Zenith Investment Partners

Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

Cromwell Direct Property Fund

Report data as at 30 Nov 2019
Rating issued on 18 Dec 2019

VIEWPOINT & RATING

The Fund is an unlisted property fund managed by Brisbane-based Cromwell Funds Management (CFM). The Fund aims to provide a monthly tax-advantaged income stream and potential for long term capital growth through a diversified exposure to Australian real estate. Zenith views the fund as an attractive offering for income-focused investors due to the quality of the investment capabilities, the underlying portfolio of assets and stable monthly income stream.

CFM is a wholly-owned subsidiary of Cromwell Property Group (ASX:CMW). CMW is a specialist property investment and funds management business, with $A 11.9 billion in real estate under management, as at 31 October 2019. CFM has significant expertise, operating an internalised model with property and asset management in-house.

Oversight of day-to-day operations of all CFM unlisted property funds is the responsibility of Head of Retail Funds Management, Hamish Wehl. Wehl reports directly to CMW's Chief Executive Officer, Paul Weightman. Wehl has been with CFM since 2009 and has held his current role since July 2016. Zenith holds Wehl in high regard due to his investment and management capabilities.

With regard to the Fund's operation, Wehl's role is the Fund Manager, responsible for the strategic direction of the Fund including capital management and day-to-day portfolio management. In the management of the Fund, Wehl interacts with the CMW specialist investment functions of Transactions, Property Management, Facilities Management, Leasing, Capital Management (debt), Projects (development).

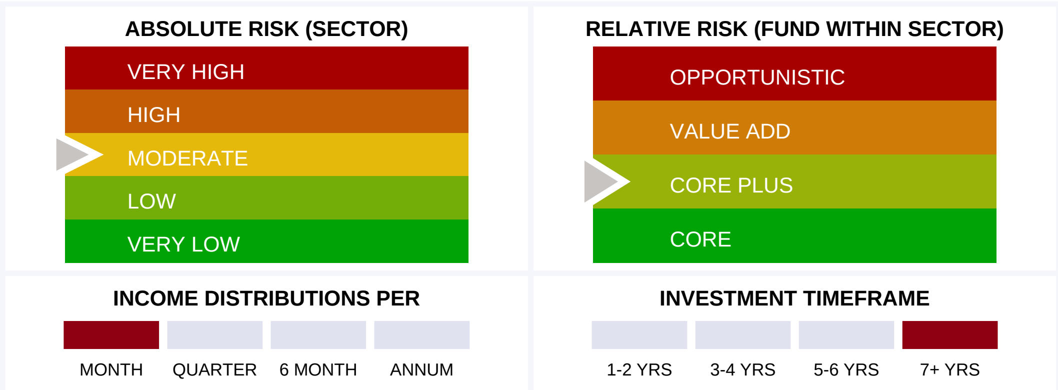
CMW maintains all elements of property management in-house, including tenant relations, leasing and facilities management. Zenith notes that the internal facilities management is a differentiated aspect of the Fund as CMW/CFM believe this provides a closer relationship with tenants and creates greater efficiencies in asset management. Given the experience and economies of scale across the integrated platform, Zenith views the internalised in-house property management as appropriate.

The Fund aims to exceed the total return of the PCA/IPD Australian Unlisted Retail Property Fund Core Index over a rolling three-year period. To meet the Fund's objective CFM focusses on assets in major metropolitan markets with a stable income, strong tenant covenants, government or other blue-chip businesses on long term leases. The Fund is structured to hold property assets directly and units in other CFM property trusts. The Fund is expected to hold a moderate level of gearing with minimal exposure to development.

In Zenith's opinion, the underlying portfolio comprises a selection of medium to high-quality assets with long-term leases with strong covenant tenants. Zenith believes the assets and the lease expiry profile of the Fund are consistent with its objectives. That said, we do note the Fund's high exposure to the office sector and Queensland asset and exposure to suburban metropolitan and regional markets. Typically, the available pool of buyers for larger commercial assets in suburban or regional locations is shallower than for assets of a similar size in core CBD locations.

FUND FACTS

- Experienced real estate manager with strong capabilities and resources
- Exposure to 11 assets with a long 7.9 year WALE predominantly to strong covenant tenants.
- Monthly limited liquidity mechanism set at the greater of 0.5% of the Fund’s Net Asset Value (NAV) and the amount by which cash exceeds 6% of its NAV.



APIR Code

CRM0018AU

Asset / Sub-Asset Class

Real Assets
Real Estate - Australia

Investment Style

Core Plus

Investment Objective

Aims to provide a monthly tax advantaged income stream with potential for capital growth via a diversified portfolio of commercial real estate.

Zenith Assigned Benchmark

S&P/ASX 300 AREIT

Net Returns (% p.a.)

	5 yrs	3 yrs	1 yr
Fund	9.23	8.51	6.81
Benchmark	13.17	13.57	27.00
Median	14.27	13.27	9.31

Income (% p.a.)

