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Unlisted Property Fund Report

Centuria Healthcare Property Fund

November 2020

Open-ended healthcare property fund with a pipeline for growth, targeting a FY21 distribution of 5.75% p.a.

Centuria Healthcare Property 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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Centuria Healthcare Property Fund

November 2020

The Centuria Healthcare Property Fund ("the Fund") is an open-ended unlisted property fund which seeks to provide investors with access to a diversified portfolio of Australian healthcare and aged care properties. The Fund's Investment Manager, Centuria Property Funds No.2 Limited ("the Manager") utilises the combined property experience from Centuria Group and Centuria Healthcare, with a strong track record of delivering returns for investors.

The Fund is currently available to retail investors providing daily unit pricing, and a quarterly withdrawal facility. The healthcare property sector offers an attractive risk/return profile with a relatively stable income stream supported by sound portfolio metrics.

The Fund's portfolio currently consists of four healthcare properties valued at $119.2M, with the Fund owning a direct interest of $102.3M. The remaining $16.9M is owned by the Nexus Property Unit Trust (NPUT) under a partnership agreement with Nexus Hospitals as the owner and operator for three of the properties. The agreement with Nexus provides the Fund with an alignment of interests with a key healthcare operator and tenant, as well as access to additional properties for the Fund's growth. The Fund also owns $9.8M of units in NPUT, providing an additional indirect interest in the Nexus properties.

The Manager has a pipeline of three additional properties which are under contract or with options to be acquired. Subject to the acquisition of these properties, the portfolio is expected to increase to $156.4M (Fund share is $137.6M). A further $48.1M of healthcare properties are also under consideration, providing the potential for additional growth for the Fund.

The Manager has advised that COVID-19 has had minimal impact on the rental income for the properties in the portfolio.

The Fund has a three-year debt facility with an all-in cost of debt of 2.19%. The debt facility is structured to allow the additional draw down of debt for further acquisitions. The portfolio has a Loan-To-Valuation Ratio (LVR) of 42.1%, within the target range of 35% - 49%, and below the bank LVR covenant of 55%.

Based on the initial portfolio, Core Property estimates that the Fund has the capacity to support distributions of 5.75 cents per unit (annualised) in FY21.

Fees charged by the Fund are at the low end of what Core Property has seen in the industry, (see *Figure 5: Fees in Perspective*).

Core Property estimates the pre-tax equity IRR to be between 6.0% - 9.0% p.a. (base case 7.2% p.a.) over 5-years, based on the current portfolio of four assets (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.

It is important that investors acknowledge that a pandemic caused by the spread of the COVID-19 virus can adversely impact the performance of the Fund amidst significant macroeconomic uncertainty. The duration and severity of the outbreak is uncertain and may negatively impact property values and potentially lower investor returns.

Investor suitability

In Core Property's opinion, the Fund would suit investors who seek a relatively stable income with distributions sourced from a diversified portfolio of healthcare assets. Capital gains are expected to be incremental, based on long term growth in the healthcare sector. The Fund would best be suited as part of a core investment strategy. A minimum investment period of five years is recommended, in alignment with the five-year full liquidity facility, however the Fund does offer a limited quarterly withdrawal facility.

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:	12 November 2020
Offer Close:	Open ended[1]
Min. Investment:	$10,000[2]
Unit Entry Price / Exit Price	$0.9927 / $0.9927 (12 November 2020)
Liquidity:	Limited Quarterly, Full Liquidity every 5 years
FY21 Forecast Distributions:	5.75 cpu (annualised)
Distribution Frequency:	Monthly, in arrears
Investment Period:	Open ended fund with recommended term of at least 5 years

Note 1: The Fund may temporarily close for applications whilst new pipeline assets are being secured, with updates provided on the Fund's website.
Note 2: minimum investment of $10,000, multiples of $1,000 thereafter

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Note: This report is based on the Centuria Healthcare Property Fund Product Disclosure Statement dated 12 November 2020, together with other information provided by Centuria Healthcare.

Key Considerations

Management: The Responsible Entity, Centuria Property Funds No.2 Limited, is a wholly owned subsidiary of Centuria Capital Limited (ASX: CNI), and ASX listed fund manager with $9.4 billion of assets under management. Management has a strong track record of delivering average total returns of 15%+ p.a.

Fund Structure: The Fund is an open-ended unlisted fund targeting healthcare and aged care investment properties. The Fund aims to acquire assets with reputable operators with high occupancies and long lease duration.

Issue Price: Units are currently issued at an Offer Price of $0.9927 (as at 12 November 2020) with daily unit pricing. The Net Tangible Asset (NTA) on the portfolio is estimated at $0.88 per unit. The difference between the Offer price and NTA relates to upfront costs (stamp duty and acquisition costs and fees). The Fund amortises these costs over a 5-year period.

Healthcare property exposure: The healthcare sector is considered as a non-discretionary spend. This sector represents about 10% of Australia's GDP with expected growth underpinned by a thematic of an ageing population and a shift to preventative care. The properties involved in providing healthcare services have demonstrated an attractive risk/ return characteristic and remains highly sought after by investors.

Property Portfolio: The Fund has acquired four healthcare properties valued at $119.2M. The Fund holds a direct interest of $102.3M with the balance owned by the Nexus Property Unit Trust under an agreement with Nexus Hospitals as owners and operator for three of the properties. The portfolio metrics are sound with 100% occupancy (including rental guarantees) and a Weighted Average Lease Expiry (WALE) of 5.7 years. The Fund is also under contract or has options to acquire three more properties (for $37.2M) and is assessing an additional $48M of opportunities, which would increase the portfolio to over $200M. As an open-ended fund, investors should expect the property portfolio to continue to change over time.

Debt Profile: The Fund has a 3-year debt facility with an all-in cost of debt of 2.19% p.a., expiring in October 2023. The current Loan-To-Valuation Ratio (LVR) of 42.1% is within the Fund's target LVR range of 35% - 49% and below the bank LVR covenant of 55%. The current Interest Coverage Ratio (ICR) of 5.3x is comfortably above the bank ICR covenant of 2.0x. The debt facility is expected to be extended at expiry and expanded with further acquisitions.

Distributions: Based on the current portfolio, distributions for FY21 are estimated at 5.75 cpu (annualised).

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

Total return profile: Core Property estimates the pre-tax equity IRR of the proposed portfolio to be between 6.0% - 9.0% p.a. (base case 7.2% p.a.) over 5-years, based on the Fund's sensitivities to debt and capitalisation rates (see the *Financial Analysis* section).

Related Party Transactions: The Manager also sources healthcare assets in excess of $20M under certain criteria for the Australian Diversified Healthcare Fund (ADHF). The arrangement expires on 3 September 2021 and may impact the Fund's ability to source additional assets during this time. The Manager also has a relationship agreement with Nexus Hospitals to acquire Nexus anchored assets which will be owned 85% - 95% by the Fund, with the balance to be owned by the Nexus Property Unit Trust (NPUT).

Liquidity: The RE will offer investors a quarterly Withdrawal Facility of up to 10% p.a of the Net Asset Value (NAV) when the NAV is less than $100M or $10M p.a when the NAV is greater than $100M. Investors will also be provided with the opportunity to redeem some or all of their investment at five-year intervals. Investors should note that the terms of the withdrawal offers are subject to the Manager's discretion.

Investment Scorecard

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

Key Metrics

Fund Structure	
An open-ended unlisted property fund investing in Australian medical and healthcare properties, REITs and cash or cash-like products. The Fund is a registered managed investment scheme. The Fund may employ a strategy of temporarily closing applications whilst new pipeline assets are secured, with updates provided on the Fund's website.	

