



# Unlisted Property Fund Report

## Centuria Diversified Property Fund

August 2017

A diversified property fund looking to invest in unlisted and direct property investments

## Centuria Diversified Property Fund

### Contents

1.	Overview	2
2.	Investment Summary	3
3.	Fund Overview	5
4.	Investment Portfolio	10
5.	Financial Analysis	14
6.	Management	15
7.	Past Performance	16
8.	Appendix – Ratings Process	17
9.	Disclaimer & Disclosure	18

## About Core Property Research

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

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

### IMPORTANT NOTICE

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

## Centuria Diversified Property Fund

August 2017

Recommended

The Centuria Diversified Property Fund (“the Fund”) is an open-ended diversified property fund designed to provide exposure to direct properties, unlisted property investments and listed property investments. Centuria is a well-regarded property manager with a solid track record since 1999. The Fund is managed by Centuria Property Funds Limited as Responsible Entity and Manager (“RE” or “the Manager”).

The Fund has been established to provide an opportunity for investors to invest in a diverse portfolio of property funds with additional liquidity features that are not normally available in the company’s closed-ended funds. Investors may enter the Fund based on a daily unit price, distributions are paid monthly, and the Fund offers a monthly limited withdrawal facility.

The Fund is currently invested in a portfolio of Centuria unlisted funds in the office sector (87.5% of portfolio as at 30 June 2017) as well as Cash and A-REITs (via Vanguard funds). The unlisted Centuria funds have performed well since inception and are heavily weighted to the Centuria Zenith Fund (48% of portfolio) and the Centuria Scarborough House Fund (19% of portfolio).

Over time the Manager intends to increase the diversification of the Fund, increase the Weighted Average Lease Expiry (WALE) of the portfolio and reduce gearing. As the Fund expands, it will seek to purchase direct properties, as the main property exposure. Whilst this will reweight the portfolio, the direct properties are expected to have the same fee structure and gearing targets as the Fund.

The Fund’s target allocation is to invest 80% of its portfolio in Property (direct properties as well as unlisted property funds) with the balance invested in liquid assets (15% in A-REITs, 5% in Cash) to support the limited monthly withdrawal facility.

The Fund has an LVR of 38.0% (on a look through basis, as at 30 June 2017) which is expected to reduce to 34.6% by the end of 2017. This is at the top end of its target range of 25% - 35%. The Fund currently does not have any direct debt.

Based on the Managers portfolio, Core Property expects current distributions to be between 7.4 and 7.9 cents per unit. This equates to annual distribution yield of 5.7% - 6.1% based on the 30 June 2017 unit price of \$1.2883. Distributions are estimated to have a 65% deferred tax benefit. Fees are at the high end of what Core Property has seen, however a key feature of the Fund is that it will not charge additional Management Fees where Centuria has already earned the same fee in an underlying investment.

### Investor suitability

Core Property considers the Fund to be suitable for Investors seeking a portfolio of well rated Centuria property investments with monthly distributions and a limited monthly withdrawal feature. The main attraction of the Fund lies in its ability to provide Investors with an open-ended structure to access Centuria’s investment capabilities, access to units in funds that were fully subscribed previously, and direct property over time.

As an open-ended fund, any new investment may alter the risk profile of the portfolio. Investors should be aware that, as a diversified offering, the Fund’s returns will be predicated on investment returns from the portfolio, and offset by lower yielding liquid investments (cash and A-REITs) as well as the additional costs of managing of the Fund.

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable syndicates and not across all products

Fund Details	
Offer Open:	1 February 2017
Offer Closes:	No close date
Min. Investment:	\$10,000
Unit Price:	\$1.2883 as at 30 June 2017
Liquidity:	Monthly <sup>1</sup>
FY18 Forecast Distributions:	7.4 – 7.9 cpu <sup>2</sup>
FY18 Forecast Yield:	5.7% - 6.2%
Distribution Frequency:	Monthly
Recommended Investment Period	5 years

1. The amount available under the Limited Monthly Liquidity Facility is published on the Manager’s website each month.
2. Estimated 65% tax deferred

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Note: This report is based on the Centuria Diversified Property Fund PDS, dated 1 February 2017, together with other information provided by Centuria (including the portfolio and expected pipeline as at 30 June 2017).

## Investment Summary

**Well regarded property manager:** Centuria Property Funds Limited has a solid track record of managing property funds and delivering strong returns for its investors. The Board of the RE predominantly consists of independent Directors providing a high level of scrutiny and independence for the Fund.

**Open Ended Trust:** The Fund is an open ended unlisted property fund that seeks to invest in a portfolio of direct properties as well as unlisted and listed property investments and cash. The Fund provides a weighted portfolio exposure to a number of unlisted Centuria property funds, with a focus on including direct properties over time. Investors should expect returns will be offset by lower yielding liquid investments as well as the additional costs of managing the Fund.

**Investment Portfolio:** At 30 June 2017, the investment portfolio was valued at \$11.6M and was invested in Centuria unlisted property funds (87.5% of portfolio), A-REITs (6.8% of portfolio) and Cash (5.7% of portfolio). The Fund is currently not invested in direct properties; however, the Manager intends to include direct properties as the main investment weighting over time. The A-REITs and Cash component of the Fund are currently invested in Vanguard index funds, which Core Property considers to be appropriate in providing liquidity for the Fund. The Fund has a target pipeline of investments which would increase the portfolio to around \$26M.