	Income	Total
FY to 30 Jun 2019	5.75	6.80
FY to 30 Jun 2018	5.84	8.34
FY to 30 Jun 2017	6.10	12.15

Fees (% p.a., Incl. GST)

Management Cost: 0.80%
Performance Fee: 20% of the excess return above the benchmark

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

The Zenith "Real Assets – Real Estate / Australia" sector consists of strategies which predominantly invest in Australian real estate. These funds hold the majority of their portfolio in unlisted assets as opposed to listed securities. Funds in the sector are generally benchmark unaware, with most utilising absolute return objectives.

Real estate investments encompass a range of risk/return profiles depending on the portfolio assets, fund strategy and capital structure. Depending on this mix, funds may exhibit characteristics of either defensive or growth type assets in a portfolio context. Zenith considers this asset class to possess a moderate risk profile, although individual fund risk profiles will vary widely.

Typically, investment into unlisted real estate exhibit lower volatility than listed property and equities and weak returns correlations to listed assets. This is largely driven by the low liquidity of such assets which generally have limited opportunities to exit. Fund liquidity mechanisms vary but should not always be relied on to deliver in periods of market stress. Investors should be aware of the consequences of an allocation to what is an inherently illiquid asset class in their investment portfolio.

PORTFOLIO APPLICATIONS

As at 30 September 2019.

Key Features	Description
Property sector	Diversified
Offer document	PDS
Entry price	$1.2673
Exit price	$1.2673
Current distribution (annualised)	0.725
Current yield (annualised)	5.72%
Tax Deferred (FY19)	49.32%
Portfolio av. lease expiry	8.0 years
Minimum investment	$10,000
Fund commenced	21/08/2013
No. of properties	6
Fund total assets ($m)	380.60
Fund debt ($m)	142.7
Gearing target range	Max. 50% (lookthrough)
Fund gearing	37.51%
Fund Loan to Value Ratio (LVR)	47.68%
Investment term	Open ended

The Fund offers a diversified exposure to Australian direct real estate with a focus on income-generating assets.

Zenith believes the Fund could be used to reduce volatility and provide diversification within an investor's growth-orientated portfolio, whilst also providing attractive returns. The Fund may also be suitable to blend with value-add strategies for investors seeking higher levels of total return.

In Zenith's opinion, the Fund may be suitable for investors seeking a stable stream of income, with long-term capital growth potential, who can accept the risks of gearing and low liquidity. Zenith believes the Fund is best suited to investors with long-term investment horizons (7 years and over) and that have a high tolerance to the risks posed by illiquidity.

While the Fund offers some limited monthly liquidity, Investors need to be aware that real assets funds do not traditionally offer the same level of liquidity as publically listed securities and regardless of fund liquidity mechanisms, investors may face circumstances where available liquidity is insufficient.

RISKS OF THE INVESTMENT

SECTOR RISKS

Funds within the "Real Asset – Real Estate / Australia" sector are exposed to the following broad risks:

ILLIQUIDITY RISK: Investment in direct real estate investment funds can be prone to liquidity dislocations owing to the fundamentally illiquid nature of the underlying assets. Long duration illiquid assets means investors typically have limited ability to react to any changing conditions by reducing or redeeming their investments. Regardless of any liquidity mechanisms present, investors may face circumstances where available liquidity dries up.

VALUATION RISK: Given the nature of private market investing, valuation risk is considered high relative to public listed markets. As such, the reported value of investments may be higher than the ultimate realisable value of these assets.

MARKET & ECONOMIC RISK: A significant risk to performance is a sustained downturn in the real estate markets. Supply and demand balances of assets (and leasing opportunities) will also impact outcomes. In addition, changes in economic, social, technological or political conditions, as well as market sentiment could also lead to negative fund performance.

VACANCY RISK: The risk of a tenant vacating a property, failing to meet their rental obligations or failing to renew a lease can have a detrimental impact on rental returns.

VALUE RISK: Property values are influenced by location, supply and demand, rental agreements, occupancy levels, obsolescence, tenant covenants, environmental issues and government or planning regulations. Changes to these drivers may affect the end value of the property.

LEVERAGE RISK: Investors should be aware that the effects of gearing can magnify gains as well as losses. In a loss scenario this may result in potential impairment of values and forced disposal at a time when markets may not be ideally placed to recover the equity value.

MANAGEMENT RISK: Management risks encompass a wide range of factors relating to personnel (key person risk), counterparty risk (risk of management not being able to fulfil their duties due to insolvency) and skillset (ability to effectively and efficiently carry out strategies).

CAPITAL EXPENDITURE RISKS: Real assets typically require capital expenditure programs to ensure value and operations effectiveness is being maintained. Aging assets, technological innovation and changing regulations may all impact expenditure required to maintain asset values, impacting fund returns.

CAPITAL DEPLOYMENT RISK: The ability to deploy capital rapidly in real assets tends to be slower than for liquid markets. Inability to deploy capital in an appropriate timeframe may result in dilution to strategy returns due to cash drag.