Management
Centuria Healthcare is a specialist real estate fund manager with approximately $900M of assets under management. Centuria Healthcare is owned 63.06% by Centuria, an ASX listed fund manager with $9.4B of assets under management.

Property Portfolio	As at 12 November 2020
No of Properties:	4
Location:	South Bunbury WA, Orange NSW, Vermont South VIC, Hobart TAS
Property Sector:	Healthcare
Occupancy:	100% (including rental guarantees)
WALE:	5.7 years

Return Profile	
Forecast Distribution:	FY21 = 5.75 cents per unit (annualised)
Distribution Frequency:	Monthly, in arrears
Distribution Reinvestment Plan:	Yes
Tax advantage:	FY21 – 100%[1]
Estimated Levered IRR (pre-tax, net of fees):	6.0% - 9.0% p.a. (base case 7.2% p.a.)
Investment Period:	5 years (Recommended) The Fund is open-ended with quarterly liquidity on a limited basis and full liquidity every five-years.

Forecast distributions are likely to be tax deferred and will be dependent on the timing of acquisitions.
Assumes management fee rebate

Risk Profile	
Property/Market Risk:	Capital at risk will depend on a portfolio of healthcare and aged care properties in Australia. Investors will be exposed to a potential capital gain or loss, based on market conditions. The Fund is also be exposed to developer risks.
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 "Section 7: Investment considerations and risks" of the Product Disclosure Statement.

Fees Paid	
Core Property considers the Fees to be at the low end of the industry when compared to similar products and in the context of the projected returns (see Figure 5: Fees in Perspective).	
Entry Fees:	Nil
Exit Fees:	Nil
Acquisition Fee:	2.0% of purchase price
Property Disposal Fee:	0.5% of sale price
Management Fee:	0.80% of the Fund's GAV[1]
Expenses:	Capped at 0.35% p.a. of the Fund's GAV.
Development Management Fee:	1-5% of development costs
Performance Fee:	20% of the outperformance over a total return of 8.0% (pre-tax, net of fees)[2].

Note 1: Where the Fund invests in an underlying fund managed by Centuria, the Manager will not take a management fee that exceeds a total look through fee of 0.80% p.a. of Gross Asset Value.
Note 2: Calculated quarterly. Subject to clawback for any underperformance

Debt Metrics - Indicative	
Drawn Debt / Facility Limit:	$45.0M / $59M
Loan Period:	3 years to Oct 2023
LVR / Peak LVR / LVR Covenant:	42.1% / 45% / 55%
ICR/ Low ICR / ICR Covenant:	5.3x / 4.8x / 2.0x

Legal	
Offer Document:	Product Disclosure Statement, 12 November 2020
Wrapper:	Unlisted Property Fund
Responsible Entity & Manager:	Centuria Property Funds No.2 Limited (ABN 38 133 363 185, AFSL 340 304)
Custodian:	Perpetual Corporate Trust Limited
Significant Investor Visa (SIV):	The Fund complies with SIV guidelines.

Fund Overview

The Centuria Healthcare Property Fund ("the Fund") is an open-ended, unlisted property fund that seeks to provide investors with stable distribution yields and capital gains potential through the investment in a portfolio of healthcare and aged care properties in Australia.

The Fund is managed by Centuria Healthcare ("the Investment Manager") which is 63.06% owned by Centuria Capital Limited (ASX: CNI), an ASX-listed fund manager, and interests primarily associated with Centuria Healthcare, a specialised fund manager. The Fund's Responsible Entity is Centuria Property Funds No. 2 Limited ("the RE"), which is part of the Centuria Group.

The Fund is open ended, and investors may acquire units on a daily basis at the relevant Issue Price. The Issue Price as at 12 November 2020 is $0.9927 per unit. The minimum investment is $10,000, increasing in multiples of $1,000 thereafter. The Fund also offers a regular investment plan (with a minimum of $100 per month) and offers a Distribution Reinvestment Plan.

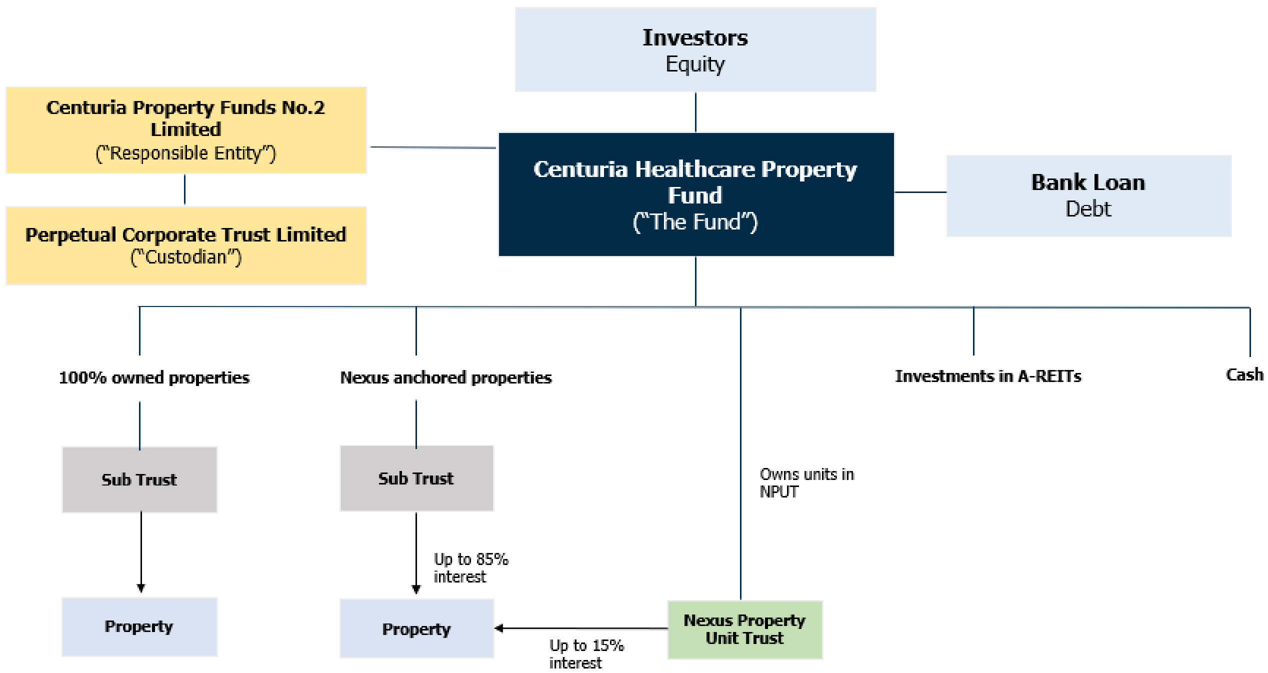
The Fund invests in healthcare and aged care properties in Australia under a well-defined mandate. Assets are held in special purpose sub-trusts, which provide flexibility for assets to be acquired and sold. The Fund will also hold 7.5% of its net assets in A-REITs and 2.5% in cash-like products to provide funds for liquidity.

Debt is held at the trust level across all the assets in the portfolio. The Fund has a target Loan To Valuation Ratio (LVR) range of 35% - 49% with a plan to reduce debt if it ever exceeds 55%.

