

Unlisted Property Trust Report

MA Prime Logistics Fund

March 2021

Open ended industrial fund targeting 6.0%+ distributions

For Wholesale Investors only

MA Prime Logistics Fund

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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.

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MA Prime Logistics Fund

March 2021

The MA Prime Logistics Fund ("the Fund") is an open-ended unlisted property fund that invests in a portfolio of institutional grade industrial and logistics assets in Australia. The Fund has an initial term of five-years to December 2025, with rolling five-year terms.

The Fund's Manager, MA Investment Management Pty Ltd ("the Manager") and Trustee, MAAM RE ("the Trustee") are wholly owned by Moelis Australia (ASX: MOE). Moelis Australia is a listed financial services group which specialises in asset management, corporate advisory and equities with \$5.4 billion of assets under management.

The Fund strategy focuses on investing in institutional quality assets in the industrial and logistics space, which: (1) are located in industrial precincts with access to major transport infrastructure; (2) provide a portfolio WALE of at least 8 years; (3) supports the current distribution yield of 6.0% p.a., and (4) have low capex requirements. The Fund is open to Wholesale Investors only under the terms of the Information Memorandum (IM).

The Fund will either invest directly in a property or indirectly via the MA Logistics Fund (MALF). MALF has the same investment strategy as the Fund, however, it is structured to include offshore investors seeking to invest via the Significant Investor Visa (SIV) program. The Fund owns a majority 60.1% interest in MALF.

The Fund's initial property portfolio provides exposure to a highly sought-after industrial sector – MALF has acquired 16-26 Caribou Drive, Direk SA which is leased to Scott's Refrigerated Logistics with a long WALE of 14.9 years. In addition, the Fund has acquired a 100% direct interest in 67-73 & 75 Kaurna Ave, Edinbush SA, which is expected to be completed in August 2021 and leased to M3 Logistics on a new 7-year lease. As an open-ended fund, the portfolio metrics and forecast returns are expected to change as the Fund acquires additional properties.

The Fund manages debt on a look-through basis with a target LVR of between 35% - 45%.

The Fund is estimated to have an initial NTA of \$0.946 per unit based on the expensing of acquisition costs. Core Property notes that the NTA may change as additional assets are acquired.

Fees charged by the Fund are at the low-end of what Core Property has seen in the market. We note the Performance Fee hurdle is an IRR of 8%, which Core Property considers to be appropriate for the type of Fund.

The Manager is forecasting a 6.0% (annualised) distribution yield in calendar year 2021. Based on the Manager's assumptions for the existing portfolio, Core Property estimates that distributions can increase to 6.25% p.a. in 2022.

Core Property estimates the Fund to deliver an Internal Rate of Return (IRR) of between 6.0% - 8.8% p.a. (midpoint 7.5% p.a.) based on the Manager's assumptions and assuming a +/- 25 bps movement in capitalisation rates over the initial five-year term (see *Expected Future Performance (IRR Sensitivity)*). 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

Core Property considers the Fund will appeal to investors seeking a core investment in a portfolio of industrial assets. Distribution income is expected to be well supported by high quality, well located industrial assets with strong tenant appeal. Investors should expect the property portfolio to grow over time as additional properties are acquired to improve diversification.

Capital gains are expected to be low to moderate with capital gains expected to be delivered over the long term. However, demand for well-located industrial properties with quality tenants currently remains high from investors seeking exposure to industrial properties and logistics centres benefitting from a significant shift to e-commerce.

The Fund should be considered as part of a core investment strategy. Investors should expect to remain invested for the Initial Investment Period of five-years to December 2025, however the Manager intends to supplement this with a limited six-monthly liquidity facility from December 2023.

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 Period:	Open Ended
Minimum Investment:	\$100,000
Unit Entry Price:	\$1.00 per unit
Initial Net Tangible Asset per unit:	\$0.946 per unit
Liquidity:	Six monthly (from Dec 2023) ¹
Forecast Distributions:	6.00% p.a. (FY21)
Distribution Frequency:	Quarterly
Initial Investment Period:	5.0 years to December 2025
1.	Limited Withdrawal Facility, subject to a maximum 5% p.a. of the Net Asset Value of the Fund. The Manager will also offer a liquidity facility every five years, with the first offer expected around December 2025.

Fund Contact Details

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Fund – Website

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Note: This report is based on the MA Prime Logistics Fund Information Memorandum dated 1 March 2021, together with other information provided by Moelis Australia.

Key Considerations

Management: Moelis Australia (ASX: MOE) is an ASX-listed financial services group that specialises in asset management, corporate advisory and equities. The asset management business has \$5.4 billion of assets under management, including \$2.2 billion of real estate for sovereign funds, institutional, and high net worth investors. Since 2009 Moelis Australia has managed 12 real estate funds with an average total return of 12.9% p.a., including 7 completed funds which delivered a total return of 17.9% p.a.

Fund Strategy: The Fund is open-ended and has a Core investment strategy- investing in institutional quality industrial and logistics assets with passive income (contracted rent income). Target properties will be located in industrial precincts with major transport facilities and low capex requirements. The Fund also aims to target long term full occupancy, with a portfolio Weighted Average Lease Expiry (WALE) of 8 years or more.

Fund Structure: The Fund holds a majority interest in the MA Logistics Fund (MALF) which is the principal entity expected to acquire the assets. MALF operates with the same investment strategy as the Fund and has the added feature of offshore investors investing through the SIV program. The Fund has the option to acquire properties directly in its own right. An investment management agreement exists that provides for governance between MALF and the Fund. The arrangement provides: (1) potential acquisitions to be offered to MALF in the first instance; (2) if MALF does not acquire the property then the Fund may acquire the property directly; and (3) if a property is being sold by the Fund or MALF, then the other party will have a first rights.

Property Portfolio: The Fund's initial property exposure consists of two industrial properties valued at \$72.8M, with 100% occupancy and a portfolio WALE of 13.3 years: (1) 16-26 Caribou Drive, Direk SA is a modern cold storage facility, fully leased to Scotts Refrigerated Logistics. The property has been acquired by MALF, with the Fund owning a 60.1% interest in MALF; (2) the Fund has acquired a 100% interest in 67-73 & 75 Kaurna Ave, Edinburgh SA, a new warehouse facility which is expected to be completed around August 2021 and leased to M3 Logistics on a 7-year lease. The properties are being acquired on an average passing yield of 5.85% and a weighted average portfolio capitalisation rate of 5.39%, with the prices being supported by long lease expiries and strong tenant covenants.