REGULATORY RISK: The ASIC Regulatory Guide 97 'Disclosing Fees and Costs in PDSs and Periodic Statements' came into effect on 1 October 2017 and seeks to establish a common framework for disclosing fees with respect to registered managed investment schemes issued to retail investors. The guide is currently under review by ASIC, with final recommendations expected to be made before the end of 2018.

In its current form, RG97 is not expected to impact the actual costs (or net returns) on existing investments. Rather, the guide is focused on providing increased transparency with respect to the costs of management. Given this, it is feasible that under RG97, investors become more sensitive to the costs charged and seek lower cost alternatives, potentially leading to fund outflows.

FUND RISKS

Zenith has identified the following key risks of the Trust. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

KEY PERSON RISK: Zenith believes Fund Manager, Hamish Wehl is integral to the success of this Fund. We do however acknowledge the integrated nature of CMW's operations lessens key man risk as operations are sourced across the business. The continued presence of key individuals within CMW is essential and any material departures of Wehl or other key team members would result in Zenith re-assessing its rating on the Fund.

FINANCE RISK: The Fund is exposed to leverage both directly and indirectly via underlying funds into which the Fund invests. Existing debt facilities are due to expire in FY2022. There is no guarantee that the availability or terms of finance on expiry will be similar to the facilities currently secured. Some underlying funds are also exposed to a level of interest rate risk during their loan terms.

ASSET POSITIONING RISK: There is some exposure to underlying assets which combine a suburban location with a high monetary value. Typically, the available pool of buyers for larger commercial assets in suburban locations is shallower than for assets of a similar size in core CBD locations.

RETURNS DILUTION RISK: Funds dealing with real assets that have low liquidity are generally unable to deploy capital as rapidly as investment strategies operating in liquid markets. Accordingly, rapid inflows of equity into a fund or significant delays in acquiring assets may result in dilution of returns (i.e. cash drag) to existing investors until capital is deployed.

DEVELOPMENT RISK: Assets held in underlying funds or directly may be exposed to development risks including risks of cost overruns and completion delays. While these risks should be adequately catered for due to the structuring of development agreements, development risk cannot be mitigated entirely.

FUND-OF-FUND RISK: The Fund's investment in other property trusts means investors will not have voting control (i.e. a majority), over the underlying funds. In addition, the ability of the Fund to divest underlying fund interests may not be as easily accomplished as the facilitation of a direct property sale.

EXTENSION RISK: Investors in funds utilising closed-end, target maturity date structures may be exposed to a variety of risks associated with having a fixed maturity date. These risks may encompass:

- Re-investment risk: Risk that market conditions or declining asset quality over time may not be as favourable if a subsequent investment term is elected.
- Election Risk: An extension of investment terms must generally be approved by a majority unitholder vote. Individual investor's wishes may be eclipsed by the voting majority which may trigger (il)liquidity and/or taxation events.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Cromwell Funds Management (CFM) is a wholly-owned subsidiary of listed REIT, Cromwell Property Group (ASX:CMW). CMW is a specialist property investment and funds management group with $A 11.9 billion of property in real estate under management across Australia, Europe and New Zealand.

There is a total of 159 staff across CMW's Australian business, eight of whom work in CFM. CMW's Australian business has significant expertise and resources and maintains an internalised business model, operating not only as a fund manager but also with a substantial property portfolio via the stapled structure of the REIT.

As CMW (and its subsidiaries) invest in real estate across a wide spectrum of values and strategies, the underlying business divisions operate as centralised service providers to the assets spread out across the various holding funds.

As at 31 October 2019, the Fund has assets of $A 423.6 million.

INVESTMENT PERSONNEL

Name	Title	Tenure
Hamish Wehl	Head of Retail Funds Management	10 Yr(s)

Oversight of day-to-day operations of all CFM unlisted property funds is the responsibility of Head of Retail Funds Management, Hamish Wehl. Wehl reports directly to CMW's CEO Paul Weightman. Wehl has been with CFM since 2009 and has held his current role since July 2016. Zenith holds Wehl in high regard due to his investment and management capabilities.

With regard to the Fund's operation, Wehl's role is the Fund Manager, responsible for the strategic direction of the Fund including capital management and day-to-day portfolio management. In the management of the Fund, Wehl interacts with the CMW specialist investment functions of Transactions, Property Management, Facilities Management, Leasing, Capital Management (debt), Projects (development).

Chief Investment Officer, Rob Percy leads Transactions across the CMW platform. CMW's property (asset) management, leasing and facilities capability is led by Head of Property, Bobby Binning. Binning was promoted from Head of Leasing in February 2018 following the departure of former Head of Property, Damian Horton.

Within CFM, Wehl is supported by a team of eight across fund operations and distributions, which includes an analyst and a operations manager. While Zenith accepts that the integrated platform allows for a reduced headcount in funds management operations, we view CFM's team as compact versus peers and would welcome additional investment support for Wehl.