**Target Portfolio:** The Fund has a target portfolio weighting of 80% in Property Investments (direct property and unlisted investments) and 20% in liquid investments (A-REITs 15% and Cash 5%).

**Distributions:** The Manager expects the current portfolio to deliver a 5.7% distribution based on the 30 June 2017 unit price of \$1.2883. This is estimated to increase to around 6.2% based on the pipeline of investments.

**Unit Pricing:** The Fund calculates its unit price on a daily basis, based on its net asset value and allowing for the amortisation of costs over a five-year period. The current net asset value of the Fund is weighted to the unit prices of the underlying Centuria unlisted property funds. Core Property considers the unit pricing to be appropriate for an open-ended fund of this type.

**Debt Metrics:** The Fund currently does not have any direct debt, but is expected to establish debt facilities upon the purchase of direct properties. The Funds look through gearing at 30 June 2017 was 38.0%. This is estimated to reduce to around 34.6% based on its pipeline of investments. The Fund’s target gearing on a look through basis is 25.0% - 35.0%.

**Fee Structure:** Fees are at the high end of what Core Property has seen and includes a Management Fee of 0.80% of Gross Asset Value and an estimated Expense Cost of 0.35% of Gross Asset Value. The Fund will not charge a Management Fee where Centuria has already earned the same fee in an underlying investment.

**Liquidity:** The Manager intends to offer a limited monthly withdrawal facility of at least 0.5% of the Fund’s net asset value as well as periodic liquidity events from time to time. Investors should be aware the Fund may suspend or cancel a withdrawal opportunity under certain circumstances.

## Investment Scorecard

<b>Management Quality</b>	★★★★★
<b>Governance</b>	★★★★☆
<b>Portfolio</b>	★★★★☆
<b>Income Return</b>	★★★☆☆
<b>Total Return</b>	★★★☆☆
<b>Gearing</b>	★★★☆☆
<b>Liquidity</b>	★★★☆☆
<b>Fees</b>	★★★☆☆

### Fund Structure

An unlisted, open ended diversified fund that seeks to invest in direct properties, unlisted investments, A-REITs and cash.

### Management

Well-regarded fund manager with a solid track record of managing property funds, corporate governance, and maintaining and improving occupancy rates.

Property Portfolio	30 June 2017	Dec 2017 (est.)
No of Direct Properties:	0	0
No of Indirect Properties:	10	10
Property Location:	NSW, ACT, QLD, WA	NSW, ACT, QLD, WA
Fund's Share Properties:	\$11.6M	\$20.9M
Property Sector:	Office, Healthcare	Office, Healthcare
Occupancy:	98.6%	98.6%
WALE:	5.3 years	7.4 years

### Return Profile

Forecast Distribution:	7.4 – 7.9 cents per unit (FY18)
Distribution Frequency:	Monthly
Performance Fee:	20% of outperformance above benchmark <sup>1</sup>
Tax advantage (indicative):	65% tax deferred (FY18 estimate)
Investment Period:	5 years <sup>2</sup>

1. Benchmark consists of 80% IPD Unlisted Core Retail Property Index, 15% ASX/S&P300 A-REIT Accumulation Index and 5% Reserve Bank of Australia official cash rate.
2. The Manager recommends a minimum 5-year investment period to fully benefit from property investment returns.

### Risk Profile

Property/Market Risk:	Capital at risk will depend on a portfolio of diverse Australian property assets and investments.
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. As an open-ended fund, Investors should be aware the portfolio may change over time.

For a more detailed list of the key risks, refer to the Investment Considerations and Risks section (Section 6) of the PDS.

### Fees Paid

Fees paid by the Fund are at the high end of what Core Property has seen in the market (see *Figure 5: Fees in Perspective*).

Initial Fees:	Nil
Ongoing Fees:	1.15% p.a. of the Fund's Gross Asset Value <sup>1</sup>
Exit Fees:	Nil

1. Consists of 0.80% p.a. Management Fee plus 0.35% p.a. Costs & Expenses Fee. A Management Fee will not be charged to the extent that the Manager has already earned a Management Fee in an underlying fund.

### Portfolio Allocation

	30 June 2017	Target
Direct Property:	0.0%	80.0%
Unlisted Investments:	87.5%	
A-REITs:	6.8%	15.0%
Cash:	5.7%	5.0%

### Debt Metrics

The Fund currently does not have any direct debt on its balance sheet. The fund is exposed to debt on a look-through basis via its investments.

LVR (look through) Current / Pipeline:	38.0% / 34.6%
LVR Target / LVR Maximum	25% - 35% / 50%

### Legal

Offer Document:	Product Disclosure Statement, 1 February 2017
Wrapper:	Unlisted Unit Trust
Responsible Entity:	Centuria Property Funds Limited
Custodian:	Perpetual Corporate Trust Limited
Significant Investor Visa (SIV):	The Fund will be a complying investment for investors seeking nomination for a Significant Investor Visa.

## Fund Overview

Centuria Diversified Property Fund (“the Fund”) is an open ended unlisted property fund that seeks to invest in a portfolio of office, industrial and retail property assets in Australia. The Fund intends to invest in a combination of direct properties, unlisted and listed property investments and cash. The Fund seeks to provide a monthly tax effective income with daily entry prices and a monthly withdrawal facility.

The Fund is managed by Centuria Property Funds Limited (“the Manager”) as the Responsible Entity. Centuria is a recognised and established property manager with around \$3.8 billion of funds under management. Traditionally Centuria has offered single asset closed ended funds investing predominantly in office properties. The management team has experience in industrial properties and intends to diversify into this sector as well as retail properties.

