Lonsec

Recommended

# Direct Assets Review
## Centuria Agriculture Fund

ISSUE DATE: 13-06-2023

| Fund financial position | March 2023 |
|---|---|
| TOTAL ASSETS | $351M |
| PORTFOLIO | DIRECT PROPERTY 97%; CASH 3% |
| DEBT | $157M |
| GEARING (DEBT/ASSETS) | 46.3% (COVENANT 60%) |
| INTEREST COVER RATIO | 2.94X (COVENANT 2.0X) |
| NET TANGIBLE ASSETS/UNIT | $0.87 |
| UNIT PRICE | $0.9932 |

| Portfolio summary | |
|---|---|
| NO. OF PROPERTIES | 3 |
| PROPERTY TYPE | AGRICULTURE 100% |
| PROPERTY LOCATION | VIC 55%; NSW 23%; SA 22% |
| WTD AVG LEASE EXPIRY (WALE) | 18.2 YRS |
| WTD AVG CAP'N RATE | 6.14% |
| OCCUPANCY | 100% |

| Fund returns | Lonsec estimates | |
|---|---|---|
| | FY23 | FY24 |
| DISTRIBUTION PER UNIT | 5.50C | 5.50C |
| PRE-TAX YIELD [1] | 5.53% | 5.53% |
| TAX DEFERRED | 100% | 100% |

| Other Fund details | |
|---|---|
| APIR CODE | CNT3531AU |
| RESPONSIBLE ENTITY | CENTURIA PROPERTY FUNDS LTD |
| INVESTMENT MANAGER | CENTURIA FUNDS M'MENT LTD |
| BENCHMARK | 8% P.A. TOTAL RETURN |
| MINIMUM INVESTMENT | $10,000 |
| DISTRBUTION PAID | MONTHLY |
| REDEMPTIONS | QUARTERLY (MAX. 2.5% OF NET ASSETS; $10% P.A. CAP); FULL LIQUIDITY 5 YRLY |
| RELATED PARTY HOLDING | NIL |

| Manager fees and expenses | |
|---|---|
| ANNUAL FEES & COSTS | 1.18% (GROSS) |
| PERFORMANCE FEE | 20% OF EXCESS ABOVE 8% P.A. |
| ACQUISITION FEE | 2.0% OF ASSETS |
| DISPOSAL FEE | 1.0% OF ASSETS |
| RE REMOVAL FEE | NIL |

| Fund rating history | |
|---|---|
| MAY 2023 | RECOMMENDED |

1: Unit price $0.9932 as at 31 March 2023.

## What this Rating means

The **'Recommended'** rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

## Strengths

- Well-credentialed investment team in the form of Head of Agriculture Andrew Tout and Fund Manager Kelvin McKeown, both of whom have deep experience in agribusiness and agricultural investments. The team also has access to Centuria's significant property and asset management platform.
- Stable income stream underpinned by long term triple-net leases to reputable agricultural operators. The portfolio has 100% occupancy and offers a WALE of 18.2 years which is the highest in Lonsec's unlisted property peer group.
- Protected cropping allows for year-round food production in a controlled environment, which supports increased productivity, mitigation of key risks associated with farming, and greater energy, water and waste efficiency.
- High-quality asset portfolio diversified across strategic geographic locations, with potential for value-add through expansion of production capacity.
- Distribution yields are above the peer group average and benefit from 100% tax deferral.
- Regular Withdrawal Offers of up to 2.5% of net assets per quarter (10% p.a.) is above average for the sector.

## Weaknesses

- The core investment team is small and poses an element of key person risk given their area of specialisation and the relative lack of agricultural investing experience amongst the broader team.
- There is some sector and tenant concentration risk given the Fund is focused solely on the agricultural property sector with a limited pool of alternative tenant operators. As such, the Fund is less diversified than other unlisted property funds.
- The highly specialised nature and regional location of the Fund's agricultural assets can limit the pool of alternative tenants, potentially leading to extended vacancy periods and the need for significant capital expenditure to modify assets for wider appeal.
- Relatively high gearing for an unlisted entity (46.3%) versus the peer group average of 39%, although it is within the target gearing range of 45–55% and offers comfortable headroom to the bank covenant of 60%.
- Given the Fund's recent inception, it is still establishing a meaningful performance track record.

# Centuria Agriculture Fund

## Overall

- Lonsec has initiated coverage of the Centuria Agriculture Fund with a '**Recommended**' rating. Lonsec has conviction in the well-credentialed and deeply experienced agricultural investment team supported by Centuria's platform. The assets are of a high-quality, diversified by location, and produce a stable income stream backed by long triple-net leases to reputable agricultural operators. Lonsec notes the Fund's focus on protected cropping supports high productivity, mitigation of key farming risks, and greater energy, water and waste efficiency.
- That said, the core investment team is small and poses an element of key person risk. Compared to more diversified offerings, the Fund has sector and tenant concentration risk given its sole focus on agricultural real estate. Finally, the highly specialised nature and regional location of the Fund's assets can limit the pool of alternative tenants.

## Changes since previous Lonsec review

This is Lonsec's initial review of the Fund.

