



# Direct Assets Review

## RF CorVal Property Fund

ISSUE DATE: 8-06-2022

Fund financial position	March 2022
TOTAL ASSETS	\$13.7M
DEBT - DIRECT /(LOOK THRU)	\$0M
LOOK-THRU GEARING (LVR) <sup>1</sup>	42%
NET ASSETS PER UNIT (LONSEC ADJ)	\$0.994 / \$0.976
UNIT PRICE <sup>2</sup>	\$1.013

Portfolio summary	
NO. INVESTMENTS (PROPERTIES)	8 (15 INDIRECT)
PROPERTY TYPE <sup>3</sup>	INDUSTRIAL 49%; OFFICE 45%; OTHER 6%
PROPERTY LOCATION <sup>3</sup>	SA 39%; WA 32%; VIC 19%; QLD 10%
WTD AVG LEASE EXPIRY <sup>4</sup>	11.4 YRS
OCCUPANCY (BY INCOME)	98%

Fund returns	Lonsec estimates*	
Year end June	FY22e*	FY23e
DISTRIBUTION PER UNIT	5.50C	6.00C
PRE-TAX YIELD <sup>5</sup>	5.49%	5.99%
TAX DEFERRED	55%	55%

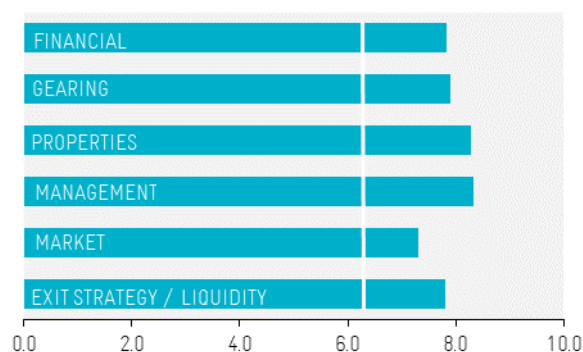
\* FY22 annualised of four months.

Other Fund details	
APIR CODE	CRV9885AU
DISTRIBUTION PAID	QUARTERLY
MINIMUM INVESTMENT	\$10,000 (THEREAFTER \$1,000 LOTS)
INVESTMENT TERM	OPEN-END
REGULAR WITHDRAWAL	QUARTERLY
PERIODIC LIQUIDITY EVENT	EVERY 5 YRS (FIRST JAN 2027)
RESPONSIBLE ENTITY / MANAGER	CORVAL PARTNERS LTD/ CORVAL INVESTMENT PTY LTD
MANAGER FUND HOLDING	NIL

Manager fees and expenses	
ACQ'N /DISPOSAL FEES	2.0% ASSETS / 3.6% EQUITY
ANNUAL FEES & EXPENSES	0.89% ASSETS / 1.68% EQUITY
PERFORMANCE FEE	20% OF EXCESS ABOVE 8% IRR
BUY / SELL SPREAD <sup>6</sup>	0.0% / 0.25%

- 1: Average look-through gearing of underlying trust investments.
- 2: As at 31 March 2022 (ex-distribution).
- 3: By proportion of net rental income.
- 4: By income of underlying trusts.
- 5: On Unit price as at 31 March 2022 (ex-distribution).
- 6: Sell spread covers Disposal Fee and other costs on sale of assets.

### Lonsec ratings of critical determinants



### Conclusion and Rating Rationale

- Lonsec has assigned an 'Investment Grade' rating on the RF CorVal Property Fund (CVPF or 'the Fund').
- The Fund has been established as an open-ended property fund giving investors the opportunity to access a range of CorVal's wholesale property trusts. In due course, CVPF will include an exposure to stabilised direct property assets fully-owned by the Fund.
- The Fund currently comprises investments in eight CorVal wholesale property trusts (15 properties), which currently gives investors an immediate diversified portfolio of industrial (49%), office (45%) and other (6%) property sector assets located across four Australian states. Further investments will mainly be in these sectors that CorVal has built-up expertise in, but other sectors (e.g. retail property) may also be considered should the Manager find appropriate opportunities.
- The objective is to deliver a stable income yield for investors with the prospect of capital growth over the long-term, via a mix of indirect and direct property investments.
- Near-term, the CVPF is estimated to deliver a pre-tax yield of 5.5%-6.0% in FY22/23, which is in line with Lonsec's peer group average for unlisted property funds. The after-tax yield (taking into consideration the reasonable level of tax deferred distributions) is slightly below Lonsec's average.
- The current portfolio of properties comprises a mix of well-located A-grade and B-grade office properties, most with high environmental ratings. The industrial properties are a mix of older established and recently built manufacturing/logistics assets.
- The Fund's weighted average lease expiry (WALE) is relatively high at 11.4 years (Lonsec average 8.4 years) with a high overall occupancy of 98%, with a couple of office assets with some vacancy that is being actively marketed. There are also some long-term opportunities to add value to the site coverage of the industrial properties.