The Fund currently invests in Centuria’s existing unlisted property offerings, with returns commensurate with the weighted portfolio average, adjusted to take into account the additional costs of the fund as well as its lower returning liquid investments. The lower yielding investments in cash and A-REITs provide the necessary liquidity for the Fund to offer monthly liquidity to Investors.

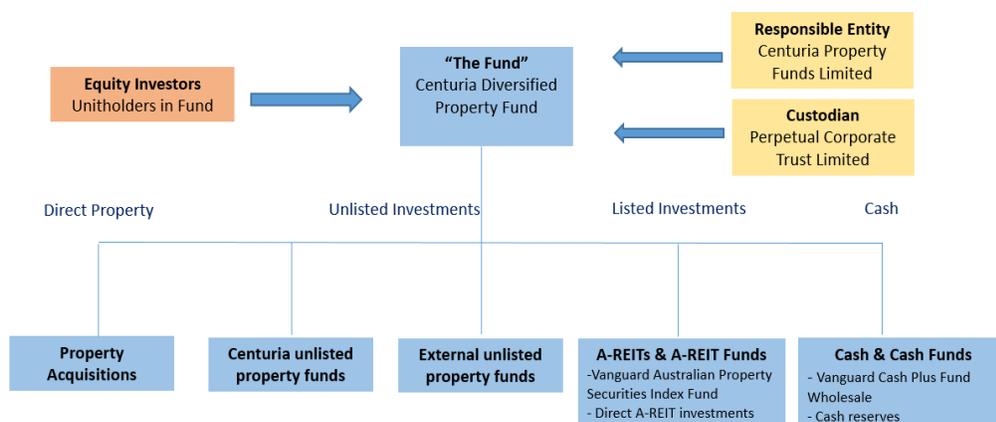
The Fund has a target allocation to be invested 80% in property (direct and unlisted investments), 15% in A-REITs and 5% in Cash. Currently the Fund is invested in unlisted property funds (with Centuria), cash and A-REITs. Over time, the Fund intends to include direct properties in the portfolio.

The underlying portfolio has attractive metrics: 1) its unlisted property investments are in Centuria funds which have performed well since inception, 2) its investments in Vanguard indices have delivered returns in line with benchmarks over time, and 3) any direct properties will be included on a similar basis as existing Centuria funds, with the same fee structure and gearing targets as the Fund.

The Manager is currently expecting the Fund to deliver a yield of ~5.7%, increasing to ~6.2% by the end of 2017. Total funds under management at 30 June 2017 was \$13.2M, and the Fund has a pipeline of additional Centuria investments which will increase this to \$26M by the end of 2017. The underlying properties held in the unlisted funds consist of 10 office properties valued at \$700M with a portfolio WALE of 5.3 years, an average portfolio capitalisation rate of 6.98% and a strong 98.6% occupancy rate.

Distributions are paid monthly within 10 business days of the end of the month. The Fund is open ended, allowing Investors to purchase units on a daily basis. The Fund intends to offer withdrawals on a monthly basis via its Limited Monthly Withdrawal Facility.

Figure 1: Fund Structure



Source: Centuria, Core Property

## Investment Objectives

The Fund aims to provide monthly tax effective income with the potential for long term capital growth through a diversified portfolio of property investments. The Fund intends to invest predominantly in direct properties, however it will also invest in unlisted and listed property investments.

The Fund will access investment opportunities as part of the wider Centuria Group and currently invests in Centuria unlisted property funds. It is anticipated the Fund will acquire direct properties as it increases its funds under management. The Manager has advised that the Fund intends to distribute up to 100% of its income to investors over time.

The Fund currently provides an opportunity to invest in a portfolio of Centuria managed unlisted funds, with a strategy to increase diversification and include direct properties. Core Property has compared the Fund to other Centuria offerings and notes:

- The Fund offers a lower distribution yield compared to other current Centuria property investments.
- The Fund offers a monthly liquidity feature, compared to Centuria's closed ended property funds which are illiquid.
- Investors need to be aware that the Fund is a minority investor in each of the underlying investments and will not have the ability to influence any major decisions in its investments. However, Centuria, as the RE across the investments and the Fund, provides a level of comfort as a common Manager.

Figure 2: Investment options across the Centuria group of property offerings

Investment	FY17A distn yield	Gearing (Dec 16)	Liquidity	WALE (years)	Term	Distn Paid	Capital Volatility
Centuria Capital (ASX: CNI)	6.1%	NA <sup>1</sup>	High	4.3	ASX listed	Half yearly	Mod/ High
Centuria Metropolitan REIT (ASX: CMA)	7.0%	33.8%	High	4.0	ASX listed	Quarterly	Mod/ High
Centuria Industrial REIT (ASX: CIP)	8.3%	42.9%	High	4.5	ASX listed	Quarterly	Mod/ High
Centuria unlisted property funds (various funds)	6.5% - 8.7% (initial)	40.0% - 51.4% (initial)	Illiquid	2.1 - 9.4	5 - 6 years	Quarterly/ Half yearly	Low
<b>Centuria DPF</b>	<b>5.7%-6.2%</b>	<b>38.0% (June 2017)</b>	<b>Monthly</b>	<b>5.3</b>	<b>Open</b>	<b>Monthly</b>	<b>Low</b>

Note 1: CNI issued \$100M in Secured notes in April 2017, which is estimated to increase gearing to around 47.9%  
Source: Centuria, Core Property

## Unit Pricing

Core Property has reviewed the calculation of Unit Prices and considers it to be appropriate for an open-ended fund of this type. The Fund calculates its Unit Price on a daily basis by taking the net asset value of the Fund plus the amortised value of acquisition costs divided by the number of units on issue. The amortisation of acquisition costs is written off over a five-year period. If an asset is sold, any outstanding acquisition costs are written off immediately against the sale. If an investment period is shorter (eg an investment in a fund with two years remaining), then the acquisition costs will be written off over the shorter period.