## Using this Fund

**This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure, and Warning on the final page.**

- The **Centuria Agriculture Fund ('CAF' or 'the Fund')** is an open-ended unlisted property fund investing primarily in direct agricultural real property, and may also invest in other Centuria agriculture-related unlisted property funds, ASX-listed A-REITs, and cash.
- The Fund's investment objective is to provide investors with a regular income stream and the potential for capital growth, by investing in a diversified agricultural property portfolio.
- To achieve its objective, the Fund's strategy is to:
  - acquire a national portfolio of investment grade agricultural and agri-logistics real estate assets;
  - aggregate a portfolio of scale, targeting properties with strong sustainability credentials;
  - focus on properties leased to reputable tenants, with strong lease covenants;
  - focus on higher revenue producing sectors such as protected cropping, intensive perennial cropping, associated water licenses, infrastructure and agri-logistic facilities;
  - obtain strategic allocations across geographic location, agricultural subsector and tenant mix; and
  - increase asset value and production capacity through carefully delivered capital investment.
- The target asset and sector allocations are below:

| Asset Class | Target Asset Allocation |
|---|---|
| AGRICULTURAL PPTY (DIRECT & INDIRECT) | 90 – 100% |
| A-REITS | 0 – 10% |
| CASH OR EQUIVALENTS | 0 – 10% |
| TOTAL | 100% |

| Property Portfolio | Target Sector Allocation |
|---|---|
| PRECISION FARMING | 30 – 100% |
| AGRI-LOGISTICS | 30 – 100% |
| PREMIUM NON-PERISHABLES | < 25% |
| ANIMAL FARMING | < 25% |
| DEVELOPMENT OPPORTUNITIES | < 30% |
| TOTAL | 100% |

- Investors should be aware that the Fund **may experience periods of negative returns** and that there is a **risk of incurring capital loss**.
- As such, Lonsec considers the Fund suitable for medium to high-risk profile investors with a five+ year investment time horizon. The Fund will generally sit within the **growth component of a balanced portfolio.**
- Lonsec notes that the Manager has produced a Target Market Determination (TMD) which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has sighted the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- Forward looking estimates of returns are either sourced from the PDS forecasts or Lonsec estimates based on data supplied by the Manager, external valuation reports or other third-party data sources deemed to be reliable but are not a guarantee of future performance.

## Risk Assessment

Lonsec assesses the Fund's **key risk factors** in the overall context of both competing unlisted property funds and relative to other asset classes.

| Level of assessed risk | Low | Med | High |
|---|---|---|---|
| **OPERATIONAL EARNINGS** | | | |
| BUSINESS | | ● | |
| LEASING | | | ● |
| CAPITAL GAIN VS. INCOME | | ● | |
| DIVERSIFICATION | | | ● |
| MARKET VOLATILITY | | ● | |
| **FINANCIAL** | | | |
| GEARING (LEVERAGE) | | | ● |
| REFINANCING | | ● | |
| INTEREST COST / HEDGING | | ● | |
| CURRENCY | ● | | |
| COUNTERPARTY | ● | | |
| SUPPORT TO DISTRIBUTIONS | | ● | |
| **MANAGEMENT & OTHERS** | | | |
| EXPERIENCE | ● | | |
| RELATED PARTY TRANSACTIONS | | ● | |
| LIQUIDITY | | | ● |

- **Leasing risk** is deemed to be high given the Fund's assets are specialised and thus the pool of alternative tenants is fairly limited.

# Centuria Agriculture Fund



- **Capital gain vs. income risk** is deemed medium given that property funds have a higher element of capital risk than some other asset classes (e.g. cash or bonds).
- **Diversification risk** is deemed high on the basis that the Fund will hold investments concentrated in a single property sector, agriculture.
- **Gearing (Leverage)** risk is judged high relative to other investment classes (including 100%-listed property trusts), where there is lower or no gearing involved (including some wholesale property funds).
- **Refinancing risk** is deemed medium. Although Centuria has a good record of being able to refinance its debt facilities, there is an inherent risk that property funds in some circumstances may not be able to obtain debt finance, and this risk is elevated for agricultural real estate relative to other core property sectors.
- **Interest Costs / Hedging risk** is judged medium as only a portion of the drawn debt will be hedged.
- **Management experience** is assessed to be low risk due to the Fund investment team's experience in establishing and managing agricultural property syndicates, plus the significant operational support from the wider Centuria business.
- **Related Party Transactions** risk is deemed medium the Fund can invest into other Centuria agriculture-related funds, and purchase from related parties. The RE will also utilize Centuria's internal resources. That said, the Manager has clearly defined protocols for managing conflicts of interest, and any such transactions must be approved by the separate Compliance Committee and the Compliance Officer.
- **Liquidity risk** is deemed high due to the Fund's significant exposure to illiquid assets (real property) and given the quarterly withdrawal facility is at the discretion of the RE**.** There is the possibility that the majority of unlisted assets may not be able to be sold and that other liquidity options (cash, property securities, debt or equity inflows) may be limited. This is opposed to funds comprising only listed securities and cash, where assets can be readily offered for sale on the share market. The provision of a full liquidity event every five years may still be subject to the same potential restricted liquidity of unlisted assets at that time.
- Overall, Lonsec considers the risk assessment for CAF to be '**Medium**' due to the highly specialised nature of the assets, together with property sector and tenant operator concentration.

## Product

### Structure

CAF is an **open-ended** unlisted property fund with **daily** unit pricing consisting of two stapled registered managed investment schemes, CAF I and CAF II. All assets of the Fund are held by CAF I and CAF II or by their respective controlled entities.

### Liquidity

The Fund maintains liquidity to fund distributions, Fund expenses, acquisitions and developments.

**Distributions**

- **Monthly** distributions are paid by the 10th calendar day of the following month.
- The Manager offers a **Distribution Reinvestment Plan** (DRP), which gives investors the opportunity to reinvest part or all of their distribution for additional newly created units in the Fund.
- Distribution payments may contain some **proportion of tax advantaged income**, diminishing over the life of the Trust. This is due to the capital allowances available for expenditure on structures; plant and equipment; and the writing-off (over time) of borrowing costs.
- The Manager supports a **sustainable distribution policy** whereby distributions are sourced from the Trust's cash from operations and net realised capital gains. However, the Manager can pay distributions from other sources if considered to be in the interests of investors and where payment from that source is expected to be sustainable given the circumstances.