The Fund has acquired four properties valued at $119.2M, with the Fund owning a direct interest of $102.3M in the properties. The remaining interest is owned by the Nexus Property Unit Trust (NPUT) under a partnership agreement with Nexus Hospitals as the operator and anchor tenant. The agreement provides for Nexus anchored properties to be acquired through a structure whereby the Fund will own an 85%- 95% interest in the property with the remaining 5% - 15% to be owned by the Nexus Property Unit Trust (NPUT). NPUT is expected to consist of medical practitioners associated with Nexus. The Fund may also invest in NPUT and currently owns $9.8M of units in NPUT.

Liquidity in the Fund will be provided via a limited Quarterly Withdrawal Facility, with up to 10% of Net assets (where the net assets are less than $100M) or $10M p.a. (where the net assets are more than $100M). Investors will also be offered to redeem some or all of their investments via a full Withdrawal Facility to be offered in five years (August 2025) and every five years thereafter.

Figure 1: Fund structure



Source: Core Property, Centuria Healthcare

Fund Strategy

The Fund's objective is to achieve stable income returns and the potential for capital growth through investing in properties in the healthcare and aged care sectors. Target properties will be based in Australia and underpinned by reputable healthcare operators. To achieve its objective, the Fund's strategy is to:

- Invest in a quality portfolio of strategically located Australian healthcare properties;
- Diversify the portfolio by location, property type, tenant and type of healthcare;
- Own properties that have a strong earnings profile, with rental income underpinned by long-term leases with reputable healthcare operators;
- Adhere to a prudent capital structure and capital management strategy, with target look through gearing between 35% - 49%;
- Pursue acquisition, divestment and investment opportunities, utilising Centuria Healthcare sector relationships and expertise; and
- Continue to assess development opportunities, and where appropriate, undertake developments to increase the potential of the portfolio.

The Fund has a target allocation of 90% in Direct Property, 7.5% in A-REITs and 2.5% in cash or cash-like products. The allocation to REITs and cash are intended to provide liquidity for the Fund to support withdrawal requests. The Fund's investment criteria is provided in the table below. Investors should note that the Manager may recommend acquisition opportunities that deviate from the criteria.

Figure 2: Investment Criteria

Category	**Criteria**	
	Medical	**Aged Care**
Property Type	**Primary** • GP clinics/medical centres **Secondary** • Day and short-stay hospitals • Overnight hospitals (eg mental health, rehabilitation) • Specialist facilities (eg radiology, oncology, IVF, cancer care) • Diagnostic facilities (imaging and pathology). **Tertiary** • Private hospitals	Residential aged care properties including specialist aged care (i.e. dementia homes) which predominantly provide "high care" services. The Fund will not acquire opportunities which take on aged care operator risk, unless approved otherwise by the Manager's board. Corporate operators with strong financial covenants and track records in quality care.
WALE:	circa 5 years	> 10 years
Occupancy:	> than 90%	100%
Property Size[1]	> $5M	> $3M
Development	The Fund may consider funding greenfield and brownfield development opportunities that have been substantially de-risked (approved development application, agreements for lease in place for the majority of the net lettable area, agreements for lease in place for 100% of the property (aged care assets), 100% license attainment (aged care assets) and other development risk mitigants as are considered necessary. It is intended the Fund will be limited to development Properties, equating to 20% of the Fund's Net Asset Value at any one time.	

Source: Centuria Healthcare

Centuria Healthcare is also the investment manager of the Australian Diversified Healthcare Fund (ADHF). In this role, Centuria Healthcare is obliged to provide ADHF with the opportunity to acquire healthcare properties at or over $20M until the earlier of 3 September 2021 or the date on which ADHF acquires $180M in property assets. Core Property considers this arrangement may limit certain potential acquisition opportunities for the Fund in the short term (until 3 September 2021), however we note the Fund's existing pipeline is expected to provide sufficient growth for the Fund in the short term.

Unit Pricing

Core Property has reviewed the Fund's calculation of Issue Price and Unit Price and considers it to provide an equitable allocation of transaction costs for all investors.

The Unit Price is calculated on a daily basis and is based on the net asset value of the Fund plus the unamortised value of acquisition costs, divided by the number of units of the Fund. Acquisition costs are amortised over a five-year period, or when the property is sold, whichever is earlier.

The Issue Price is calculated by taking the Unit Price and applying a Buy Spread. The Fund currently has a Buy Spread of Nil. The Issue Price and Unit Price as at 12 November 2020 is $0.9927 per unit. Units were issued at a Unit Price of $1.00 per unit up to 30 September 2020 and was calculated as per the Fund's unit pricing policy. The Net Tangible Assets of the Fund is estimated at $0.88 per unit, as at 12 November 2020. The difference between the Issue Price and NTA relates to upfront costs (stamp duty and other Due Diligence acquisition costs and fees). The Fund amortises these costs over a 5-year period.

Investors should also note the Fund may issue Acquisition Units to facilitate the acquisition of properties. Acquisition Units rank equally with all units in the Fund. However, the Acquisition Units may be redeemed through the issue of new units in the Fund. As at 12 November 2020 the Fund had $88.4M units, which includes $8.9M of Acquisition Units issued to Centuria entities to facilitate the acquisition of the seed properties in the Fund.

Liquidity / exit strategy

The Fund offers liquidity for investors to redeem their units, via two main facilities:

Quarterly Facility: The RE offers a quarterly withdrawal facility, subject to available liquidity.

- The minimum amount available to meet withdrawal requests during a quarter is 0.5% of the Fund's NAV. However, the actual amount available is expected to exceed this amount.
- The maximum amount available to meet withdrawal requests will be capped at 10% p.a. of the Fund's NAV (when the NAV is less than $100M), or $10M p.a. (when the NAV is above $100M). The $10M p.a. maximum withdrawal level is expected to be implemented around July 2021, based on the Fund's current pipeline of properties.

At the beginning of each quarter, the Manager estimates the amount it expects will be available to satisfy withdrawal requests received. If the amount of withdrawal requests totals more than the amount available, each request will be scaled back. The balance will then be carried forward to the next quarter.

Investors should be aware the terms and conditions of any Withdrawal Facility is subject to the discretion of the RE. The Manager may suspend withdrawals in certain circumstances; if the processing of requests would compromise the operation of the Fund, if it is impracticable or impossible to calculate a withdrawal price, or if it is deemed to be in the best interests of all investors. As a result, there is a risk that investors may not be able to access the withdraw offer during the investment timeframe.

Every five years: At the end of each rolling five-year term, the Manager will use its best endeavours to provide liquidity for investors wishing to redeem some or all of their investment. to provide liquidity the Manager may sell one or more properties, raise new equity, take on additional debt, undertake an equity raising (including via an ASX listing) or a combination of these measures.

Debt Facility & Metrics

The Fund has a target look-through gearing of between 35% - 49% and a maximum look-through gearing level of 55%. If the look-through gearing increases above 55% the Manager will implement a strategy to restore the level of gearing to 55% or below.

The Fund has a three-year debt facility for $59M with expiry in October 2023. Based on an LVR range of 35%- 49%, the facility is sufficient to support a property portfolio of $120M - $168M. The all-in cost of debt is estimated at 2.19%. The Manager may elect to hedge all or a portion of the interest rate exposure at any given point.

- As at 31 October 2020 drawn debt is $43.0M, with a Loan to Value Ratio (LVR) of 42.1% against an LVR covenant of 55%. Core Property calculates that the value of the properties must fall by 23.5% to breach the bank LVR covenant.
- The Interest Coverage Ratio (ICR) of 5.3x is above the ICR covenant of 2.0x. Core Property calculates that the net income must fall by 62.1% for this covenant to be breached.

