Core Property
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Unlisted Property Fund Report

Heathley Direct Medical Fund No.2

May 2018

A medical property fund with an established pipeline of acquisitions for growth

An update on the portfolio since last reviewed in October 2017

Heathley Direct Medical Fund No.2

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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For further information, please refer to the Disclaimer & Disclosure notice at the end of this document.

Heathley Direct Medical Fund No.2

May 2018

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:	26 June 2017
Offer Close:	30 June 2019[1]
Min. Investment:	$25,000
NTA:	$0.87 (31 Dec 2017)
Liquidity:	Illiquid
FY18 Forecast Distributions:	5.75 – 6.25 cpu
FY19 Forecast Distributions:	5.75 – 6.25 cpu
Distribution Frequency:	Quarterly, arrears
Fund Investment Period:	Up to 7 years[2]

1. The Manager may close the Offer early if the Fund is fully subscribed.
2. Consisting of an Investment Period of up to two years and a Portfolio Management Period of up to five years. The Fund may wind up earlier if the properties are sold prior to the end of the term.

Fund Contact Details

Toby Kreis
Head of Funds Management
tkreis@heathley.com.au

Mark Howard
Investment Director
mhoward@heathley.com.au

Note: This report is based on the Heathley Direct Medical Fund No.2 PDS dated 26 June 2017, together with other information provided by Heathley Asset Management Limited.

The Heathley Direct Medical Fund No.2 ("the Fund") is an unlisted property fund providing investors with access to a diversified portfolio of Australian medical/healthcare properties. The Fund's Responsible Entity and Manager, Heathley Asset Management Limited (the RE" or the Manager"), has extensive experience in property management and a track record with past syndicates. The Fund has an initial term of up to seven years from June 2017 to June 2024. During the initial Investment Period of up to two years, the Fund will acquire properties which it will hold and manage through the remaining Portfolio Management Period of up to five years.

The healthcare sector provides an attractive risk/return profile with stable tenancy profiles. The Fund provides an opportunity for investors to gain exposure to a portfolio of medical/healthcare properties predominantly in Queensland, NSW and WA. The Fund's investment criteria is to acquire medical properties greater than $4M with occupancy levels above 90%, weighted average lease expiries (WALEs) above 5 years with no more than 20% of the equity exposed to development opportunities.

The Manager is seeking to raise over $28M through the offer of units around $1.00 per unit to assist in the purchase of three medical/healthcare properties for $85.1M during the Initial Investment Period. The acquisitions will increase the portfolio to 11 properties worth $252M, including 2 properties under development and 2 properties to be acquired on a fund-through structure.

The Fund has doubled in size to $252M, since Core Property's last review in October 2017 when the portfolio was $123.9M. The Manager now intends to target a $300M portfolio (previously $150M) and has maintained its forecast distributions of 5.75 – 6.25 cents per unit p.a. over the life of the Fund, paid quarterly.

Based on the Manager's expectations, the portfolio will have an occupancy level of 100% and Core Property estimates the LVR to peak at 55% in FY18 and progressively reduce to 45% within two years. The Fund's target LVR is 45% and bank LVR covenant is 60%. The Fund has a three-year debt facility which it will need to refinance during the term of the Fund as well as source additional debt for the remaining acquisitions. The current ICR of 3.0x is above the 2.25x ICR covenant.

Fees charged by the Fund are at the low end of what Core Property has seen in the industry, based on the expected returns of the Fund (see Figure 5: Fees in Perspective). The Fund's NTA at Dec 2017 was $0.87. Core Property estimates the pre-tax equity IRR to be between 6.6% - 11.5% p.a. (midpoint 9.2%) over the initial term, based on the expected portfolio (see Financial Analysis section). The analysis includes the potential that investors may receive a capital gain or loss, based on market conditions. Core Property is unable to assess the impact of any additional acquisitions or disposals that may impact the Fund over its term.

Investor suitability

The Fund's expected portfolio has robust metrics and Core Property expects the income profile to be stable. Total returns will ultimately depend on the sale prices the Fund can achieve for its assets.

In Core Property's opinion, the Fund would suit investors who seek a high, secure income yield. Investors must be comfortable with the risks associated with a geared vehicle backed by health care assets located across Australia. The Fund would be best suited as part of an overall diversified property portfolio. As it is closed-ended, investors must be prepared to remain fully invested up to the expiry of the Initial Term in June 2024.

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Key Considerations

Highly regarded fund manager with a strong track record of performance and expertise in managing property funds. A greater representation of non-executive directors provides strong corporate governance and decision making.

Fund Structure: From June 2017 the Fund will acquire properties during an initial Investment Period of up to two years and hold and manage the properties for the remaining Portfolio Management Period of up to five years. Units are currently issued at the Net Asset Value plus transaction costs per unit, with the current Issue Price being $0.9975 (at 31 March 2018). Units issued prior to 30 November 2017 were issued at $1.00 per unit. Core Property considers the Issue Price to reflect an appropriate allocation of transaction costs across all investors.

Healthcare Sector Metrics: The healthcare sector represents 10.3% of Australia's GDP with projections for the strongest employment growth over the next five years. The sector is defensive in nature with attractive risk/return characteristics and a stable profile of tenancies for property investors.

Attractive Portfolio of Medical Assets: The Fund is targeting a $300M portfolio of medical/healthcare properties and has a current pipeline to build the portfolio to $252M. The property metrics are attractive based on expected tenancies: 1) occupancy is expected to be 100% at the time of acquisition, 2) portfolio WALE of 7.0 years (by income) as at 31 March 2018, with nine out of the 11 properties on a WALE of over 6 years.

NTA: The reported NTA at Dec 2017 is $0.87 per unit. The low NTA is as a result of higher fees combined with high gearing in the Fund during the Investment period.

Debt Profile: The Fund currently has a debt facility of $76.9M in place until October 2020 which is expected to increase to $122.9M to include the current acquisitions. Based on the Manager's forecast for debt and equity raisings, LVR is expected to be between 45% - 55% compared to a target of 45% and below the bank LVR covenant of 60%. The ICR is forecast at between 3.2x – 2.8x, above a 2.25x bank ICR covenant.

Distributions: The RE is forecasting distributions of 5.75 - 6.25 cents per unit over the seven-year term of the Fund, based on the expected portfolio.

Fee Structure: Fees charged by the Fund are at the low end what has been seen in the industry, based on the expected returns from the Fund (see Figure 5: Fees in Perspective).