**Withdrawals**

- **Quarterly** withdrawal offers of up to 2.5% of the Net Asset Value (NAV), capped at 10% p.a. If this amount is exceeded, withdrawals may be met on a pro-rata basis.
- While the Fund is liquid, investors may only withdraw in response to a withdrawal offer made by the Responsible Entity ('RE'). As the Manager provides **limited liquidity mechanisms**, investors should take a medium to long-term view of their investment (at least five years).
- Withdrawal requests (min. $10,000) are paid within 21 days of the quarter end. However, Lonsec notes that under the Fund's Constitution, the RE is allowed up to 365 days to accept a withdrawal request.
- Where the Manager is required to sell the Fund's property assets, it may take investors **12 months or longer** to receive their withdrawal proceeds. If the Manager believes that they cannot sell the Fund's property assets within 365 days to meet withdrawal requests, the Fund will become illiquid and **withdrawals will be suspended**. If this occurs, investors can only withdraw when a withdrawal offer is made available in accordance with the Fund's Constitution and the law.
- The Fund offers a full **Liquidity Event** for all unit-holders **every five years**, with the first scheduled in June 2027 (paid over a 6 month period).

# Centuria Agriculture Fund



## Capital Management

**Equity**

- The Fund remains closed for periods of time and re-opens frequently to raise capital to fund pipeline acquisitions, developments and pay down debt.
- As a result, the Fund is not expected to experience constant high net inflows and the associated pressure to deploy capital that some other unlisted property funds can experience.
- Agricultural property is a very specialised sector with a lower supply of quality assets (compared to core sectors such as office and retail). As such, the Manager prefers to foster relationships with agricultural operators with a view to obtaining assets that meet its investment criteria, and thus reduce the risk of overpaying for assets on the open market. This approach requires extended timelines, and the gated approach to capital raises allows the investment team the time to find and acquire suitable assets.
- CAF engages in a fairly low level of Income Support of distributions, which differentiates it from some of its open-end peer group. Lonsec believes this to be a by-product of the Fund's ability to temporarily close, as this protects against distribution dilution.

**Debt**

- The Fund may borrow to acquire direct property assets, acquire operational assets, and fund developments or withdrawals. The Fund may also invest in unlisted funds that are already geared.
- Lonsec notes that while the Fund has a target look-through gearing range of 45-55%, Centuria intends to operate towards the lower end of the range. With other Lonsec-rated Centuria funds, when gearing does increase, usually due to property acquisitions and fund developments, Lonsec has observed that the Manager will raise capital to reduce gearing. Further, the Fund maintains a reasonable level of interest cover, which is above loan covenants.
- The Fund has a reasonably diversified panel of lenders including Australian and International banks. Centuria has demonstrated the ability to negotiate attractive terms on debt financing.

## Valuation Policy

- The RE follows a detailed valuation policy setting out clear procedures and responsibilities.
- Valuers:
  - Must be external, qualified and licensed to operate in the jurisdiction that properties are located.
  - Must be rotated so that a property is not externally valued by the same valuation firm more than three times consecutively.
- Frequency:
  - New properties must be externally valued prior to purchase.
  - Existing properties must be externally valued at least once every 24 months, or as required under the Fund's loan facilities. Lonsec notes that in practice, Centuria usually conducts annual external valuations for its property funds.
  - Valuations may occur more frequently than annually if it is believed there has been a material change in a property's value (+/- 5%). In such cases, an external valuation will be sourced using a prescribed standard valuation brief.
- Lonsec believes the valuation policy to be in accordance with most peer funds covered by Lonsec and strikes a reasonable balance between the costs incurred for valuation services and maintaining a portfolio which is reflective of fair value.

# Centuria Agriculture Fund



## Overview of CAF portfolio

| ASSET | STATE | PROP. TYPE | FUND INTEREST % | PORT. VALUE $M | PORT. VALUE % | PORT. NET INCOME $M | PORT. NET INCOME % | PORT. YIELD % | CAP'N RATE % | DISC. RATE % | OCCUP. RATE % | WALE BY INCOME YRS | SITE AREA HECTARES | RENT REVIEW P.A. | MAJOR TENANTS |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 264 Copelands Road, Warragul VIC | VIC | AGRI | 100% | 177.00 | 55% | 10.300 | 51.6% | 5.82% | 5.75% | 7.50% | 100% | 18.93 | 76.88 | 3.0% | Flavorite |
| 709 Port Augusta Highway, Port Augusta SA | SA | AGRI | 100% | 70.00 | 22% | 4.550 | 22.8% | 6.50% | 6.50% | 8.25% | 100% | 19.96 | 362.8 | CPI + 1.0% | Sundrop Farms |
| 160 Elm Street, Guyra, NSW | NSW | AGRI | 100% | 76.00 | 24% | 5.100 | 25.6% | 6.71% | 6.70% | 8.50% | 100% | 15.00 | 40.46 | CPI (4% cap with ratchet) | Costa Group |
| **DIRECT PROP TOTAL / WTD AVG*** | | | | **323.00** | **100%** | **19.950** | **100%** | **6.18%** | **6.14%** | **7.90%** | **100%** | **18.20** | **480.14** | | |
| A-REITS | | | | 0.00 | | | | | | | | | | | |
| CASH | | | | 8.58 | | | | | | | | | | | |
| OTHER | | | | 0.00 | | | | | | | | | | | |
| **TOTAL ASSETS** | | | | **331.58** | | | | | | | | | | | |

Source: Centuria. As of 31 March 2023.