**We strongly recommend that potential investors read the product disclosure statement or investment statement.** Lonsec Research Pty Ltd • ABN 11 151 658 561 • AFSL 421 445 • This information must be read in conjunction with the warning, disclaimer, and disclosure at the end of this document. This report supersedes all prior reports.

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- Gearing is moderately high at 42% (look-through LVR) compared to the peer group average (38%) with reasonable headroom to the average bank covenant of just over 55%. Debt is hedged to a high level in the underlying trusts, protecting investors from rising interest rates for the next few years.
- Management fees/costs are toward the higher end for the sector, partly attributable to high expenses to date relative to the current size of the Fund. Performance fees payable at the underlying trust level are not also payable by CVPF investors. However, should the overall performance of CVPF itself, which would include the investment in the underlying trusts meet the required hurdle rate, performance fees would be payable at the CVPF level. For annual management fees, the Manager ensures that there are no additional fees payable at the CVPF level and there has been no Acquisition Fee charged on the initial portfolio.
- **CorVal** is very experienced in property investment and the management of property trusts for wholesale and non-wholesale investors. They have an excellent record of acquiring properties and adding value to achieve above average returns for wholesale investors. Funds established for non-wholesale investors have focussed on good quality properties delivering a stable income, with the prospect to benefit from selective capital expenditure and more active leasing management. CorVal is structured to operate on a low cost, externally-sourced services model. While Lonsec notes that the RE board currently does not have a majority of external directors, the Investment Committee has an additional two external members and investment decisions must receive unanimous support. From a best practice governance perspective, Lonsec would prefer to see a majority of external directors on the RE board.
- CVPF's **quarterly Capped Liquidity Facility** (maximum of 2.5% of net assets) equates to about 10% over a year and is above average for the sector. In addition, CVPF unit-holders will have the opportunity to withdraw part or all of their holdings at the **five year Periodic Liquidity Event**. All withdrawals are subject to sufficient funds being available and are at the discretion of the RE.

### Changes since the last 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.

- 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.

### Fund Strategy

- RF CorVal Property Fund is an unlisted property trust which invests in a portfolio of direct property assets via investments in unlisted trusts managed by CorVal and properties owned directly by the Fund. The balance of assets will mainly be cash or cash-like products, although there is provision to invest in A-REITs and mortgage debt securities.
- The Fund aims to provide investors with consistent quarterly income and the potential for long-term capital growth through considered acquisitions and the on-going active management of the property investments.

Property Sector	Portfolio Target Range	Allocation (Mar '22)
AUST. DIRECT PROPERTY	90% - 100%	91%
LISTED AUST. REITS/ CASH/MORTGAGE DEBT	0% - 10%	9%

### Risk assessment

- Lonsec rates the key risk factors associated with the CVPF in the following table, which are assessed in the overall context of both competing unlisted property funds and relative to other asset classes.
- **Diversification risk** is assessed as low given the portfolio allocation to a number of property sub-sectors; geographic spread across four states and the diversity of tenants.
- **Leasing risk** is assessed as low with the Fund having exposure to a wide range of tenants across the 15 properties (overall 98% occupancy). However, there is some vacancy at the Corporate Centre at Bundall (Qld) and 17% of leases expire in the fourth year at Workzone East (with CPB Contractors lease being the major expiry).
- **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).
- **Gearing risk** is deemed medium in comparison to other investment classes (including listed property trusts), where the underlying gearing of the CorVal funds in CVPF's portfolio will be in the range 35%-45% (currently 42%).
- **Interest Cost** is assessed as medium risk for the next 3+ years, given that at least 86% of debt is hedged for this period.
- Due to the Fund's significant exposure to illiquid assets (property funds and eventually direct property) plus that the quarterly withdrawal facility is limited and at the discretion of the RE, the Fund's **liquidity risk** is deemed as high.
- Overall, Lonsec considers the **risk assessment** for CVPF to be **low/medium**.