Total return profile: Core Property estimates the pre-tax equity IRR to be between 6.6% - 11.5% p.a. over the seven-year term, based on the Fund's sensitivities to debt and capitalisation rates (see the *Financial Analysis* section for more details). Investors may receive a potential capital gain or loss, depending on market conditions.

Illiquid investment: Investors must accept that by their very nature, unlisted property funds are illiquid. The Manager does not intend to provide a Withdrawal Facility and investors should be willing to remain fully invested up to the expiry of the Initial Term in June 2024.

Investment Scorecard

Management Quality

★★★★★

Governance

★★★★☆

Portfolio

★★★★☆

Income Return

★★★☆☆

Total Return

★★★★☆

Gearing

★★☆☆☆

Liquidity

★☆☆☆☆

Fees

★★★☆☆

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Fund Structure

An unlisted property fund investing in Australian medical properties

Management

Well regarded Australian property fund manager with a solid performance track record. Greater representation of non-executive directors leads to a balance of decision making. Good track record on corporate governance.

Property Portfolio

No of Properties:	11
Property Valuation:	$252M
Property Location:	QLD, NSW, WA
Property Sector:	Medical / Healthcare
Occupancy:	100%[1]
WALE:	7.0 years (by income as at 31 March 2018)

1. Occupancy as at 31 March 2018 and includes rental guarantees in place, and agreements for lease on properties under construction.

Return Profile

Forecast Distribution:	5.75 – 6.25 cents per unit (FY18) 5.75 – 6.25 cents per unit (FY19)
Distribution Frequency:	Quarterly, in arrears
Tax advantage:	TBA[1]
Estimated Levered IRR (pre-tax, net of fees):	6.6% - 11.5%
Investment Period:	Up to 7 years to June 2024

1. Distributions are likely to be tax deferred and will be dependent on the timing of acquisitions.

Risk Profile

Property/Market Risk:	Capital at risk will depend on a portfolio of Australian healthcare properties. Investors will be exposed to a potential capital gain or loss, based on market conditions.
Interest Rate Movements:	Any change in the cost of borrowings may impact the distributable income of the Fund's underlying investments as well as distributions from any potential direct properties the Fund may acquire.
Property Specific Risks:	Property investments are exposed to a change in vacancy rates, prevailing market rents, and economic supply and demand. Investors should be aware the portfolio may change over time as properties are acquired during the Investment Period and if any properties are sold.

For a more detailed list of the key risks, refer to the Risks section (Section 10) of the Product Disclosure Statement.

Fees Paid

Core Property considers the Fees to be at the low end of the markets when considered in the context of the projected returns (see Figure 5: Fees in Perspective).

Entry Fees:	Nil
Exit Fees:	Nil
Withdrawal Fees:	Up to 4% of the withdrawal amount. The Manager will advise if it offers a Withdrawal Facility.
Property Acquisition Fee:	3.0% of purchase price
Property Disposal Fee:	2.0% of sale price (includes external selling fees)
Ongoing Management Fees:	1.45% p.a. of the Net Asset Value (NAV) of the Fund (equivalent to 0.65% - 0.80% of GAV based on 45%- 55% LVR), consisting of: • 1.20% of NAV for Management Fees, and • 0.25% of NAV for Admin Costs & Expenses.
Performance Fee:	20% of the outperformance over an equity IRR of 10.0% (pre-tax, net of fees).

Debt Metrics

Drawn Debt / Facility Limit:	$76.9M / $76.9M
Loan Period:	3 Years to Oct 2020
LVR / Peak LVR / Loan Covenant:	50.7% / 55% / 60%
ICR / Low ICR / ICR Covenant:	3.1x / 2.8x / 2.25x

Legal

Offer Document:	Product Disclosure Statement, 26 June 2017
Wrapper:	Unlisted Property Fund
Fund Manager:	Heathley Asset Management Limited (ACN 003 976 672, AFSL No.246368)
Responsible Entity:	Heathley Asset Management Limited (ACN 003 976 672, AFSL No.246368)
Custodian:	Perpetual Corporate Trust Limited

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Fund Overview

The Heathley Direct Medical Fund No.2 ("the Fund") has been formed to provide an investment in a diversified portfolio of medical properties in Australia. The Fund is the fifth medical fund to be established by Heathley Asset Management Limited as Manager and Responsible Entity ("the Manager") and follows the launch of the Heathley Direct Medical Fund No. 1 in November 2014.

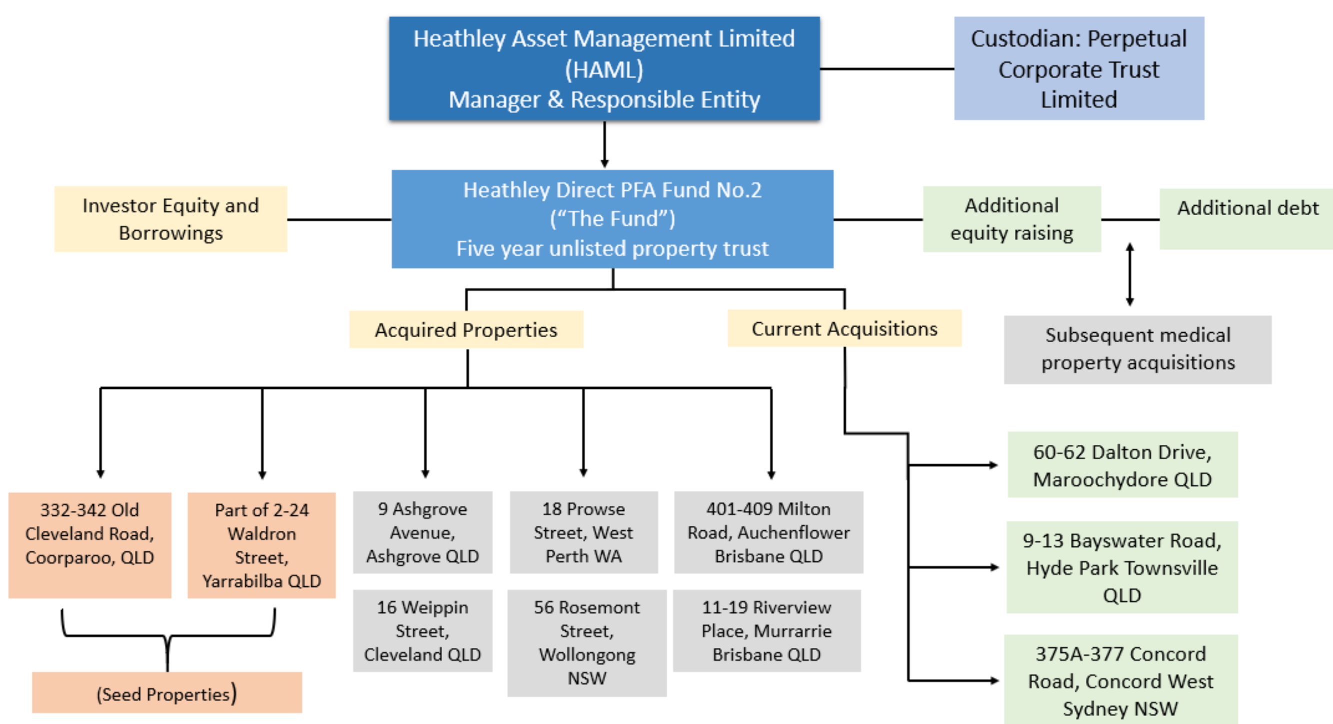
The Fund has an initial term of up to seven-years, whereby it will acquire property over an initial Investment Period of up to two years, and then hold and manage the properties during a Portfolio Management Period of up to five years. The Manager is targeting an investment portfolio of $300M with a current pipeline to reach $252M (11 properties) during the Investment Period. The acquisitions include two seed properties which were identified in the PDS at 26 June 2017 plus an additional nine properties contracted after this date. The Manager may acquire additional properties during its Investment Period, which it will hold through the Portfolio Management Period. During, or at the end of the initial term, investors will be asked to vote on whether to wind up the Fund or extend for a further two years. An extension beyond the additional two years will require a unanimous resolution.