# Centuria Agriculture Fund



## Portfolio

- CAF's mandate is to acquire and grow a diversified Australian portfolio of investment grade agricultural and agri-logistics real estate assets. The Fund may also invest in other Centuria agriculture-related funds, as well as operational assets associated with agricultural property.
- To assist with liquidity, the Manager may also hold ASX-listed A-REITs, cash and cash equivalents.
- The Manager aims to provide diversification over time by investing across the property, geographic location, agricultural subsector and tenant mix.
- The Fund will initially concentrate on higher revenue producing sectors under protected cropping (glasshouses), namely fruit and nuts, and has an identifiable plan to expand into vineyards, water, and agri-logistics facilities.
- Lonsec notes ESG considerations are embedded into the Fund's investment philosophy, with a clear focus on creating a portfolio that has sustainable long-term value and resilience across:
  - Environment (energy, water and waste efficiency)
  - Social (tenant operator employment of local communities)
  - Governance (OH&S, human rights)

### Acquisitions

| PROPERTY | OWNERSHIP (%) | PURCHASE ($M) |
|---|---|---|
| 264 COPELANDS RD, WARRAGUL VIC | 100% | 177 |
| 709 PORT AUGUSTA HIGHWAY, PORT AUGUSTA SA | 100% | 70 |
| 160 ELM ST, GUYRA NSW | 100% | 76 |

### Divestments

| PROPERTY | OWNERSHIP (%) | SALE ($M) |
|---|---|---|
| - | - | - |

### Property Profile

- The following features recent property purchases and are examples of the assets the Fund is investing in.

### Warragul

- Purchased in November 2021. Comprises of glasshouses (33.5ha) and substrate farming operations (5ha) namely packing and distribution.
- Grows high revenue crops including tomatoes, capsicums, cucumbers, eggplants and blueberries.
- Rainfall harvesting system allows capture of up to 80-90% of total water requirements.
- 100% leased to Flavorite on a 20-year triple-net lease with fixed annual CPI increases (3% p.a.).

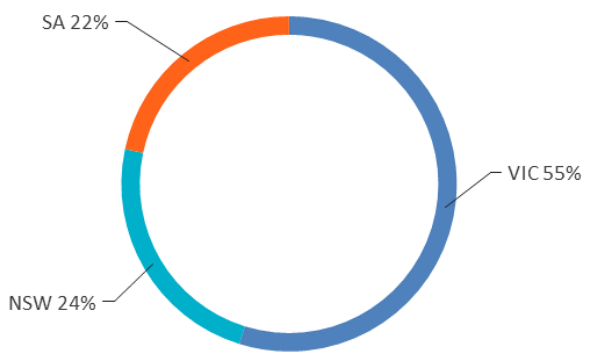
### Port Augusta

- Purchased in December 2022 for $70m. Comprises four glasshouses (20ha), and 10,307sqm of packing and distribution sheds.
- Grows truss tomatoes with production capacity of 17,000 tonnes p.a.
- Fully integrated facility utilising concentrated solar energy system (12.5ha) and on-site desalination plant (1ML capacity) to provide all energy and water requirements.
- 100% leased to Sundrop Farms on a 20-year triple-net lease with annual CPI+1% increases.

### Guyra

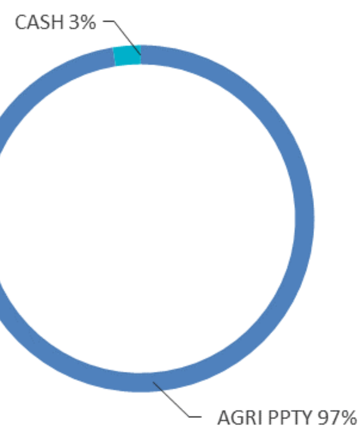
- Purchased in February 2023. Comprises of glasshouses (20ha), nursery (one acre), 65ML dam and substrate farming operations.
- Grows premium tomatoes across the snacking, speciality, cocktail and large truss segments. Production capacity of over 14,000 tonnes p.a.
- 100% leased to Costa group on a 20-year triple-net lease with annual CPI increases (capped at 4%).

### Geographic allocation (by value)




Source: Centuria.

### Asset allocation (by value)




Source: Centuria.

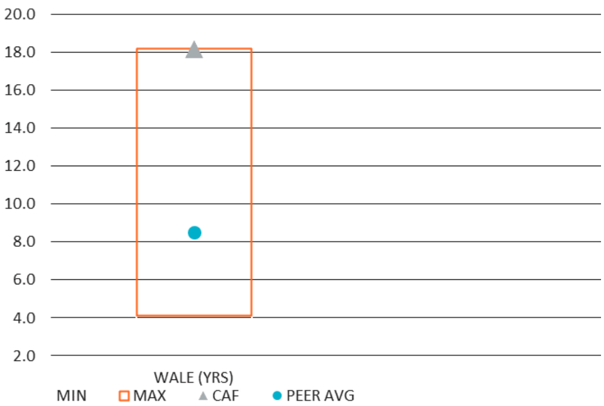
# Centuria Agriculture Fund



### Tenants / Leases

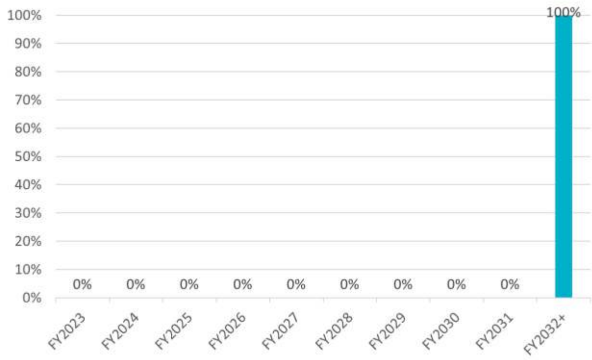
#### Lease Expiry Comparison

- The Fund has a weighted average lease expiry (WALE) of 18.2 years, which significantly above the peer group average of 8.5 years.