Debt: The Fund has a target gearing of 35% - 45% measured on a look-through basis. Based on the acquisition of the Edinburgh SA property, look-through gearing is estimated to be 38.0%, consisting of: (1) 37.5% gearing in MALF for the Direk SA property and (2) 40% gearing in the Fund for the Edinburgh SA asset, upon completion. Gearing is expected to move within the target range as the Fund acquires additional properties over time.

NTA: The Fund's NTA is estimated at \$0.946 per unit based on the initial properties.

Distributions: The Manager is forecasting distributions of 6.0% p.a. (annualised) for 2021. Distributions are paid quarterly and is expected to increase in line with fixed annual rent increases.

Fees: Core Property considers the overall 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% over an 8.0% IRR hurdle, which Core Property considers to be appropriate for the Fund. Where the Fund invests in Moelis related funds, the fee charged by these funds will be rebated so as to avoid double fee structures.

Total Returns: Core Property estimates the Fund to deliver an IRR of 6.0% - 8.8% p.a. (midpoint 7.5% p.a.) based on the Manager's assumptions and assuming a +/- 25 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 value of the assets and any additional assets acquired, and overall market conditions, which may deliver an IRR outside this range.

Related Party Transactions: As a listed entity, Moelis Australia is required to have a documented process for related party transactions and conflicts of interests. The IM sets out the related party transactions, which include: (1) Moelis acquiring units in the Fund to facilitate the acquisition of properties; (2) the Fund's investment in MALF, which is managed by related entities within Moelis; and (3) the potential use of debt and equity funding from Moelis related entities.

Liquidity: Investors must accept that by their very nature, unlisted property funds are illiquid. The Fund has an initial five-year term and the Manager intends to provide a withdrawal in December 2025. In addition, the Fund intends to also offer a six-monthly withdrawal facility from December 2023 onwards, with a maximum limit of 5% p.a. of the Net Asset Value of the Fund.

Investment Scorecard

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

Key Metrics

Structure			
An open-ended unlisted property fund investing in a portfolio of industrial and logistics based assets located in Australia. The Fund will either invest directly in a property or indirectly via its investment in the MA Logistics Fund (MALF).			
Management			
Moelis Australia Limited (ASX: MOE) is an ASX listed financial services group specializing in asset management, corporate advisory and equities. The asset management team currently manages \$2.2 billion of real estate for sovereign funds and institutional and high net worth investors.			
Property Portfolio – March 2021 pro forma with acquisition			
	100% Value	Fund Ownership	Fund Exposure
16-26 Caribou Drive, Direk SA	\$63.1M	60.1% Indirect	\$37.9M
67-73 & 75 Kaurna Ave, Edinburgh SA	\$9.7M	100% Direct	\$9.7M
Total Property Exposure	\$72.8M		\$47.6M
Property Sector:	Industrial		
Key Tenants:	Scott's Refrigerated Logistics, M3 Logistics		
Occupancy:	100.0%		
WALE:	13.3 years (look-through basis, by income)		
Return Profile			
Forecast Distribution:	FY21: 6.0% p.a. (annualised)		
Distribution Frequency:	Quarterly		
Tax advantage:	Distributions are expected to be 60%- 70% tax deferred, however will change as further assets are acquired.		
Estimated Levered IRR (pre-tax, net of fees):	6.0% - 8.8% p.a. (midpoint 7.5% p.a.) Assumes a +/- 25 bps movement in capitalisation rates over 5 years, net of fees.		
Investment Period:	5 years to December 2025		
Risk Profile			
Property/Market Risk:	Investors will be exposed to a potential capital gain or loss, based on market conditions.		
Regulatory Risk:	Changes to taxation affecting the tax effectiveness of income and capital distributions. Changes to FIRB regulations affecting the investment structure of the underlying investment fund in the portfolio.		
Diversification Risk:	The Fund currently invests in industrial/logistics properties in South Australia. Over time additional industrial/logistics properties are expected to be acquired in different states.		
Tenant Risk:	Each property is reliant on a dominant single tenant which exposes it to substantial reliance on tenancy performance.		
For a more detailed list of the key risks, refer to "Section 8: Investment Risks" of the Information Memorandum.			
Fees Paid			
Entry Fees:	Nil		
Exit Fees:	Nil		
Property Acquisition Fee:	1.25% of purchase price		
Property Disposal Fee:	1.25% of the sale price. Any external agent's fee will be paid out of the fee.		
Management Fees:	- Management Fee: 0.60% p.a. of GAV. - Trust Expenses: est. 0.15% p.a. of GAV.		
Debt Establishment Costs:	0.40% of debt facility limit		
Performance Fee:	20% of the outperformance over an IRR of 8.0% p.a.		
Debt Metrics – indicative			
Drawn Debt / Facility Limit ¹ :	\$4.0M / \$4.0M		
Loan Period:	3 years, expiring December 2023		
Initial LVR / LVR Covenant ¹ :	40% / 55%		
LVR (look-through basis)	38.0%		
ICR / ICR Covenant ¹ :	5.4x / 2.0x		
Note 1: This is the Fund's on balance sheet debt and not on a look-through basis			
Legal			
Offer Document:	MA Prime Logistics Fund Information Memorandum, dated 1 March 2021		
Wrapper:	Unlisted Property Trust		
Manager:	MA Investment Management Pty Ltd (ACN 621 554 845)		
Trustee:	MAAM RE Ltd (ACN 135 855 186, AFSL 335783)		
Custodian:	Certane CT Pty Ltd (ACN 106 424 088)		

Fund Overview

The Fund is an open-ended, unlisted property fund that seeks to invest in a portfolio of institutional quality industrial and logistics assets in Australia. The Fund has an initial investment term of five-years, with rolling five-year terms thereafter.

The Fund Manager, MA Investment Management Pty Ltd (“the Manager”) and Trustee, MAAM RE Ltd (“the Trustee”) are wholly owned entities of Moelis Australia Limited (ASX: MOE). Moelis Australia was established in 2009 and listed on the ASX in 2017. The Moelis Asset Management business has \$5.4 billion of assets under management, including \$2.2 billion of real estate managed for institutional, high net worth and retail clients.

The Fund is open ended with units being offered at a current issue price of \$1.00 per unit. The Fund is open to Wholesale investors only with a minimum investment of \$100,000, however the Manager may accept lesser amounts at its discretion.

The Fund targets institutional quality assets in the industrial and logistics sectors, with a focus on properties in industrial precincts with access to major transport facilities and low capex requirements. Properties are expected to be in the \$10M – \$70M range.