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Level of assessed risk	Low	Med	High
<b>OPERATIONAL EARNINGS</b>			
BUSINESS RISK	●		
LEASING RISK	●		
CAPITAL GAIN VS. INCOME RISK		●	
DIVERSIFICATION RISK	●		
MARKET VOLATILITY RISK	●		
<b>FINANCIAL</b>			
LEVERAGE (GEARING) RISK		●	
REFINANCING RISK	●		
INTEREST COST / HEDGING RISK		●	
CURRENCY RISK	●		
COUNTERPARTY RISK	●		
DISTRIBUTION SUPPORT LEVEL	●		
<b>MANAGEMENT &amp; OTHERS</b>			
KEY PERSON/EXPERIENCE RISK	●		
INDEPENDENCE RISK		●	
RELATED PARTY TRANSACTION RISK		●	
LIQUIDITY RISK			●

# RF CorVal Property Fund

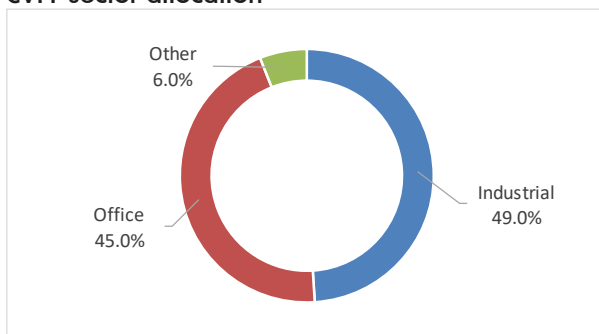
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## 1 Property Portfolio

### 1.1 Portfolio overview

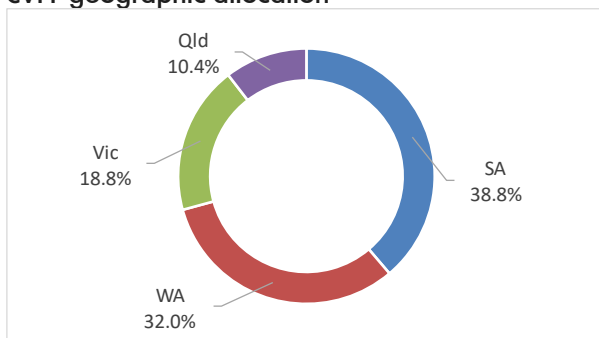
- As at the time of review, the Fund comprised:
  - 8 investments valued at \$12.5m in RF CorVal's wholesale property funds, which indirectly gives investors exposure to 15 properties.
  - Cash (\$1.1m) and other assets (\$0.117m).
- The following table and charts provide a summary of the Fund's current sector and geographic allocations.

CVPF sector allocation\*



Note\*: By income

CVPF geographic allocation



Note: By income

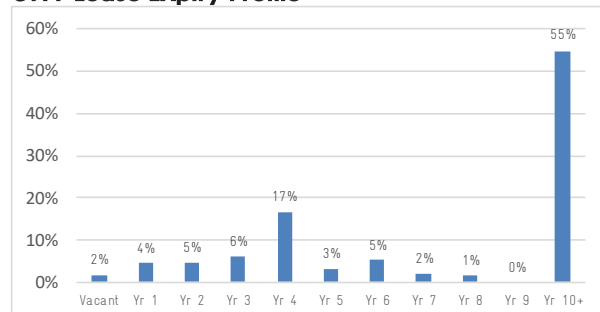
- The Fund's current portfolio gives investors exposure to a diversified portfolio of 15 underlying properties, with the allocation currently mainly to industrial/logistics and office assets, with one tourism/retail asset (the Sky Deck/restaurant and ground floor shop/office at Eureka Tower Melbourne).
- The Manager has developed its expertise mainly in office and industrial properties, but has the ability to evaluate and invest in other property sub-sectors as opportunities arise.