- The lease profile is good with built-in annual rental growth in line with CPI or a fixed rate (3-4% p.a.). As the Manager grows the portfolio, this will underpin a steadily growing income stream, with a provision for market reviews generally upon lease expiry (or earlier where applicable).

#### Lease Expiry Profile




Source: Centuria.

- As the above graph illustrates, there are no tenant lease expiries over the next 10 years, given the Fund's assets have WALEs of 15-19 years at the time of this review. Lonsec highlights that the Fund is still in its build-out phase and as more assets are acquired the lease profile is likely to change considerably.
- Given the highly specialised nature and regional location of the Fund's assets, it is anticipated that tenant agricultural operators will either re-sign, or the Manager will be able to source replacement tenants well in advance of notified tenant vacancies.

#### Tenant Profile

- CAF does not currently take on operational risk, but instead focuses on acquiring assets leased to quality, reputable operators on attractive lease terms.
- Lonsec notes the Manager targets 'triple net' lease terms wherever possible, meaning the tenant is responsible for all outgoings and capital expenditure related to the relevant property. This is supportive of a higher income distribution to investors.
- While the Fund is still early in its journey, the Manager has been able to secure three out of the four main Australian glasshouse agricultural operators, which Lonsec views positively and believes to be reflective of the investment team's experience and extensive industry network.
- Lonsec also notes the in-depth commercial and financial due diligence Centuria undertakes on both prospective tenants and underlying assets. This includes the use of specialist agri-consultants.
- That said, Lonsec highlights the Fund's current tenant concentration risk. The pool of alternative tenants for protected cropping glasshouses is fairly limited. In the event of a tenant default, obtaining a replacement operator may take some time to source and fully implement. Centuria has the ability to step in and manage assets in such a scenario, however it would seek to avoid doing so unless absolutely necessary.

| TOP TENANTS | PORTFOLIO INCOME |
|---|---|
| FLAVORITE | 51.6% |
| COSTA GROUP | 25.6% |
| SUNDROP FARMS | 22.8% |
| TOTAL | 100% |

- **Flavorite** grows, markets, distributes and supplies premium fresh produce both nationally and internationally. Employing 500+ staff, Flavorite's key customers include Coles, Woolworths, Aldi, Costco and Harris Farms.
- **Sundrop Farms** is an Australian sustainable horticultural player focused on producing high value tomatoes using renewable inputs. Employing 80 full time staff, Sundrop has plans to expand operations in Port Augusta and on a secondary site. Its key customer is Coles, with which it has a 10 year take or pay contract. Notably, Sundrop grows ~14% of Australia's truss tomatoes and supplies ~90% of Coles' national truss tomatoes.
- **Costa Group** (ASX: CGC) is Australia's largest grower, packer and marketer of fresh fruit and vegetables. Key customers include Coles, Woolworths, Aldi, Costco and Harris Farms. Costa has farms in 30 regional locations across Australia.

# Centuria Agriculture Fund



## Financial Analysis

### Income/Expenses analysis

| Year End | FY2023 | FY2024 | FY2025 |
|---|---|---|---|
| | $m | $m | $m |
| **NET OPERATING INCOME** | **7.586** | **10.286** | **11.234** |
| INCOME SUPPORT | 0.080 | 0.360 | 0.000 |
| **NET DISTRIBUTION PAID** | **7.666** | **10.646** | **11.234** |
| WTD AVG UNITS (MILL) | 139.497 | 193.502 | 193.502 |
| DISTRIB./UNIT | 5.50c | 5.50c | 5.81c |
| YIELD (ANNUALISED) | **5.53%** | **5.54%** | **5.85%** |
| **% TAX DEFERRED** | **100.0%** | **100.0%** | **100.0%** |

Note: Lonsec estimates based on data supplied by the manager.

### Assumptions underlying income

- Underlying the above near-term cash flow projections of the portfolio are assumptions made by the Manager with regard to potential vacancies, letting up allowances and capital expenditure.
- Considering the Manager has a mandate to acquire further properties, the above figures will likely change. **Newly acquired properties are expected to have a similar or higher income profile.**
- Lonsec highlights that unlike some other unlisted property funds, the Fund is providing minimal income support to maintain distributions per unit. This is a function of the Fund's capital management whereby the Manager undertakes capital raisings in a sustainable manner, thus protecting against yield dilution.
- Debt establishment costs, stamp duty costs, legal fees and expenses incurred in the acquisition of the investments are **capitalised and then amortised through expenses** in the profit and loss.
- The Fund's objective is to pay out distributions that are in line with its funds from operations (FFO). According to Lonsec's current estimates, this appears to be a sustainable objective and is expected to translate to a distribution of 5.50c per unit in FY23-25.

### Distribution / Tax deferred

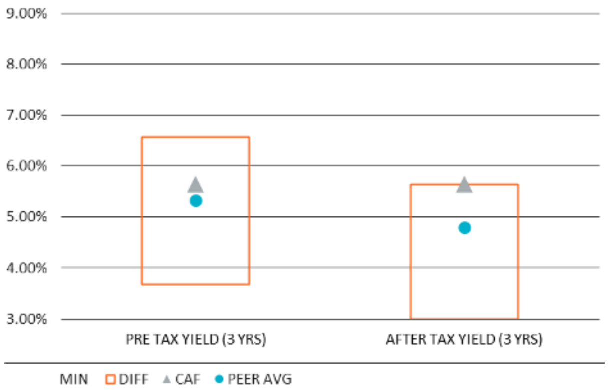
### Estimated distribution yields

| Year end | FY23E | FY24E |
|---|---|---|
| DISTRIBUTION/UNIT | 5.50C | 5.50C |
| PRE-TAX YIELD (@$0.9932) [1] | 5.53% | 5.54% |
| TAX ADVANTAGED | 100% | 100% |
| YIELD AFTER 47% TAX | 5.53% | 5.54% |
| GROSSED-UP YIELD | 10.44% | 10.45% |
| YIELD AFTER 15% TAX | 5.53% | 5.54% |
| GROSSED-UP YIELD | 6.51% | 6.52% |

1: Unit price as at 31 March 2023.

