Core Property
Fund Research & Ratings
www.coreprop.com.au

Unlisted Property Fund Report

MPG Regional Cities Property Trust

April 2020

Regional social infrastructure property fund with 88% of income from government tenancies, targeting 7.0%+ distributions

MPG Regional Cities Property Trust

Contents

About Core Property Research

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

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

MPG Regional Cities Property Trust

April 2020

The MPG Regional Cities Property Trust (the "Trust") was established in February 2018 by MPG Funds Management Limited (the "*RE*" or *MPG*) which is part of the McMullin Property Group, founded by the late Ian McMullin (founder of Spotless Group). Active for two years, the Trust provides an opportunity to invest in a portfolio of properties located along the eastern seaboard of Australia in regional cities that are predominantly secured by government tenants and benefitting from new infrastructure spend and the resulting growth in their respective local economies.

The Trust currently consists of a portfolio of 11 investment properties valued at $87.8M, plus $0.9M of units in an MPG managed investment and $1.1M in cash. The RE is seeking to raise $15M through the issue of 15M units at $1.00 per unit ("the Offer"). The funds raised will be used, in combination with additional debt to acquire a further $13.0M in properties. The Trust will also invest a further $2.2M in the MPG Retail Brands Trust (a fund managed by the RE), which is targeting a 7.25% yield in FY21.

Post completion of the transaction, the portfolio metrics provide a secure income profile for investors with: (1) 100% occupancy; (2) a Weighted Average Lease Expiry (WALE) of 5.1 years; (3) around 88% of the rental income is sourced from government or government funded tenants (such as Centrelink, Medicare and the Victorian Environmental Protection Agency); (4) contracted annual rent increases of ~3.0%; and (5) a distribution profile that is predictable and sustainable over the initial term of the Trust.

Following the completion of the Offer and property acquisitions, drawn debt is expected to be $45.3M with an LVR of 45% against a bank LVR covenant of 55%. The debt facility expires in June 2021 and the RE is currently in discussions to extend the facility for a further two years. The forecast Interest Cover Ratio (ICR) of 3.7x is well above the bank ICR covenant of 2.0x.

Fees paid by the Trust are in line with industry peers and funds rated by Core Property.

The RE is forecasting distributions of 7.05% and 7.15% p.a. in FY21 and FY22 respectively. Core Property expects distributions to rise to 7.5% p.a. towards the end of the Trust's term. Our recommendation recognises the strength of the government tenancies and certainty of income distributions for investors in this Fund.

Core Property estimates the Fund to deliver an Internal Rate of Return (IRR) of between 7.4% - 9.5% (midpoint 8.4%) over the remaining five years of the initial term of the Fund. Investors should note the majority of returns are expected to be derived from income distributions, as capital returns remain volatile in the current environment. The analysis includes the potential that investors may receive a capital gain or loss, based on market conditions.

It is important that investors acknowledge that pandemics 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.

The initial term of the Trust is seven years, with five years remaining (to 1 July 2025). At the end of the initial term, investors will be offered an opportunity to exit or extend the Trust term for a further seven years. However, if a sale of assets is required, investors may be required to remain in the Trust for up to three years.

MPG maintains and complies with a written policy on related party transactions to manage conflicts of interest.

Investor Suitability

In Core Property's opinion, this product would be best suited to investors who are seeking a highly secure 7.0%+ distribution yield, supported by a portfolio of regional properties predominantly leased to government tenancies. Capital returns will be dependent on the RE's ability to maintain the strong tenancy profile of the portfolio as well as overall market conditions, including any potential impact as a result of COVID-19. The Trust is illiquid and investors should be prepared to remain invested until the expiry of the initial investment term in July 2025.

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

Trust Details	
Offer Open:	8 April 2020
Offer Close[1]:	31 July 2020
Min. Investment:	$10,000, multiplies of $5,000 thereafter
Unit Entry Price:	$1.00
Net Tangible Asset per unit:	$0.88
Liquidity:	Illiquid
FY21 Forecast Distribution:	7.05 cpu[2]
FY22 Forecast Distribution:	7.15 cpu[2]
Distribution Frequency:	Quarterly
Investment Period:	5 years remaining to 1 July 2025

1. Indicative only. The RE has reserved the right to close the Offer early or extend the Offer.
2. Based on the RE's forecasts

Trust Contact Details

Brett Gorman
Director
bgorman@mpgfm.com.au
Phone: 03 9831 8920

Note: This report is based on the MPG Regional Cities Property Trust Product Disclosure Statement dated 8 April 2020, together with other information provided by MPG Funds Management.

Key Considerations

Management: The Trust is managed by MPG Funds Management, which was established in 2002 and currently has in excess of $705M funds under management. MPG Funds Management is part of the McMullin Property Group (founded by Ian McMullin, founder of Spotless Group) which has been involved in over $1.5B of property development over the past 40 years.

Trust Term: The Trust will have an initial term of 7-years, commencing February 2018, with 5 years remaining to 1 July 2025. Approximately six months prior to the end of the initial investment term, investors will be given the option to exit or elect to extend the Trust for a further seven years. Investors who choose to exit the Trust will be given the option to do so, however this may take up to 3 years if an asset sale is required.

Trust Strategy: The Trust predominantly invests in properties with social infrastructure tenants which currently includes government tenants and childcare centres. Properties are located on the eastern seaboard of Australia in fast growing regional cities with long term population growth, underpinning future price appreciation.

Property Portfolio: Funds raised will be used to increase the portfolio to $103.8M consisting of 13 properties valued at $100.8M, plus $3.0M in units in the related MPG Retail Brands Property Trust (RBPT). Core Property believes that the portfolio has unique attributes and to an extent insulated from the pricing volatility created by macro-economic headwinds. Some of these attributes include: (1) contracted rent escalations with government/ government funded tenants in regional cities; and (2) strong tenants with medium-term expiries.

Investment in MPG Retail Brands Trust: The Trust intends to hold $3.0M, or ~3% of the portfolio in the MPG Retail Brands Property Trust (RBPT) targeting 7.25% distributions in FY19. The units are to be acquired from McMullin Group at $1.00 per unit. The Trust has an agreement which allows it to sell the units back to McMullin Group at the greater of $1.00 per unit or the NTA per unit, which provides liquidity for the Trust if required.

Future Acquisitions: The Trust may consider future acquisitions (up to $25M) that fit its criteria provided the properties have the potential for long term returns comparable to the existing portfolio. Core Property's review is based on the properties identified in the PDS.

Debt Profile: To fund the acquisitions, the Trust will increase its debt facility limit to $50.0M, with a total of $45.3M drawn. The Loan to Valuation Ratio (LVR) on completion is estimated at 45%, which is below the bank LVR covenant of 55%. The debt facility is due to expire in June 2021 and the RE is currently in discussions to extend the facility term by two years. The initial Coverage Ratio (ICR) of 3.7x is above the ICR covenant of 2.0x.

Initial NTA: The initial NTA is estimated at $0.88 per unit, as the RE writes off the acquisition costs (stamp duty, equity raising and other due diligence costs).

Distributions are forecast at 7.05% p.a. in FY21, increasing to 7.15% in FY22. Core Property estimates distributions to increase to 7.5% p.a. in FY25, based on the Manager's assumptions.

Fees: Core Property considers the fees to be in line with industry peers.

Total Returns: Core Property estimates the Trust to deliver an IRR of between 7.4% and 9.5% (midpoint 8.4%) based on the Trust's sensitivities (+/- 50 bps sensitivity to the cost of debt and capitalisation rates, see the Financial Analysis section).

COVID-19 Impact: Investors should be aware that property valuations may be impacted by short term volatility as a result of the impact of COVID-19 on investment markets. This may affect the long-term capital returns of the Fund. It is also important to recognise that property markets are cyclical as history has proven. Over a 25-year history of measuring returns, typically, 70% - 80% of total returns are derived via income returns which is an important feature for long-duration assets such as property.