Investment Committee

The Fund has its own investment committee (IC) which approves all transactions and oversees the ongoing management and performance of the Fund and the underlying assets. Zenith notes that the CFM and CMW Boards have limited cross over in membership with Weightman and Jane Tong, Independent, Non-Executive Director the only members to sit on both.

Asset Management

CMW maintains all elements of property management in-house, including tenant relations, leasing and facilities management. Each property has a designated property asset manager who is responsible for delivering the financial and strategic outcomes set for the property along with high-level tenant relations. Property asset managers prepare annual strategic plans for each property. Each property has a designated facilities manager who is responsible for facilities management and day-to-day tenant liaison.

Zenith notes that the internal facilities management is a differentiated aspect of the Fund as CMW/CFM believe this provides a closer relationship with tenants and creates greater efficiencies in asset management. Given the experience and economies of scale across the integrated platform, Zenith views the fully in-house property management as appropriate.

Remuneration

Staff remuneration is structured with a combination of fixed and performance-based incentives. The performance takes into account the personal achievements of the individual, the investment returns of CFM’s funds and the profitability of the business. The investment performance of an individual fund is a key input in driving performance-based incentives that a fund manager is eligible to receive. Performance rights over CMW stock are also available with vesting arrangements in place to retain high performing members of the team.

Overall, Zenith holds the investment capabilities of Wehl supported by the broader CMW platform in high regard. That said, Zenith believes there exists key person risk with Wehl and would welcome additional investment support for him within CFM.

INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

The objective of the Fund is to provide a monthly tax-advantaged income stream and potential for long term capital growth via a diversified portfolio of real estate assets. The Fund aims to exceed the total return of the PCA/IPD Australian Unlisted Retail Property Fund Core Index over a rolling three-year period.

CFM believes that a quality, a well-leased investment property will deliver consistent income returns and capital growth over the medium to long term. In addition, CFM believes that its internalised property and facilities management delivers long term outperformance and reduces risks to investors through higher tenant retention, quality asset management and cost savings from leveraging purchasing power able to be generated from a large portfolio.

To meet the Fund's objective CFM focusses on assets in major metropolitan markets with a stable income, strong tenant covenants, government or other blue-chip businesses on long term leases. The Fund is structured to hold property assets directly and units in other CFM property trusts. The Fund is expected to hold a moderate level of gearing with minimal exposure to development.

ASSET SELECTION

Asset selection is fundamentally a bottom-up process overlaid with Cromwell’s top-down market views. CMW's Transaction team, led by Percy, is responsible for asset selection across the platform. The transaction team have a preference for off-market transactions allowing for better terms and less competition throughout the process. For the Fund this can also include assets from CMW's balance sheet. Zenith notes that if a transaction includes CMW's balance sheet and CFM, approval from both CMW IC and CFM Board approval.

Acquisition targets that meet with the Fund's investment strategy are subject to initial due diligence from the Transactions team which includes modelling the assets' internal rate of return (IRR), initial technical, financial and legal due diligence. The results of these investigations are factored into asset models.

A due diligence committee will be formed to review the initial investment case. Should this be approved, contract negotiations with the vendor are completed.

Once exclusive due diligence period is entered into comprehensive external technical, financial and legal due diligence is undertaken with their results incorporated into revised asset models. Third-party advisors are used extensively during this phase of the process.

- **Legal due diligence** includes title searches, review of leases and all major contracts, potential government requirements and legal compliance.
- **Technical due diligence** includes a review of building services (including electrical, hydraulic, fire and OHS), building structure, disability access issues, town planning, environmental issues and building regulations
- **Financial due diligence** includes analysis of budgets, capex and forecasts provided by the vendor, preparation of 10-year cashflow forecast, IRR modelling and tax projections.

A commitment is sourced for the capital for the transaction. For equity, this is the confirmation to the CMW entity that is purchasing the asset, with the subsequent debt provisions arranged. With the Transaction team operating on a group-wide basis, this allows the flexibility to source assets and then determine which of CMW’s funds it will be most suited to in terms of size, attributes and investor type.

The final stage is the approval by the Fund's IC for the acquisition. Here all the models and are reports are reviewed and the transaction approved. Once an acquisition is made, the IC will continue monthly high-level asset reviews with full reviews done every quarter to determine if the holding remains appropriate.

Development

While CFM can enter to asset development within the Fund, Zenith expects this not to be a central part of the investment strategy. For any asset development, Zenith would expect this to be a develop to own strategy with significant pre-committed leases, a "fund through" structure whereby the Fund transfers the development risk to a third party. The Fund is not permitted any speculative development exposure.

PORTFOLIO CONSTRUCTION

Sector Allocation

The construction of the portfolio will be influenced by a range of factors including the Fund's strategy (investment objective, specific risk tolerances and return requirements), CFM's market view of the sector, the opportunity set for acquisitions and the current portfolio positioning.