### Distribution yield peer comparison

- Lonsec has compared the CAF's distribution yields with a sample of open-ended unlisted property trusts over the last 12-18 months.




- The Fund's estimated distribution yield on both a pre-tax and after-tax basis is in line with the Lonsec peer group average. The latter is largely due to the high 100% tax deferred portion for the Fund.

### Debt position

| Facility | Nature | Limit | Expiry |
|---|---|---|---|
| TRANCHE 1 | REVOLVING | $106.2M | JUN 2025 |
| TRANCHE 2 | REVOLVING | $20M | DEC 2027 |
| TRANCHE 3 | REVOLVING | $40M | DEC 2027 |

| Debt Facility | |
|---|---|
| FACILITIES – LIMIT | $166.2M |
| DRAWN DOWN | $156.9M |
| COST OF DEBT (AVG) | 4.61% |
| WTG AVG FACILITY MATURITY | 3.3 YRS |
| % DEBT HEDGED (AVG) | 98% |
| WTD AVG HEDGE TERM | 3.3 YRS |
| LVR | 47.5% |
| LVR COVENANT | 60% |
| ICR (YR 1) | 2.94X |
| ICR COVENANT | 2.00X |

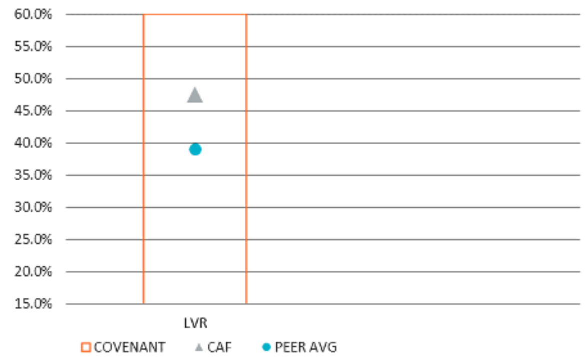
Note: As of 31 March 2023.

- The Manager has combined debt facilities across two banks (one Australian and one foreign) across a total of three tranches.
- The Fund has entered into a swap to fix the interest rate of 98% of its debt exposure until June 2025, and has hedged $80m of debt until June 2026.
- Given the climate of rising interest rates, Lonsec views this as a prudent measure.
- That said, while the interest cover ratio of 2.94x is above the ICR covenant of 2.0x, Lonsec would prefer a larger buffer given the current rising interest rate environment.

# Centuria Agriculture Fund



## Gearing peer comparison




- CAF's loan-to-value ratio ('LVR') is 47.5% while the gearing is 46.3%. While this is above the peer group average of 39%, it offers comfortable headroom to the bank covenant of 60% and is within the Fund's target gearing range of 45–55%.
- Gearing may be temporarily higher at times to settle property acquisitions and fund developments. Subsequent equity capital raised can be used to reduce gearing in line with the target.

### Fee Structure

- The Manager is entitled to receive a number of fees and incurs other expenses related to the management of the Fund including:
  - Acquisition & Disposal of properties;
  - Annual management fee & expenses; and
  - Performance Fees.
- Note that property-related expenses (such as stamp duty) are accounted for in 'Net Transaction Costs' in the RG97 table below.
- **Acquisition fee** of 2.0% of the total acquisition price of any property asset in which the Fund acquires a **direct or indirect interest** (multiplied by the Fund's percentage of beneficial interest in that property). The fee will not apply when the Fund invests into another unlisted property syndicate where an acquisition fee of 2% or more has already been charged, unless the underlying investment has recovered its initial acquisition costs or the relevant units in the Fund have been purchased at a discount to NTA.
- **Disposal** fee of 1.0% of the sale price of any property in which the Fund has a direct or indirect interest in. This fee is charged for coordinating the sale of the property and includes any costs (i.e. agent's fees) associated with the sale process. It is only taken by the Manager if a sales agent fee is not applicable. The Manager ensures that fees are not charged at both the syndicate level and CAF level.
- **Annual management cost** comprises management fee of 0.60% p.a. of the Fund's gross asset value (paid monthly in arrears). For any investment in another fund managed by an entity within the Centuria Group, the management fee charged at the underlying fund level will be deducted from the management fee payable to this Fund (avoids 'double-charging' of fees by the RE). **Expenses** (excluding Abnormal Expenses) are capped at 0.35% p.a. of the Fund's gross assets and includes compliance costs, audit, accounting, and legal fees.
- **Performance Fee**: The RE/Manager is entitled to a **20% share** of excess total return above the Benchmark Total Return of 8% p.a. (pre-tax, net of fees). This is at the lower end of the range for the peer group (8-9% p.a. hurdle). The Performance Fee is charged on a high-watermark basis, with any prior underperformance having to be recovered prior to an amount being paid. It is calculated and paid quarterly.
- **No additional RE Removal Fee** is payable should Centuria be removed by a Unitholder vote as the Responsible Entity or Investment Manager of the Fund.

| % Net Assets | CAF |
|---|---|
| M'MENT FEE[1] | 1.14% |
| EXPENSES[1&2] | 0.67% |
| ABNORMAL EXP.[1] | 0.42% |
| INDIRECT COSTS[1&3] | 0.01% |
| | 2.24% |
| PERF FEE[4] | 0.00% |
| TOTAL (EXCL NET TRANS COSTS) | 2.24% |
| NET TRANSACTION COSTS[5] | 3.10% |
| TOTAL RG97 | 5.34% |

1: On average net assets over year to 30 June 2022 (LVR of 47.5%).
2: Expenses were 0.35% of gross assets in year to 30 June 2022.
3: Indirect costs charged to assets/funds CAF has invested in.
4: Performance fee estimate based on average p.a. since CAF inception.
5: Transaction costs net of Buy/Sell spread (0%).