Investors may purchase units in the Fund on a daily basis with the entry price determined by the daily Unit Price plus any Buy Spread. Currently the Buy Spread is Nil, however the Manager may apply a Buy Spread. Investors wishing to exit the Fund may have access to a Limited Monthly Withdrawal Facility with the exit price based on the Unit Price on the last business day of the month less any Sell Spread. Currently the Sell Spread is Nil, however the Manager may apply a Sell Spread.

## Background to the Fund

The Fund was established in March 2016 and initially funded by Centuria. Currently the Fund has 10.3M units on issue with Centuria holding 5.6M units, or 54.3% of all units (as at 26 June 2017). Currently the Fund's portfolio consists of \$13.2M of investments held in related Centuria unlisted property funds, cash and A-REITs.

Figure 3: Fund History

Date	Event
21 Mar 2016	Fund Constitution established.
24 Jun / 29 Jul 2016	Centuria invests 0.6M units of the Fund. The Fund acquires 0.5M units in the Centuria ATP Fund and 74,452 units in the Centuria 19 Corporate Drive Fund. Centuria acquires 4.4M units of the Fund. The Fund acquires 5.0M units in the Centuria Zenith Fund.
16 Aug 2016	Centuria acquires 0.5M units of the Fund.
12 Sep 2016	The Fund acquires initial units in the Vanguard Wholesale Cash and A-REIT Fund.
23 - 25 Nov 2016	The Fund acquires 50,000 units in the Centuria 2 Wentworth Street Fund and 12,500 units in the Centuria 8 Central Avenue Fund No 2. The Fund acquires 12,500 units in the Centuria 8 Central Avenue Fund No 2.
1 Feb 2017	The Fund is opened to retail investors through the issue of a PDS.
22 Apr – 1 May 2017	The Fund acquires 2.5M units in the Centuria Scarborough House Fund. The Fund acquires 25,000 units in the Centuria Havelock House Fund.
6 Jun 2017	The Fund acquires 1.0M units in the Centuria Havelock House Fund.

Source: Centuria

## Debt Facility & Metrics

The Fund has a target gearing of 25% - 35%, and a maximum gearing level of 50%, calculated on a look through basis. The Fund's LVR is currently at the high end of the range (35.0% at 30 June 2017 and expected to reduce to 34.6% by the end of 2017). Core Property expects that the acquisition of any direct property will most likely be geared under 35%. The Fund does not take into account any debt held in listed investments (A-REITs), which Core Property considers to be an acceptable approach. As the Fund acquires direct properties over time, it is expected to establish debt facilities.

Figure 4: Portfolio Debt Metrics

LVR	Current 30 June 2017	Pipeline	Target
Direct Property	0%	0%	
Unlisted Investments	36.2% - 44.5%	36.2% - 44.5%	
Cash	0%	0%	
A-REITs	0%	0%	
<b>Total Portfolio</b>	<b>38.0%</b>	<b>34.6%</b>	<b>25.0% - 35.0% (50.0% Maximum)</b>

Source: Centuria

## Liquidity / exit strategy

The Fund is open ended and has a Liquidity policy that will offer Investors two main withdrawal options:

- 1) A limited monthly withdrawal facility: The Manager intends to offer a limited monthly withdrawal facility equivalent to at least 0.5% of the Fund's net asset value. If the total withdrawal requests exceed the amount that is offered, then withdrawals may be scaled back, and the remainder amount will be automatically rolled over into the following month. The Fund provides details of its available liquidity on its website as part of its Continuous Disclosure requirements. Between Feb-17 and Jun-17, the Fund has held between 7.1% and 26.0% of its portfolio in liquid assets and has not had any requests for redemption of units.
- 2) A periodic liquidity event: The Manager may offer a periodic liquidity event from time to time to enable Investors to make withdrawals. Investors will be advised when a periodic event is to be offered and the applicable withdrawal price.

Investors should be aware the Fund may suspend or cancel a withdrawal opportunity under certain circumstances. For example, where the Fund has insufficient liquid reserves to satisfy withdrawal requests, if the withdrawal requests would compromise the operation of the Fund, if it is impracticable or impossible to calculate the withdrawal price, or where the Manager determines it is in the best interests of all Investors. Core Property considers the suspension or cancellation of a withdrawal facility to be appropriate and commonplace for open-ended funds in such circumstances.

The Withdrawal Price is determined by the applicable Net Tangible Asset per unit of the Fund adjusted for any amortisation of acquisition costs and any Buy/Sell Spread. The current Buy/Sell Spread is 0%/0%. The Manager has advised that a Buy/Sell Spread may be applied where there are unforeseen additional costs relating to the issue or redemption of new units in the Fund and a Buy/Sell Spread would reflect an equitable allocation of these costs.