The Offer

The Manager is seeking to raise over $28M through the issue of units at an Issue Price equivalent to the Net Asset Value of the Fund plus Transactions Costs, divided by the total number of Units on Issue ("the Offer"). As at 31 March 2018 the Issue Price was $0.9975. Core Property considers the Issue Price to reflect an appropriate allocation of transaction costs across all investors during the Investment Period. Prior to 30 November 2017 the Issue Price was $1.00 per unit. The minimum investment is $25,000, increasing in multiples of $5,000 thereafter.

The Manager has forecast distributions of 5.75 - 6.25 cents per unit over the seven-year term of the Fund, based on the expected portfolio of acquisitions. Distributions are paid to unitholders on a quarterly basis, in arrears. An investment in the Fund should be considered illiquid and investors should be prepared to remain invested for the minimum period up to the expiry of the Initial Term in June 2024.

Figure 1: Fund structure



Source: Core Property, Heathley

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Investment Criteria

The Fund operates under the following investment criteria for property acquisitions.

Figure 2: Investment Criteria

Category	Criteria
Property Type	Primary – GP clinics/medical centres. Secondary – Small day hospitals, overnight hospitals (such as mental health), specialist facilities (such as radiology, oncology, IVF), diagnostic facilities (imaging and pathology). Tertiary – private hospitals. Allied health – such as dentist, physiotherapy, podiatry. Ancillary – ancillary medical service providers such as pharmacy, café, childcare, consulting suites, medical office, medi-hotels and car parks.
WALE:	> than 5 years
Occupancy:	> than 90%
Property Size	> than $5M
Development	To grow income and capital returns for Investors, the Fund may acquire and fund greenfield and brownfield development opportunities, which will be held for the long-term by the Fund. Development opportunities will have some element of risks attached, such as not having a development approval in place or agreements for lease in place with the majority of tenants. The Manager will seek to partner with developers with established track records to deliver development opportunities and have a maximum exposure of 20% of the Fund's equity allocated to development opportunities.

Source: Heathley

Sources & Application of funds

The Fund is raising over $28M to assist in the completion of recently completed acquisitions.

Liquidity / exit strategy

The Fund will operate for an initial term of up to seven years from June 2017 to June 2024. The initial term may be less than seven years if the Manager decides to shorten the Investment Period or a sale of the portfolio occurs during the Portfolio Management Period. At the end of the Initial Term, investors will be asked to vote in favour of either extending the Fund for a further two-year period or winding up the Fund. Any further extensions beyond the additional two years will require unanimous approval from investors.

The Manager does not intend to offer a withdrawal facility during the initial seven-year term of the Fund. If a withdrawal offer is made, the Manager will advise investors of the terms of the offer and any fees to be paid. A Withdrawal Fee of up to 4% may be applicable. Investors should view the Fund as illiquid in nature and be willing to remain invested for the minimum period up to the expiry of the Initial Term in June 2024.

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Debt Facility & Metrics

As at 31 March 2018 the Fund has a debt facility of $76.9M with NAB for three years from October 2017 to October 2020. The Fund is currently looking to increase the facility to $122.9M to take into account recent acquisitions. Based on the Manager's forecasts, Core Property estimates the peak LVR to be 55% reducing to 45% in FY20. The forecast LVR is above the Fund's target LVR range of 45% and below the bank LVR Covenant of 60%. The ICR is forecast to range between 2.8x and 3.2x over the remainder of the Fund, well above the ICR Covenant of 2.25x.

The Fund has fixed the interest rate on $18M of debt from 1 December 2018 to 11 October 2020 at an all-cost of debt of 4.1% - 4.5% (based on LVR).

Based on the expected portfolio, Core Property estimates the Fund can withstand a 12.4% reduction in the value of properties before it will breach its LVR covenant, and a 23.5% reduction in net income before it will breach its ICR covenant. The calculations are based on the Manager's expectations for debt and equity raisings, and any adverse movement in the assumptions may impact on the Fund's ability to acquire its intended properties.

The following table is a summary of the debt metrics for the Fund. Investors should be aware that the returns of the Fund will be impacted by the Fund's ability to refinance and source appropriate debt financing over the term of the Fund.

Figure 3: Debt Metrics

Details	Metric
Bank	NAB
Security	First ranked mortgage secured against the pool of properties in the Fund
Debt Facility Limit Current / Forecast FY19	$76.9M / $122.9M
Draw Debt Current / Forecast FY19	$76.9M / $122.9M
Initial Loan Period	3 years expiring October 2020
All in cost of Debt	4.1%
Initial LVR	48.0%
Target LVR	45.0%
LVR Covenant	60.0% (maximum)
Peak LVR / Year	55.0% / 2018
Interest cover ratio / bank covenant	3.1x / 2.25x
Low ICR / Year	2.8x / FY21
Amount by which valuation of properties will have to fall to breach LVR covenant	12.4%
Amount by which income will have to fall to breach ICR covenant	23.5%

Source: Core Property, Heathley

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Fees Charged by the Fund

The Fund charges Management Fees based on 1.45% of the Net Asset Value (NAV) of the Fund. Core Property calculates this to be equivalent to 0.65% - 0.80% of the Gross Asset Value (GAV) of the Fund (assuming an LVR of 45%- 55%) which is at the low end of what we have typically seen in the market (0.7% -1.1% of GAV).