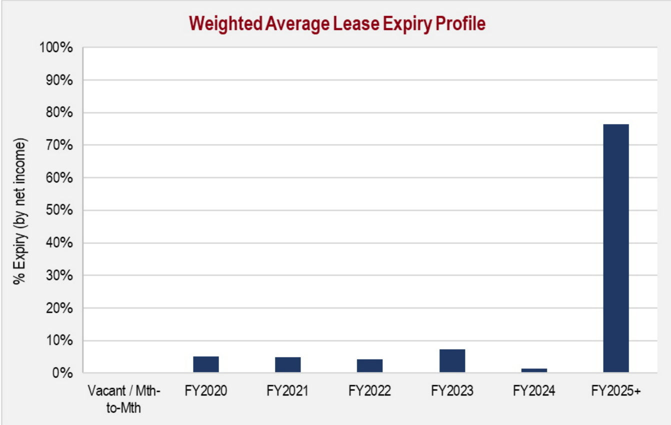
Unlike many diversified property funds, there is no formal property sector allocation policy for the Fund. While Zenith supports CFM’s considered decision-making process with regard to sector allocation, it does mean that the Fund may at points in the cycle, lack the broader diversification of some peers who maintain sector diversification targets through the cycle.

Portfolio details for the Fund are outlined below as at 30 September 2019.

Direct Asset Portfolio

Sector Allocation	No. of Assets	Value ($m)	% by Value	% by Income
Retail	2	62.6	16%	17%
Industrial	1	8.2	2%	2%
Office	7	331.0	82%	81%
Other	0	-	0%	0%
Total	**10**	**401.7**	**100%**	**100%**
Geographic Allocation	**No. of Assets**	**Value ($m)**	**% by Value**	**% by Income**
QLD	4	184.2	46%	48%
NSW	1	113.3	28%	24%
VIC	1	15.4	4%	4%
SA	3	70.8	18%	19%
WA	0	-	0%	0%
NT	0	-	0%	0%
ACT	1	18.0	4%	6%
TAS	0	-	0%	0%
Total	**10**	**401.7**	**100%**	**100%**
Metrics @ 30 June		**2017**	**2018**	**2019**
Weighted Average Lease Expiry		9.6	8.8	8.2
Weighted average capitalisation rate		6.49%	6.35%	6.18%
Occupancy		98.5%	99.4%	99.7%

Overall, in Zenith's opinion, the underlying portfolio comprises a selection of medium to high-quality assets with long-term leases to strong covenant tenants. Zenith believes the assets and the lease expiry profile of the Fund are consistent with its objectives. That said, we do note the Fund's high exposure to the office sector, a bias to Queensland based assets and exposure to suburban metropolitan and regional markets.



Also of note is CFM favouring new or near new properties, which has the added advantage of minimising capital expenditure requirements in the medium-term while also maximising tax-deferred income benefits.

Fund Structure

The Fund's structure of combining direct assets and units in other CFM funds is aimed at providing greater diversification and flexibility compared to owning all assets directly. Gaining exposure through fund units rather than direct assets can limit transaction costs such as stamp duty and reduce commitment size, making portfolio construction easier and increasing diversification. While the Fund has the ability to invest in underlying funds outside those issued by CFM, management has indicated that their hurdle for selection is significantly higher and sees this course of action as unlikely.

This however typically comes at the cost of loss of ownership control and in this case, we note these units are in closed-ended, fixed-term funds with no formal liquidity, to which the portfolio has approximately 25% exposure to as at 30 September 2019. Zenith notes that the staggered maturity of the closed-end funds and CMW's ability to facilitate exit of these positions through warehousing of units on their balance sheet does help to mitigate these risks.

Leverage details are at 30 September 2019.

Leverage

Financing Details	
Debt Facility ($m)	146.3
Maturity Date	30/06/2022
Drawn ($m)	117.7
Hedged	0.0%
Total cost of debt (all inclusive)	Undisclosed
Average Debt expiry (Yrs)	2.8
Current LVR	39.3%
Facility LVR [1]	48.8%
LVR Covenant	50.0%
LVR sensitivity to covenant [2]	-27.0%
Gearing	29.4%
Interest Coverage Ratio (x)	5.09
Interest Coverage Ratio Covenant (x)	2 times
Interest Coverage Ratio sensitivity to covenant [2]	-61.0%

[1] If fully drawn. [2] Decline in asset value required to initiate a covenant breach on drawn debt.

Use of leverage at the Fund level is restricted to security over directly held assets and limited to a maximum 50% Loan to Value Ratio (LVR) at acquisition. As at 30 September 2019, the Fund had an LVR of 27.8%**.** Zenith believes that the current level of leverage is appropriate given the Fund's assets with appropriate headroom to debt covenants.

For units held in CFM funds, leverage is held within the underlying fund structure. Zenith believes that the debt structures on the underlying funds are appropriate with the look-through gearing in the underlying funds is 27.3% as at 30 September 2019. Zenith notes exposure to leverage via the underlying funds does provide a staggered refinancing profile which lowers overall refinancing risks across the portfolio.