### 1.2 Major Tenants / Leases

- The expiry of lease agreements is well spaced, with a small spike in four years' time and 55% of expiries over nine years away. The Fund's WALE of 11.4 years compares well to Lonsec's average for property funds of 8.4 years. Major tenants include ASX-listed companies, WA state government and international

corporations. There is a spread of smaller tenants, mainly in two of the office buildings.

CVPF Lease Expiry Profile

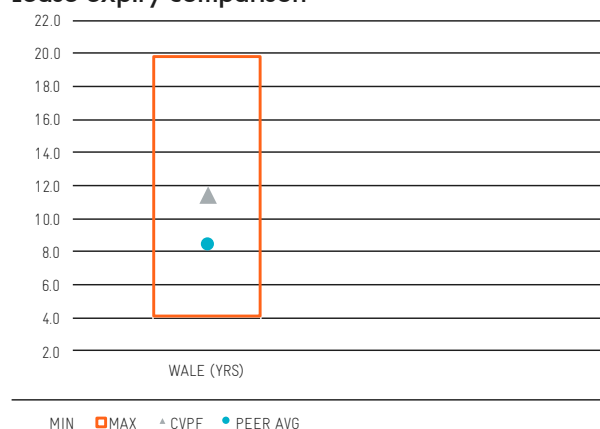


(Source: CorVal)

Tenant	% Income <sup>1</sup>	Lease Expiry
INGHAMS	22%	NOV 2043
PACT GROUP	18%	JUNE 2034/2036
WA GOV'T	13%	APR 2031
JOURNEY GROUP	5%	JULY 2041

1: Estimated look-through property portfolio

Lease expiry comparison



Note: Lonsec peer group average includes sector specific funds.

### 1.3 Valuation policy

- The properties in the underlying trusts will be independently valued on an annual basis, or as required under each trust's loan facility. This is in accordance with most 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.
- Valuations are usually completed on a staggered basis across the CorVal portfolio using different external valuers.
- Valuations may occur more frequently than annually if it is believed there has been a material change.

## RF CorVal Property Fund

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### 1.4 Overview of Fund investments (as at March 2022)

DIRECT PROPERTY INVESTMENT	Interest	STATE	PROP TYPE (GRADE)	LAST INDEP. PROP VAL'N	BOOK VALUE SM (FUND SHARE)	NET INCOME (YR 1) SM (FUND SHARE)	% PORT (BY INC)	INCOME YIELD	NET LETTABLE AREA (SQM)	CAP'N RATE (Val'n)	OCCUP. (Excl. Vendor g/tee)	WALE (BY INC) YRS	MAJOR TENANTS
Corporate Centre Trust	11.44%	QLD	OFFICE - A	101.00	1,430	0.112	12.1%	7.9%	21,087	7.50%	77%	3.7	WYNDHAM DESTINATIONS, CBA, SUNCORP, EY
PACT Trust	20.08%	VIC & WA	INDUSTRIAL	73.50	2,510	0.122	13.1%	4.9%	28,469	4.25%	100%	13.9	PACT
Workzone Trust	18.08%	WA	OFFICE - A	97.00	2,260	0.211	22.6%	9.3%	12,362	6.00%	100%	7.1	WA GOVERNMENT; CPB CONTRACTORS
Inghams Murray Bridge Trust	21.45%	SA	INDUSTRIAL	71.50	2,681	0.217	23.3%	8.1%	5,547	5.25%	100%	22.4	INGHAMS
26 Flinders Street Trust	10.91%	SA	OFFICE - B	53.50	1,364	0.094	10.1%	6.9%	10,217	6.25%	99%	3.1	EMPLOYERS MUTUAL, SEALINK TRAVEL
33 Longland Street Trust	5.14%	SA	OFFICE - A	22.40	0,643	0.041	4.4%	6.3%	2,946	6.75%	89%	3.3	CITY FERTILITY
Industrial Infill Trust	7.38%	WA & QLD	INDUSTRIAL	57.75	0,923	0.067	7.2%	7.3%	36,230	5.36%	100%	8.5	FARM PRIDE; FARMSAVE; TELIS; NATDRILL; KRESTA
Eureka Trust	5.53%	VIC	TOURISM	58.00	0,691	0.068	7.3%	9.8%	1,985	5.75%	100%	20.0	JOURNEY BEYOND
<b>TOTAL / WTD AVG*</b>					<b>12,502</b>	<b>0.933</b>	<b>100.0%</b>	<b>7.5%</b>		<b>5.77%</b>	<b>98%</b>	<b>11.6</b>	