Whilst the Property Acquisition Fee and Disposal Fee appear to be at the high end of the market, the Manager has advised that the Property Acquisition Fee takes into account the additional costs of sourcing its off-market acquisitions and the Disposal Fee is inclusive of any external agent selling costs that may be incurred.

Figure 4: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry/Establishment Fee	Nil. The Fund does not charge any Entry/Establishment Fees.	
Withdrawal Fee	If a liquidity or redemption facility is offered, the Manager will advise the applicable fee prior to the offer. The fee may be up to 4.0% of the value of the units being redeemed. A similar fee may apply for the transfer of units to another entity.	The Manager does not intend to offer a redemption facility during the initial term of the Fund.
Exit Fee	Nil. The Manager will not charge an Exit Fee at the end of the term of the Fund.	
Contribution Fee	Nil – The Fund does not charge a Contribution Fee on any increases in investment holdings. There is no fee charged to Investors wishing to change their investments options.	
Property Acquisition Fee	3.0% of the purchase price of the property.	The Acquisition Fee is at the high end of the industry average of 1.5% - 2.0%.
Property Disposal Fee	2.0% of the sale price of property.	The Disposal Fee is at the high end of the industry average of around 1.0% - 2.0%.
Ongoing Management Fees – Management Fee, Administration Costs & Expenses, Other Indirect Costs	Estimated at 1.45% of the Net Asset Value of the Fund, consisting of: • 1.20% p.a. Management Fee • 0.25% p.a. estimated Administration Costs and Expenses	We estimate the Total Ongoing Management Fee to be equivalent to 0.65% - 0.80% p.a. of the Gross Asset Value (GAV) of the Fund, based on a 45% - 55% LVR. This is at the low end of what we have typically seen in the industry (0.7% - 1.1% p.a. of GAV).
Performance Fee	20% (excluding GST) of the Fund's performance above an IRR of 10% p.a. after fees and costs.	Fee is in line with industry expectations and considered appropriate.

Source: Heathley, Core Property

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All-in fee analysis

In the table below, Core Property analyses how much of the Fund's cash goes to the RE in fees, and how much is left over for investors as a percentage of the total Fund cash flow. The key assumptions include:

- Calculations are based on a seven-year fund term to June 2024.
- Assumes costs are based on the 11 properties portfolio acquired for $252.0M.
- A Disposal Fee has been included. We have assumed the Manager receives 1% of the sale price (being half of the 2% Disposal Fee) with the balance being used to pay for external selling costs, including any agent fees.
- A Performance Fee has not been included.
- Core Property assumes there is no change in the forecast portfolio terminal cap rate of 6.16% at the end of the Initial term, which effectively assumes no cap rate compression. A lower terminal cap rate would lead to a higher sale price and hence, higher performance fees may be payable.

Overall, Core Property estimates that the RE takes 6.7% of the total cash generated by the Fund, which leaves investors with $1.66 per unit, or approximately 93.3% of the total. Core Property considers the fees paid to the Manager to be at the lower end of the industry when compared to similar products, which are typically around 7% - 9%. 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:	$0.66
Total cash to investors:	**$1.66**
Acquisition fee:	$0.05
Disposal fee:	$0.02
Base management fee:	$0.05
Fees for the RE (excluding admin costs)	**$0.12**
Total cash generated by Trust	**$1.78**
Fees = % of total cash generated (before fees)	6.7%

Source: Core Property estimates

Healthcare Sector

The healthcare sector offers an attractive property investment proposition by way of its strong position within the economy. Key attributes which influence the healthcare market include:

- **High GDP Expenditure** - In the 2015-2016 period health expenditure in Australia was $170.4B, representing 10.3% of Australia's GDP. This is an increase from 8.7% in the 2005-2006 period (as provided by the Australian Institute of Health and Welfare). In 2015-2016 the estimated expenditure on health averaged $7,096 per person p.a., representing an average annual growth rate of 5.2% over the 2005-2006 period.
- **Drivers of Expenditure** – Growth in health expenditure is being driven by population growth and an ageing population. These factors are expected to continue to drive expenditure in the sector over the long term.
- **Defensive nature of industry** – The healthcare industry is defensive in nature and is uncorrelated to the economic cycle. Health expenditure is largely a mandatory, nondiscretionary spend.
- **Attractive risk/return characteristics** – Based on MSCI data over a 12-year period, the healthcare property sector offers the best risk-adjusted total return relative to other property sectors (see Figure 6 below).
- **Strong employment growth forecast** – The Health Care and Social Assistance industry is expected to deliver the strongest employment growth in the Australian economy with projections of 16.1% growth in the five years to May 2022. Approximately 25% of new jobs are projected to be in the healthcare industry.

Investment Rationale

- **Stable profile of tenants** – The Healthcare industry benefits from a very stable credit profile of tenancy. With business conditions and forecasts for strong growth in the industry, Core Property considers the sector to offer a low risk of default by tenants in their rental agreements.
- **Low tendency for tenants to relocate** – Core Property considers healthcare tenants to be more "sticky" to their rental locations for a number of reasons:
    - Healthcare practitioners often build up a clientele and reputation based around their current location, so there is a low willingness to relocate;
    - Properties are generally purpose built to suit the healthcare provider, and the cost of moving expensive machinery is often a disincentive to relocate; and
    - Health facilities are often located in "hubs" close to hospitals and other related services. Practitioners are less willing to move away from well situated locations unless there is a guarantee of finding alternative replacement locations.

Figure 6: Historical Return vs Volatility – by Sector - MSCI

Property Sector annualised observations to 31 December 2016[1]

Sector	Annual return	Return volatility	Sharpe ratio
Healthcare	**13.4%**	**2.1%**	**4.3**
Office	10.2%	3.8%	1.5
Retail	9.6%	2.7%	1.9
Industrial	9.8%	3.5%	1.5
Hotel	12.9%	4.2%	2.0

Source: Generation Healthcare, based on MSCI data for 12 years ended December 2016.