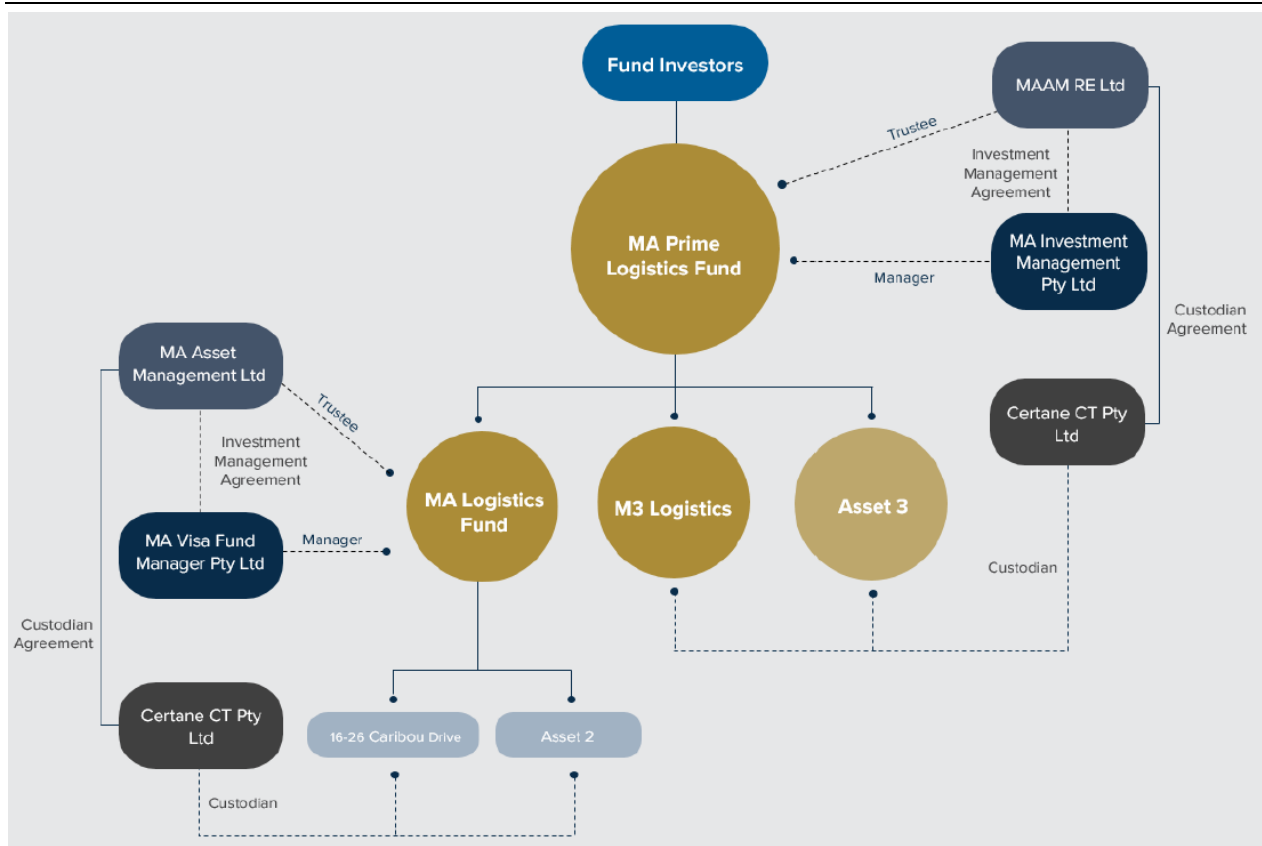
The Fund will either invest directly in the properties or indirectly via its investment in the MA Logistics Fund (MALF). The Fund currently holds a 60.1% majority stake in MALF, with the remaining interests being owned by Significant Investor Visa (SIV) investors. MALF has the same investment strategy as the Fund to provide alignment. The Fund may also acquire properties directly in its own right.

The Fund has been established with an initial investment in MALF (which owns 16-26 Caribou Drive, Direk SA, which was acquired in December 2020 for \$63.05M (Fund share \$37.9M). In addition, the Fund has acquired its first directly owned property, 67-73 & 75 Kaurna Ave, Edinburgh SA which is valued at \$9.7M on an as-if completed basis, with completion expected in August 2021.

The Manager is targeting a distribution yield of 6.0% p.a. (annualised) for calendar year 2021.

A summary of the Fund structure is provided below.

Figure 1: Fund structure



Source: Moelis

Fund strategy

The Fund has a core investment strategy to invest in high quality industrial and logistics assets. The Fund is open ended and targets industrial properties with the following Investment Criteria:

- Located within industrial precincts and within close proximity to major transport infrastructure.
- Backed by tenants operating in industries with attractive long-term dynamics eg. food logistics.
- Institutional quality with minimal obsolescence and capex during the investment period or alternatively the price reflects a high land value component.
- Provide a structured income growth profile.
- Offer the opportunity for long-term capital growth.
- Target asset size to generally be between \$10M and \$70M, although the Manager may exercise some discretion in satisfying this criteria should opportunities arise that satisfy all other criteria.
- The Fund may also invest in assets which are under development, provided it meets the Investment Criteria and has an agreement for a lease and planning approval to be in place.
- The Fund may also invest in assets with an existing vacancy provided the balance of the asset's investment attributes meet the Investment Criteria or be able to achieve it in the short term.

The Manager adopts the following Target Fund Parameters:

- A minimum Fund WALE of 8 years.
- Long term full occupancy.
- Achieve the current target distribution yield (of 6.0% p.a.).
- Gearing between 35% and 45%.
- The Manager will also manage liquidity through investing in cash (and cash equivalents) or by investing in A-REITs up to a combined maximum of 15% of the Fund, with no more than 10% in A-REITs.

Investment Process

The Fund will either invest directly in a property or indirectly via its investment in the MA Logistics Fund (MALF) which has exactly the same Investment Objective, Investment Strategy and Investment Criteria as the Fund. Both funds have the same Portfolio Manager and Investment Committees and are managed by wholly owned entities of Moelis Australia.

The Manager has advised the investment selection process requires all properties that meet the Investment Criteria will be offered to MALF in the first instance.

- Where MALF chooses to invest in a property, MALF may seek investment equity from its investor base, which includes investors with a Significant Investor Visa (SIV) as well as the Fund.
 - SIV investors currently hold a 39.9% interest in MALF and the Fund holds the balancing interest
- Where MALF chooses to not invest in a property, the Fund may acquire up to a 100% interest in the property on a direct basis.
 - The Manager has advised there are certain circumstances where MALF may choose to not invest in a property. These circumstances include (but are not limited to) any future changes to the SIV program, FIRB or the availability of capital.