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 more properties.

Figure 3: Debt Metrics – as at 31 October 2020

Details	Metric
Bank	NAB
Security	First ranked mortgage secured against each property with general security agreement over the assets in the Fund
Debt Facility Limit	$59.0M
Drawn Debt	$43.0M
Initial Loan Period	3 years to October 2023
Effective Interest Rate	2.19%
Current LVR	42.1%
LVR Covenant	55.0%
Interest cover ratio / bank covenant	5.3x / 2.0x
Amount by which valuation of properties will have to fall to breach LVR covenant	23.5%
Amount by which income will have to fall to breach ICR covenant	62.1%

Source: Core Property, Centuria Healthcare

Fees Charged by the Fund

The Fund charges Management Costs based on 0.8% of the Gross Asset Value (GAV) of the Fund. Core Property notes that this lies at the low end of what we have typically seen in the market (0.7% - 1.1% of GAV).

Whilst the Property Acquisition Fee is at the high end of the market, the Manager has advised that this takes into account the additional costs of sourcing properties for the Fund.

Figure 4: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry/Establishment Fee	Nil	
Exit/Withdrawal Fee	Nil	
Property Acquisition Fee	2.0% 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	0.5% of the sale price of the property (exclusive of any selling costs payable to external real estate agents).	The Disposal Fee is at the low end of the industry average of around 1.0% - 2.0%.
Management Fee	0.80% p.a. of the Fund's Gross Asset Value (GAV)	The management fee is at the low end of the industry (0.7% - 1.1% p.a. of GAV).
Administration Costs & Expenses, Other Indirect Costs	Capped at 0.35% p.a. of the Fund's Gross Assets for Expenses (excluding Abnormal Expenses).	Expenses are payable from the assets in the Fund and payable when incurred.
Development Management Fee:	1-5% of Development Costs, on a case-by-case basis.	Core Property considers the Development Management Fee to be in line with market rates of up to 5% of Development Costs.
Performance Fee	20% (excluding GST) of the Fund's performance above a total return of 8.0% p.a. after fees and costs. Paid on a quarterly basis (hurdle rate of 2.0% per quarter), with a high watermark for any underperformance.	The benchmark hurdle is in line with current market expectations.

Source: Centuria Healthcare, Core Property

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 the proposed portfolio over an initial five-year investment term to July 2025.
- Assumes costs and returns are based on the proposed seven-asset asset portfolio (four acquired properties and three under contract/options).
- A Performance Fee has not been included.
- Core Property assumes there is no change in the portfolio capitalisation rate throughout the investment term. A lower terminal cap rate would lead to a higher sale price and hence, performance fees may become payable.

Overall, Core Property estimates that the Manager is entitled 5.3% of the total cash generated by the Fund. Core Property considers the fees paid to the Manager to be attractively priced 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:	$0.31
Total cash to investors:	**$1.31**
Acquisition fee:	$0.02
Disposal fee:	$0.00
Base management fee:	$0.06
Fees for the RE (excluding admin costs)	**$0.08**
Total cash generated by Trust	**$1.39**
Fees = % of total cash generated (before fees)	5.3%
Up-front fee vs total fees	23.4%

Source: Core Property

The Healthcare Sector

The healthcare care sector offers an attractive property investment proposition owing to its resilient non-discretionary position within the economy – a thesis that has become more pronounced throughout the COVID-19 period. The Australian healthcare system has experienced increased pressure throughout the COVID-19 period, straining under a surge of demand for services provided by medical offices and private hospitals. This occurred despite negligible restrictions on healthcare operations – with only elective surgery practices impacted for two weeks. Overall, COVID-19 has proven the defensiveness of the healthcare industry and signals an undersupply of efficient and cost-effective healthcare services.

Beyond near-term COVID driven demand, key long-term trends underpinning sector demand include:

- **Growing population –** Australia's population is expected to grow at 1.4% - 1.8% p.a. until 2027 according to the Australian Bureau of Statistics (ABS) forecasts. This is expected to drive the demand for healthcare services, increasing patient numbers and need for additional hospital beds.
- **Ageing population –** With improvements in healthcare, there has been an increase in number of Australians aged 65 years and over, who are estimated to spend up to 4-5x more on healthcare than the general population. This age bracket is expected to grow at 4.0% until 2027, outpacing overall population growth and driving greater healthcare expenditure.
- **Increased occurrence of chronic diseases –** As a result of the ageing population, lifestyle factors (worsening diet and exercise) and improvements in medical detection and treatment, the prevalence and treatment of chronic diseases is increase in Australia. The ABS has estimated that around 80% of Australians are living with long-term health conditions.

- **Preventative care focus –** With the ageing population and existence of non-communicable disease trending upwards, there has been a shift from short-term treatments towards preventative treatment and disease management. This has driven further demand towards primary and secondary healthcare facilities.
- **Undersupply of Medical Facilities** – From 2012-13 to 2016-17, the number of patient visitations to public hospitals increased by an average of 4.5% per annum. In addition, national median wait times for elective surgeries have substantially deteriorated from 27 days in 2001-12 to 40 days by 2017-18, and the number of available hospital beds within the Australian health system (3.8 beds per 1,000 people; OECD average: 4.7 beds) has underwhelmed. These have coincided with an increase of private hospitals within the sector (40% to 47% from 2000 to 2016) and demonstrate the booming demand for private commercial health precincts.

These key trends above have affected the expenditure and the overall growth of the healthcare system.

- **High GDP Expenditure –** According to the Health Expenditure Australia 2017-2018 report, total health spending was $185.4B on healthcare, equating to about 10% of Australia's GDP and over $7,400 per person. Expenditure across both Australia's private and public healthcare sectors are expected to continue growing (7% p.a. CAGR since 2006), as patient visitations and federal government subsidies/contributions (4.2% in 2017-18, expected to be 5.5% in 2054-55) continue to improve.
- **Employment growth –** The Health Care and Social Assistance industry has seen a 16.5% increase in employment over the 5 years to August 2020. Over the next five years to May 2024, government forecasts have placed the industry to deliver the strongest employment growth with 15.0%.

Investment Rationale

- **Defensive nature of the industry –** The healthcare industry is defensive in nature and generally uncorrelated to the economic cycle. Healthcare expenditure is largely a mandatory, government-dominated and non-discretionary spend.
- **Attractive risk/return characteristics –** Based on MSCI data over a 12-year period, the healthcare property sector has delivered the best risk-adjusted total return relative to other property sectors.
- **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. Additionally, the healthcare industry faces minimal turnover for tenants due to:
  - **Reputation:** Healthcare practitioners often build up a clientele and reputation based around their current location, so there is a low willingness to relocate.
  - **Purpose built assets:** Properties are generally purpose built to suit the healthcare provider, and the cost of moving expensive machinery is often a disincentive to relocate.
  - **Located in medical hubs:** Health facilities are often located in 'hubs' close to hospitals and related services with practitioners often being less willing to move away from well situated locations.

Figure 6: Total return against Standard deviation by sector

Note 1: Volatility is measured by standard deviation. The Healthcare category is based on the MSCI Australia Quarterly Healthcare Index, which tracks 120 healthcare assets in Australia, valued at $3.4 billion. Total returns are annual total returns calculated on a quarterly basis from June 2008 to June 2020. Source: MSCI June 2020

The Property Portfolio

The Fund's investment portfolio currently consists of $112.1M of property investments, consisting of:

- $102.3M of direct property interests across four properties – a 100% ownership of a medical centre in South Bunburry WA ($6.4M) and an 85% direct interest in three Nexus anchored properties.
- $9.8M of units in the Nexus Property Unit Trust (NPUT) across the three Nexus properties.