Figure 7: Department of Jobs and Small Business Industry Projections – five years to May 2022

Industry	Projected employment growth – five years to May 2022	
	('000)	(%)
Agriculture, Forestry and Fishing	-2.4	-0.8
Mining	5.6	2.4
Manufacturing	-38.3	-4.2
Electricity, Gas, Water and Waste Services	-9.0	-7.0
Construction	120.7	10.9
Wholesale Trade	1.9	0.5
Retail Trade	45.6	3.7
Accommodation and Food Services	97.6	11.2
Transport, Postal and Warehousing	40.3	6.5
Information Media and Telecommunications	6.9	3.3
Financial and Insurance Services	24.6	5.6
Rental, Hiring and Real Estate Services	18.0	8.5
Professional, Scientific and Technical Services	126.4	12.5
Administrative and Support Services	34.9	8.4
Public Administration and Safety	75.0	9.3
Education and Training	116.2	12.0
Health Care and Social Assistance	250.5	16.1
Arts and Recreation Services	21.4	9.9
Other Services	12.3	2.5
All Industries	**948.4**	**7.8**

Source: Industry Employment Projections 2017 Report (August 2017), Department of Jobs and Small Business

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Property Portfolio

The Fund is currently expected to acquire a total of 11 medical properties for $252.0M. Core Property notes the Cleveland property has a WALE of 3.7 years, which includes the major tenant (Mater) on a rental guarantee until December 2021.

The Fund has a valuation policy requiring an independent valuation at least once every two years and prior to any acquisition Director's valuations are undertaken every six months as part of the Fund's financial reporting.

The following table is a summary of the current expected portfolio of properties to be acquired through to the end of 2018.

Figure 8: Properties in the Fund

Property	Description	Acqn Date	Acqn Price	NLA sqm	Occ	Cap rate	WALE years
332-342 Old Cleveland Road, Coorparoo	X-Ray/Chemist/Clinic	Jun 17	$18.2M	1,607	100%	6.00%	6.4
18 Prowse Street, West Perth WA	Day Hospital (fund through)	Oct 17 (Aug 18 completed)	$8.6M[1]	1,226	100%	6.25%	10.0[1]
401-409 Milton Road, Auchenflower QLD	Eye Institute / Diagnostic	Oct 17	$40.5M	3,648	100%	6.00%	8.2
2-24 Waldron Street, Yarrabilba QLD	GP Clinic/Chemist	Dec 17	$11.5M	1,090	100%	6.25%	12.4
16 Weippin Street, Cleveland, QLD	Medical Providers	Dec 17	$37.7M	5,585	100%	6.00%	3.7
56 Rosemont Street, Wollongong	Endoscopy clinic/Day surgery	Feb 18	$2.1M	315	100%	6.60%	7.0
11-19 Riverview Place, Murarrie, Brisbane QLD	QML Pathology Head Office/Central laboratory	Mar 18	$41.6M	10,005	100%	6.25%	2.9
9-13 Bayswater Road, Hyde Park Townsville QLD	Private Hospital	May 18	$26.0M	6,151	100%	6.63%	10.0
9 Ashgrove Avenue, Ashgrove QLD	Development – Medical site	Jul 17 (Nov 18 completed)	$7.4M[1]	603	100%[2]	6.25%	10.0[2]
375A-377 Concord Road, Concord West Sydney NSW	Development - Radiation oncology specialist centre	Aug 18 (Apr 19 completed)	$17.5M[1]	1,000	100%	5.75%	10.0
60-62 Dalton Drive, Maroochydore QLD	Primary care/Ancillary health facility (fund through)	May 18 (completed Jan 19)	$41.6M[1]	6,711	100%	6.25%	7.0
Total Portfolio			**$252M**	**37,976**	**100%**	**6.16%**	**7.0**

Note 1: Numbers reflect completed values. Note 2: Ashgrove is based on expectations of 100% occupancy and 10-year WALE upon completion of the property in November 2018.
Source: Heathley

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Property Details

The following is a summary of the properties acquired and expected to be acquired in the portfolio.

332-342 Old Cleveland Road, Coorparoo, QLD

As at 31 March 2018	
Book Value	$18.2M
Capitalisation Rate	6.00%
NLA (sqm)	1,607
Occupancy-by NLA	100%
WALE	6.2 yrs
Acquistion Date	Jun 2017
Major Tenant: Queensland X-Ray (33% of Income), Terry White Chemist (29% of Income)	

The property is a mixed medical site which is 100% occupied. The key tenants are Queensland X-Ray, a Terry White chemist, a podiatrist and other medical providers. The site includes an onsite car park for 68 vehicles. The building is located in the heart of Coorparoo's residential and retail precinct, approximately 4 KMs south-west of Brisbane CBD.

18 Prowse Street, West Perth WA

As at 31 March 2018	
Book Value / Completed Value	$4.3M / $8.6M
Capitalisation Rate	6.25%
NLA (sqm)	1,226
Occupancy-by NLA	100%
WALE	10.3 yrs
Acquisition Date	October 2017 (Completion August 2018)
Major Tenant: Montserrat Day Hospitals (100%)	

The property is an existing office building which is being redeveloped into a modern two-story hospital with 20-car basement parking under a fund-through development. The site is located approximately 1.2 KM from the Perth CBD. The site was acquired by the Fund in October 2017 with construction estimated to be completed in August 2018. The property has a 100% pre-committed lease to Montserrat Day Hospitals on a new 10-year lease.

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RiverCity Private Hospital, 401-409 Milton Road, Auchenflower QLD

As at 31 March 2018	
Book Value	$40.5M
Capitalisation Rate	6.00%
NLA (sqm)	3,648
Occupancy-by NLA	100%
WALE	8.0 yrs
Acquisition Date	Oct 2017
Major Tenant: Vision Eye Institute (61% of NLA)**,** Queensland Diagnostic (29% of NLA)	

The property is a modern free standing medical facility built in 1999 and recently extended and upgraded to include a three-level car park for 76 vehicles in 2017. The building includes two theatres used by the Vision Eye Institute and is located to the North-Western side of Milton Road in Auchenflower approximately three kilometres from the Brisbane CBD and has a hospital license. The Fund is considering additional expansion of the building above the car park, which could add around 2,000sqm of net lettable space. The property was acquired by the Fund in October 2017.

