2,271,745	-6.6%
11-25 Toll Drive, Altona North VIC	20,644	$1,248,419	$1,318,660	-5.3%
383 Boundary Rd, Truganina VIC	5,527	-	$591,805	NA

Source: Savills

Capex

The Manager has indicated around $3.8M of capital expenditure over a 10 period across the three assets which has been taken into account by the Manager in their assumptions. The capex is forecast to be funded from existing working capital.

Financial Analysis

Core Property has reviewed the financial forecasts by the Manager for the current three properties in the portfolio. The key observations are:

- The Manager is currently paying distributions of 6.5% p.a. (annualised) and is targeting this to remain at 6.5% - 7.0% once the portfolio is finalised by 30 April 2020;
- Forecasts do not take into account any development of the surplus land at the Truganina VIC property;
- Forecasts assume that debt is 40% hedged for the full term of the Fund;
- Assumes the Truganina property is fully leased on market terms; and
- Forecasts are based on the current portfolio of properties. Core Property is unable to forecast the impact of additional acquisitions.
- Assumes all equity is fully deployed to the properties.

Core Property notes the distributions in Year 1 are conditional on leasing up the Truganina property. Whilst earnings are supportive of only a 6.1 cents distribution, we note the average earnings across the first three years are 6.8 cents per unit, and within the Manager's target range of 6.5 – 7.0 cpu.

It should be noted that the forecasts below have been undertaken by Core Property but should be seen as indicative only, as the portfolio is expected to materially change through further acquisitions.

Figure 18: Profit & Loss Forecast – based on portfolio as at October 2019

Profit & Loss - Forecast $M	Year 1	Year 2	Year 3
Net Property Income	4.0	4.5	4.2
Management Fee	-0.5	-0.5	-0.5
Fund Expenses	-0.1	-0.1	-0.1
Net Interest Costs	-1.2	-1.1	-1.2
Net Earnings	2.2	2.8	2.4
Net Earnings per Unit	6.1	7.7	6.5

Source: Centennial, Core Property

Initial NTA

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 investors' return over the term of the Fund.

Core Property has calculated the starting NTA based on the three assets in the Fund as at October 2019 and assuming full deployment of capital. The initial NTA of these assets is calculated at $0.86 per unit, with most of the dilution coming from acquisition costs. Investors should be aware the NTA is expected to move as further properties are acquired and assets are revalued over time.

Figure 19: Initial NTA – based on three assets in the Fund as at October 2019.

Amount per unit	$ per unit
Issue Price	$1.00
Less:	
Stamp Duty/Acquisition Costs	-$0.10
Acquisition Fee	-$0.03
Debt & Fund Establishment costs	-$0.01
Working Capital and Capitalised costs – assumed nil	-
Initial NTA per unit	**$0.86**

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).

Core Property has estimated the total return from the Fund based on the current portfolio and the assumptions provided by the Manager.

Using these assumptions Core Property expects the Fund to deliver a 5-year Internal Rate of Return (IRR) in the range of 8.6% - 13.1% (midpoint 10.4%). The calculation is based on the Manager's forecasts and assumes a +/- 50bps movement in the terminal capitalisation rate and an all-in interest rate of 3.09%, which is 25bps higher than the 2.84% currently being charged. The IRR should be used as a guide only as it is based on the current portfolio of three assets acquired for $62.7M. The Manager is targeting the portfolio to increase to $150M - $200M by April 2020 and, as such, the IRR is likely to be impacted by future acquisitions. If similar assets are acquired then similar returns may be expected by investors.

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.

Figure 20: Pre-tax, 5-year IRR (after fees) sensitivity analysis – Manager's assumptions

	Cost of debt				
Terminal cap rate	**2.09%**	**2.59%**	**3.09%**	**3.59%**	**4.09%**
5.92%	13.4%	13.1%	12.80%	12.5%	12.2%
6.17%	12.4%	12.1%	11.8%	11.5%	11.1%
6.42% (base)	11.4%	11.1%	**10.8%**	10.5%	10.1%
6.67%	10.5%	10.2%	9.9%	9.5%	9.1%
6.92%	9.6%	9.3%	8.9%	8.6%	8.2%

Source: Core Property

Management & Corporate Governance

The Manager, CIL Management Pty Ltd, is responsible for implementing the investment strategy of the Trust as outlined in the IM. The Manager is 50% owned by Centennial Property Group ("CPG") with the remaining 50% held by key personnel associated with the Manager. CIL Management was co-founded by Paul Ford, who has extensive experience in the industrial sector, having spent 11 years at Charter Hall's Industrial and Logistics funds management business from its inception in 2006 until December 2017 with over $5.5 billion in assets.

CPG was established in 2012 by Jonathan Wolf and Lyle Hammerschlag and has invested in over 65 properties with $889M of property acquisitions. CPG currently has $433M in Assets Under Management with a loan book of $74M. CPG has raised $532M in equity with a weighted average Internal Rate of Return (IRR) of 25.9% delivered for investors which include high net worth individuals, family offices and institutions.

CPG operates as a boutique, private equity style property manager focusing on identifying value added opportunities. Core Property notes the Board of CPG consists of Executive Directors with extensive experience within the property and funds management sectors.