A further three properties are under currently contract or under due diligence to be acquired through to July 2021. Once settled, this will increase the Fund's portfolio to seven properties valued at $156.4M, with the Fund owning $137.6M and the balance held by the Nexus Property Unit Trust.

In addition, the Manager has advised that it is currently assessing further acquisitions for the Fund, with around $48.1M of properties under consideration, potentially increasing the Fund's investment portfolio to $185.7M, with a WALE of 6.7 years.

As an open-ended fund, investors should expect the portfolio to change over time as additional properties are acquired and/or sold. A summary of the existing properties and proposed acquisitions is provided below.

Figure 7: Property portfolio

Property	Acqn Date	NLA (sqm)	Key Tenant	Valn	Fund Share (%)	Fund Weight	Passing Yield	Occ %	WALE by income
Direct Properties									
120-122 Spencer St, South Bunbury WA	Dec 19	890	Healius	$6.4M	$6.4M (100%)	5.7%	7.07%	100%	0.6 yrs[1]
Bloomfield Medical Centre, Orange NSW	Oct 20	8,002	Nexus Hospitals[2]	$55.5M	$47.2M (85%)	42.1%	5.80%	100%	8.3 yrs
Vermont South Medical Centre, Vermont South VIC	Oct 20	6,906	Nexus Hospitals	$51.7M	$43.9M (85%)	39.2%	6.34%	100%	4.4 yrs
Hobart Day Surgery, Hobart TAS	Oct 20	905	Nexus Hospitals	$5.6M	$4.8M (85%)	4.3%	8.15%	100%	3.7 yrs
				$119.2M	**$102.3M**	**91.3%**	**6.23%**	**100%**	**5.7 yrs**
Investment in A-REITs									
Investment in NPUT					**$9.8M**	**8.7%**			
Total Investments – as at 12 November 2020					**$112.1M**	**100%**			

Note 1: Property subject to 12-year lease extension proposal. Note 2: Tenant is Orange Private Hospital Pty Ltd, which is operated by Nexus under a management agreement. Source: Centuria Healthcare

The following is a summary of the properties for the Fund.

Forrest Family Practice - 120 & 122 Spencer St, South Bunbury WA

As at 30 November 2020	
Book Value	$6.4M
Initial Yield	7.07%
Net Lettable Area (NLA)	890 sqm
Occupancy (by NLA)	100%
WALE (by income)	0.6 years
Acquisition Date	Dec 2019
Major Tenant	Healius

The "Forrest Family Practice" consists of a single-level medical centre and car park. The car park (120 Spencer St) was constructed in 2017 at the request of the medical centre operator to accommodate parking overflows. The medical centre has an NLA of 890 sqm, internally divided into a pharmacy and medical practice. The property is well located in South Bunbury and is within 100m of the Bunbury Day Hospital. The property is fully leased to Healius with lease expiry in July 2021 with negotiations currently underway for a 12-year lease extension. The property was acquired by the Fund in December 2019 for $8.1M and has since been revalued to $6.4M to take into account the upcoming lease expiry by Healius in July 2021. Centuria Healthcare Pty Ltd has agreed to provide a Valuation Guarantee of $1.7M to cover the decline in value in the event that the lease is not renewed. The property includes an option to acquire adjoining land which may provide future development potential.

Bloomfield Medical Centre – 1521 Forest Road, Orange NSW

As at 30 November 2020	
Book Value	$55.5M net purchase price $47.2M direct interest (85%)
Initial Yield	5.80%
Net Lettable Area (NLA)	8,002 sqm
Occupancy (by NLA)	100%
WALE (by income)	8.3 years
Acquisition Date	Oct 2020
Major Tenant	Orange Private Hospital Pty Ltd (operated by Nexus Hospitals under a management agreement)

The Fund has acquired an 85% interest in four strata levels (ground floor, and levels 2-4) within a 10 storey strata medical centre located in Orange NSW. The remaining 15% interest in the property is owned by Nexus Property Unit Trust. The property was recently completed in late 2019 and the Fund will acquire the strata floors which are fully leased to Orange Private Hospital Pty Ltd and operated by Nexus Hospitals under a management agreement. Other strata levels in the building are expected to be leased to allied health services, pharmacy, radiology and specialist suites.

Vermont South Medical Centre – 645-647 Burwood Highway, Vermont South VIC

As at 30 November 2020	
Book Value	$51.7M net purchase price $43.9M direct interest (85%)
Initial Yield	6.34%
Net Lettable Area (NLA)	6,906 sqm
Occupancy (by NLA)	100%
WALE (by income)	4.4 years
Acquisition Date	Oct 2020
Major Tenant	Nexus Hospitals

The Fund has acquired an 85% interest in a high-quality medical complex located in Vermont South VIC, approximately 20km east of the Melbourne CBD. The remaining 15% interest in the property is owned by Nexus Property Unit Trust. The property was constructed in August 2015 and is anchored by Nexus Hospitals, operating as a Short Stay Hospital. Other tenants include surgical consulting suites, allied health services and a large GP provider.

Hobart Day Surgery – 10 Warneford Street, Hobart TAS

As at 30 November 2020	
Book Value	$5.6M purchase price $4.8M direct interest (85%)
Initial Yield	8.15%
Net Lettable Area (NLA)	905 sqm
Occupancy (by NLA)	100%
WALE (by income)	3.7 years
Acquisition Date	Oct 2020
Major Tenant	Nexus Hospitals

The Fund has acquired an 85% interest in the Hobart Day Surgery in conjunction with the Nexus Property Unit Trust. The property is a circa 1996 constructed two storey day surgery. The main building includes a three-theatre surgery, first and second stage recovery with 10 beds and 12 chairs, as well reception/waiting room and ancillary rooms and amenities. A second detached circa 1900's former residence is located on the site what compliments the day surgery and is used for admissions/waiting room, recovery room and ancillary uses. The property is located approximately 1km south of the Hobart CBD.

Property Valuations

The Fund has a valuation policy requiring an independent valuation at least once every two years or if the Manager believes there has been a material change in value. Director's valuations are undertaken every six months as part of the Fund's financial reporting.

Independent valuations are carried out on all the properties prior to acquisition. Properies under construction (Murrumba Downs QLD and West Lakes WA) are expected to undertake valuations upon completion. The independent valuations made several assumptions regarding market rent, tenant incentives, re-letting and other factors based on available market evidence. The main assumptions adopted in the valuations are provided below.