2-24 Waldron Street, Yarrabilba QLD

As at 31 March 2018	
Book Value	$11.5M
Capitalisation Rate	6.25%
NLA (sqm)	1,090
Occupancy-by NLA	100%
WALE	12.2 yrs
Acquisition Date	Dec 2017
Major Tenant: Terry White Chemmart / GP Clinic (73% of NLA)	

The Fund has acquired a newly developed medical centre, located at the entrance of a master planned community in Yarrabilba, Qld. The site is next to a Coles neighbourhood centre and opposite an IGA. Around 73% is leased to a medical centre and pharmacy, with the remaining space leased a Cafe and also covered by a two-year rental agreement provided by the vendor.

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16 Weippin Street, Cleveland, QLD

As at 31 March 2018	
Book Value	$37.7M
Capitalisation Rate	6.00%
NLA (sqm)	5,585
Occupancy-by NLA	100%
WALE	3.7 yrs
Acquisition Date	Dec 2017
Major Tenant: Mater (49% NLA), Radiation Oncology Partners (12% NLA)	

The property is located approximately 25 kilometres South-East of Brisbane, comprising of four modern stand-alone buildings three of which are predominately medical properties and includes a childcare centre. The property is leased to high quality medical providers and associated health users. The property has a 3.7 year WALE, which includes the Mater on a rental guarantee until December 2021.

56 Rosemont Street, Wollongong NSW

As at 31 March 2018	
Book Value	$2.0M
Capitalisation Rate	6.60%
NLA (sqm)	315
Occupancy-by NLA	100%
WALE	6.9 yrs
Acquisition Date	Feb 2018
Major Tenant: Montserrat Day Hospitals (100% of NLA)	

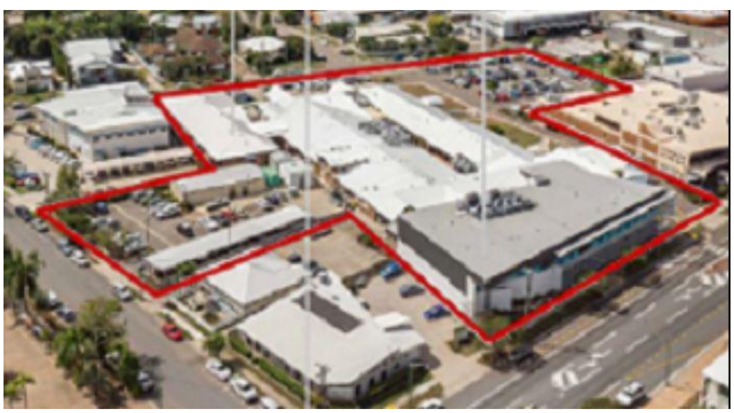
The property is a medical facility located on a 1,416.5sqm site located on the south-western corner of Rosemont Street and Urunga Parade. The property is situated within an established mixed medical and residential location, approximately 400 metres west of public and private hospitals in Wollongong NSW. The site has off street care parking for around 20 vehicles. The Manager has considered the site's future development potential to be attractive, given its surplus land and proximity to the large local hospital.

11-19 Riverview Place, Murarrie, Brisbane QLD

As at 31 March 2018	
Book Value	$41.6M
Capitalisation Rate	6.25%
NLA (sqm)	10,005
Occupancy-by NLA	100%
WALE	2.7 yrs
Acquisition Date	Mar 2018
Major Tenant: QML Pathlogy (100% of NLA)	

A modern, purpose built commercial office property with two primary buildings constructed circa-2005. The major tenant QML Pathology occupies 100% of NLA and has exercised the lease's first of four five-year options, which expires December 2020. The property is approximately 10km east of Brisbane's CBD and approximately 13km south of Brisbane Airport. The property has car spaces for 280 vehicles. Given the extensive specialised and costly tenant fitout at the premises, the Manager has advised that it has a high degree of comfort in tenant renewal. Negotiations for a lease extension are currently underway.

9-13 Bayswater Road, Hyde Park Townsville QLD



As at 31 March 2018	
Acquisition Value	$26.0M
Capitalisation Rate	6.6%
NLA (sqm)	6,151
Occupancy-by NLA	100%
WALE	10.2 yrs
Acquisition Date	May 2018
Major Tenant: Mater Womens, ICON Cancer Care and Queensland X-Ray	

The property is a freehold major regional health facility centrally located, within 3km of the Townsville CBD. The original building is set across a single level that was constructed in 1987 with the most recent extension/development undertaken in 2011. The property contains a large carpark with development potential. Major tenants include; Master HSNQ (69.7% of NLA), ICON Cancer Care occupy 17.5% of NLA and QLD X-Ray occupy 12.8% of NLA.

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9 Ashgrove Avenue, Ashgrove QLD

As at 31 March 2018	
Book Value / Completed Value	$2.5M / $7.4M
Capitalisation Rate	6.25%
NLA (sqm)	603
Occupancy-by NLA	Expected to be 100%
WALE	Expected to be 10.3 years
Acquisition Date	Sep 2018 (Completion)
Major Tenant	TBA

A development opportunity for the Fund to acquire a converted residential building and develop this into a modern two-story commercial building located in Ashgrove, approximately 4KMs north west of the Brisbane CBD. The Fund acquired the property in July 2017 for $2.3M, and will inject a further $4.1M to fund the construction with Longfield Property as the developer. Practical completion is expected in September 2018 whereby the Fund will receive 60% of the development profit and Longfield will receive 40%. The property will be fully owned by the Fund at completion. The site is 800sqm in size, and the building is estimated to provide around 600sqm of net lettable area. Although the property will not be completed until November 2018, the Manager expects that it will be fully leased and has already received expressions of interest from three leading healthcare providers to occupy the premises.

375A-377 Concord Road, Concord West Sydney NSW

As at 31 March 2018	
Completed Value	$17.5M
Capitalisation Rate	5.75%
NLA (sqm)	1,000
Occupancy-by NLA	100%
WALE	10.0 yrs (on completion)
Acquisition Date / Completion Date	Aug 2018 / Apr 2019
Major Tenant: Genesis Care (100% of NLA)	

The site will be developed into a modern, purpose built and state-of-the-art specialist cancer care centre to be completed by January 2019. The property will be equipped to hold 10 ground floor car parks. Major tenant; Genesis Care will occupy 100% of NLA, providing a long term secure income investment for the Fund.