- Lonsec notes the Fund's total fee load is higher than average for open-end funds, primarily due to the lower funds under management and significant net transaction costs, the latter which will vary considerably depending on the amount of property being acquired in the latest year of the calculation. It includes property-related costs such as stamp duty which can vary from state to state within Australia.

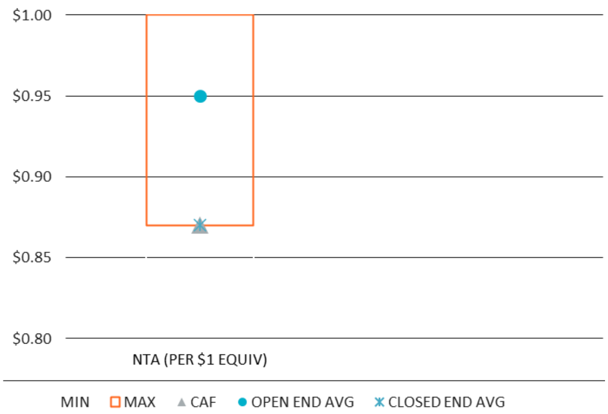
# Centuria Agriculture Fund

## Balance Sheet / Net Asset Backing

| As at | Dec-22 |
|---|---|
| | $M |
| NET ASSETS | $169.222 |
| NO. OF UNITS ISSUED | 193.503 |
| NTA PER UNIT | $0.87 |

- Lonsec's estimate of CAF's adjusted NTA per unit on an equivalent $1.00 invested basis is $0.87 per unit. which is below of the average for open-end funds ($0.95). Lonsec notes this is mainly due to the Fund being early in its life and the opportunity for capital growth has been limited.
- The adjusted NTA of recent unlisted property trusts has ranged from $0.87 to $1.00 on an equivalent $1.00 invested basis.
- The average is lower for closed-end funds ($0.87) than open-end funds as the latter have already absorbed a large portion of establishment costs (including stamp duty). However, there are often buy-spreads (1-3%) to equalise costs for existing and new investors.

## NTA Peer Comparison



# Centuria Agriculture Fund



## Management

An assessment of Management is another key performance measure and is largely qualitative, focusing on the ownership, operating and reporting structure, property investment policy and selection criteria. Capable and experienced management is vital to the success of the Fund. Previous performance is evaluated but is not necessarily a guide to future returns.

### Responsible Entity

- Centuria Property Funds Ltd (CPFL) is the RE for the Fund and is a wholly-owned subsidiary of Centuria Capital Ltd (Centuria).
- Centuria was established in 1999 and is an ASX listed company (code: CNI) with a current market capitalisation of $1.6b. As at 31 March 2023, the Group manages $21.2b of assets ($20.4b of real estate assets and $0.8b of investment bonds).
- In FY22, Centuria completed the acquisition of property funds management business **Primewest** and **BASS Capital** which boosted FUM by $5.2b.
- Centuria's property funds under management consists of $13.9b unlisted property funds as well as $6.5b in listed property trusts (ASX: Centuria Office REIT; Centuria Industrial Fund; NZSX: Asset Plus Ltd). The group has expanded its unlisted fund offering into the Healthcare and Agriculture sectors.
- Centuria operates a 'vertically integrated property business', across both property funds management and property services. The group employs 400+ staff and manage asset acquisition/disposal, leasing and tenant relationships in-house.
- CPFL has appointed Centuria Funds Management Ltd as the Investment Manager ('the Manager'), which is also a wholly owned subsidiary of Centuria Capital Ltd and part of the Centuria Capital Group. The role of the Investment Manager is to procure investment opportunities and manage the Fund's investments on a day-to-day basis.
- Lonsec notes the Responsible Entity and the Investment Manager share the same senior executives, administration and staff. While this is common within the direct property funds sector, Lonsec believes an external third-party as RE would be best practice.

### Management Team

#### Board of Directors – Centuria Property Funds Ltd

| NAME | POSITION | JOINED | EXP.[1] (YRS) |
|---|---|---|---|
| MATTHEW HARDY | EXTERNAL NON-EXEC. CHAIRMAN | 2013 | 30+ |
| PETER DONE | EXTERNAL NON-EXEC. DIRECTOR | 2007 | 35+ |
| DARREN COLLINS | EXTERNAL NON-EXEC. DIRECTOR | 2015 | 20+ |
| ELIZABETH MCDONALD | EXTERNAL NON-EXEC. DIRECTOR | 2020 | 15+ |

1: Experience in legal, finance and property industries.