Figure 8: Valuation Metrics

	120-122 Spencer Street, South Bunbury WA[1]	Bloomfield Medical Centre, 1521 Forest Road, Orange NSW	Vermont South Medical Centre, 645-647 Burwood Highway, Vermont South VIC	Hobart Day Surgery, 10 Warneford St, Hobart TAS
Title	Freehold	Strata	Freehold	Freehold
Acquisition date:	December 2019	October 2020	October 2020	Nov 2020 (est)
Ownership	100%	85%	85%	85%
Site Area	2,920sqm	4,737sqm	9,026sqm	2,132sqm
Net Lettable Area	890sqm	8,002sqm	6,906sqm	905sqm
Major Tenant (% NLA)	Healius Limited (100%)	Nexus Hospitals (Orange Private Hospital) (56.7%)	Nexus Hospitals	Nexus Hospitals
Weighted Average Lease Expiry	0.6 years	8.3 years	4.4 years	3.7 years
Occupancy[2]	100%	100%	100% (incl rental guarantee)	100%
Initial net passing income	$0.5M	$3.2M	$3.3M	$0.4M
Net Market income (fully leased)	$0.5M	$3.2M	$3.3M	$0.4M
Purchase price (100%)	$8.1M	$55.5M	$51.7M	$5.61M
Valuation	$8.1M (subject to new lease)	$56.2M (100%)	$51.75M (100%)	$5.61M
Passing initial yield	5.6% (new lease), 7.1% ('as is')	5.73%	6.34%	7.26%
Capitalisation rate	5.25% - 5.75% (new lease)	5.60%	6.13%	7.00%
Valuer	Colliers	CBRE	m3 property	Valued Care
Valuation Date	April 2020	October 2020	July 2020	October 2019
Valuer's Discount Rate	N/A	7.00%	7.25%	7.50%
Valuer's Terminal Yield	5.25%	5.85%	6.38%	7.50%
Value/sqm	$9,101 (new lease)	$7,000	$7,493	$6,199
Valuer's unleveraged 10-year IRR	N/A	6.92%	7.18%	7.09%

Note 1: Metrics subject to change on the proposed 12-year lease extension. Note 2: As at 30 June 2020, including rental guarantees.
Source: Colliers, CBRE, m3 property, Valued Care

Leases, tenants and income

120-122 Spencer Street South Bunbury WA is currently leased to Healius Limited (ASX: HLS) with the lease forming part the Healius Primary Care business. In June 2020 Healius announced the sale of the business to BGH Capital, which is expected to complete the sale and assume the responsibility of the lease before December 2020. The lease expires in July 2021 and is currently operating as the Forrest Family Practice. The Manager is currently in discussions to renewal the lease for a further 12-year period.

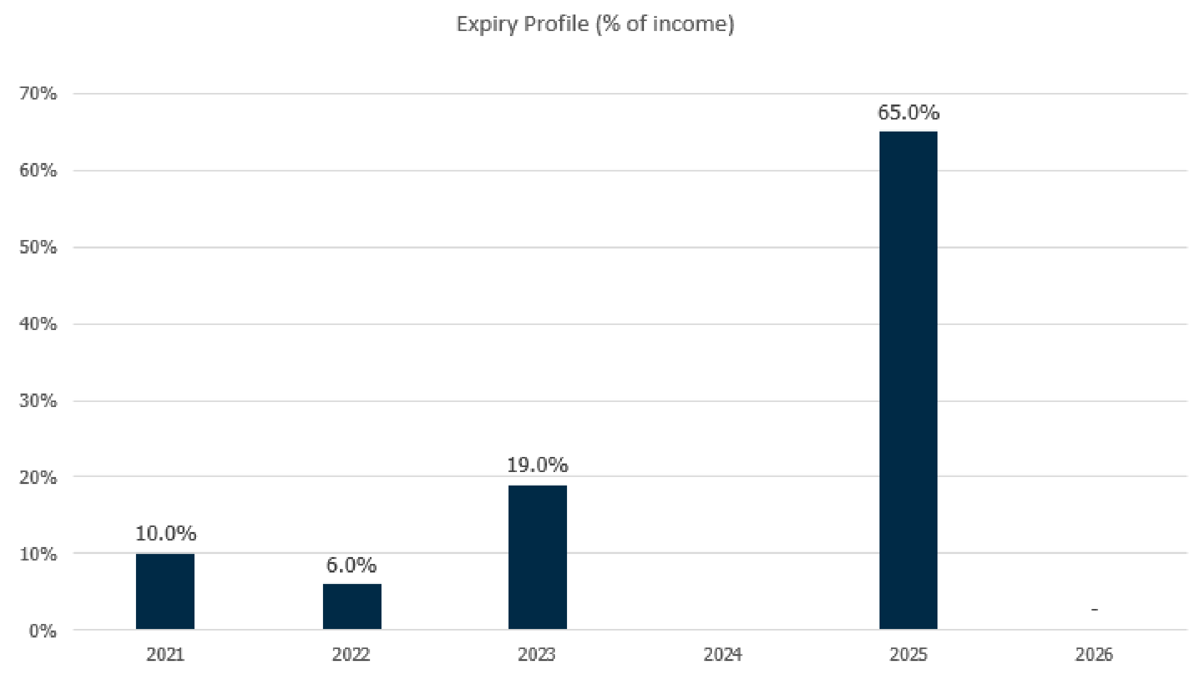
A summary of the key tenancies is provided in the table below.

Figure 9: Lease profile (by NLA) – Key tenants

Property	Key Tenants	Net Lettable Area	% of property	Lease Expiry
120 – 122 Spencer St, South Bunbury WA	Sidameneo (Healius)	890	100%	July 2021
Bloomfield Medical Centre, Orange NSW	Orange Day Procedures Centre	4,534	56.7%	February 2030
	Bloomfield L2 Pty Ltd	2,091	26.1%	January 2030
Vermont South Medical Centre, Vermont South VIC	Vermont Private Hospital Pty Ltd (Nexus Day Hospital)	1,851	26.8%	June 2027
	Vermont Medical Mgmnt	1,005	14.5%	April 2027
Hobart Day Surgery, Hobart TAS	Hobart Day Surgery Pty Ltd	905	100.0%	July 2024

Source: Colliers, CBRE, m3, Valued Care

Figure 10: Lease expiry profile (by income)



Source: Centuria Healthcare

Capex

Excluding developments, capex forecasts for the seed assets have been estimated at around $1.7M across the portfolio over a 5-year horizon. The capex allowances are in line with the valuer's assumptions and are primarily intended to facilitate refurbishment works and general maintenance. The capex amounts are expected to be serviced via the existing debt facility.

Financial Analysis

Core Property has undertaken a financial forecast of the Fund, based on the Manager's assumptions. The key assumptions in our forecasts are:

- Based on the current portfolio of four properties.
- Based on the current number of units on issue of 88.4M as at 12 November 2020.
- Assumes capex is funded by an increase in debt.
- Assumes the debt facility is maintained at the current level for the life of the Fund.

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 11: Profit & Loss Forecast and Balance Sheet

Profit & Loss - Forecast $M	**7 months 1 Dec 2020 - 30 June 2021**
Net Property Income	**3.7**
Distributions & Other Income	0.8
Management Fee	-0.7
Fund Expenses	-0.1
Net Interest Expense	-0.8
Cash Available for Distribution	2.9
Cash retained/not distributed	-
Cash Distribution	2.9
Cash Distribution per Unit	**3.35**
Distribution Yield (annualised)	**5.75%**
Balance Sheet – $M	**As at 12 November 2020 - Unaudited**
Assets	
Cash	11.4
Direct Properties	102.3
Investment in Property Trusts	9.8
Other Assets	1.7
Total Assets	**125.3**
Liabilities	
Borrowings	45.0
Other Liabilities	2.5
Total Liabilities	**47.5**
Net Assets	**77.8**
NTA per Unit	**$0.88**

Source: Core Property, Centuria Healthcare

Expected Future Performance (IRR Sensitivity)

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

Using these assumptions Core Property expects the Fund to deliver a 5-year Internal Rate of Return (IRR) in the range of 6.0% - 9.0% p.a. (base case 7.2% p.a.) based on terminal a capitalisation rate of 5.73% - 6.48%.