Investors should note the Investment Process provides a priority for properties to be acquired by MALF in the first instance. The Fund owns units in MALF (currently 60.1%) and thereby owns an indirect interest in the properties.

All Target Fund Parameters are measured on a look-through basis, as if the assets owned by MALF are directly owned by the Fund.

All properties that meet the Fund Investment Criteria and Target Fund Parameters will be reviewed by the Portfolio Manager and presented to the Investment Committee for consideration. The Investment Committee is the same for the Fund and MALF and consists of the Group Vice-Chairman, Head of Asset Management and two Managing Directors of Moelis Australia. Once a property is approved by the Investment Committee, it may be acquired by either MALF or the Fund.

Capital Flows

As an open-ended Fund, investors should understand the potential capital flows through the Fund's investment period.

- The Fund has a 60.1% interest in MALF. As such, the Fund does not directly own the properties in MALF, however retains a controlling interest.
- If MALF seeks to raise additional equity to acquire a property, the Fund will be offered an opportunity to subscribe for additional units in MALF.
 - The Fund's interest in MALF may increase above 60.1% in the event that SIV investors do not take up their proportionate share of new units.
 - The Fund's interest in MALF may further be affected by future changes in FIRB requirements which may impact SIV investors.
- MALF has the same liquidity structure as the Fund to provide alignment of capital requirements. If SIV investors seek to redeem their investment in MALF via a liquidity event, the Manager may fulfill the request by way of new equity (including the offer of new units to the Fund), via an increase in debt, or the sale of assets. If an asset is offered for sale, the Fund will have the first option to acquire the property directly. If the Fund does not purchase the property, then it will be placed for sale in the open market.
- Similarly, if the Fund wishes to sell a property, MALF will have the first option to acquire the property. If MALF does not purchase the property, then it will be placed for sale in the open market.
- SIV investors in MALF who meet SIV program requirements, may consider redeeming their units in MALF at the five-year liquidity event in December 2025. Investors should be aware that this may have a consequential impact on the Fund's investment position in MALF – including, but not limited to, an increase in the Fund's ownership in MALF, a change in the debt position of MALF, or the possible sale of one or more properties in MALF.

Issue Price / Unit Price

The Fund is open-ended and investors may purchase units in the Fund at the prevailing Application Price, which has been initially set at \$1.00 per unit.

The Application Price is determined by the prevailing Unit Price plus any applicable Buy Spread.

- The Unit Price is calculated by taking the Net Asset Value of the Fund plus any capitalised and unamortised costs and expenses, minus any accrued fees, and dividing by the Number of Units on Issue. Acquisition Costs are amortised over 5-years on a straight-line basis.
- The current Buy Spread has been set at Nil as the acquisition transaction costs are incorporated in the Unit Price.
- The Unit Price and Application Price is updated on the issue of new units or any change in the net assets of the Fund. The Manager has indicated that it is evaluating a move to daily unit pricing. The daily unit price is expected to incorporate any revaluation of properties from 30 June 2021 onwards, which will incorporate the accrual of quarterly distributions in the unit price (on a cum-distribution basis).

To facilitate the acquisition of properties, Moelis Australia has acquired units in the Fund as a co-investor. Moelis may increase or decrease its holding in the Fund as funds are raised from new investors. In doing so, the Trustee may issue new units at the application Price by way of a transfer of units from Moelis Australia to new investors. The acceptance of the unit transfer will be contained in the Fund's application form.

Liquidity / exit strategy

The Manager will provide liquidity in the Fund by way of 2 methods:

- 1) A Limited Withdrawal Offer will be available on six monthly basis commencing 1 December 2023. The Manager intends to offer investors the ability to withdraw up to 5% p.a. of the Fund's Net Asset Value (NAV) through the facility. In order to manage this liquidity the Fund may hold up to 15% of gross assets in cash and cash equivalents and listed A-REITs (maximum 10% of the Fund NAV). The offer will be at the discretion of the Trustee and is subject to the Fund's financial position at the time.
- 2) At the end of the Initial Investment Term of five years, the Manager intends to offer investors the opportunity to redeem some or all their investment. In the lead up to the event, which is expected to occur around December 2025, the Manager will communicate to investors a proposed liquidity facility and the indicative Redemption Price, which is based on the Unit Price less the Sell Spread.

The withdrawal price applicable under the facilities will be based on the Unit Price, adjusted for a Sell Spread to take into account transaction costs the fund would incur in selling the investment and administration costs. The Manager estimates these costs will be in the order of 2.5% of the Unit Price. This fee is not paid to the Manager but is retained by the Fund. The Manager will advise the Sell Spread (if applicable) at the time of withdrawal.

The Fund's liquidity provisions are the same as the liquidity provisions in MALF. The Manager intends that the liquidity in the Fund will be offered at the same time as liquidity in MALF. Investors should expect that the Manager may consider the sale of one or all of the properties in the Fund or in MALF in order to fulfil withdrawal requests.

Sources & Application of funds

Core Property has reviewed the sources and application of funds for the initial two properties. The calculations assume the equity subscriptions are undertaken to fully fund the properties.

Investors should view the sources and application of funds as indicative only, as the capital requirements are expected to change as additional properties are acquired with additional equity and debt. Investors will note the Fund benefits from no Stamp Duty Costs on the properties in South Australia. Assets purchased in other states may attract the applicable rate of stamp duty in the future depending on whether they are existing or new properties under construction.

Figure 2: Sources and Application of Funds – based on initial two assets in portfolio

	60.1% ownership of MALF (Direk SA asset)	Edinburgh SA (100% owned by Fund)	Total Fund Share (assumes Fund owns 60.1% of MALF)	% of purchase price	% of total funds
Sources of funds					
Equity subscriptions	\$25.1M	\$5.9M	\$31.0M	65.1%	62.5%
Bank debt	\$14.2M	\$4.4M	\$18.6M	39.0%	37.5%
Total sources of funds	\$39.3M	\$10.3M	\$49.6M	104.1%	100.0%
Application of funds					
Purchase price	\$37.9M	\$9.7M	\$47.6M	100.0%	96.0%
Acquisition Costs (Stamp Duty)	-	-	-	-	-
Debt and Fund Establishment Costs	\$0.6M	\$0.2M	\$0.8M	1.7%	1.6%
Manager's Fee (Acquisition Fee)	\$0.5M	\$0.4M	\$0.9M	1.8%	1.7%
Working Capital & Capital Expenditure Reserves	\$0.3M	-	\$0.3M	0.6%	0.6%
Total application of funds	\$39.3M	\$10.3M	\$49.6M	104.1%	100.0%

Source: Moelis

Debt Facility & Metrics

The Fund has a target gearing of between 35% - 45%. Leverage is managed on a look-through basis with any leverage in MALF treated as if it were leverage directly in the Fund. The Manager uses the same debt provider for the Fund and MALF, to ensure alignment.