Figure 21: Key Management Team

Name & Role	Experience
Paul Ford **Executive Director Centennial Industrial & Logistics**	Paul is the CEO of CIL and has over 20 years' experience in the Industrial and Logistics sector and has been involved in around $5 billion of capital transactions and $3 billion in equity raising. Paul co-founded CIL with CPG in 2018 after working at Charter Hall for 11 years where he drove and oversaw the growth of the national industrial and logistics portfolio from its inception to over $5.5 billion of assets.
Jonathan Wolf **Executive Director Origination & Execution**	Jonathan is a co-founder of CPG and member of the credit and investment committees. He is primarily responsible for the generation and execution of new transactions, deal structuring and client relationship management. Prior to establishing CPG in 2012, Jonathan was with Ernst & young for 13 years in Australia and Europe, including as a Director in the principal investments and transaction advisory team.
Lyle Hammerschlag **Executive Director Development & Asset Management**	Lyle is a co-founder of CPG and member of the credit and investment committees. He overseas due diligence, credit assessment and the ongoing management of the property portfolio. Prior to establishing CPG, Lyle held roles with Charter Hall and Stockland encompassing real estate, finance, transactions, research and analytics.
Paul MacPherson **Chief Financial Officer**	Paul is an experienced CFO, having held executive roles in the property industry for over 15 years, focusing on financial and management accounting, treasury and process and systems improvement. He was recently with a private family office and has held roles with Charter Hall Group and Multiplex. Paul joined CPG in August 2018.
Theone Star **Director, Marketing & Distribution**	Theone has over 20 years' experience in investment banking, asset management and property. Theone joined CPG in 2019 following 13 years with Australian Unity. Where she was active in building assets under management to over $5.5 billion. At CPG Theone drives the marketing strategy and is primarily responsible for distribution of funds and syndicates.
Crystal Wang **Director, Asia Desk**	Crystal has over 12 years' experience in financial markets in Australia and Hong Kong, including roles with Morgan Stanley and Nomura Securities, encompassing real estate, institutional equities and corporate actuarial. Crystal joined CPG in 2016.
Grant Taub **Head of Real Estate**	Grant joined CPG in 2018 as Head of Real Estate and is part of the senior leadership team. He has over 15 years' experience in strategy transactions and asset management, most recently at Dexus where he oversaw a $1.6 billion portfolio and completed around $5 billion of transactions.
Mark Zukerman **Head of Lending**	Mark has over 25 years' experience in local and global commercial lending and corporate banking. Mark joined CPG in November 2017, after 10 years in Australian Unity's Commercial Mortgage Trust business.

Source: Centennial

Compliance and Governance

The Fund's compliance is undertaken internally by CPG with review and oversight from an external experienced compliance professional, Mr James McNally. Mr McNally has over 18 years' experience in the funds management industry having worked in both property trust administration and compliance roles for Perpetual Trustees Australia Limited and MIA Services Pty Limited, a company that specialises in compliance services to the funds management industry. The Fund's compliance is monitored by the Directors and audited by external auditors.

Related Party Transactions

The IM provides that the Trustee and Sub-Trustee will manage any conflicts of interest in accordance with the Corporations Act, the Trust Deed, ASIC policy and the law.

The IM provides details of certain related party arrangements currently in place, including:

- The Trustee and Sub-Trustee have a Management Agreement with the Manager for services in return for the Manager receiving remuneration and reimbursement on arms-length commercial terms. CPG owns a 50% ownership share in the Manager with the remaining 50% held by key personnel associated with the Manager.
- The Trustee and Authorised Intermediary are related parties.
- The Trustee may from time to time enter transactions with other related parties at market rates and in accordance with the Corporations Act.
- The Directors and staff of CPG, the Manager or members of their families or entities which they control or have an interest in may also invest in the Fund. They may also indirectly benefit form the fees charged for the establishment, operation and management of the Fund.

Past Performance

The Manager has advised that, since 2012, CPG has transacted on 65+ properties with $889M in acquisitions and $516M in properties sold. During this period, CPG advises it has raised $532M in equity and delivered an weighted average Internal Rate of Return (IRR) of 25.9% for investors. 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.

Figure 22: Past Performance of CPG Funds

Property	Sector	Purchase Price	Sale Price	Date of Sale	IRR
Readers Digest Building, 26-32 Waterloo St, Surry Hills NSW	Commercial	$23.4M	$30.0M	Sep 14	32.4%
125 York St, Sydney NSW	Commercial	$17.7M	$25.0M	Dec 14	44.3%
12 Waterloo Rd, Macquarie Park NSW	Commercial	$9.1M	$14.6M	Oct 15	20.0%
132 Arthur St, North Sydney NSW	Commercial	$36.8M	$70.0M	Mar 17	42.8%
108 Wickham St, Fortitude Valley QLD	Commercial	$79.0M	$106.3M	Dec 17	15.8%
HP Campus, 196 OG Rd, Felixstow SA	Commercial	$30.0M	$35.0M	May 18	12.2%
Home Quarter, 55-67 Frankston-Dandenong Rd, Dandenong VIC	Bulky Goods	$22.7M	$29.8M	May 16	27.5%
Entrada, 20 Victoria St, Parramatta NSW	Retail	$22.1M	$41.3M	Dec 17	28.1%
IBIS, 14 Palmer St, Townsville QLD	Accommodation	$9.0M	$9.5M	Aug 16	1.5%
704-744 Lorimer St, Prt Melbourne VIC	Industrial	$26.3M	$36.2M	Aug 15	23.3%
41 Wrights Rd, Drummoyne NSW	Development	$2.5M	$8.8M		21.4%
481 Willoughby Rd, Willoughby NSW	Development	$1.9M	$3.1M		22.6%
35 Henderson Rd, Alexandria NSW	Development	$5.5M	$10.0M		36.8%
291 George St, Waterloo NSW	Development	$2.9M	$11.9M		11.7%

Source: Centennial

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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