The calculations are based on an average all-in cost of debt of 2.19% p.a. throughout the investment term, and an initial capitalisation rate of 6.23%. The calculation is based on the current portfolio of seven properties (four acquired properties and three under contract/option to acquire).

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. The IRRs should be seen as indicative only, as the Fund is open-ended and the portfolio metrics are subject to change over time.

Figure 12: Pre-tax, 5-year IRR (after fees) sensitivity analysis

	IRR based on cost of debt				
Terminal cap rate	**1.19%**	**1.69%**	**2.19%**	**2.69%**	**3.19%**
5.73%	9.2%	9.0%	8.9%	8.7%	8.5%
5.98%	8.4%	8.3%	8.1%	7.9%	7.7%
6.23% (base)	7.6%	7.4%	**7.2%**	6.9%	6.7%
6.48%	6.7%	6.5%	6.3%	6.0%	5.8%
6.73%	5.8%	5.6%	5.4%	5.1%	4.9%

Source: Core Property

Management & Corporate Governance

Background of the Responsible Entity & Manager

Centuria Healthcare is a specialist healthcare property funds manager, which is owned 63.06% by Centuria Capital Limited (ASX: CNI) and interests associated with Centuria Healthcare management.

- Centuria Capital Limited is an ASX listed fund manager with $9.4 billion of assets under management, including two ASX-listed REITs, unlisted property funds and investment bonds. Centuria was established in 1999 as Century Funds Management and has completed 44 closed ended funds since inception
- Centuria Healthcare was established in 1977 to provide specialised management investment services to a niche market of high net worth investors. In 1990 it established Centuria Healthcare Asset Management Limited and has acquired over $1.0 billion of commercial property across 41 property funds since inception.

The Board of the Responsible Entity and the management of the Fund utilises the combined experience and skills of both the Centuria and Centuria Healthcare businesses.

Figure 13: The Board of the Responsible Entity & Manager

Name & Role	Experience
Roger Dobson **Independent Chairman**	Roger is the head of Jones Day's Business Restructuring & Reorganisation practice in Australia. He has extensive experience in working on large, complex restructuring and insolvency matters in Australia. Over the past decade he has represented main banking syndicates, offshore funds holding a substantial debt position, companies experiencing financial distress, liquidators, administrators, and receivers. Roger was appointed to the Board of Centuria Property Funds Limited and Centuria Property Funds 2 Limited in October 2017. Roger holds a Master of Laws from Columbia University in the City of New York and a Bachelor of Law from the University of Adelaide.
Nicholas Collishaw **Non-Executive Director**	Nicholas has over 30 years' extensive experience across all major real estate markets in Australia and investment markets in the USA, UK and the Middle East. Nicholas was appointed CEO-Listed Property Funds of Centuria in May 2013 and has served as an Executive Director within the Centuria Group from August 2013 and as Non-Executive from October 2017. Prior to this, Nicholas held the position of CEO and Managing Director at the Mirvac Group, and has held senior positions at James Fielding Group, Paladin Australia, Schroders Australia and Deutsche Asset Management. Nicholas is currently Executive Director and Co-Founder of Lincoln Place, an Australian funds manager specializing in the retirement sector.
Peter Done **Non-Executive Director**	Peter has over 30 years' experience in auditing and risk management, having spent 27 years as a partner at KPMG. During this time, he was the lead audit partner for many clients, including those involved in property development, primary production and television, and film production and distribution. Peter was appointed to the Board of Centuria Property Funds No.2 Limited in December 2007. He is also a member of Centuria's Audit, Risk Management and Compliance Committee and a Non-Executive Director of Centuria Capital.
Natalie Collins **Non-Executive Director**	Natalie has over 20 years' experience across a broad range of disciplines including supply chain, finance, disruptive business models and corporate venture capital. Natalie is currently Head of Emerging Ventures at Coca-Cola Amatil and cofounded Coca-Cola Amatil's corporate venturing arm, Amatil X. She has led the delivery of Coca-Cola Amatil's first corporate accelerator, Xcelerate, which took 12 early stage businesses from an idea through to a minimum viable product. Natalie's experience in supplier management systems led to her role as Architect of Coca-Cola Amatil's programme, Partner for Growth, which drives supplier-led innovations.

Figure 14: Senior Management Team

Name & Role	Experience
John McBain **Joint CEO - Centuria**	John joined the Centuria Capital Board (formerly Over Fifty Group) on 10 July 2006 and was appointed as Chief Executive Officer in April 2008. John has built an extensive reputation over the years within the property industry. John founded property funds manager Waltus Investments Australia Limited and Hanover Group Pty Limited a specialised property consultancy and boutique funds manager. Waltus was formed in 1995 and was one of the first dedicated property funds managers in Australia. Prior to 1990, John held senior positions in a number of property development and property investments companies in Australia, New Zealand and the United Kingdom.
Jason Huljich **Joint CEO- Centuria**	Jason became the Centuria Group Joint CEO in June 2019 after previously leading Centuria's Real Estate and Funds Management business. Jason was also a founding director and major shareholder in boutique funds manager Century Funds Management, which was established in 1999 and acquired by Over Fifty Group in July 2006. He is an Executive Director of Centuria Capital Group. Jason has extensive experience in the commercial property sector, with specialist skills in property investment and funds management. He is also a past President of the Property Funds Association (PFA), which represents the $125 billion direct property investment body in Australia and continues to serve on their national executive. Jason holds a Bachelor of Commerce (Commercial Law) from the University of Auckland, New Zealand.
Andrew Hemming **Managing Director – Centuria Healthcare**	Andrew has 17 years' experience in investment markets with leading international financial institutions in Sydney and London such as HSBC, Merrill Lynch and PNB Paribas. He has worked at the Manager from 2007 and was appointed as a Managing Director in 2013. Andrew holds a Bachelor of Arts (Commerce) and Master of Business Administration from Macquarie University.
Ross Lees **Head of Funds Management - Centuria**	Ross is the Head of Centuria's Real Estate Funds Management business, which is responsible for both listed and unlisted property funds. This includes two ASX listed REITs as well as 16 unlisted funds. Ross was previously the Fund Manager, Centuria Industrial REIT (ASX: CIP). Ross joined Centuria in 2017 and has over 15 years of industrial investment management experience having joined from Dexus where he held senior transactional and portfolio management roles. Prior experience includes over six years at Stockland (ASX: SGP) and four years at Logos Property Australia having established and led their asset management platform.
Victor Georos **Head of Portfolio & Asset Management - Centuria**	Victor joined Centuria as Senior Portfolio Manager in April 2013 and was appointed Head of Portfolio and Asset Management in July 2015. He is responsible for overseeing portfolio and asset management of Centuria's portfolio, including the development and implementation of strategies to enhance value through active asset management and development. Victor has extensive experience in asset and investment management, development and funds management, across the office, retail and industrial sectors, with a key focus on results and ability to build high performance teams across all sectors. Prior to joining Centuria, Victor held senior positions with GPT Group and Lend Lease, including Head of Industrial & Business Parks at GPT.
Toby Kreis **Head of Funds Management – Centuria Healthcare**	Toby has over 15 years of experience in real estate funds management and advisory, including roles as an Investment Manager for Folkestone Limited's direct property and fund investments, and an analyst for the Mirvac Industrial Trust. Toby has also worked at Deloitte in both the Assurance and Advisory and Corporate Finance Divisions. Toby holds a Bachelor of Commerce and Bachelor of Business (Management) from the University of Queensland.
Vijitha Yogavaran **Fund Manager**	Vijitha has over 10 years' experience across property funds management, corporate finance and management accounting. She previously held roles at Investa Property Group as a Fund Analyst and also within the Corporate Transaction division. Vijitha is a fellow of Chartered Management Accountant (ACMA, CGMA), Chartered Certified Accountant (FCCA) and is a CFA Level 3 candidate.
Sophie Monsour **Investment Director – Centuria Healthcare**	Sophie joined Centuria Healthcare in April 2019. Prior to this, Sophie worked within the investment banking division at Credit Suisse in Sydney where she worked within the TMT / Sponsors team across M&A, ECM and DCM. Sophie holds a Bachelor of Commerce (Finance) and Laws (Hons) from the University of Queensland and has a graduate diploma of Legal Practice from the Australian National University.