Related Party Transactions: The Trust forms part of the McMullin Group and will be acquiring units in the MPG Retail Brands Property Trust from McMullin Group as part of its investment strategy.

Illiquid investment: The Trust does not have a withdrawal facility. Investors should consider an investment in the Trust to be illiquid and expect to remain fully invested at least until the end of the initial term expiry in July 2025.

Investment Scorecard

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

Key Metrics

Fund Structure

A closed ended unlisted property trust investing in a diversified portfolio of direct properties, unlisted property funds and cash. The Trust strategy is to invest in properties leased to government and social infrastructure tenants in growing regional cities on the eastern seaboards of Australia.

Management

The RE, MPG Funds Management Ltd and parent entity McMullin Group have over 40 years of commercial property investment, management and development experience.

Property Portfolio

Target allocation:	Government and Social Infrastructure Property Regional Property and other MPG Investments Cash/Listed A-REIT's	70 - 95% 0 - 25% 5 - 20%
No of Properties:	13	
Valuation:	$100.8M in Direct Properties, including $13.0M of proposed acquisitions.	
Property Location:	VIC, NSW, QLD	
Property Sector:	Commercial / Retail / Childcare	
Key Tenant:	Commonwealth of Australia (52%), The State Government of QLD (20%) The State Government of Victoria (11%), Think Childcare (5%)	
Occupancy	100%	
WALE:	5.1 years as at 8 April 2020	

Return Profile

Forecast Distribution:	FY21: 7.05 cents per unit (7.05%) FY22: 7.15 cents per unit (7.15%)
Distribution Frequency:	Quarterly, in arrears
Tax advantage:	FY21: est. 73% tax deferred FY22: est. 100% tax deferred
Estimated Levered IRR (pre-tax, net of fees):	7.4% - 9.5% (midpoint 8.4%)
Investment Period:	5 years to July 2025 (Remaining Term)

Risk Profile

Property/Market Risk:	Capital at risk will depend on a portfolio of thirteen properties in VIC, NSW and QLD. The portfolio may change over time through acquisitions. Investors will be exposed to a potential capital gain or loss, based on market conditions.
Interest Rate Movements:	Interest rates are expected to be hedged for at least 50% of the debt in the Trust. Any change in the cost of borrowings may impact the distributable income in the remaining term of the Trust.
Property Specific Risks:	Property investments are exposed to a change in vacancy rates, prevailing market rents, and economic supply and demand.

For a more detailed list of the key risks, refer to the "Investment Considerations and Risks" section of the Product Disclosure Statement.

Fees Paid

Fees charged by the Trust are at the low end of what Core Property has seen in the market (see Figure 6: Fees in Perspective).

Entry Fees:	Nil
Exit Fees:	Nil
Contribution Fee:	2.0% of the amount invested in the Trust.
End Fee (Property Disposal Fee):	2.0% plus GST of the net proceeds of sale, provided the net sale proceeds exceed the purchase price of the asset.
Replacement Fee:	2.00% of the GAV of the Trust if the RE is replaced.
Management Fees & Overall Expenses:	• 0.55% of GAV as Management Fee • 0.20% of GAV as Expenses (est.)
Performance Fee:	A fee of 15% of the outperformance over a 10% internal rate of return at the expiry of each term.

Note 1: The Trust Deed allows an Establishment Fee of up to 5% of the initial purchase price of the asset, however the RE has confirmed that it will charge a maximum 2.0% for the Trust.
Note 2: Comprised of the base management fee and ongoing expenses. The RE has confirmed that it does not charge additional management fees on related property funds that it manages.

Debt Metrics

Current Debt / Debt on Completion of Acquisitions / Facility Limit:	$43.9M / $45.3M / $50.0M
Loan Period:	Expiry June 2021[1]
LVR / Loan Covenant:	45% / 55%
ICR / ICR Covenant:	3.7x / 2.0x

1. MPG is currently in discussions with the financier to extend this term by a further two years

Legal

Offer Document:	Product Disclosure Statement, 8 April 2020
Wrapper:	Unlisted Property Trust
Manager & Responsible Entity:	MPG Funds Management Ltd (ACN 102 843 809) AFSL 227114
Custodian:	The Trust Company Limited (ACN 004 027 749)

Overview

The MPG Regional Cities Property Trust ("the Trust") was established in 2018 to provide an investment in a diversified portfolio of properties secured by government and social infrastructure tenants located in some of Australia's fastest growing regional cities on the eastern seaboard.

The Trust's Responsible Entity is MPG Funds Management Ltd ("RE" or "MPG") which is owned by interests associated by the McMullin Property Group, which has over 40 years' experience in property development and was founded by the late Ian McMullin (founder of Spotless Group).

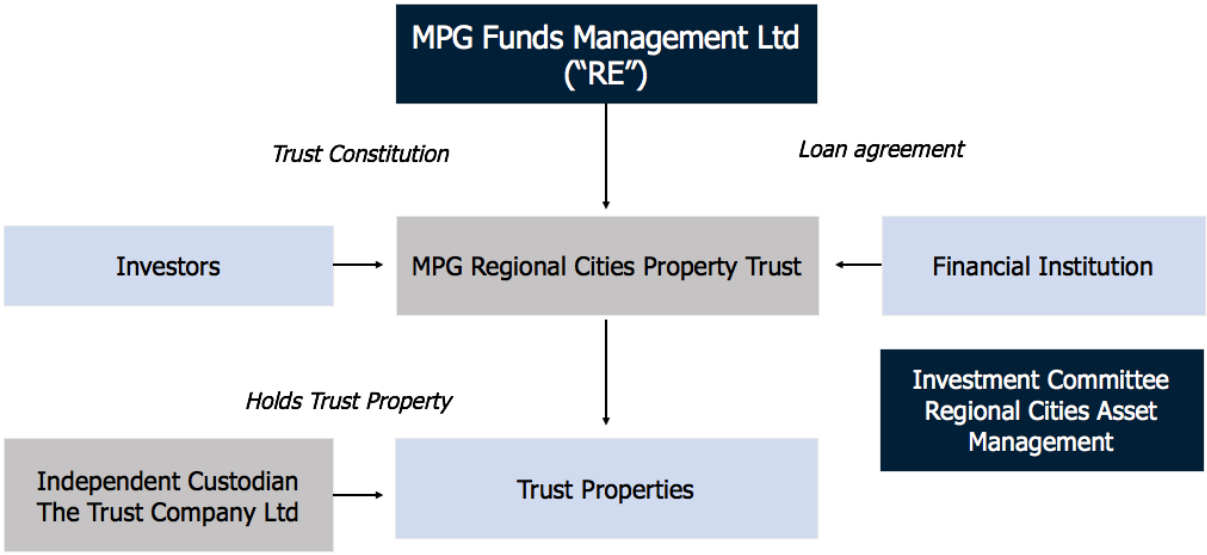
The Trust currently manages an investment portfolio valued at $89.9M, including 11 properties valued at $87.8M, an investment in the MPG Retail Brands Property Trust ("RBPT") valued at $0.9M, and $1.1M in cash. The Trust is seeking to raise an additional $15.0M through the issue of 15.0M units at $1.00 per unit ("the Offer"). The proceeds will be used to acquire two further properties valued at $13.0M, as well as to invest a further $2.2M in the RBPT. Upon completion, the portfolio will be valued at $103.8M, with the direct properties being 100% occupied with a WALE of 5.1 years. Rental income is largely secured by government tenants, which comprise 88% of income across the portfolio.

The RE may also consider further acquisitions to target government and social infrastructure properties under $25M, provided the property is capable of achieving comparable long term returns to the existing portfolio.