## Fees Charged by the Fund

Figure 5: Fees charged by the Fund

Fee Type & Charge	Comment
<b>Acquisition Fee</b> 2.0% of purchase price	Industry average is 1.5%-2.0%. Where the Fund invests in another unlisted property fund and the Manager has already received an Acquisition Fee, the Fund will not charge an additional fee unless the underlying fund has recovered the acquisition costs or Centuria has negotiated a purchase price that is at a discount to the net asset value of the underlying fund.
<b>Ongoing Fee (MER)</b> 0.80% p.a. of GAV <b>Fund Expense &amp; Indirect Costs</b> 0.35% p.a. of GAV (est.)	Total Management Fees of around 1.15% p.a. of GAV is at the high end of industry peers (0.7% - 1.1%). Where the Fund invests in another unlisted property fund and the Manager has already received a Management Fee, the Fund will not charge an additional fee to the extent of the Fee that has already been received in the underlying fund.  Fund Expense and Indirect Costs are estimated at 0.35% of GAV based on a portfolio of around \$25M, or 0.64% of GAV based on the current portfolio of \$13.2M.
<b>Disposal Fee</b> 1.0% of sale price of asset	Third-party agency fees will be paid out of this fee. Where the Fund invests in another unlisted property fund and the Manager has already received a Disposal Fee, the Fund will not charge an additional fee to the extent of the Fee that has already been received in the underlying fund.
<b>Performance Fee</b> 20% of the portion of outperformance over benchmark	In line with industry peers.

Source: Centuria, Core Property

The components of fees and cost recovery charged by the RE are as follows:

## **Establishment Fee**

The Fund does not charge a fee to open an investment.

## **Contribution Fee**

The Fund does not charge a fee on contributions to an investment.

## **Withdrawal Fee**

The Fund does not charge a fee for withdrawal of an investment.

## **Exit Fee**

The Fund does not charge a Fee to close an investment.

## **Ongoing Management Costs**

- Ongoing Management Fee: 0.80% pa of gross asset value (GAV) of the Fund; and
- Fund Expense & Indirect Costs (reimbursed to the RE) estimated at 0.35% per annum of GAV.

Where the Fund has invested in an underlying fund that is managed by an entity within the Centuria Group, any Management Fee charged at the underlying fund level will be deducted from the Management Fee payable by the Fund. Thus, if an underlying Centuria fund is already receiving a 0.80% p.a. Management Fee, then the Fund will not charge a Management Fee on top of that investment.

Core Property notes that at 30 June 2017 the Fund Expense & Indirect Costs are estimated at around \$85,000 and represents approximately 0.64% p.a of the Fund's GAV of \$13.2M. The Manager has estimated this will reduce to around 0.35% p.a. of GAV based on the Fund reaching a pipeline portfolio of around \$25.0M. The Total Management Expense Ratio (MER) of 1.15% p.a. of GAV is at the high end of the range typically seen by Core Property (0.7% -1.1%)

## **Establishment and Placement Fee (Acquisition Fee)**

The Manager will receive a fee of up to 2.0% of the purchase price of any property or asset which the Fund acquires, including any direct and indirect interests. Where the Fund invests in another unlisted property investment and the Manager has already received an establishment and placement fee, the Fund will not charge an additional fee unless the underlying fund has recovered the acquisition costs or Centuria has negotiated a purchase price that is at a discount to the net asset value of the underlying fund.

## **Sale Fee (Disposal Fee)**

The Manager is entitled to a Sale Fee of up to 1.0% of the sale price of any property asset in which the Fund has a direct or indirect interest (multiplied by the Fund's beneficial ownership of the asset). Core Property notes that the Sale Fee is payable regardless of whether an indirect asset has already paid the Manager a Sale or Disposal Fee in an underlying fund. The Manager has advised that where it has already received a Sale Fee in any underlying fund, then it will not receive a Sale Fee in the Fund to the extent of the amount already received (multiplied by the Fund's relevant interest).

## **Performance Fee**

The Manager is entitled to a Performance Fee of 20% of the outperformance of the Fund above its benchmark, which is based on the long-term target asset allocation of the Fund being:

- 80% IPD unlisted Core Retail Property Index;
- 15% ASX/S&P300 A-REIT Accumulation Index; and
- 5% the Reserve bank of Australia official cash rate.

The Performance Fee is calculated and paid quarterly. The Performance Fee has a high watermark basis such that any underperformance must be recovered prior to any Performance Fee being paid. The Manager has advised that, since Inception, the benchmark return for the Fund has been 8.93% (to 30 June 2017), with the Fund delivering a Total Return of 24.93% over the same period.

## Investment Portfolio

### Current Portfolio

The Fund currently has assets under management of \$13.2M, with the majority of its portfolio invested in unlisted property funds managed by Centuria (87% of portfolio) with the balance in the Vanguard Wholesale Cash and Index A-REIT Fund. The portfolio is heavily weighted to the Centuria Zenith Fund (48% of portfolio) and the Centuria Scarborough House Fund (19% of portfolio). Core Property notes the Fund is considered to be liquid, with 12% of the portfolio currently invested in the Cash and listed A-REITs via the Vanguard Cash Plus Fund Wholesale and the Vanguard Australian Property Securities Index Fund.

### Pipeline Portfolio

The Manager has advised the Fund has a pipeline to increase the Fund's portfolio to around \$26M by the end of 2017. The pipeline includes the potential acquisition of additional units in the Centuria Havelock House Fund and the Centuria Sandgate Road Fund. The Fund currently does not have any direct properties in its portfolio. A summary of the current and pipeline portfolio metrics is presented below.