There is no maximum allocation to cash however management will attempt to balance the cash allocation between the need to meet liquidity and not create undue cash drag on returns.

The total look-through LVR for the Fund is 39.3% as at 30 September 2019, which Zenith believes is appropriate.

Overall, Zenith views CFM capital management practices which encompass fund structure portfolio construction, liquidity management, and leverage as appropriate.

RISK MANAGEMENT

The Fund has no formal risk constraints. Risk management is centred around the due diligence process regarding asset selection and acquisition. These processes include use of independent valuations, physical, technical, financial and legal due diligence and the experience of the investment team in asset selection. Zenith believes that the risk management processes for the Fund are thorough and of high quality.

Environmental, Social & Governance (ESG)

Zenith notes that while the Fund does not have any specific Environmental, Social and Governance (ESG) exclusions in the traditional sense, ESG as a consideration forms part of CMW's investment decision-making process and its ongoing management of the individual assets.

Where applicable, CFM utilises measures such as the National Australian Built Environment Rating System (NABERS) to measure operational impacts across the Fund's properties on the environment. CMW has also adopted the Global Reporting Initiative (GRI) guidelines as the framework for reporting on the Group's wider ESG performance.

CMW and CFM participate in GRESB, an internationally recognised standards body responsible for the assessment and benchmarking of the ESG performance of real assets. CFM has the Fund and its assets rated by GRESB annually. Zenith is supportive of the Fund's participation in an external ESG rating process.

CMW also adopt the Responsible Investment Association Australasia (RIAA) Charter on responsible investing.

ADMINISTRATION AND OPERATIONS

Valuation and Unit Pricing

All properties in the Fund are independently valued annually with valuers being rotated every two years. A unit price for the Fund is struck daily.

Liquidity

The Fund offers a monthly limited liquidity facility where the amount available to meet withdrawal requests in any month will be the greater of an amount equal to 0.5% of the Fund's NAV or the amount by which the Fund's cash exceeds 6% of its NAV. To date, all redemption requests have been met.

A full withdrawal facility will be offered following the end of the initial seven-year term expiring 1 July 2020. CFM will seek to fulfil withdrawal requests within six months. If withdrawal requests are fulfilled within six months, CFM will continue to offer a full withdrawal facility every five years under the same terms.

If withdrawal requests cannot be fulfilled within six months or requests exceed the maximum 50% of units on issue, CFM will wind up the Fund and distribute the net proceeds. If unitholders approve the extension of the Fund term, any subsequent terms will be for five years continuing with the same liquidity mechanism in place.

Zenith would also prefer to see some guidelines around at what point the Fund would cease making asset acquisitions prior to the completion of the initial seven-year term (1 July 2020), as there is no certainty that the Fund would not be wound up at this point.

INVESTMENT FEES

The sector average management cost (in the table below) is based on the average management cost of all "Real Assets – Real Estate / Australia" surveyed by Zenith. These include calculations for both Gross Asset Value (GAV) and Net Asset Value (NAV), which are principally influenced by a funds leverage.

The Fund charges a management cost made up of 0.60% p.a.

based on the GAV which is inclusive of the effects of gearing, and an administration cost of 0.20% p.a. of NAV, which is ex-gearing. Investors should be aware that the effective cost of investing in the Fund is significantly higher when assessed over the NAV, that is, the net cost will increase with a higher level of gearing.

Performance fees are calculated and paid quarterly in arrears. The performance fee structure has a high watermark structure which we favour. However, its attractiveness is degraded by several issues. There is no positive return hurdle, meaning that performance fees can be taken even if the Fund incurs negative returns that are above the benchmark. There is also no mechanism to prevent double-dipping on performance fees. Given that the underlying funds have performance fee thresholds based on absolute return benchmarks, the Fund is potentially able to earn a performance fee on its index-based benchmark even if the underlying fund(s) do not trigger their absolute return thresholds.

In addition, the Fund has an acquisition fee of up to 2% on both direct property assets or units in any subsequent unlisted property trusts acquired. Under the terms of the PDS dated 29 September 2017, this fee will only be charged if the NTA of an underlying fund is above the initial unit price of $1.00. While appropriate fees on direct property transactions are seen as acceptable, Zenith is generally opposed to including this fee on the acquisition of units in other CFM funds and we would prefer to see this structure removed.

Ongoing annual management fees and costs for the Fund are lower than peer funds. Effectively, Fund fees are subsidised by the fee structures in the underlying CFM funds as the management fees for the Fund are proportionately reduced as an offset to underlying fees (i.e. no ‘double-dipping’). The lack of a buy/sell spread is attractive to those seeking to make regular contributions, even though this is attenuated by it being partially priced into the cost of underlying fund units.

CFM had in the past agreed to bear any normal ongoing administrative and operating costs above 0.20% p.a. for the period to 30 June 2017. Post this date, while not currently formalised, CFM has indicated its intention to continue cost coverage, albeit at a lower level than previously.