Source: Centuria Healthcare

Compliance with ASIC Regulatory Guide 46

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 disclosure 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 and Conflicts of Interest

The RE maintains and complies with a group-wide conflicts-of-interest policy on related party dealings, including assessment and approval processes implemented by the RE's compliance team. All related party transactions and appointments will be conducted on an arm's-length basis, in the best interests of Investors and require approval from the RE's independent directors.

- The Manager has also disclosed that it has a two-year agreement which allows one of its investors to elect to purchase an interest in any new property sourced by the Manager, provided the property is in excess of $20M and meets certain requirements. This agreement runs from 3 September 2019 to 3 September 2021.
- The Manager has also entered into an agreement which will see CHPF coinvest into Nexus-anchored properties with the Nexus Property Unit Trust (NPUT). The NPUT business model involves co-owning, developing and operating the acquired properties with corresponding specialist medical practitioners. It has been indicated that NPUT will own no more than a 15% interest in the assets acquired in the partnership with the Fund. Under the agreement, Nexus, the RE and the NPUT Trustee are independent contractors and are not agent and principal of each other, joint venturers or partners and are not acting on behalf of each other.

Past Performance

Centuria Healthcare is owned 63.06% by Centuria Capital Limited (ASX: CNI) and interests associated primarily with Centuria Healthcare management.

- Centuria has completed 44 unlisted funds since 1999 with an average annual return to investors of 16.8% p.a.
- Centuria Healthcare has completed 31 unlisted funds since 1990 with an average annual return to investors of 15.2% p.a.

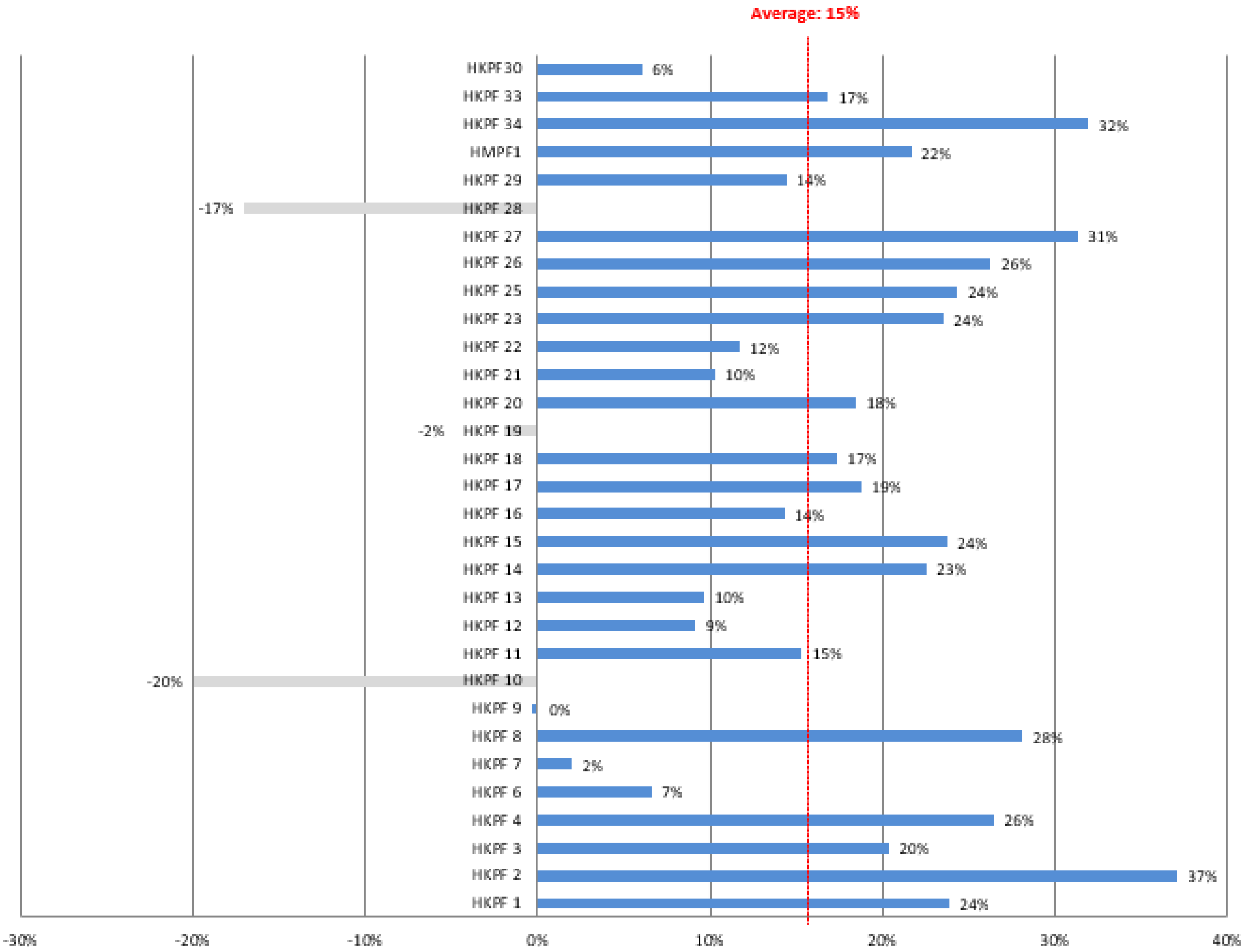
Centuria Healthcare currently manages three additional unlisted healthcare funds:

- Centuria Healthcare Direct Medical Fund No.1 (DMF1) was established in November 2014 and has delivered an average distribution of 6.80% p.a. The Net Asset Value of the Fund at 31 March 2020 was $0.9178 per unit.
- Centuria Healthcare Direct Medical Fund No.2 (DMF2) was established in June 2017 and has delivered an average distribution of 6.02% p.a. The Net Asset Value of the Fund at 31 March 2020 was $0.9293 per unit.
- Centuria Healthcare Aged Care Fund No.1 was established in October 2015 and has delivered an average distribution of 7.52% p.a. The Net Asset Value of the Fund at 31 March 2020 was $1.043 per unit.

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.

The following is a graph summarizing the performance of completed funds, as provided by Centuria Healthcare Asset Management.

Figure 15: Past Performance of Centuria Healthcare Asset Management Completed Funds (previously Heathley Asset Management)



Source: Centuria Healthcare

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.

This report has been commissioned, and, as such, Core Property has received a fee for its publication. Under no circumstances has Core Property been influenced, either directly or indirectly, in making statements and / or recommendations contained in this report.

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Core Property has received a fee from the Manager for researching the product(s) which has then been subject to a detailed review and assessment by Core Property and its analysts to produce this report. In compiling this report, Core Property's views remain fully independent of influence or conflicts of interest. Our team of analysts undertake an objective analysis of the offer and conclusions are presented to senior officers for review.

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