Core Property calculates the Fund's look-through gearing to be 38.0% on refinancing, based on a 60.1% interest in MALF and the acquisition of the Edinburgh SA asset.

MALF currently has a three-year debt facility for \$23.6M which is secured against the Direk SA asset. The all-in cost of debt is estimated at 2.00% pa..

- The Loan to Valuation Ratio (LVR) is 37.5% against an LVR covenant of 50%. Core Property calculates that the value of the properties must fall by 25.0% to breach the bank LVR covenant.
- The Interest Coverage Ratio (ICR) of 6.6x is above the ICR covenant of 2.0x. Core Property calculates that the net income must fall by 69.8% for this covenant to be breached.

The Fund has also provided indicative terms for a three-year debt facility for \$4.0M with an estimated all-in-cost of 2.05% p.a. to facilitate the acquisition of the Edinburgh SA.

- The Loan to Valuation Ratio (LVR) is 40% (on refinancing) against an LVR covenant of 55%. Core Property calculates that the value of the properties must fall by 18.2% to breach the bank LVR covenant.
- The Interest Coverage Ratio (ICR) of 5.4x is above the ICR covenant of 2.0x. Core Property calculates that the net income must fall by 62.9% for this covenant to be breached.

The Manager has indicated that it expects the LVR Covenant to be 55% on future acquisitions.

The following is a summary of the current 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. Investors should also note that the following debt metrics are expected to change as the Fund acquires additional properties.

Figure 3: Debt Metrics - indicative

Details	MALF (Direk SA asset)	The Fund (Edinburgh SA asset)
Bank	NAB	NAB
Security	General security deed over the assets of the Fund as well as first ranking security deed over the assets in the Fund.	General security deed over the assets of the Fund as well as first ranking security deed over the assets in the Fund.
Drawn Debt / Debt Facility Limit	\$23.6M / \$23.6M	\$4.0M / \$4.0M
Loan Type	Interest only	Interest only
Loan Period	3 years expiring December 2023	Expiry December 2023
% Hedged	0%	0%
Average cost of debt	2.0% p.a.	2.05% p.a.
Initial LVR / Peak LVR / LVR Covenant	37.5% / 37.5% / 50%	40.0% / 40.0% / 55%
Initial interest covered ratio (Lowest ICR) / ICR covenant	6.6x / 2.0x	5.4x / 2.0x
Amount by which valuation will have to fall to breach LVR covenant	25.0%	18.2%
Decrease in net income to breach ICR covenant	69.8%	62.9%

Source: Core Property, Moelis

Fees Charged by the Fund

Overall, Core Property considers the fees charged to be at the low-end of what has been seen in the market (see “All-in fee analysis” below). We note the following:

- The Fees charged by the Fund are calculated on a look through basis. As such, the fees charged on investments in MALF will be adjusted such that it will be no more than the fee charged should the asset be acquired and held directly by the Fund. In addition, where MALF may charge a higher fee, then the Fund’s fee will be rebated by the Manager. Any rebate of fees will be held as an asset of the Fund.
- The Fund charges a Performance Fee calculated at 20% of the Fund’s performance above an IRR of 8.0% p.a. The threshold of 8.0% p.a. is at the lower end of what Core Property currently has seen in the market, which we consider to be reflective of the current low interest rate environment.

Figure 4: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Acquisition Fee:	1.25% of the total consideration for an asset.	Core Property considers the Fee to be at the low end of the industry average of 1.0% - 2.0%.
Divestment Fee (Disposal Fee):	1.25% of the sale price for an asset.	The Fee is at the low end of the industry average of 1.0% - 2.0%.
Management Fees:	- Management Fees of 0.60% p.a. of the Gross Asset Value (GAV) of the Fund - Other costs and expenses are estimated at 0.15% p.a. of the Fund’s gross assets.	Core Property considers the Fees to be at the low end of what we have typically seen in the industry (0.7% - 1.1% p.a. of gross assets).
Leasing Fees:	Up to 50% of any external agent leasing fees payable in the event the Manager successfully executes a new lease agreement or extends an existing lease term.	
Project Development Fees:	A maximum of 5.00% of the total development costs on any capital projects.	Core Property considers the Fee to be within the range of what we have seen in the industry.
Debt Arrangement Fees:	0.40% of the facility limit on any new Debt Facility, or alteration to an existing facility.	
Performance Fee:	20% of the Fund’s outperformance over an IRR of 8.0% p.a.	Core Property considers the Fee of 20% to be in line with industry practice. The threshold of 8.0% p.a. is at the lower end of what has been seen in the market.

Source: Moelis, 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 6.2% of the total cash flow. Core Property considers the fees paid to the Manager to be at the low end of the range when compared to similar products, which are typically around 7% - 9%. In terms of fees paid to the Manager, Core Property estimates that 25.7% 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 5: Fees in Perspective – based on a five-year term

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:	\$1.38
Total cash to investors:	\$1.38
Acquisition fee:	\$0.02
Base management fee:	\$0.05
Disposal fee:	\$0.02
Debt Arrangement fee:	-
Performance fee:	-
Fees for the RE (excluding disposal/admin):	\$0.09
Total cash generated by Fund:	\$1.47
Fees = % of total cash generated (before fees)	6.2%
Up-front fee as a % of total fees	25.7%

Source: Core Property estimates

The Property Portfolio

The two properties are valued at \$72.8M (on a 100% basis) in total upon completion. The Fund's share is valued at \$47.6M, with 100% occupancy and a WALE of 13.3 years.