Figure 6: Fund Portfolio Summary – Current & Pipeline - as at 30 June 2017

Investment	Fund NAV	Pipeline NAV	Property Valuation June 2017	Cap Rate	Look Through LVR	Occup – by income	WALE – by income
Zenith Fund	\$6.3M	\$6.3M	\$167.5M <sup>1</sup>	7.25%	44.5%	95%	3.0 yrs
Scarborough House Fund	\$2.5M	\$2.5M	\$66.0M	7.50%	43.8%	100%	8.0 yrs
ATP Fund (3 assets)	\$0.7M	\$0.7M	\$137.0M	6.94%	39.1%	99%	4.2 yrs
19 Corporate Drive Fund	\$0.1M	\$0.1M	\$28.5M	8.25%	36.8%	100%	1.9 yrs
2 Wentworth St Fund	\$0.1M	\$0.1M	\$58.5M	7.50%	38.5%	100%	3.1 yrs
Havelock House Fund	\$1.7M	\$6.1M	\$28.0M	7.00%	41.8%	100%	10.6 yrs
8 Central Ave Fund No 2	\$0.03M	\$0.03M	\$137.0M	6.25%	39.7%	100%	8.2 yrs
203 Pacific Highway Fund	\$0.1M	\$0.1M	TBA	TBA	36.2%	100%	3.4 yrs
SOP Fund (8 Australia Ave)	\$0.1M	\$0.1M	TBA	TBA	40.7%	100%	3.6 yrs
Sandgate Road Fund	-	\$5.0M	108.0M	6.50%	44.3%	100%	9.4 yrs
Cash	\$0.8M	\$1.4M	\$1.34M		0.0%		
A-REITs	\$0.9M	\$3.9M	\$3.71M		0.0%		
<b>Current Portfolio</b>	<b>\$13.2M</b>	<b>\$26.2M</b>		<b>7.31%</b>	<b>38.0%</b>		<b>5.3 yrs</b>
<b>Pipeline Portfolio</b>				<b>6.98%</b>	<b>34.6%</b>		<b>7.4 yrs</b>

Note 1: Represents the Zenith Fund's 50% interest in Zenith House, Chatswood NSW  
Source: Centuria

## Unlisted Investments

Core Property considers the unlisted investment as having attractive metrics. The following table is a summary of the underlying funds' historical performance. It should be noted that whilst past performance should not be seen as an indicator of future performance, the metrics do provide an insight into the quality of the underlying investments in the Fund.

Figure 7: Historical Performance of Unlisted Investments - as at 30 June 2017

	Fund Incept Date	Fund End Date (Initial end date)	Fund Inception Unit Price	Unit Price at 30 June 2017	Est. Yield on Unit Price	Portfolio Weight
Zenith Fund	Jul-16	Jul-21	\$1.00	\$1.27	6.1%	47.9%
Scarborough House Fund	Apr-17	Apr-22	\$1.00	\$1.00	7.3%	18.8%
ATP Fund	Mar-16	Mar-21	\$1.00	\$1.35	6.7%	5.1%
19 Corporate Drive Fund	Oct-12	Oct-18	\$1.00	\$1.20	9.5%	0.7%
2 Wentworth Drive Fund	Feb-15	Feb-20	\$1.00	\$1.36	7.0%	0.5%
Havelock House Fund		May-21		\$1.68	8.2%	13.0%
8 Central Ave Fund	Jul-15	Dec-18	\$1.00	\$1.32	6.5%	0.3%
SOP Fund (8 Australia Ave)				\$1.00	5.8%	0.4%
203 Pacific Highway	Nov-15	Nov-20	\$1.00	\$1.04	8.2%	0.8%
<b>Total</b>					<b>6.7%</b>	<b>87.5%</b>

Source: Centuria, Core Property

The Fund is able to invest in unlisted property funds offered by external fund managers as well as funds managed by the Centuria Group. Currently the portfolio consists entirely of Centuria managed funds, and there are no external funds in the portfolio. Core Property notes that the Centuria funds were acquired both at the inception of the fund, as well as during the life of the fund from investors wishing to exit a non-liquid fund. Core Property considers this to be a key feature of the Fund, as it is able to access an entry point into an otherwise illiquid Centuria fund. The ability of the Fund to negotiate a fair and reasonable entry price will impact on the returns of the Fund.

The Manager has advised that the purchase of units in Centuria unlisted funds may be undertaken via a related Centuria entity purchasing Acquisition units in the fund, and then on-selling the units to the Fund at a later stage. The pricing and sale of these units are managed in accordance with its Conflicts of Interest policy to ensure the transaction is undertaken on an arms-length basis.

Core Property notes that around 66% of the portfolio will fall due between March and July 2021, which may provide additional liquidity for the Fund if these investments are redeemed. Investors need to be aware that the Fund is a minority investor in each of the underlying investments and will not have the ability to influence any major decisions in its investments. However, Centuria, as the RE across the investments and the Fund, provides a level of comfort as a common Manager.

The following table is a summary of the maturity profile of the current unlisted investments and the amount of liquidity that would be provided if the investments were redeemed.

Figure 8: Run off profile of unlisted investments - as at 30 June 2017

Unlisted Investment	Investment Initial End Date	Fund Period	Portfolio Investment 30 June 2017	Portfolio Weighting
19 Corporate Drive Fund	Oct-18	FY19	\$0.1M	0.7%
8 Central Ave Fund	Dec-18	FY19	\$0.0M	0.3%
2 Wentworth Drive Fund	Feb-20	FY20	\$0.1M	0.5%
203 Pacific Highway	Nov-20	FY21	\$0.1M	0.8%
ATP Fund	Mar-21	FY21	\$0.7M	5.1%
Havelock House Fund	May-21	FY21	\$1.7M	13.0%
Zenith Fund	Jul-21	FY22	\$6.3M	47.9%
Scarborough House Fund	Apr-22	FY22	\$2.5M	18.8%
SOP Fund (8 Australia Ave)			\$0.1M	0.4%

Source: Centuria, Core Property

## Direct Properties

The Fund currently does not have any direct properties in its portfolio. The Fund's strategy is to be predominantly invested in direct properties. As the Fund acquires direct properties the risk profile and portfolio weightings are likely to change.