Core Property notes the Trust's investment in the MPG Retail Brands Property Trust currently provides a 7.25% p.a. distribution yield. This is currently above the Trust's own target distributions of 7.05% and 7.15% in FY21 and FY22 respectively. Distributions are estimated to increase to ~7.5% p.a. in FY25, based on the Manager's forecasts.

The Trust has an initial seven-year term, commencing in February 2018, with five years remaining to 1 July 2025. At the end of the initial term investors will be provided an opportunity to exit the Trust or extend for a further 7-year term. Investors wishing to exit Trust at the end of seven years will be able to do so, however, if the Trust does not have liquidity to fund the repurchase of units, investors may need to wait up to an additional three years for the Trust to sell its assets.

Figure 1: Trust structure



Source: MPG, Core Property

Trust Strategy & Background

The Trust was formed from the MPG Property Fund which was established in October 2012. In February 2018 the Fund was restructured as the MPG Regional Cities Property Trust. A capital raising was undertaken at $1.00 per unit, to establish the investment portfolio.

Since February 2018 the Trust has raised a total of $51.7M in equity through the issue of 51.7M units at an issue price of $1.00 per unit. Distributions have been paid at a rate of 7.0% p.a. (pro rata) since September 2018, with a current net tangible asset backing of $0.88 per unit.

The core investment objective of the Trust is to generate regular tax advantaged income returns from a diversified portfolio of social infrastructure and other assets that have the potential for capital growth. Social infrastructure properties are those that accommodate a social service which includes the sectors of Health, Education, Housing, Civic and Utilities, Public Transport and Corrections and Justice. Other assets comprise regional assets such as retail or office assets, or other MPG managed investments.

Properties will be located on the eastern seaboard of Australia in regional cities with a population in excess of 25,000 people and growing at greater than 1% p.a. The targeted regional cities will ideally have demonstrated government infrastructure spend, higher education facilities, transport and a growing local economy.

The target portfolio allocations are set out in the table below.

Figure 2: Target portfolio allocation

Investment Class	Target Allocation
Government and Social Infrastructure Property	70 – 95%
Regional Property and other MPG Investments	0 – 25%
Cash/Listed A-REITs	5 - 20%

Source: MPG

The Existing Portfolio consists of $89.9M of assets, consisting of 11 properties valued at $87.8M, units in the MPG Retail Brands Property Trust valued at $0.9M, and cash of $1.1M.

Unit Issue Price: The Trust currently has 51.7M units on issue, all issued at $1.00 per unit. New units in the Trust will be issued at $1.00 per unit which provides all investors with an equal entry price. Assuming a full subscription of units under the Offer, the RE estimates the Net Tangible Assets to be maintained at $0.88 per unit following the completion of the acquisitions.

Future Property Acquisitions: The proceeds of the Offer will be used to acquire two additional properties by 30 June 2020. The Manager has not forecast any further acquisitions to take place throughout the investment term, however MPG may acquire additional properties that fit the investment strategy. Core Property expects any acquisitions requiring a further capital raising would be undertaken on similar terms to the current Offer, to ensure an equitable allocation of acquisition costs to new investors.

MPG advised that any further acquisitions would require to fit the investment strategy, which targets social infrastructure properties up to $25M with each additional property must be capable of achieving comparable long term returns to the existing portfolio. MPG has advised that it intends to acquire properties for the Trust's first four years to 2022 and then hold for the last three years of the initial term to July 2025. Core Property's review of the Trust is based on the properties identified in the current PDS.

Distribution Reinvestment Plan: The Trust currently operates a distribution reinvestment plan that allows unitholders to reinvest all or part of their distributions in the Trust through the issue of new units. The new units are issued at the prevailing Withdrawal Price on the payment date and is subject to a $1.00 minimum issue price.

Buy/Sell Spread: There is a buy spread for investment in the Trust to meet costs associated with the proposed acquisition of the initial properties. The RE may introduce a buy spread for future offers that will apply to Application monies to reflect its estimate of the average cost of acquiring the investment in which it is mandated to invest. No sell spread is currently applicable on withdrawal from the Trust.

Sources & Application of Funds

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

Core Property notes the following:

- The Trust has existing cash in the bank of $1.1M, however this will not be used as part of the RE's plan to increase the Trust's investment in property or property securities/unlisted funds.
- The Trust will use $15.0M of equity raised, in conjunction with an expansion in its debt facility to fund the acquisition of two additional properties and further units in MPG managed investments. This totals fund sourcing of $16.4M.
- Acquisition Costs of $0.9M consist mainly of stamp duty and RE fees.

Figure 3: Source and Application of Funds

	$M	% of purchase price	% of total funds
Sources of funds			
Equity subscriptions	15.0	115.8%	91.3%
Bank debt	1.4	11.1%	8.7%
Total sources of funds	**16.4**	**126.9%**	**100.0%**
Application of funds			
Purchase price	13.0	100.0%	78.8%
Acquisition Costs	0.9	6.9%	5.4%
Debt Establishment Costs	0.1	0.6%	0.5%
Issue Costs	0.4	2.8%	2.2%
Investment in property securities/unlisted funds	2.2	16.7%	13.1%
Total application of funds	**16.4**	**126.9%**	**100.0%**

Source: MPG, Core Property

Debt Facility & Metrics

The Trust currently has a debt facility of $43.9M and has received indicative terms to increase this to $50.0M to assist in the funding of the acquisitions. The debt facility is currently due to expire in June 2021 however MPG is currently in discussions to extend the term for a further two years. A minimum of 50% of the facility will be hedged until the loan expiry.

The Trust currently has a Loan to Valuation Ratio (LVR) of 50%, which is expected to reduce 45% on completion of the Offer and acquisitions. The LVR is lower than the bank LVR covenant of 55%. MPG has advised that the Trust has not incurred any breach of the bank LVR covenant to date.

Where additional properties are funded through debt, the RE will ensure the Trust's overall gearing does not exceed 45% for more than a 12-month period.

Core Property calculates that, on completion, the drawn debt is forecast to increase to $45.3M, with an LVR of 45%. The valuation of the properties can withstand an 18.2% fall before the LVR covenant is breached. It is also notable that the Trust has $0.9M in units in the MPG Retail Brands Property Trust, which is expected to increase to $3.0M by 30 June 2020. These units may be called upon to fund the purchase of additional properties or to pay down debt if required. The units were acquired from the McMullin Group with an agreement to be sold back at the $1.00 per unit issue price or NTA, whichever the greater.

The RE anticipates the Interest Coverage Ratio (ICR) will be 3.7x over the forecast period, which is above the ICR covenant of 2.0x specified in the Debt Facility. Core Property calculates the Trust can withstand a 45.9% decline in income before it breaches the ICR covenant.

Figure 4: Debt Metrics

Details	Metric
Bank	Commonwealth Bank of Australia
Security	First ranked mortgage secured against the directly owned properties, with general security agreement over all assets in the Trust.
Current Drawn Debt / Debt on completion of Acquisitions / Debt Facility Limit	$43.9M / $45.3M / $50.0M
Loan Expiry	21 June 2021. The RE is in discussions to extend this by a further two years to June 2023.
% Hedged	23% (current). The RE is looking to increase this to 50% on completion of the Offer.
All-in cost of Debt	2.65% p.a.
LVR / Peak LVR/ LVR Covenant	45% / 50% / 55%
Initial interest covered ratio (Lowest ICR)/ ICR covenant	3.7x / 2.0x
Amount by which valuation will have to fall to breach LVR covenant	18.2%
Decrease in rent income to breach ICR covenant	45.9%

Source: Core Property, MPG

Liquidity / exit strategy

The initial term of the Trust is seven years, with five-years remaining to 1 July 2025. The investment should be viewed as a medium-term investment, with investors unable to apply for withdrawal unless an offer is made by the RE. The RE has advised that they are under no obligation to make a withdrawal offer throughout the term. Full liquidity will be provided to unitholders at the end of the current term.