- **16-26 Caribou Drive, Direk SA** – The Fund has an indirect exposure to this property via a 60.1% interest in MALF. The property is a modern, high quality cold storage facility located in within the industrial precinct of Direk SA, approximately 27 km north of the Adelaide CBD and 22km north east of Port Adelaide. With a site area of 58,660 sqm and gross lettable area of 11,113 sqm, the property includes a single level office, chiller and freezer, workshop and plant room. The property was constructed in 2013/2015 with Scott's Refrigerated Transport entering a new 20-year lease in September 2015, with 3 x 5-year options. The site includes ~10,000 sqm of land that has been earmarked for potential expansion.
- **67-73 & 75 Kaurna Avenue, Edinburgh SA** – The Fund has acquired a 100% direct interest in new warehouse facility under construction for M3 Logistics. With a site area of 15,735 sqm, the property will comprise a single level office building attached to a warehouse and distribution facility across 6,732 sqm of gross lettable area. Construction is expected to be completed around August 2021 with an agreement for M3 Logistics to enter a new 7-year lease, with 2x5 year options. M3 Logistics intends to utilise the site as a logistics servicing centre. The property is located within the Edinburgh SA industrial precinct, approximately 27 km north of the Adelaide CBD and 25 north east of Port Adelaide. The site is across the road from a Coles SA Distribution Centre and Inghams food processing facility and is in the adjoining suburb to the Direk SA property.

A summary of the properties is provided below. Investors should be aware that the portfolio metrics of the Fund are expected to change over time as new properties are acquired and new equity/debt is arranged.

Figure 6: Property Portfolio Metrics

Property	Fund Ownership	Valn (100%)	Fund Interest	Valn (Fund Share)	Port. Weight	Acqn Date	GLA (sqm)	Key Tenant	Passing Yield	Occ %	WALE
16-26 Caribou Drive, Direk SA	Indirect (via MALF)	\$63.1M	60.1%	\$37.9M	79.6%	Dec 2020	11,113 sqm	Scott's Refrigerated	5.88%	100%	14.9
67-73 & 75 Kaurna Ave, Edinburgh SA	Direct	\$9.7M	100%	\$9.7M	20.4%	Feb 2021	6,732 sqm	M3 Logistics	5.75%	100%	7.0
Total Portfolio		\$72.8M		\$47.6M			17,845 sqm		5.85%	100%	13.3

Source: Moelis

Figure 7: Property

16-26 Caribou Drive, Direk SA



Source: Moelis

67-73 & 75 Kaurna Ave, Edinburgh SA – artist's impression



Property Valuations

The Fund's valuation policy requires portfolio valuations to be undertaken on a six-monthly basis. The Fund will also undertake an external independent valuation for every asset on an annual basis.

Independent valuations were carried out in September 2020 and January 2021 as part of the acquisition of the properties. The independent valuations make several assumptions regarding market rent, tenant incentives, re-letting and other factors based on available market evidence.

Core Property notes the Direk SA property is leased at above market rents, with the valuation adjusted for rent reversions at the end of the lease period. A summary of the main assumptions adopted by the independent valuer in the valuations is provided below. This is on a 100% of ownership of the assets and not just the Fund's proportionate share.

Figure 8: Valuation Metrics

	16-26 Caribou Drive, Direk SA	67-73 & 75 Kaurna Avenue, Edinburgh SA
Title	Freehold	Freehold
Acquisition date:	December 2020	February 2021
Ownership	100% owned by MALF	100% owned by MA Prime Logistics Fund
Site Area	58,660 sqm	15,734 sqm
Gross Lettable Area	11,113 sqm	6,732 sqm
Major Tenant (% GLA)	Scott's Refrigerated Logistics (100%)	M3 Logistics Pty Ltd (100%)
Weighted Average Lease Expiry	14.9 years	7.0 years
Occupancy	100%	100%
Initial net passing income	\$3.6M	\$0.6M
Net Market income (fully leased)	\$2.5M	\$0.6M
Purchase price	\$63.05M	\$9.7M
Valuation	\$63.05M	\$9.7M on completion
Passing initial yield	5.88%	5.75%
Capitalisation rate	5.30%	5.75%
Valuer	CBRE	JLL
Valuation Date	September 2020	January 2021
Valuer's Discount rate	6.75%	6.75%
Value/sqm	\$5,673 per sqm	\$1,444 per sqm
Valuer's unleveraged 10-year IRR	6.59%	6.67%

Source: CBRE, JLL

Leases, tenants and income

16-26 Caribou Drive, Direk SA is fully leased to Scott's Refrigerated Logistics on a 20-year lease from September 2015 – September 2035, with 3 x5 year options to renew.

Rand Transport was rebranded as Scott's Refrigerated Logistics in October 2020, following the merger of Scott's, Rand, Harris and JAT to form one single business. Scott's represents Australia's only truly national temperature controlled supply chain network. The business was sold to Anchorage Capital Partners in June 2020 by previous owners Automotive Holdings Group (AHG), a subsidiary of AP Eagers Limited (ASX: APE). Despite the change in ownership, AHG, and indirectly AP Eagers, continue to remain as the lease guarantor for initial term of the lease.

The lease enjoys fixed 3.5% annual rent reviews with a market rent review on the 10th anniversary (September 2025) and at each option. Market rent reviews are subject to a minimum 3.5% increase and a maximum 10%.

67-73 & 75 Kaurna Avenue, Edinburgh SA will be fully leased to M3 Logistics upon completion, expected in August 2021.

M3 Logistics specialises in the warehousing and national distribution for suppliers of home appliances and deliveries into major retail outlets in Australia. The business was founded in 2003 by the current CEO, Malcom Stanton, and employs over 220 staff nationally in all major cities.

The property was acquired in February 2021 and is currently under construction with an expected completion in August 2021. M3 Logistics has an agreement to enter a new 7-year lease upon completion, with 2 x 5-year options. The lease is subject to annual rent reviews of 2.75% with a market review at each option period.