Core Property notes that the Fund is structured such that the inclusion of any direct properties in the future will be undertaken on a similar basis to existing Centuria funds. Specifically, this means that any direct properties acquired will be subject to:

- A Fee Structure in line with the Fund – as discussed in "Section 2: Fund Overview: Fees Charged by The Fund".
- A Target LVR of 25%- 35% on a look through basis.
- The Fund will have the ability to diversify its investments into office, industrial, healthcare and retail properties.

Core Property expects that, in the short to medium term, the Fund will look to acquire direct properties in the \$10M - \$40M range. Although the Centuria has strong experience in office and industrial assets, the diversification into other sectors may impact on the risk profile of the Fund. The Fund is subject to the same investment scrutiny as existing Centuria property investments. Any large purchase of a direct property is expected to be funded by new inflows, asset sales, a co-investment from Centuria or a combination of these measures.

## A-REITs and Cash

The Fund has a target allocation to hold 20% of its portfolio in liquid assets to provide liquidity for monthly redemptions. The 20% allocation target is split 15% to listed A-REITs and 5% to Cash.

At 30 June 2017, the Fund's weighting included 5.7% in Cash/Cash Funds and 6.8% in A-REITs. The Manager has estimated that it expects to rebalance closer to its target as additional pipeline investments by the end of the 2017, by which time it anticipates holding 5% Cash and 15% A-REITs. The Fund currently outsources its investments in A-REITs and Cash to two Vanguard Funds:

- The Fund currently has \$0.9M invested in the Vanguard Australian Property Securities Index Fund has its benchmark as the S&P/ASX 300 A-REIT Index, which is the same benchmark that the Fund is measured by. Since inception, the Vanguard Australian Property Securities Index Fund has delivered a net return of 6.56%, which is slightly above the 6.50% benchmark.
- The Fund currently has \$0.3M invested in the Vanguard Cash Plus Fund Wholesale, which is benchmarked to the Bloomberg Ausbond Bank Bill Index. This benchmark is different to the Fund's benchmark, the RBA Official Cash Rate, which is currently 1.50%.

Core Property considers the Vanguard Funds to represent a suitable investment option for the A-REIT and Cash allocation. We note the historical performance of these Funds have tracked fairly close to their benchmarks as per the following table.

Figure 9: Cash & A-REIT Investments

A-REITs Exposure	Benchmark	Distribution	Management Fees	Liquidity
Vanguard Australian Property Securities Index Fund	S&P/ASX 300 A-REIT Index	Quarterly	0.23% p.a.	Normally in 3 days
Historical Performance (after fees) to 30 June 2017		Benchmark	Net Return	Net Under/Overperformance
YTD		-3.12%	-2.94%	0.18%
1 Year		-5.64%	-5.55%	0.09%
3 Year		12.22%	-12.15%	0.07%
5 Years		14.24%	14.13%	-0.11%
10 Years		-0.08%	0.05%	0.13%
Since Inception (Mar 1998)		6.50%	6.56%	0.06%
Cash	Benchmark	Distribution	Management Fees	Liquidity
Vanguard Cash Plus Fund Wholesale	Bloomberg Ausbond Bank Bill Index	Monthly	0.15% p.a.	Normally in 2 days
Historical Performance (after fees) to 30 June 2017		Benchmark	Net Return	Net Under/Overperformance
YTD		0.89%	1.15%	0.26%
1 Year		1.82%	2.17%	0.35%
3 Year		2.22%	2.38%	0.16%
5 Years		2.53%	2.57%	0.04%
10 Years		3.89%	4.03%	0.14%
Since Inception (Aug 1998)		4.64%	4.61%	-0.03%

Source: Vanguard

## Financial Analysis

Core Property has assessed the Manager's forecast performance of the Fund based on the pipeline portfolio and makes the following observations:

- Forecast is based on the current portfolio as at 30 June 2017 as well as the expected pipeline portfolio by the end of 2017.
- Forecast distributions are based on the Manager's expected returns for FY18 period.
- Unit price of \$1.2883 per unit as at 30 June 2017.
- Assumes costs of the Fund are 0.35% p.a. A change on the portfolio composition, including the purchase of a direct property asset, may impact on the running costs of the Fund.
- As a newly established open-ended investment, the Fund's portfolio composition is expected to change as the Fund increases in size. Core Property's review is based on the pipeline portfolio and does not take into account any direct property acquisitions.
- Core Property notes the Fund is forecast to achieve a 6.7% - 7.0% yield on its unlisted property investments for FY18. This equates to a 5.7% - 6.2% distribution for Investors after taking into account the lower return from A-REITs/Cash and the costs of running the Fund.

