**Investment Recommendations**

**Basis for Recommendation**

The recommendation that follows is based on the information you have provided during our conversations. If I have misinterpreted this information, or have made assumptions that are incorrect, please advise me immediately as this may have an impact on the recommendations made.

The recommendations are also based on what we understand to be your risk profile and your investment timeframe.

The purpose of this ROA/SOA is to make recommendations regarding a new property offering from Centuria.

You do not require advice on any other matters including, but not limited to your:

Existing personal insurance covers;

Other insurance such as health, business, fire and general or property

Cash flow and debt reduction management;

Available superannuation strategies;

Retirement planning.

**Limited Advice Warning:** We have not collected full details of your overall financial situation prior to writing this advice. The advice in this document is therefore based on a limited set of information. Because of that, you should, before acting on the advice, consider the appropriateness of the advice having regard to your relevant personal circumstances.

Our recommendations are designed to meet your short and long term objectives, summarised as follows:

Invest in a portfolio in accordance with your agreed risk profile.

To achieve your desired goals and objectives, we recommend the following:

**Invest $X in the Centuria Geelong Office Fund.**

**Recommendations**

Following our review of your current investments and asset allocation, we recommend you invest $**X** in the Centuria Geelong Office Fund.

The Centuria Geelong Office Fund (the Fund) is a closed-ended unlisted property syndicate. Its Responsible Entity is Centuria Property Funds Ltd (the RE). Centuria are a well-regarded fund manager with a solid track record of managing property funds to completion and a good corporate governance record. Centuria has completed 37 funds to date and returned over $1.6 billion in investor funds. The RE has approximately $3.6 billion of real estate under management across two ASX listed funds, 14 closed ended funds and an open ended diversified fund. The RE is a subsidiary of the ASX listed Centuria Capital (CNI).

The Fund’s only asset will be 60 Brougham Street Geelong, an office building in Geelong’s CBD. The property is 100% occupied with a weighted average lease expiry (WALE) of 10.3 years (by area). Approximately 94% is occupied by the AAA rated Victorian State Government owned entity The Transport Accident Commission (TAC). The property is a modern A-grade office building completed in 2009.

The Fund will have an initial term of five (5) years which may be extended by a further two (2) years if authorised by an ordinary resolution (i.e. 50%) of investors. Investors must accept the risks that the fund will be illiquid, with no redemption facility or secondary market during the term and that their total return depends on performance of a single asset. The building is being purchased for $115.25 million. To pay for this, the Fund seeks to raise $74,315,646 in equity by issuing units at $1.00 each. The balance of the purchase price will be funded through debt, resulting in an initial LVR of 44.7%. The initial net tangible asset backing after all purchase costs will be $0.89, which is below the unit price of $1.00, due to stamp duty, purchase costs and financing costs.

The interest rate on the Fund’s debt facility will be fully hedged for the first 3 years. The Fund forecasts annualised distributions of 7.0% p.a. in FY18 and 7.20% p.a. FY 19 (100% and then 100% tax deferred respectively). Distributions are paid monthly. Core Property, an independent property research house, estimates that total investor returns (IRR) will be between 6.9% and 11.3% (midpoint 9.2%) over the five-year term of the fund, based on what appear to be reasonable assumptions on terminal yield, interest rate movements, and market rental growth.

At the end of the term the asset will be sold, net proceeds will be returned to investors and the fund will be wound up.

**Performance Drivers**

It is important to note that the three main performance drivers in a property syndicate are:

1. The rental income from the lease and how it is structured in terms of increases as well as the quality or creditworthiness of the tenants who pay the rent. In the case of this Fund, the leases provide for fixed annual rental increases negotiated with each individual tenant. The property is 100% leased with approximately 94% of the rent being paid by state government owned tenants, so that the risk of default on the rent is minimal during their lease terms. The property has multiple tenants and these lease expiries pose some risk of having minor tenants depart near the end of the initial term or during any extended term. Centuria has a very strong track record of leasing property.

2. The terminal value upon the sale of the property which in turn depends on asset quality and market conditions and how these impact on the rent at the time of the sale of the property. The manager’s ability to re-negotiate leases over the term of the fund and any significant changes in property market conditions will impact on the sale price of the asset. The manager is planning to spend minimal capital expenditure over the five-year period due to the asset being relatively new. The sale price at the end of the term could result in a capital profit or loss.

3. The cost of debt and the extent to which the investment is leveraged. The current loan to valuation ratio is 44.7%, which is reasonable for a fund of this nature. However, investors should be aware that this magnifies the effect that any reduction in gross asset value will ultimately have on the value of their investment. The risk inherent in this is offset by the current low level of interest rates (hedged for 3 years at 3.19%) and the fact that rental income covers the interest cost by a significant margin. The bank imposed LVR covenant is initially 57.5%. The bank imposed interest cover (ICR) ratio is 2.0 times. For the FY 2018 the forecast ICR is 4.78. There is also some risk of interest costs increasing at the end of the debt term when the rate-hedging expires, which may affect subsequent distributions. Returns to investors may be lower than Core Property’s estimate if: (a) economic or market conditions deteriorate, (b) the Fund fails to achieve a satisfactory sale price for its asset, or (c) the Fund re-leases space on worse than-expected terms.

**Reasons for Recommendations and Benefits**

* The Fund provides attractive total returns, combining good forecast initial yield with increasing distributions over the term of the fund, plus some potential for capital gain at the end of the term.
* The fund has a conservative level of gearing at 44.7% with relatively low initial interest costs fixed for 3 years.
* The property is an A grade commercial building, has 360-degree views with natural light on all sides, 398 car spaces with a 5.5 Star NABERS Energy rating making it a desirable location for tenants.
* The long lease expiry provides certainty of distribution for the term of the fund.
* Centuria is a well-resourced and experienced manager.
* The manager has provided us with research from Core Property and Lonsec, who have rated this fund as "Recommended" and “Recommended” (see reports attached).

**Potential Disadvantages and Risks**

* There is diversification risk with only one property being purchased.
* Property risks such as declining property market values or a reduction in fund income due to tenancy issues.
* There will be no liquidity mechanism during the Fund’s expected 5 - 7-year investment term; however, it does have a defined Liquidity Event set at the end.
* Sale of assets at the conclusion of the term will be subject to market conditions. It is possible that you may not receive back the full amount of your investment or that other liquidity options may not be possible due to market circumstances at the time of the liquidity event.
* Gearing risks - including the effect of increasing interest rates on the net income of the fund and risks associated with sourcing and maintaining appropriate financing facilities.
* Interest rate risk – whilst the debt cost is fixed for 3 years after this the cost of debt may be higher and this may impact returns. The manager has allowed for an increase in interest rates after the fixed term.