At the end of the current term

When approaching the end of the investment term, July 2025, the RE will issue a Term Extension Proposal Letter whereby Unitholders will be given the opportunity to sell their Units or extend the term of their investment. As a result of this first right refusal it may take up to 12 months from the date of the Term Extension Proposal Letter to exit the Trust. The RE's determined price per Unit will be based on Net Asset Value of the trust from an independent valuation, less estimated selling costs determined by the RE.

- If 100% of investors wish to exit the Trust, the Trust will be wound up, its assets realised, and the net proceeds will be distributed to Unitholders.
- If all investors wish to remain in the Trust, then the Trust will continue for the extended period. Investors who do not respond to the Term Extension Proposal will be deemed to have elected to remain in the investment for the extended period.
- If some investors wish to remain and some investors wish to exit the Trust, then the following process will be undertaken:
  - Investors who wish to withdraw will have their units offered to other existing unitholders in proportion to their existing unit holdings. Existing unitholders will have 60 days to respond to the offer.
  - If the units are not fully subscribed for by the existing unitholders, the remaining units will be offered as a Secondary offer to existing unitholders on a "first come, first served" basis. Unitholders will have 60 days to accept the offer.
  - If the Secondary Offer is not fully subscribed, the RE may invite applications from other parties. As a result of this process, it may take up to 12 months from the date of the term Extension Proposal Letter to exit the Trust (or longer if the Trust must be wound up as described below).
  - If any units remain unpurchased after six months from the date of the Secondary Offer, the RE will resolve to wind up the Trust and distribute proceeds to unitholders. The RE has two years to realise the assets (or longer if reasonably necessary). As such, it may take up to three years (or longer if necessary) from the date of the Withdrawal Offer contained in the Term Extension Proposal to the realisation of the assets.

There is no other means of providing liquidity in the Trust and investors should treat the Trust as an illiquid investment.

Fees Charged by the Trust

Overall, Core Property considers the fees charged by the Trust to be in line with what is typically seen in the market.

- The Trust does not charge an Entry fee for new investors. Investors who wish to sell a portion of their units or exit the Trust are not also not charged any Withdrawal of Exit Fees.
- New investors in the Trust will incur a Contribution Fee of 2.0%. This Fee is deducted from amounts contributed to the Trust and represents the estimated impact of the Establishment Fee (acquisition costs) and Debt Arrangement Fee payable in respect of the proposed acquisitions.
- Management Fees of 0.55% p.a. of GAV, combined with ongoing expenses of 0.20% p.a. of GAV are at the low end of what Core Property has typically seen in the industry (0.7% - 1.1% of GAV).
- The RE has confirmed that it does not charge any additional fees on funds that it already manages. As such, there is no double counting of fees on the investment in the MPG Retail Brands Property Trust.
- In the event that the RE is replaced, it is entitled to charge a fee of 2.0% of the GAV of the Trust (Replacement Fee). The RE may be replaced if a resolution is approved by unitholders entitled to vote and together hold more than 75% of all units on issue of the Trust.

Figure 5: Summary of Fees charged by the Trust

Fee Type	Fee Charged	Core Property Comment
Entry/Establishment Fee:	Nil	
Exit/Withdrawal Fee:	Nil	
Contribution Fee:	2.0% of contributed amount.	This fee is deducted from amounts contributed. The fee represents the estimated impacts of the Establishment (Acquisition) Fee (2.0% of the purchase price of new assets[1]) and Debt Arrangement Fee (1.0% of any new debt arranged).
End Fee (Disposal Fee):	A fee of 2.0% plus GST of the net sale proceeds of any asset, payable if the net sale price exceeds the purchase price of the individual asset.	Industry average is to charge 1.0% - 2.0% of the sale price of the property.
Management Fee:	0.75% of Gross Asset Value, comprising: • Base management fee of 0.55% p.a. of the Gross Asset Value (excluding investments in property trusts); and • Other costs and expenses estimated at 0.20% p.a. of GAV.	This is at the low end of what we have typically seen in the industry (0.7% - 1.1% p.a. of GAV).
Performance Fee:	15% of the Fund's outperformance over a 10% internal rate of return at the expiry of each term.	Core Property considers the Performance Fee to be appropriate for the Fund.
Replacement Fee:	A fee of 2.0% of the value of the Gross Assets of the Trust is payable to the RE.	Payable if the RE is replaced.

Note 1: The Trust Deed allows for an Establishment Fee of up to 5.0% of the purchase price, however the RE has confirmed that it will charge a maximum 2.0% for the Trust.
Source: MPG, Core Property

All-in fee analysis

Core Property has analysed the fees that accrue to the RE over the term of the Fund as a percentage of all cash flow generated after deducting interest costs but before management fees. This analysis is based on the proposed portfolio as provided by the RE.

Core Property estimates that MPG is entitled to 7.4% of the total cash flow. Core Property considers the fees paid to the Manager to be at the low end when compared to similar products, which are typically around 7% - 9%.

In terms of the fees paid to the Manager, Core Property estimates that 27.0% of the estimated fee is paid upfront and the remainder relates to ongoing management fees.

Core Property stresses that these are estimates of how much investors will receive and not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

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

Core Property estimates that for every $1.00 of equity invested the Fund can return:	Amount per $1.00 unit
Principal repayment to investors:	$1.00
Income and capital gains to investors:	$0.41
Total cash to investors:	**$1.41**
Acquisition fee:	$0.03
Base management fee and Debt Arrangement Fee:	$0.05
Disposal fee:	$0.03
Fees for the RE (excluding disposal/admin):	**$0.11**
Total cash generated by Fund:	**$1.52**
Fees = % of total cash generated (before fees)	7.4%
Fees= % of gains (before fees)	21.6%
Up-front fee vs total fees	27.0%

Source: Core Property estimates

The Investment Portfolio

The Trust currently holds a portfolio of $88.7M in assets, consisting of 11 properties valued at $87.8M in addition to $0.9M of units in the MPG Retail Brands Property Trust and $1.1M of cash.

The RE intends to increase the portfolio to $103.8M through the acquisition of two properties for $13.0M, combined with a $2.2M increase in units in the MPG Retail Brands Property Trust. Settlement of these properties is expected before 30 June 2020.

The proposed acquisitions will improve diversification with the largest asset accounting for 15.9% of the portfolio. Properties are evenly distributed about the eastern seaboard; NSW (26%), VIC (35%), QLD (39%). The majority of tenants are government agencies, accounting for 88% of the Trust's income.

The Trust maintains a policy to undertake an independent valuation of its properties at least once every three years.

The table below provides a summary of the portfolio and proposed acquisition. Further summaries of the properties is provided in the appendix.