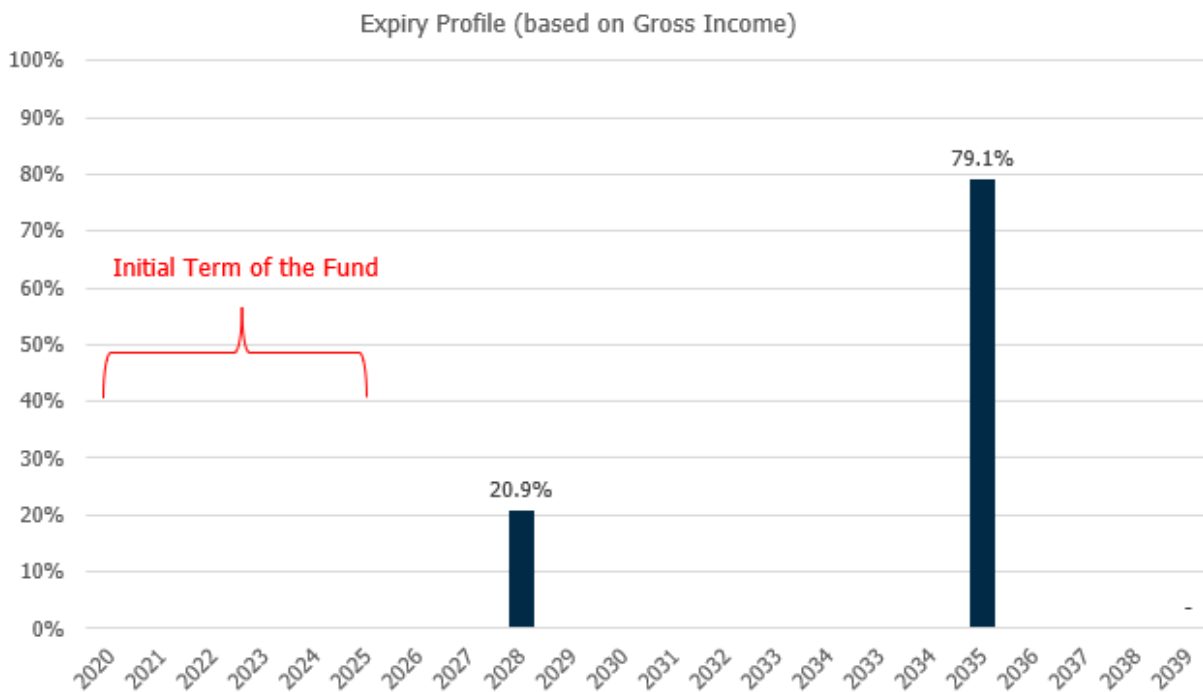
A summary of the portfolio tenancies is provided in the following table. The values are based on the 100% value of the properties.

Figure 9: Portfolio Tenant Summary

Location, Tenant	Gross Lettable Area (sqm)	Lease Period	Options	Net passing rent (p.a.)	Net market rent (p.a.) – valuer’s assumptions	Rent Review
16-26 Caribou Drive, Direk SA – Scotts Refrigerated Logistics	11,113	Sept 2015 – Sept 2035 (20 years)	3 x 5 years	\$3.6M	\$2.5M	Annual 3.5% p.a. plus market review at 10 Years (Sept 2025), min 3.5% max 10%.
67-73 & 75 Kaurna Avenue, Edinburgh SA – M3 Logistics	6,732	Expected Aug 2021 – Aug 2028 (7 years)	2 x 5 years	\$0.6M	\$0.6M	Annual 2.75%

Source: CBRE, JLL

Figure 10: Property lease expiry (by income) – based on Fund’s gross income on a look-through basis



Source: Core Property

Market Sales Evidence

The table below is a summary of comparable sales transactions for the properties, as provided in the independent valuation reports. Core Property notes that on average the properties are being acquired at rates at the high end of comparable prices per sqm, which is a reflection of their age and lease covenants.

Figure 11: Comparable sales transactions

Location	Acquisition Price per sqm		Passing Initial Yield		Unlevered IRR	
	Property	Sales Evidence	Property	Sales Evidence	Property	Sales Evidence
16-26 Caribou Drive, Direk SA	\$5,674	\$3,790- \$5,623 ¹	5.88%	5.22% - 5.38% ²	6.59%	6.19% - 6.87% ²
67-73 & 75 Kaurna Avenue, Edinburgh SA	\$1,444	\$807 - \$1,200 ²	5.75%	6.12% – 7.15% ²	6.67%	7.43% - 7.92% ²

Note: Based on 2 transactions – Coles Parkinson QLD (temperature controlled) and Emergent Cold Portfolio (SA, WA, QLD). Note 2: Excludes the sale on 16-26 Caribou Drive, Direk SA. Source: CBRE, JLL

Market Rental Evidence

The following is a summary of comparable industrial rentals as provided by the independent valuers. Core Property notes the Direk SA asset is currently on higher rents than the market, with the valuer accounting for rent reversions in their assumptions. The Edinburgh SA property is considered to be rented at a market level by the independent valuer.

Figure 12: Comparable rental evidence

Location, Tenant	Net Passing Rent (per sqm)	Net Market Rent (per sqm) – as per Valuer	Transactions
16-26 Caribou Drive, Direk SA – Scotts Refrigerated Logistics	\$326	\$85 - \$251	Based on 5 comparable lease transactions in SA provided by the valuer
67-73 & 75 Kaurna Avenue, Edinburgh SA – M3 Logistics	\$84	\$70 - \$153	Based on 6 comparable lease transactions as provided by the valuer

Source: CBRE, JLL

Capex

The Direk SA asset was constructed in 2013/2015 and is expected to require minimal capital expenditure, with the tenant being responsible for the maintenance of the refrigeration system. The Manager has budgeted a small amount (\$0.1M) of capex over the next five years. The Edinburgh SA asset will be a newly constructed property and is not expected to require any capex.

Financial Analysis

Core Property has reviewed the financial forecasts of the Fund, based on the Manager's assumptions for the initial two assets. The key observations in the forecasts include:

- Assumes the Fund owns 60.1% of the units on issue of the MALF, with the sole asset being the Direk SA property.
- Assumes the Edinburgh SA asset is completed and acquired by the Fund in August 2021.
- The forecasts assume a distribution of 6.0% p.a. (annualised) in FY21. Assumes FY22 average distributions of 6.125% p.a. (6.0% p.a. in the first half and 6.25% p.a. in the second half).
- Assumes the Edinburgh SA property has an LVR of 40%, and MALF has an LVR of 37%.
- Based on the existing properties, Core Property estimates the Fund could support an additional ~0.40% p.a. in distributions during the initial 12-month period.

The forecasts should be seen as indicative only as the Fund is open ended and the financial position is likely to change as new properties are acquired and new equity and debt is raised. In particular, investors should note that:

- Distributions are likely to increase if the Fund acquires properties on higher yields, or if increased leverage is utilised.
- Distributions are likely to reduce if the fund acquires properties on lower yields, or if less leverage is used, or the Fund accepts new equity subscriptions and is unable to deploy the capital to acquire properties with sufficient returns.

A summary of Core Property's forecasts based on these assumptions is presented below.