Zenith has examined the structure of the underlying fund fees and believes that on the whole overall fees are lower than peers.

Fee Type	Fund	Sector Average
Management Costs p.a. (% of GAV)	0.70%	0.92%
Management Costs p.a. (% of NAV) [1]	1.40%	1.51%
	Description	
Performance Fee	20% of excess over benchmark	
	Buy Spread	**Sell Spread**
Buy/Sell Spread	0.00%	0.00%

1 Based on midpoint target gearing of 0%.

PERFORMANCE ANALYSIS

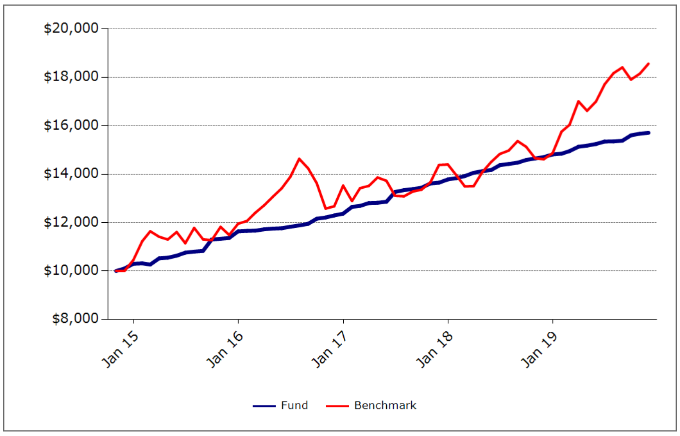
Report data: 30 Nov 2019, product inception: Sep 2013

Monthly Performance History (%, net of fees)

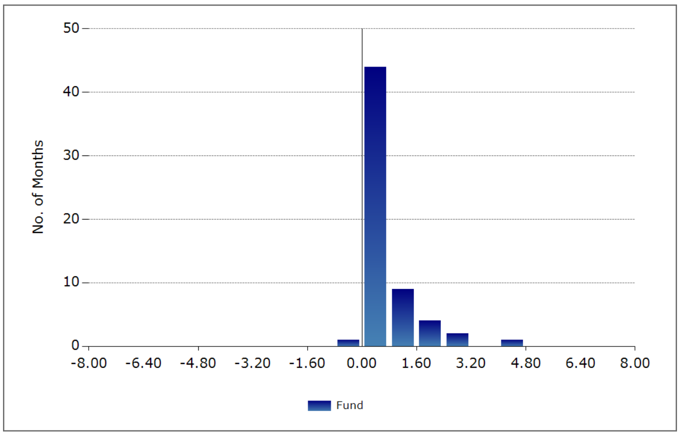
	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2019	0.20	0.73	1.20	0.30	0.44	0.67	0.03	0.19	1.44	0.43	0.23		6.03	24.84
2018	0.42	0.59	0.98	0.47	0.34	1.40	0.36	0.36	0.77	0.42	0.40	0.74	7.49	3.26
2017	2.26	0.32	0.92	0.10	0.33	3.15	0.56	0.33	0.41	1.32	0.24	0.98	11.43	6.45
2016	0.17	0.10	0.47	0.24	0.14	0.52	0.46	0.56	1.77	0.42	0.68	0.61	6.30	13.18
2015	0.17	-0.47	2.50	0.23	0.80	1.18	0.39	0.30	4.34	0.26	0.29	2.39	13.00	14.38

Benchmark: S&P/ASX 300 AREIT

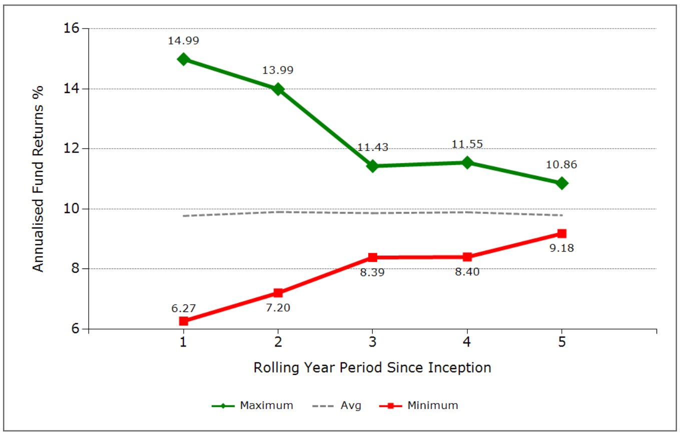
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Return	Incpt.	5 yr	3 yr	1 yr
Fund (% p.a.)	10.03	9.23	8.51	6.81
Benchmark (% p.a.)	13.78	13.17	13.57	27.00
Median (% p.a.)	12.88	14.27	13.27	9.31
Ranking within Sector	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund Ranking	12 / 14	16 / 19	16 / 20	21 / 23
Quartile	4th	4th	4th	4th
Standard Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	3.39	2.82	2.13	1.42
Benchmark (% p.a.)	11.32	11.40	10.11	8.88
Median (% p.a.)	5.69	5.61	4.05	2.92
Downside Deviation	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Fund (% p.a.)	0.20	0.21	0.00	0.00
Benchmark (% p.a.)	5.63	5.79	4.80	3.26
Median (% p.a.)	0.61	0.18	0.07	0.09
Risk/Return	**Incpt.**	**5 yr**	**3 yr**	**1 yr**
Sharpe Ratio - Fund	2.34	2.59	3.18	3.69
Sortino Ratio - Fund	40.32	35.03		