Figure 7: Portfolio Summary – Current (July 2020) and Proposed Acquisitions

Portfolio	Sector	NLA	Acqn Price /Date	Cap Rate %	Value	Portfolio weight	Occ	WALE
APVMA Building, 102 Taylor St and 91 Beardy St Armidale, NSW	Office	2,745	$15.9M Aug-18	6.75%	$15.9M	15.9%	100%	14.3 years APVMA, 9.3 years DHS
Centrelink & QLD Youth Justice Bldg, 21 Station St, Woodridge, Logan City, QLD	Office	4,343	$14.3M Oct-18	7.50%	$14.8M	14.2%	100%	4.0 years
EPA Building, 8-12 Seymour Street, Traralgon, VIC	Office	2,619	$12.0M Aug-18	7.25%	$12.0M	12.0%	100%	5.1 years
NDIS & Dept. of Environment & Science, 146 Herries Street, Toowoomba, QLD	Office	1,615	$7.5M Jan-19	7.25%	$7.5M	7.5%	100%	2.6 years
Centrelink Building, 6-12 Chapel Street, Morwell, VIC	Office	2,273	$6.5M June-19	7.50%	$6.5M	6.5%	100%	5.8 years
Centre for Non-Violence Building, 96-98 Pall Mall, Bendigo, VIC	Office/ Retail	1,448	$6.4M Dec-17	6.25%	$6.5M	6.4%	100%	4.8 years
Think Childcare Building, 136-142 Bailey Street Grovedale, Geelong, VIC	Childcare	713	$5.9M Feb-18	6.50%	$6.3M	6.3%	100%	12.0 years
Centrelink Building, 70 Robert Street Wallsend, Newcastle, NSW	Office	1,204	$6.0M Apr-18	7.00%	$6.3M	6.3%	100%	2.1 years
Centrelink Building, 6-10 Hunter Street Pialba, Hervey Bay, QLD	Office	1,097	$4.2M May-18	7.50%	$4.2M	4.2%	100%	3.3 years
Centrelink Building, 207-215 Lennox Street, Maryborough, QLD	Office	964	$3.9M May-18	7.50%	$4.0M	4.0%	100%	3.0 years
Centrelink Building, 69 Heygarth Street, Echuca, VIC	Office	970	$3.9M Dec-17	7.25%	$3.9M	3.8%	100%	2.7 years
Units in MPG Retail Brands Property Trust	Units in Trust	n/a	n/a		$0.9M	n/a	n/a	n/a
Current Portfolio (April 2020)		**19,991**			**$88.7M**	**87.1%**	**100%**	
Proposed Acquisitions								
Child Safety Service Building, 18-24 Brisbane Street, Ipswich, QLD	Office	1,807	$8.9M Jun 20	7.25%	$8.9M	8.8%	100%	4.2 years
Centrelink, Medicare, NDIS & Family Services, 9-12 Auburn Street, Moree, NSW	Office	1,509	$4.1M Jun 20	8.50%	$4.1M	4.1%	100%	2.1 years
Additional Units in MPG Retail Brands Property Trust	Units in Trust	n/a			$2.2M	n/a	n/a	n/a
Proposed Portfolio (Jun 2020)		**23,307**		**7.10%**	**$103.8M**	**100%**	**100%**	**5.1 years**

Source: MPG

The top three properties will account for 42.1% of the portfolio, as follows:

- **102 Taylor Street and 91 Beardy Street, Armidale, NSW ("APVMA Building"):** A two-storey office building with 2,745 sqm of NLA that was recently completed in June 2019. The property is occupied by the Commonwealth of Australia for the Australian Pesticides and Veterinary Medicines Authority (APVMA) on a 15-year lease, as well as the Department for Human Services on a 10-year lease.
- **21 Station Street Woodridge, Logan City, QLD ("Centrelink and Medicare Office"):** The property consists of four adjacent buildings with a total NLA of 4,343 sqm located in Logan City, approximately 25km south of Brisbane. The property has two government tenants and one non-for-profit organisation, which is government and privately funded; the Commonwealth of Australia for the Centrelink and Medicare office, the State of Queensland for the Department of Housing and Public Works and the Tedd Noffs Foundation.
- **8-12 Seymour Street, Traralgon, Victoria ("EPA Building"):** The property is a three-storey office building, plus undercover carparking, in the main business area of Traralgon Victoria. The property is leased to the State Government of Victoria for the Environment Protection Agency (EPA) and Victorian Department of Health and Human Services. The asset was completed in 2015 and has a NLA of 2,619 sqm and WALE of 5.1 years.

Figure 8: 102 Taylor St & 91 Beardy St, Armidale NSW; 21 Station St, Woodridge Logan City QLD and 8-12 Seymour St, Traralgon VIC

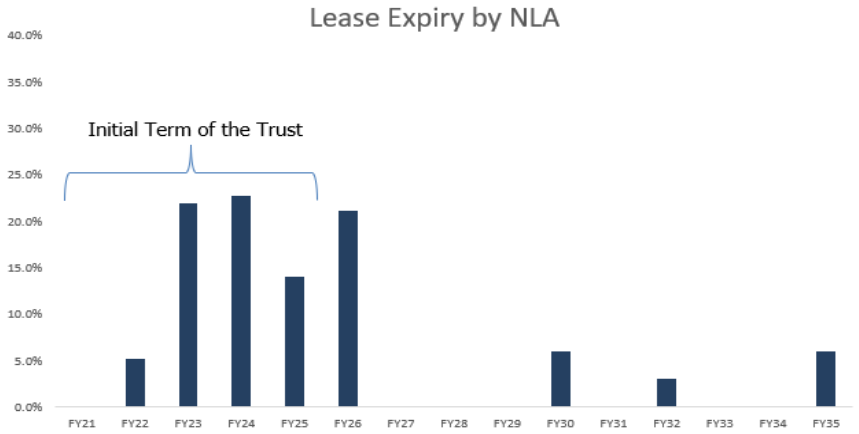
Source: MPG

Leases, tenants and income

The portfolio is 100% occupied with 88% of income leased to government or government funded tenants. Other tenancies include the Centre for Non-Violence and ASX-listed Think Childcare, also reflective of strong tenant covenants. The portfolio has a WALE of 5.1 years. Around 31% of tenancies within the direct portfolio see lease expiries following the initial 5-year investment term. The key tenants by Net Lettable Area include:

- The Commonwealth of Australia (52% of NLA),
- The State Government of Queensland (20% of NLA),
- The State Government of Victoria (11% of NLA),
- Think Childcare (5% of NLA).

Figure 9: Lease expiry profile



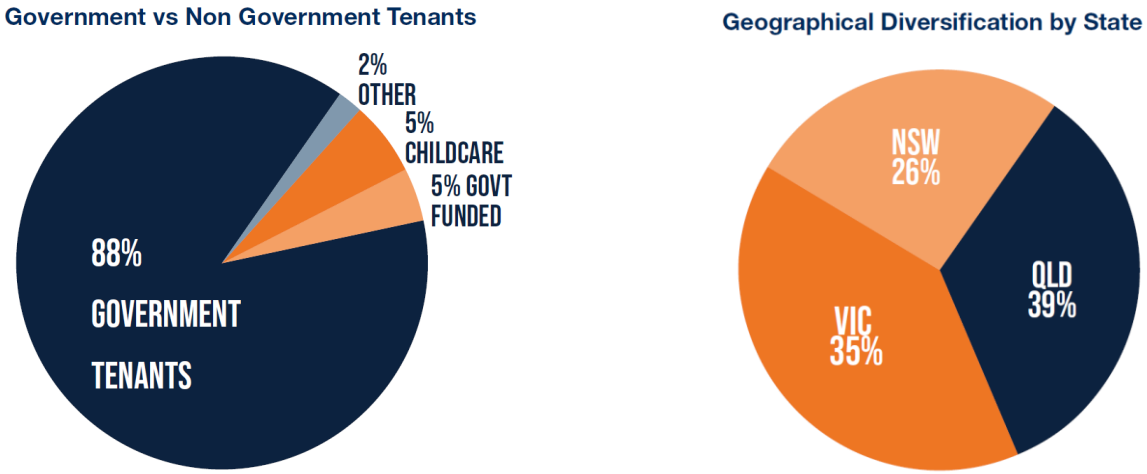
Source: MPG

Diversification

The Trust's direct properties are diversified across the office, retail and childcare sectors, with over 65% of rent by gross income expiring after 30 June 2024. The Trust is well-diversified geographically with 26% of assets in NSW, 35% of assets in VIC and 39% of assets in QLD.

The following is a summary of the portfolio tenants and geographic diversification

Figure 10: Diversification metrics – as at June 2020



Note 1: Assume the properties are acquired by the Trust as at 30 June 2020. Source: MPG

Capex

Over the remaining five-year term, the Manager has allocated a capital expenditure allowance of $4.8M in aggregate across the entire portfolio. This is expected to be funded through the existing cashflow of the Trust. The capex appears conservative and in line with assumptions for expenditure by independent valuers.

Core Property notes that capital expenditure is normally required in order to maintain properties. To the extent that future capex may be required, this may impact potential profits and cash distributions to investors.