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60-62 Dalton Drive, Maroochydore QLD

As at 31 March 2018	
Completed Value	$41.0M
Capitalisation Rate	8.0% coupon for development, 6.25% yield on completion
NLA (sqm)	6,711
Occupancy-by NLA	100%
WALE	7.2 yrs (on completion)
Acquisition Date /Completion Date	May 2018 / Jan 2019
Major Tenant: Expected to be QLD Gov and major health care provider	

The property is a development site for a $41.0M health care facility. The Fund will receive an 8.0% coupon rate for capital committed to the development and expects to receive a 6.5% yield upon practical completion. The Fund is currently in negotiations to lease the property to a combination of a Queensland health agency as well as a primary care and ancillary health provider.

Capex

The Fund's capital expenditure is almost entirely fund through debt and equity over the term of the Fund. Core Property expects the Fund LVR to range between 45% and 55% over the seven-year term, compared to the Fund's target of 45%, and below the bank covenant of 60%.

The inherent assumption here is that the capital expenditure is likely to improve the value of the building. While this has been the case in recent years, Core Property reminds investors that this may not be the case in adverse market conditions.

Leases, tenants and income

As the Fund is in its Investment Period and acquiring properties (including some properties under construction), the tenancy profile is likely to change over time. The majority of the tenancies have reasonably long WALEs above 5 years, with the exception of the Cleveland property which is currently on a WALE of 2.5 years. A summary of the indicative tenancies is provided in the table below.

Figure 9: Lease expiry Profile (by Income) - estimated

Property	Key Tenants	Remaining Lease Term	% of Income
332-342 Old Cleveland Road, Coorparoo, Qld	Queensland X-Ray	5.7 years	33%
	Terry White Chemist	9.5 years	29%
	Coorparoo Clinic	6.5 years	16%
	Coorparoo Podiatry	6.5 years	6%
Part of 2-24 Waldron Street, Yarrabilba Qld	GP Clinic / Terry White Chemist	14.9 years	73%
	Stellarossa Cafe	9.9 years	27%
9 Ashgrove Avenue, Ashgrove Qld	Expressions of Interest received from three medical providers	Est. 10 years from practical completion	100% (indicative)
18 Prowse Street, West Perth WA	Montserrat Day Hospital	10 years from practical completion	100%
RiverCity Private Hospital, 401-409 Milton Road, Auchenflower Qld	Vision Eye Institute	8.7 years	59%
	Queensland Diagnostic Imaging	8.7 years	29%
16 Weippin Street, Cleveland Qld	Mater Medical & Clinic, X Ray	1.7 years	57%
	Radiation Oncology Partners	8.8 years	11%
	Others (includes rental guarantee for 1.5 years)	0.3 – 4.2 years	25%
56 Rosemont Street & 51 Urunga Parade, Wollongong NSW	Montserrat Day Hospitals	6.9 years	100%
11-19 Riverview Place, Murarrie Brisbane QLD	CML Pathology	2.7 years at settlement	100%
60-62 Dalton Drive, Maroochydore QLD	Expected Qld Government and major health care provider	7.0 years at completion	NA
9-13 Bayswater Road, Hyde Park Townsville QLD	Mater Womens and Childrens Hospital	10.2 years	NA
375A-377 Concord Road, Concord West Sydney NSW	GenesisCare	10.0 years on completion	100%

Source: Heathley, Core Property

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Financial Analysis

Core Property has undertaken a financial forecast of the Fund, based on the Manager's assumptions for properties expected to be acquired during the Investment Period. Our key observations are:

- Forecast distributions range between 5.75 and 6.25 cpu per annum over the seven-year term of the Fund.
- Assumes a total of six properties are purchased for $252.0M by the Fund on yields of between 6.00% and 9.00%. Property is held on the Balance Sheet at cost price plus capital expenditure incurred.
- Average portfolio rental income growth is between 2.6% and 3.6% p.a. A reduction in rental income in FY20 is based on a number of lease expires at the Cleveland, Qld location.

A summary of Core Property's forecasts is presented in the table below:

Figure 10: Profit & Loss Forecast

Profit & Loss - Forecast $M	FY18	FY19
Net Property Income	**6.3**	**15.1**
Management Expenses	-0.7	-1.5
Fund Expenses	-0.2	-0.3
Net Interest Expense	-1.7	-4.8
Total Expenses	**-2.6**	**-6.7**
Distributable Earnings	**3.7**	**8.5**
Amount Distributed	3.6	8.5
Forecast Distribution per unit (cpu)	**5.75**	**5.75**
Balance Sheet – Forecast $M	**FY18**	**FY19**
Assets		
Investment Property	208.7	255.2
Cash & Other Assets	0.8	15.4
Total Assets	**209.5**	**270.6**
Liabilities		
Borrowings	97.6	122.6
Other Liabilities	2.2	2.9
Total Liabilities	**99.8**	**125.4**
Net Assets	**109.6**	**145.1**
NTA per Unit	$0.869	$0.915
Gearing	46.8%	45.4%

Source: Core Property forecasts

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).

The table below summarises our expected IRRs.

Based on an assessment of the RE's forecasts, Core Property expects a 6-year pre-tax equity IRR of approximately 9.2% assuming capitalisation and the cost of debt remains at current levels. Based on a +/-50bps movement in capitalisation rates and a +/-50bps movement in the cost of debt, the estimated IRR is between 6.6% - 11.5%.

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

Core Property notes that a portion of the debt ($18M) has been hedged for 2 years from 1 December 2018 to 11 October 2020.

Figure 11: Pre-tax, 6-year IRR (after fees) sensitivity analysis

Terminal cap rate	Cost of debt				
	3.1%	3.6%	4.1%	4.6%	5.1%
5.66%	11.7%	11.5%	11.2%	10.9%	10.6%
5.91%	10.8%	10.6%	10.3%	10.0%	9.6%
6.16% (base)	10.0%	9.6%	**9.2%**	8.8%	8.4%
6.41%	8.9%	8.5%	8.1%	7.7%	7.3%
6.66%	7.9%	7.5%	7.1%	6.6%	6.1%

Source: Core Property

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Management & Corporate Governance

Background of the Responsible Entity & Manager

Heathley Limited was established in 1977 to provide specialized management investment services to a niche market of high net worth individuals and high-income earners. In 1990, it established Heathley Asset Management Limited (HAML) which is the Manager and the Responsible Entity (RE) of the Fund.

Since 1990 HAML has acquired over $1B of commercial property across 41 property funds, the majority of which have been wound up and the properties sold. As at 31 December 2017 HAML was managing 11 property funds with total funds under management of approximately $525M.