- The RE Board is currently comprised of external directors. Full biographies of all the Directors are detailed in the Product Disclosure Statement.
- Other Senior Executives closely involved in the management of the Fund include:

| NAME | POSITION | JOINED CENTURIA | EXP.[1] (YRS) |
|---|---|---|---|
| JOHN MCBAIN | JOINT GROUP CEO | 1999 | 30+ |
| JASON HULJICH | JOINT GROUP CEO | 1999 | 20+ |
| STUART WILSON | CO-HEAD – UNLISTED FUNDS | 2010 | 20+ |
| ANDREW TOUT | HEAD OF AGRICULTURE | 2022 | 25+ |
| DAVID SCHWARTZ | EXEC. DIRECTOR – PRIMEWEST | 2022 | 25+ |
| ROSS LEES | HEAD OF FUNDS MANAGEMENT | 2017 | 15+ |
| BEN HARROP | HEAD OF DISTRIBUTION | 2018 | 25+ |

1: Experience in property and/or investment industry

### Investment Team

- The Fund is managed by a dedicated team of two experienced agricultural investors with support from Centuria's broader asset origination, operations, leasing, and asset management teams.
- Head of Agriculture, **Andrew Tout**, joined Centuria in 2022 as part of the PrimeWest acquisition. Tout is a sixth-generation agriculturalist with over 25 years' experience in various practical, management and advisory roles across the Agribusiness sector. He has previously held senior positions with Westpac, ANZ, Commonwealth Bank, GrainCorp, Elders, Raine & Horne and regional agricultural specialist companies such as Cargill, Tandou and Pentag. Tout studied horticulture at the University of Western Sydney, is a licensed Stock and Station Agent, and holds a rural valuation certificate.
- Kelvin McKeown, who is the designated Fund Manager, is responsible for the operations, performance and overall strategy of the assets. Raised on a multi-generational family sheep farm in New Zealand, McKeown joined Centuria in 2022 from Macquarie Group where he managed unlisted retail agriculture funds that owned and operated large-scale horticulture, viticulture and forestry assets. McKeown holds degrees in Commerce and Business Finance from the University of Otago.

#### CPFL Audit Risk and Compliance Committee

| NAME | POSITION |
|---|---|
| DARREN COLLINS | CHAIRMAN AND NON-EXEC. DIRECTOR |
| PETER DONE | NON-EXEC. DIRECTOR |
| ELIZABETH MCDONALD | NON-EXEC. DIRECTOR |

- CPFL has an established **Audit, Risk Management and Compliance Committee** consisting of the three non-executive directors from the CPFL Board. The role of the committee is to oversee how conflicts of interest /potential conflicts of interest and related party issues are managed.
- Troy Dafter is the **Chief Risk Officer** and is responsible for maintaining the compliance policies

within Centuria. Any changes made to these policies need to be reviewed and signed off by the Board.
- Centuria's Fund Managers are assigned responsibilities as 'risk gate-keepers' and are responsible for identifying any actual or potential conflicts of interest that arise from day-to-day operations. This is part of the Fund Manager's key performance indicators.

### Investment Process

#### Investment Style

- Centuria's investment philosophy is founded on an active management approach to real estate where relationships are key and value can be added at all stages of the investment process. Centuria has a particular strength in identifying assets that require intensive asset management to maximise returns and has an inhouse team to deliver the requisite range of value-add services.
- Centuria has historically focused on 'Core Plus' and 'Value Add' investment opportunities in the office sector. However, in more recent times they have expanded into 'alternative' property sub-sectors like healthcare and agriculture. They view their competitive advantage as being able to add value via their active management approach, including:
  - proactive leasing campaigns.
  - upgrading of building services and reducing occupancy costs.
  - refurbishment and redevelopment projects.
  - re-zoning and development application strategies.
- Centuria has a heritage of establishing and managing single asset property funds and has historically acquired assets with either short WALEs, poor lease profiles or properties in need of re-leasing, re-positioning or re-development during the investment term. Lonsec notes the scope of CAF is different, in that it is an open-end fund focused on developing a portfolio of quality agricultural assets on long leases to high-quality agricultural and agri-logistics operators.
- This extends to disposing of properties in the event that an attractive offer is presented before the end of the initially proposed investment term (subject to unitholder approval).

#### On-going Property Management

- Centuria generally does not outsource its property management to real estate agents, however may do so in remote locations or for special purpose assets.
- Given the specialised nature of CAF's assets and the triple-net lease structure in place with tenants, day-to-day asset management and maintenance tasks are managed by tenants.
- Where required, Centuria's in-house management team can liaise closely with the on-site facility manager to ensure efficiencies are being realised.

#### Potential Conflict of Interest / Related Party Issues

- The RE may from time-to-time engage related parties to provide property services to the Fund.
- However, the Manager has a clearly defined **Conflicts of Interest Policy** and **guidelines for related-party transactions**. This policy is wide-ranging and includes guidelines specifically relating to identifying, disclosing and resolving such issues as highlighted above. Potential conflicts of interest are reviewed by senior management.
- The Manager also has an 'Acquisition and Deal Allocation Procedures' policy designed to ensure that any interactions and services received between related parties are consistent with 'industry best practice'.

## Performance

- Given the Fund's recent inception in July 2022, there is a very short track record from which to make a meaningful performance assessment.
- That said, Lonsec highlights that Centuria has a strong track record in managing domestic unlisted property trusts, having been a manager and operator of funds since 1999. Centuria funds that have been completed over the last 20 years have delivered an average total return of 15.3% p.a.
- The Fund aims to distribute 5.50 cents per unit (5.5% yield), with a target total return of 8% p.a.

Lonsec

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# Centuria Agriculture Fund

## About Lonsec

Lonsec Research Pty Ltd (Lonsec) is an investment research house with specialist areas of expertise, that was originally established in 1994 and the current entity was registered on 23 June 2011. From 1 July 2011, Lonsec became a fully owned subsidiary of Lonsec Fiscal Holdings Pty Ltd, a privately-owned entity with a multi-brand strategy of providing leading financial services research and investment execution.
Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

## Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.

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**Analyst**

Balraj Sokhi

**Approved by**

Peter Green