Figure 13: Profit & Loss Forecast

Profit & Loss – Forecast \$M	FY21 3 months (31 Mar 21 – 30 Jun 21)	FY22
Net Property Income	0.1	0.5
Net Investment Income	0.5	1.9
Net Operating Income	0.6	2.4
Interest	-0.1	-0.1
Management Fees	-0.1	-0.3
Fund Expenses	-0.0	-0.1
Cash Available for Distribution	0.4	1.9
Retained Earnings	0.0	0.1
Cash Distributions	0.4	1.8
Cash Distribution per unit (cents)	1.5	6.125
Annualised Distribution Yield	6.0%	6.125%
Balance Sheet – Forecast \$M	On Settlement (est August 2021)	
Cash		0.1
Direct Property		9.7
Property Investments – units in MALF		23.7
Total Assets		33.4
Borrowings		4.0
Total Liabilities		4.0
Net Assets		29.6
Net Assets per unit		0.946
LVR – Direct Property		40.0%
LVR – Look-through basis		38.0%

Source: 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 initial NTA of the Fund at \$0.946 per unit. It should be noted the Fund benefits from lower acquisition costs as there is no stamp duty payable on the acquisition of the two properties in South Australia.

Investors should expect the NTA of the Fund to change over time, as additional properties are acquired. The purchase of properties outside of South Australia is likely to reduce the Fund's NTA as a result of higher stamp duty costs.

Figure 14: Initial NTA

Amount per unit	\$ per unit
Issue Price	\$1.000
Less:	
Acquisition Costs (Stamp Duty)	-
Acquisition Fee	-\$0.028
Debt Establishment Costs	-\$0.008
Fund Set up Costs	-\$0.018
NTA per unit	\$0.946

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 Manager's assumptions.

Based on the assessment of the Manager's forecasts, Core Property expects the Fund to deliver a 5-year Internal Rate of Return (IRR) in the range of 6.0% - 8.8% p.a. (midpoint 7.5%). The calculation is based on the Manager's forecasts and assumes a +/- 25bps movement in the terminal capitalisation rate and a 50bps movement in interest rates. The calculations assume an average all-in cost of debt of 2.1% p.a.

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. **Investors should consider the calculations to be indicative only as the Fund is open-ended and the portfolio metrics are expected to change over time.**

Figure 15: Pre-tax, 5.0-year IRR (after fees) sensitivity analysis – Manager's assumptions

Terminal cap rate	Cost of debt				
	1.10%	1.60%	2.10%	2.60%	3.10%
4.89%	10.0%	9.8%	9.6%	9.4%	9.1%
5.14%	9.0%	8.8%	8.6%	8.3%	8.1%
5.39% (base)	8.1%	7.8%	7.5%	7.2%	6.9%
5.64%	7.0%	6.7%	6.3%	6.0%	5.7%
5.89%	5.9%	5.6%	5.2%	4.9%	4.5%

Source: Core Property

Management & Corporate Governance

Moelis Australia Limited (ASX: MOE) is an ASX listed financial services group specialising in asset management, corporate advisory and equities. The business was established in 2009, as part of global investment bank Moelis & Company (NYSE: MC), before being independently listed on the ASX in April 2017.

Moelis Australia has advised on transactions worth over \$100 billion, assisted in over \$10 billion in equity capital raising, and currently has over \$5.4 billion in assets under management (as at December 2020). Moelis Australia employs over 200 staff in Australia and China and operates across three divisions - Asset Management, Corporate Advisory and Equities.

The Moelis Australia Real Estate Asset management team manages \$2.2 billion of real estate for sovereign funds and institutional and high net worth investors.

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

Figure 16: Management of the Fund

Name & Role	Experience
Richard Germain Managing Director Real Estate MA asset Management	Richard has over 20 years' experience in real estate investment services. He is responsible for the Fund's investment analysis and management. Richard has held prior roles as co-founder of Armada, and Investment advisor and Portfolio Manager at Lend Lease Corporation Ltd. Richard has also worked at investment banks and hedge funds where he gained experience in all aspects of risk management. Richard is a qualified actuary and holds a Masters of Economics in Actuarial studies and a Graduate Diploma in Applied Finance and Investment.
Matthew Lane Managing Director Real Estate MA Asset Management	Matthew has over 25 years' experience in real estate investment services. He is responsible for the Fund's asset and investment management. Prior to joining Moelis Australia Matthew worked for Industry Super Property Trust (ISPT) and Charter Hall. At Charter Hall he was responsible for leading over \$10B in transactions across the industrial, commercial and retail sectors; managing over \$1.2B of real estate funds and managing the company's commercial valuation program. Matthew has a Bachelor of Business (Property) and a Graduate Diploma in Applied Finance and Investment.

Figure 17: Investment Committee

Name & Role	Experience
Andrew Pridham Group Vice Chairman Moelis Australia	Andrew has served as Managing Director since the formation of Moelis Australia. Andrew has over 30 years' experience in investment banking and prior to the formation of Moelis Australia he served as Executive Chairman of Investment Banking at JP Morgan Australia. Andrew holds a Bachelor of Applied Sciences from the University of South Australia. In January 2019, Andrew was appointed as an Officer in the General Division of the Order of Australia.
Andrew Martin Head of Division MA Asset Management	Andrew has served as the Head of Department for MA Asset Management since its establishment in 2013. Prior to Moelis Australia, Andrew was a Managing Director for UBS Global asset Management in Infrastructure and Private Equity. Andrew was a founding member of the UBS International Infrastructure Fund business, which managed direct investments globally with an enterprise value of over US\$6B.
Richard Germain Managing Director Real Estate MA Asset Management	See section above
Matthew Lane Managing Director Real Estate MA Asset Management	See section above

Source: Moelis

Compliance and Governance

As a listed entity, Moelis Australia Limited (ASX: MOE) has a compliance plan, an audit & compliance committee, and policies covering related-party transactions and conflicts of interests. The Fund is also required to comply with the Corporations Act and the provisions of its Australian Financial Services license.

Conflicts of Interests and Related Party Transactions

As a listed entity, Moelis Australia is required to maintain a written policy on related party transactions, including the assessment and approval processes to manage any conflicts of interests.

The Information Memorandum sets out various related party transactions which are undertaken by the Fund:

- In order to facilitate the acquisition of properties, Moelis Australia has acquired units in the Fund. All units are acquired on the same basis as other investors, however Moelis Australia may transfer units to new investors seeking to invest in the Fund.
- Entities within Moelis Australia may provide debt financing or equity in future to support the Fund. If undertaken, the financing will be undertaken on a commercial arms-length basis.
- The Manager and Trustee of the Fund are wholly owned entities within Moelis Australia. In addition, the Trustee and Manager of the MA Logistics Fund (MALF) are also wholly owned entities within Moelis Australia.
- The Fund utilises the same Investment Committee as MALF.

Past Performance

The Manager has advised that, since 2009, it has managed 12 real estate funds with an average total return of 12.9% p.a., including 7 completed funds which delivered an average total return of 17.9% p.a.

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

Appendix – Ratings Process

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

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

The Ratings

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

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

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