Unlisted Investments – MPG Retail Brands Property Trust

The MPG Retail Brands Property Trust ('RPBT") is an unlisted property trust managed by the RE. RBPT was established in 2007 and has a portfolio of $104.9M of retail properties across NSW, VIC, QLD, SA and Tasmania.

The Trust currently owns 0.85M units in RPBT, which a further acquisition of 2.16M units proposed following the capital raising. The total investment of 3.0M units in RPBT will be acquired at a price of $1.00 per unit, being the issue price of units under RBPT's recent capital raising and taking into account property acquisition costs.

A written agreement exists between McMullin Group and the Trust whereby the Trust will have the ability to sell its units back to McMullin Group in order to fund potential acquisitions or to pay down debt if required. The agreement provides liquidity for the Trust as well as capital protection as the units are to be sold back at the greater of $1.00 per unit or the prevailing unit price at the time. The current NTA of RBPT is $0.94 per unit and it is targeting distributions of 7.25 cpu for the FY21 period.

Financial Analysis

Core Property has reviewed the RE's forecasts as provided in the PDS as well as discussions with the Manager. The forecasts below are based on certain assumptions in the PDS, which include:

- Current debt of $43.9M is increased by $1.4M to $45.3M to assist in the acquisitions. Interest costs are conservatively forecast at 4.3% p.a. Actual interest costs are expected to be lower and any surplus will be retained by the Trust.
- No further property acquisitions to be completed over the remaining five-year term

A summary of the forecasts is presented below.

Figure 11: Profit & Loss Forecast & Balance Sheet

Profit & Loss - Forecast $M	12 months to 30 June 2021	12 months to 30 June 2022
Net Property Income	8.0	8.1
Distributions from Trusts	0.2	0.2
Straight lining of rent	0.4	0.1
Total Revenue	**8.6**	**8.5**
Finance Costs	-1.9	-1.9
Expenses (Management Fees, Ongoing Expenses)	-0.8	-0.8
Amortisation of Borrowing Costs	-0.1	-0.1
Fair value adjustment of property	-0.9	-
Net Profit	**4.9**	**5.7**
Capex Allowance	-0.7	-0.8
Straight lining of rent	-0.4	-0.1
Fair value adjustment of property	0.9	-
Cash Available for Distribution	**4.7**	**4.8**
Distributions to Unitholders	**4.7**	**4.8**
Distributions per unit	**7.05 cpu**	**7.15 cpu**
% Cash Distribution Yield	**7.05%**	**7.15%**
% Tax advantaged (estimated)	73%	100%

Balance Sheet – $M	Initial 8 April 2020	New Acquisitions	On completion 30 June 2020
Cash	1.1	-	1.1
Other Assets	0.1	-	0.1
Investment Properties	87.8	13.0	100.8
Other Investments	0.9	2.2	3.0
Total Assets	**89.9**	**15.1**	**105.0**
Bank Borrowings	43.7	1.4	45.1
Other liabilities	1.3	-	1.3
Total Liabilities	**45.0**	**1.4**	**46.4**
Net Assets	**44.9**	**13.7**	**58.6**
Debt/ Total assets	**48.6%**		**42.9%**
NTA per unit	**$0.88**		**$0.88**

Source: MPG, Core Property

Expected Future Performance (IRR Sensitivity)

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

Using these assumptions Core Property expects the Fund to deliver an Internal Rate of Return (IRR) in the range of 7.4% - 9.5% (midpoint 8.4%) over the five-year remaining term of the Fund.

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.

Our calculations are based on the financial forecasts provided by the RE and assumes that 50% of debt is hedged for the remaining 5-years of the Trust, which reduces the impact that interest rates have on the IRR. A change in the terminal capitalisation rate has a more material impact on IRR.

The table below summarises our expected IRRs.

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

Terminal cap rate	Cost of debt				
	3.3%	**3.8%**	**4.3%**	**4.8%**	**5.3%**
6.60%	10.4%	10.3%	10.3%	10.2%	10.1%
6.85%	9.6%	9.5%	9.4%	9.2%	9.1%
7.10% (base)	8.7%	8.5%	**8.4%**	8.3%	8.2%
7.35%	7.8%	7.6%	7.5%	7.4%	7.3%
7.60%	6.9%	6.8%	6.6%	6.5%	6.4%

Source: Core Property

Management & Corporate Governance

McMullin Property Group

McMullin Property Group was founded by the late Ian McMullin (founder of Spotless Group) and is a property developer, funds manager, property manager and investor. The Group has been responsible for over $1.5B of property development over the past 40 years. In December 2002, the McMullin Group established MPG Funds Management Ltd ("MPG") as a specialist property funds manager. Since 2002 MPG has managed over $705M of unlisted property funds.

Background of the RE and Board

MPG Funds Management Ltd ("MPG") is the Responsible Entity ("RE") of the Trust. Its main responsibility is to operate and manage the Trust in accordance with the Constitution and the Corporations Act. The RE was established in December 2002 and has an Australian Financial Services License (AFSL 227114) to act as a RE for managed investment schemes. As the RE, MPG is responsible for the application and redemption of units, valuation and management of Trust assets, administration and payment of income distributions from the Trust. MPG is owned by interests associated with McMullin Property Group and is currently the RE for 13 other direct property funds.

Core Property has reviewed the composition of the RE board and believes that it has the relevant skills and experience to operate the Trust successfully. Each Director has demonstrable property and investment management skills. We summarise the background of the directors and key managers, as provided in the PDS.

Figure 13: The Board of the Responsible Entity

Name & Role	Experience
Trevor Gorman Chairman	Trevor has over 30 years' commercial experience, including over 19 years' as a partner at Deloitte Touche Tohmatsu. During this time he was Managing Partner of the Victorian Growth Solutions Division. Trevor is currently the Chief Executive Officer of the McMullin Property Group and manages net assets of over $250M. Trevor is a Fellow of the Institute of Chartered Accountants.
Eddie Paulsen Non-Executive Director	Eddie has held senior positions in the financial services and funds management industries for over 30 years. Much of this has been with National Mutual Group (now AXA, and part of the AMP Group) where he has held a number of CEO and Executive Director positions. This has included a funds management company, which included the listed National Mutual Property Trust as well as other unlisted property and equity trusts, a Public Trustee company and Financial Planning Group.
Brett Gorman Director / Secretary	Brett is a Chartered Accountant and Licensed Real Estate Agent. And has significant experience in establishing and operating managed investment schemes. Prior to MPG, Brett held positions with Deloitte Touche Tohmatsu in Corporate Finance, Audit and Growth Solutions divisions. He has a Graduate Diploma in Applied Finance and Investment, as well as a Bachelor of Commerce degree. Brett is a Fellow of the Financial Services Institute of Australia, Registered Tax Agent and is a holder of a Public Practice Certificate.

Source: MPG

Compliance and Governance

The RE has a Compliance Plan which has been lodged with ASIC, as required by the Corporations Act. The Compliance Plan outlines the policies and procedures for the RE to administer the Trust's assets, engagement of external service providers, valuation practices, borrowings and reporting to unitholders. The Compliance Committee consists of three members, including two external members, and meets half yearly.

The Trust complies with all the disclosures and benchmarks prescribed under the ASIC Regulatory Guide 46: "Unlisted property schemes: Improving disclosure for retail investors". MPG regularly publishes the Trust's disclosure requirements for RG46 on its website.

Related Party Transactions

The Trust has in place a Related Party Transaction and Conflicts of Interest Policy which is required to comply with RG46 requirements. All related party transactions will be approved by the Board of Directors of MPG and are undertaken on an arm's length basis under normal terms and conditions.

In addition, the RE also received fees payable and compensation as required for the management of the Trust under its Constitution (see section on Fees).

Past Performance

MPG has provided a summary of returns on its syndicates (including 2 syndicates which have been wound up), which is summarised in the table below.