A summary of the Manager's forecasts on the current pipeline portfolio is presented in the table below

Figure 10: Centuria Diversified Property Fund – Profit & Loss Forecast – FY18

	As at 30 June 2017				Pipeline (estimate – end of 2017)			
	Port. Weight %	Port. Value \$M	Forcst Yield %	Distn p.a. \$M	Port. Weight %	Port. Value \$M	Forcst Yield %	Distn p.a. \$M
Direct Property	0.0%	0.0	0.0%	0.0	0.0%	0.0	0.0%	0.0
Unlisted Investments	87.5%	11.6	6.7%	0.8	79.9%	20.9	7.0%	1.5
A-REITs – Vanguard	6.8%	0.9	5.3%	0.0	15.0%	3.9	5.3%	0.2
Cash – Vanguard	2.4%	0.3	2.0%	0.0	5.0%	1.3	2.0%	0.0
Cash	3.4%	0.4	1.7%	0.0	0.2%	0.0	3.2%	0.0
<b>Total Fund Income</b>		<b>13.2</b>	<b>6.4%</b>	<b>0.8</b>		<b>26.2</b>	<b>6.5%</b>	<b>1.7</b>
Less: Expenses				-0.1				-0.1
<b>Total Available for Distribution</b>				<b>0.8</b>				<b>1.6</b>
No of Units				10.3				20.3
<b>Distribution per unit</b>				<b>0.074</b>				<b>0.079</b>
Unit Price (30 June 2017)				1.2883				1.2883
<b>Yield - at 30 June 2017 unit price</b>				<b>5.7%</b>				<b>6.2%</b>

1. Based on unit price of \$1.2883 per unit as at 30 June 2017.  
Source: Core Property, Centuria

## Management

### Background of the Responsible Entity

The Centuria Group was formed in 1998 and Centuria Property Funds Limited (‘CPFL’, the Responsible Entity) was formed in 1999 with the specific focus on the purchasing of high quality, growth oriented commercial property investments. CPFL is a wholly owned subsidiary of the ASX listed-Centuria Capital Limited (ASX: CNI). At present, CPFL has approximately \$3.8B of property under management spread across 17 closed-end funds and two ASX listed funds.

### Board & Senior Management

The Board of the RE consists of three independent Directors and one Executive Director. Core Property believes the proportion of independent directors will provide a strong level of scrutiny and corporate governance for the Fund. The four Directors and senior executive team are listed below.

Figure 11: Board of the Responsible Entity and Key Management

Name & Role	Experience
<b>Peter Done</b> Non-Executive Chairman	Appointed to the Board of Centuria Property funds in 2007, with 27 years’ experience as a partner at KPMG until retirement in 2006. Has been lead audit partner in property development sector.
<b>Matthew Hardy</b> Non-Executive Director	Former non-executive director of Mirvac Funds Management Ltd. Also held senior real estate positions at global institutions including Barclays Global Investors, Richard Eillies and Jones Lang Wootton. Over 30 years’ experience in direct real estate, equities and funds management.
<b>Darren Collins</b> Non-Executive Director	Former executive of Computer Sciences Corporation (CSC). Former non-executive director of three IT services companies, listed in Singapore, Hong Kong, and Kuala Lumpur, respectively.
<b>Jason Huljich</b> Executive Director, CEO – Unlisted Property Funds	Head of Unlisted Property Funds since 2006. On the CPF Board since 2001. Founding member of Century Funds Management. Over 18 years of industry experience and is currently President of the Property Funds Association of Australia.
<b>John McBain</b> Group CEO	CEO since 2008. On the Centuria Capital Board since 2006. Over 30 years industry experience. Founding member of Century Funds Management, Waltus Investments Australia Ltd and Hanover Group Pty Ltd.
<b>Nicholas Collishaw</b> CEO – Listed Property Funds	CEO – Listed Property Funds since May 2013. Prior to this was CEO and Managing Director at Mirvac Group. Over 30 years’ experience with senior positions at James Fielding Group, Paladin Australia, Schroders Australia and Deutsche Asset Management.
<b>Michael Blake</b> Head of Sales and Marketing	Joined Centuria in February 2016. Previously held senior positions with Heine Funds Management, Mercantile Mutual, Zurich, HSBC Asset Management and Cromwell Property Group.
<b>Douglas Hoskins</b> Fund Manager	Joined Centuria in 2006. Has a diverse skill base in commercial property over 10 years, including working in asset acquisitions, equity raising and marketing, facilities management, property management, project management and as a property consultant. Holds a Masters of Business Administration (MBA), Masters of Operations Management, Full Property License, and an Industry Diploma in Property Development.

Source: Centuria, Core Property

## Compliance & Governance

The Fund's compliance committee comprises of the three independent members of the board of Centuria Property Funds (Peter Done, Matthew Hardy and Darren Collins).

### 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 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.

### Governance around Related Party Transactions

Centuria Property Funds maintains, and complies with ASIC requirements for, a written policy on related party transactions, including assessment and approval processes for such transactions. All related party transactions will be conducted on an arm's-length basis and will require appropriate sign-offs at the Board level.

### Removal of the RE

The RE can be removed and replaced with another appropriately licensed responsible entity if investors pass an extraordinary resolution to that effect at a properly convened meeting of investors. If such a resolution is successful (requiring 35% of all units on issue and 50% of all units actually voted to approve), the RE will be entitled to recover any deferred fees. The RE will not be eligible to receive exit fees if removed prior to the completion of the Fund. Core Property notes that this is a strong feature of the Fund, better than industry norms.

## Past Performance

### Centuria Syndicate Performance

Since 1999, Centuria Capital Limited has managed 35 funds to completion representing \$1.3 billion of asset sales, with an average total return to equity investors of 13.1% per annum.

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

## Appendix – Ratings Process

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

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

### The Ratings

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

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

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