Zenith benchmarks all funds in Real Assets - Real Estate/ Australia category against the S&P/ASX 300 A-REIT Index. It should be recognised that Zenith's assigned benchmark is intended as a broad market indicator only. Returns characteristics of Real Assets should be expected to vary materially at different points in the investment cycle given their inherently lower correlation to liquid benchmarks.

All commentaries below are as at 31 October 2019.

The objective of the Fund is to provide a monthly tax-advantaged income stream and potential for long term capital growth via a diversified portfolio of real estate assets. The Fund aims to exceed the total return of the PCA/IPD Australian Unlisted Retail Property Fund Core Index over a rolling three-year period.

Disappointingly the Fund has failed to outperform its performance benchmark over a range of time periods. That said, Zenith notes that the Fund's underlying benchmark consists of a range of funds with varying degrees of leverage, some much higher than the Fund. As such we place less emphasis on this comparison.

Overall Zenith views the longer-term performance of the fund as sound, albeit softer when assessed over the short term.

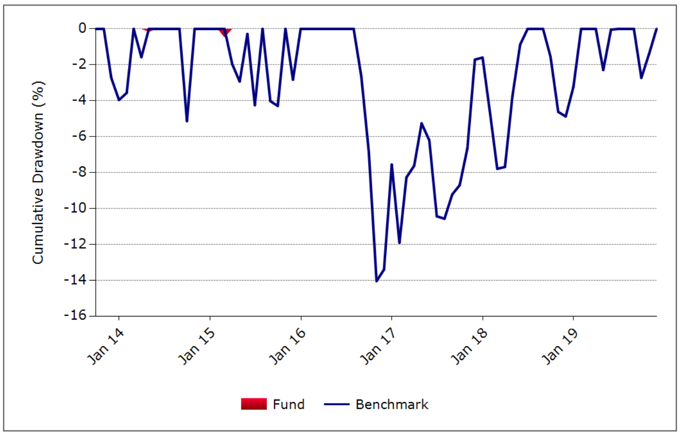
Performance of the Fund against the Zenith sector benchmark should be viewed in the context of the characteristics of the asset class. Unlisted direct property funds typically exhibit low correlations to more liquid assets such as A-REITs and also typically have higher levels of leverage. Accordingly, it should be expected that material short to medium term performance dispersion between the Fund and the benchmark at different points in the cycle.

It should also be considered that funds in real assets can vary widely in their portfolio risk settings and use of leverage. Accordingly, the use of fund performance rankings relative to peers should take these aspects into account.

DRAWDOWN ANALYSIS

Drawdown Analysis	Fund	Benchmark
Max Drawdown (%)	-0.47	-14.04
Months in Max Drawdown	1	3
Months to Recover	1	20

Worst Drawdowns	Fund	Benchmark
1	-0.47	-14.04
2	-0.17	-5.14
3		-4.88
4		-4.29
5		-4.25



All commentaries below are as at 31 October 2019.

Fund drawdowns to date have been minimal, which Zenith believes understates the potential drawdown profile of the fund in a property market downturn. Given Zenith's sector benchmark is highly liquid, it is expected that drawdowns by the benchmark will be more frequent and greater in scale than that of the Fund.

INCOME/GROWTH ANALYSIS

Income / Growth Returns	Income	Growth	Total
FY to 30 Jun 2019	5.75%	1.05%	6.80%
FY to 30 Jun 2018	5.84%	2.49%	8.34%
FY to 30 Jun 2017	6.10%	6.05%	12.15%
FY to 30 Jun 2016	5.30%	5.10%	10.40%
FY to 30 Jun 2015	6.50%	2.70%	9.20%
FY to 30 Jun 2014	6.00%	7.16%	13.16%

Investors should be aware the Fund does not target a specific income level. Distributions will be made monthly where possible.

In Zenith's opinion, the Fund has delivered a stable income at an attractive level.

REPORT CERTIFICATION

Date of issue: 18 Dec 2019

Role	Analyst	Title
Author	Dan Cave	Investment Analyst
Sector Lead	Dugald Higgins	Head of Real Assets & Listed Strategies
Authoriser	Bronwen Moncrieff	Head of Research

RATING HISTORY

As At	Rating
18 Dec 2019	Recommended
14 Feb 2019	Recommended
4 Dec 2017	Highly Recommended
13 Sep 2016	Highly Recommended
17 Jul 2015	Highly Recommended
Last 5 years only displayed. Longer histories available on request.	

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