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

Figure 14: Selected performance of MPG managed investments

Fund	Period to June 2019 (years)	Total Distributions (cpu)	NTA at 30 June 2019[1]	Average Return p.a. (Straight Line)
MPG Hardware Trust	7	$0.55	$1.97	21.6%
MPG Motor Vehicle Dealership Trust[2]	9	$0.83	$2.30	24.4%
MPG BW Trust	5	$0.36	$1.75	22.2%
MPG BW Trust 2	5	$0.34	$1.65	19.8%
Epping Trade Centre Project[3]	3	$0.21	$1.21	14.0%
Ashwood Aged Care Trust	2	-	$1.22	11.0%
MPG KM Trust	4	$0.28	$1.15	10.7%
MPG Hardware Trust 2	3	$0.22	$1.16	12.6%
MPG Bulky Goods Retail Trust	8	$0.59	$1.32	11.4%
Village Travel Centre	5	$0.41	$1.02	8.6%
MPG Seaford Meadows Property Trust	4	$0.37	$0.99	9.0%
MPG Retail Brands Property Trust	8	$0.54	$0.93	10.5%
MPG Tweed Hub Trust	2	$0.15	$0.87	0.7%
MPG BW Newstead Trust	3	$0.15	$0.87	0.7%
MPG BW Port Macquarie Trust	1	$0.05	$0.95	0.3%
Unweighted Average				**11.8%**

Note 1: All funds had an Issue Price of $1.00 per unit.
Note 2: The MPG Motor Vehicle Dealership Trust was wound up in 2014. Returns are for the 9 years from inception to wind up.
Note 3: The Epping Trade Centre Project Trust was wound up in 2015. Returns are for the 3 years from inception to wind up.
Source: MPG

Appendix – Direct Properties

The following is a summary of the 11 existing properties in the portfolio, plus the two properties expected to be acquired.

Current Properties

APVMA Building: 102 Taylor Street and 91 Beardy Street, Armidale, NSW – 15.9% of the Direct Property portfolio

As at June 2020	
Book Value	$15.9M
Capitalisation Rate	6.75%
Lettable Area (sqm)	2,745 sqm
Occupancy-by NLA	100.0%
WALE	14.3 years (APVMA) 9.3 years (DHS)
Major Tenants (by income): Commonwealth of Australia (APVMA & DHS)	

The property is a two-storey modern office building, plus basement carpark, located in Armidale's city centre and recently built in June 2019. The property is currently being leased by the Commonwealth of Australia for the Australian Pesticides and Veterinary Medicines Authority (APVMA) that relocated from Canberra on a 15-year lease, as well as the Department of Human Services (DHS) on a 10-year lease. The NSW Government has recognized Armidale as a regional city in their New English North West Regional Plan, which expects a boost in population by 14,000 to 2036 and budget of over $60M on infrastructure – for upgrades to Armidale Hospital and the University of New England.

Centrelink and Medicare Office: 21 Station Street Woodridge, Logan City, QLD – 14.2% of the Direct Property Portfolio

As at June 2020	
Book Value	$14.8M
Capitalisation Rate	7.50%
Lettable Area (sqm)	4,343 sqm
Occupancy-by NLA	100%
WALE	4.0 years
Major Tenants (by income): Commonwealth of Australia (Centrelink & Medicare), QLD State Government, Tedd Noffs Foundation	

The Centrelink and Medicare Office consists of four adjacent buildings with a total NLA of 4,343 sqm located in Logan City (approximately 25km south of Brisbane). The main property of 2,095 sqm is leased to the Commonwealth of Australia for the Centrelink and Medicare office. Buildings two (787 sqm) and three (822 sqm) are leased to the state of Queensland for the Department of Housing and Public Works. Building four is leased to the Tedd Noffs Foundation, a government and privately funded not-for-profit organization. Logan City has experienced rapid growth over the past decade and is expected to reach a population of 420,000 in 2031 (from 326,615 currently).

EPA Building: 8-12 Seymour Street, Traralgon, VIC – 12.0% of the Direct Property Portfolio

As at June 2020	
Book Value	$12.0M
Capitalisation Rate	7.25%
Lettable Area (sqm)	2,619 sqm
Occupancy-by NLA	100%
WALE	5.1 years
Major Tenants (by income): State Government of Victoria	

The Environment Protection Agency building (EPA) is a three-storey office building, plus undercover carpacking, in Traralgon Victoria. It is located in the main business area with a 2,619 sqm of NLA. The property is leased to the State Government of Victoria (occupied by EPA), with office space also provided to the Victorian Department of Health and Human Services. Traralgon is located in Gippsland, East Victoria. As part of federal and government decentralization strategies, Traralgon is also home to the ASIC call centre and Australia's largest Centrelink call centre.

Office: 146 Herries Street, Toowoomba, QLD – 7.5% of the Direct Property Portfolio

As at June 2020	
Book Value	$7.5M
Capitalisation Rate	7.25%
Lettable Area (sqm)	1,615 sqm
Occupancy-by NLA	100%
WALE	2.6 years
Major Tenants (by income): Commonwealth Government (NDIS), Queensland Government (Department of Environment and Science)	

The property is a 3,619 sqm allotment with a two-storey freestanding building of 1,615 sqm NLA located in Toowoomba's CBD. The building is securely leased to government tenants, including the Commonwealth Government (National Disability Insurance Scheme) and the Queensland State Government Department of Environment and Science. Toowoomba is located 125km west of Brisbane and is Australia's second largest inland city. The region is seeing significant funding towards infrastructure projects including the Inland Rail, Toowoomba Wellcamp airport and second range crossing.

Office: 6-12 Chapel Street, Morwell, VIC – 6.5% of the Direct Property Portfolio

As at June 2020	
Book Value	$6.5M
Capitalisation Rate	7.50%
Lettable Area (sqm)	2,273 sqm
Occupancy-by NLA	100.0%
WALE	5.8 years
Major Tenants (by income): Commonwealth of Australia (Centrelink & Medicare)	

The property is a recently refurbished 2,273 sqm single-level brick commercial office building which includes basement carparking, located in Morwell, Victoria. The property holds a 4 Star NABERS Energy Rating. The property is securely leased to the Commonwealth of Australia for the Centrelink and Medicare office. Morwell is located in the LaTrobe Valley area of Gippsland, approximately 150 km south east of Melbourne and is the administrative and local government centre for the City of LaTrobe.

Centre for Non-Violence: 96-98 Pall Mall, Bendigo, VIC – 6.4% of the Direct Property Portfolio

As at June 2020	
Book Value	$6.5M
Capitalisation Rate	6.25% – 6.50%
Lettable Area (sqm)	1,448 sqm
Occupancy-by NLA	100%
WALE	4.8 years
Major Tenants (by income): Centre for Non-Violence, Zambrero's, Honeyeater Hair	

A property is a 1,499sqm two-level modern office/retail building, located in the heart of Bendigo's central business district. Originally built in 1963, the property underwent a $3.5M redevelopment in 2014/15. The first and second floors are leased to the Centre for Non-Violence, a government funded not for profit organization. The ground floor is leased to Zambero's Mexican fast food and Honeyeater Hairdressers. Greater Bendigo is Victoria's third largest urban centre with a growing population of over 116,658, forecast to grow to 155,596 by 2036.

Think Childcare Building: 136-142 Bailey Street, Grovedale, Geelong, VIC – 6.3% of Direct Property Portfolio

As at June 2020	
Book Value	$6.3M
Capitalisation Rate	6.50%
Lettable Area (sqm)	713 sqm
Occupancy-by NLA	100%
WALE	12.0 years
Major Tenants (by income): Think Childcare	

The Think Childcare Ltd (ASX listed) childcare centre is in Grovedale, Geelong, Victoria's second largest city. According to ID Demographic Resources, the population of the City of Greater Geelong is 247,068 and is forecast to grow to 325,779 by 2036. Childcare is a non-discretionary market, and this strong growth forecasts a solid demand pipeline. The centre was custom built, opened in 2017 and is located opposite the local primary school. Think Childcare operates 37 childcare centres in Australia and is listed on the Australian Securities Exchange with a market capitalisation of $91 million. The property WALE remains high at 12.0 years.