Board of the Responsible Entity

Core Property has reviewed the composition of the RE Board and senior executive team and consider it has the relevant skills and experience to operate the Fund successfully. We note the Board comprises six Directors, four of which are independent, including the Chairman.

Figure 12: The Board of the Responsible Entity & Manager

Name & Role	Experience
John Stuckey Independent Chairman & Non-Executive Director	25 years' experience as a management consultant McKinsey & Company; former Chairman of External Advisory Panel of ASIC; and six years on Heathley Advisory Board.
Peter Hemming Founding Chairman and Non-Executive Director	37 years' experience having established Heathley Limited in 1977; Founding Chairman of Heathley Asset Management; former member of External Advisory Panel of ASIC.
David Smithson Non-Executive Director	35 years' experience in banking funds management and general and life insurance. Chairman of Heathley's IT Committee.
Andrew Hemming Managing Director	13 years' experience in investment markets with leading international financial institutions in Sydney and London. Appointed in 2013 and previously worked at Heathley from 2007 to 2011.
Peter Barnes Non-Executive Director	21 years' experience as Managing Director CRI Australia and Lend Lease; Non-Executive Director at Valad V+ Fund, Capstone Recruitment; Chairman of the Investment Committee at Charter Hall.
George Websdale Executive Director – Property	20 years' experience in management and investment management of commercial and industrial property across Australia. Previously General Manager of Office and Industrial at Stockland Property Group.

Figure 13: Senior Management Team

Name & Role	Experience
Toby Kreis Head of Funds Management	Over 13 years' experience in funds management and advisory industry. Prior roles include investment manager at Folkestone, analyst roles at Mirvac and at Deloitte in Assurance, Advisory and Corporate Finance divisions.
Mark Howard Investment Director – Property Funds	Over 12 years of experience. Previously, held roles within the property industry, including property analytics, valuations, property investment and development management and planning. Mark's responsibilities include creating new and maintaining private clients and assessing investor's objectives.

Source: Heathley

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Compliance and Governance

Core Property has reviewed the RE's Compliance Plan and believes the compliance framework and procedures are consistent with good corporate governance.

ASIC Regulatory Guide 46 "Unlisted property schemes: Improving disclosure for retail investors' and Regulatory Guide 198 'Unlisted disclosing entities: continuous disclosure obligations" describe ASIC's preferred benchmarks and principles. Core Property has reviewed the PDS in reference to the six benchmarks and eight disclosure principles recommended by RG46. The PDS adheres to the ASIC guidelines.

Related Party Transactions

The RE maintains, and complies with ASIC requirements for, a written policy on related party transactions, including assessment and approval processes for such transactions. All related party transactions will be conducted on an arm's-length basis and require approval of the RE's independent directors.

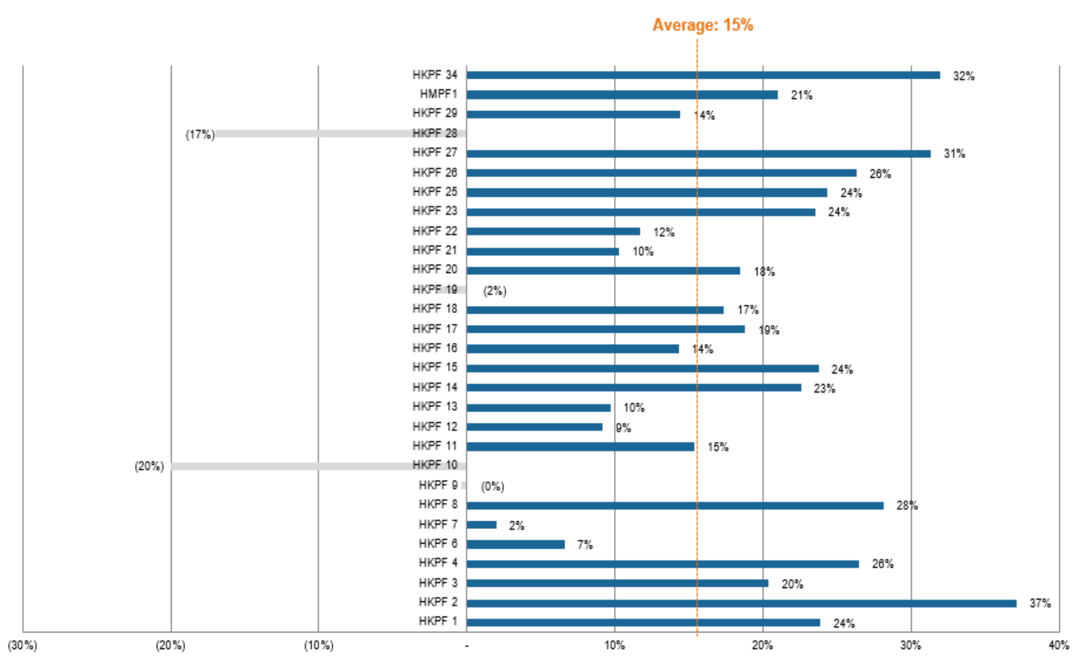
Past Performance

Heathley Funds Past Performance

Over the past 41 years Heathley has delivered an average IRR of 15% across 29 funds as presented in the table below.

When interpreting the returns, investors should note that past performance is not a reliable indicator of future performance as each syndicate – and its respective underlying asset – has its own specific risks and attributes, which operate difference under different market conditions.

Figure 14: Heathley Property Funds Historical performance – IRR



Source: Heathley Asset Management Limited

Heathley Medical Funds

The Manager has provided historical data performance of other medical property funds which are presented in the following table.

Figure 15: Performance of other medical funds managed by Heathley - as at March 2018

Fund	Inception Date	Investment Property Acquisition Price	Investment Property – Current Valuation	Income Return since Inception - cpu p.a.
HMPF#1	Jul-14	$21.5M	$30.8M[1]	6.6 cpu
HKPF#31	Jun-13	$11.1M	$13.0M	10.1 cpu
HKPF#32	Jan-14	$8.3M	$8.3M	7.5 cpu
HDMF#1	Nov-14	$125.8M	$129.8M	7.4 cpu
HACPF#1	Oct-15	$84.7M	$93.8M	7.4 cpu
Total Average		**$251.4M**	**$275.8M**	**7.8 cpu**

HMPF#1 has been wound up. The valuation reflects the sale price achieved on 30 September 2016.
Source: Heathley Asset Management Limited

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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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