Centrelink & Medicare Office: 70 Robert St Wallsend, Newcastle NSW – 6.3% of the Direct Property portfolio

As at June 2020	
Book Value	$6.3M
Capitalisation Rate	7.00%
Lettable Area (sqm)	1,204 sqm
Occupancy-by NLA	100%
WALE	2.1 years
Major Tenants (by income): Commonwealth of Australia Centrelink & Medicare (Expiry 26 Apri 2022)	

The property is a single level, commercial office building, with basement parking for 15 cars. The property is located in Wallsend, approximately 11km from the Newcastle CBD and is fully occupied by The Commonwealth of Australia (Centrelink and Medicare offices) with lease expiry in 2.1 years with 2x3 year options.

Centrelink Building: 6-10 Hunter Street Pialba, Hervey Bay – 4.2% of the Direct Property Portfolio

As at June 2020	
Book Value	$4.2M
Capitalisation Rate	7.50%
Lettable Area (sqm)	1,097 sqm
Occupancy-by NLA	100.0%
WALE	3.3 years
Major Tenants (by income): Commonwealth of Australia (Centrelink & Medicare)	

This property is a 3,089 sqm allotment with a single-level freestanding building providing 1,097 sqm of lettable area. It is located in the Pialba, approximately 2 kilometres north east of Hervey Bay's main retail and commercial precinct. The property is securely leased to the Commonwealth of Australia for the Centrelink and Medicare offices. There are 3.2 years remaining on the lease with two additional three-year options. This is the only Centrelink/Medicare office in Hervey Bay. Regional Australia Institute has also indicated that the growth rate within the Hervey Bay region will be above the predicted national growth rate.

Centrelink Building: 207-215 Lennox Street, Maryborough, QLD – 4.0% of the Direct Property Portfolio

As at June 2020	
Book Value	$4.0M
Capitalisation Rate	7.50%
Lettable Area (sqm)	964 sqm
Occupancy-by NLA	100%
WALE	3.0 years
Major Tenants (by income): Commonwealth of Australia (Centrelink & Medicare)	

This property is a 2,020 sqm allotment with a single-level freestanding building providing 964 sqm of lettable area, located in Maryborough's central business district. The property is securely leased to the Commonwealth of Australia for the Centrelink and Medicare offices. There is 3.0 years remaining on the lease with two additional three-year options. It is the only Centrelink/Medicare office in Maryborough. Regional Australia Institute has indicated that the growth rate within the Maryborough region will be above the predicted national growth rate.

Centrelink Building: 69 Heygarth Street, Echuca, VIC – 3.8% of the Direct Property Portfolio

As at June 2020	
Book Value	$3.9M
Capitalisation Rate	7.25%
Lettable Area (sqm)	970 sqm
Occupancy-by NLA	100%
WALE	2.7 years
Major Tenants (by income): Commonwealth of Australia (Centrelink & Medicare)	

The single level 970 sqm commercial office is situated on a 1,621sqm site, constructed in 2010. The property is in Echuca's central business district, located in the Campaspe Shire, 2.5 hours drive north of Melbourne Vic. The Campaspe Shire has a population of 37,769 which is forecast to grow 13% to 42,706 by 2036, supported by strong industries including tourism, retail, dairy farming and other agriculture. The property has good levels of natural light and is leased to the Commonwealth of Australia Department of Human Services, as offices for Centrelink, Medicare and the NDIS. The current lease has 2.7 years remaining with a three-year option. The property was recently refurbished in 2016 to a six-star NABERs rating.

Proposed Acquisitions

Child Safety Service Building: 18-24 Brisbane Street, Ipswich, QLD – 8.8% of the Direct Property Portfolio

As at June 2020	
Book Value	$8.9M
Capitalisation Rate	7.25%
Lettable Area (sqm)	1,807 sqm
Occupancy-by NLA	100%
WALE	4.2 years
Major Tenants (by income): Queensland Government (Dept of Child Safety)	

This property is a 2,428 sqm allotment with a two-storey freestanding building providing 1,807 sqm of lettable area, located in Ipswich's central business district and includes 57 undercover carparking spaces. The building is securely leased to the State Government of Queensland for the Department of Child Safety. Ipswich is located 40 minutes west of the Brisbane CBD and is a major commercial and administrative centre home to numerous private and Government organisations. The Ipswich area benefits from diversified local economy underpinned by the defence, manufacturing, education, logistics, healthcare and residential sectors. Recent infrastructure projects in the city include the upgrade of the Ipswich Hospital, expansion of the RAAF Amberley Base, the establishment of the Rheinmetall armoured fighting vehicle manufacturing centre and the ongoing growth of the University of Southern Queensland campus.

Centrelink, Medicare, NDIS & Family Services Building: 9-12 Auburn Street, Moree, NSW – 4.1% of the Direct Property Portfolio

As at June 2020	
Book Value	$4.1M
Capitalisation Rate	8.50%
Lettable Area (sqm)	1,509 sqm
Occupancy-by NLA	100%
WALE	2.1 years
Major Tenants (by income): Commonwealth of Australia (Centrelink and Medicare), State Government of NSW (Dept of Child Services)	

The property consists of two freestanding single-level brick commercial office buildings of 1,509 sqm which includes rear access carparking for 9 vehicles located in Moree, NSW. The property is securely leased to the Commonwealth of Australia for the Centrelink, NDIS and Medicare office and Property NSW for the Department of Family and Community Services.

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.

Disclaimer & Disclosure

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.

The company specified in the Report (the "Participant") has provided Core Property with information about its activities. Whilst the information contained in this publication has been prepared with all reasonable care from sources that Core Property believes are reliable, no responsibility or liability is accepted by Core Property for any errors, omissions or misstatements however caused.

Any opinions, forecasts or recommendations reflects the judgement and assumptions of Core Property as at the date of publication and may change without notice. Core Property and the Participant, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law.

This publication is not and should not be construed as, personal financial product advice, an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any opinion contained in the Report is unsolicited general information (general financial product advice) only. Neither Core Property nor the participant is aware that any recipient intends to rely on this Report or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether opinions or recommendations (if any) contained in this publication are appropriate to their investment objectives. Investors should obtain a copy of, and consider the PDS/ Information Memorandum, which can be obtained by contacting the issuer.

This publication is not for public circulation or reproduction whether in whole or in part and is not to be disclosed to any person other than the intended recipient, without obtaining the prior written consent of Core Property. This report is intended for the residents of Australia. It is not intended for any person(s) who is resident of any other country. Core Property and/or the Participant, their officers, employees or its related bodies corporate may, from time to time hold positions in any securities included in this Report and may buy or sell such securities or engage in other transactions involving such securities. Core Property and the Participant, their directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from the securities mentioned in this publication.

Core Property discloses that from time to time it or its officers, employees and related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these statements and/or recommendations (if any) and may buy or sell securities in the companies mentioned in this publication; may effect transactions which may not be consistent with the statements and/or recommendations (if any) in this publication; may have directorships in the companies mentioned in this publication; and/or may perform paid services for the companies that are the subject of such statements and/or recommendations (if any). However, under no circumstances has Core Property been influenced, either directly or indirectly, in making any statements and/or recommendations (if any) contained in this Report.

The information contained in this publication must be read in conjunction with the Legal Notice that can be located at http://www.coreprop.com.au/Public/Disclaimer.

For more information regarding our services please refer to our website www.coreprop.com.au.

Core Property
Fund Research & Ratings
www.coreprop.com.au