(\* By Income)

## RF CorVal Property Fund

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### 1.5 Lonsec CVPF Property Asset Assessment

Property	Key Strengths	Key Weaknesses
<b>Corporate Centre Trust</b>	<ul style="list-style-type: none"> <li>The Corporate Centre is located at Bundall on the Gold Coast (Qld) and comprises two A-grade office buildings, a fitness centre and 894 car spaces.</li> <li>High NABERS Energy &amp; Water ratings.</li> <li>Many small tenants but good corporates Wyndham Destinations, CBA &amp; Suncorp.</li> <li>Opposite the 'Home of the Arts Centre'.</li> <li>30+ year old buildings but refurbished.</li> <li>Surplus car-parking and land for future potential re-development.</li> </ul>	<ul style="list-style-type: none"> <li>Still vacancy of 18% after Wyndham gave up some space, but CorVal has been active in attracting new tenants.</li> <li>Not located in the main Southport or Surfers Paradise commercial districts (Gold Coast Light Rail does not service the property).</li> <li>Relatively low WALE 3.7 years and being a large asset for a non-capital city location may limit potential buyers.</li> </ul>
<b>Workzone Trust (Workzone East, Perth WA)</b>	<ul style="list-style-type: none"> <li>Well located office just north of the Perth CBD. Good road links and pedestrian access has improved with the sinking of the rail line and opening of Yagan Sq.</li> <li>Large floor plates suit tenants wanting campus-style space. Fully occupied by the WA Gov't and CPB Contractors with long WALE of 7.1 years. (3%-4% p.a. rental increases).</li> <li>Achieved NABERS 5.5 star Energy /4.0 star Water Rating required for gov't tenants (first carbon-rated prop WA).</li> </ul>	<ul style="list-style-type: none"> <li>Over market rental given rents have been softer in recent years, but now stabilised at around \$415/sqm.</li> <li>Perth CBD office vacancy around 15% (Prime 11.5%) and incentives around 50% as at March 2022 (Source: Knight Frank).</li> </ul>
<b>26 Flinders St Trust (Adelaide SA)</b>	<ul style="list-style-type: none"> <li>Good location in the core office precinct of Adelaide CBD close to transport.</li> <li>Purpose built B-Grade space plus 68 car spaces.</li> <li>Currently being upgraded with speculative fit-out attractive for new tenants.</li> <li>High 99% occupancy.</li> <li>Major tenants Employers Mutual and Sealink Travel with 3% p.a. fixed rental increases.</li> <li>NABERS Energy Rating 4.0 stars.</li> </ul>	<ul style="list-style-type: none"> <li>Relatively low WALE of around 3 years.</li> <li>Dated plant that may require capex.</li> </ul>
<b>33 Longland St Trust (Newstead Qld)</b>	<ul style="list-style-type: none"> <li>Emerging urban renewal office precinct close to Gasworks retail and restaurants and within 3kms of Brisbane CBD.</li> <li>Four-level heritage building (NABERS exempt) called the 'Limestone', comprises 3 levels of office, ground floor retail and 31 car spaces.</li> <li>Now fully leased with several small commercial tenants including City Fertility (2.5%-4.0% p.a. rental increases).</li> </ul>	<ul style="list-style-type: none"> <li>Aluminium Composite Panels will need to be replaced.</li> <li>Heritage listing limits redevelopment potential.</li> <li>Relatively low WALE of 3.3 years.</li> <li>Kokoda Properties subject to an early lease termination clause (Dec 2023).</li> <li>Vacancy rates in the area around 15%.</li> </ul>
<b>Inghams Murray Bridge Trust</b>	<ul style="list-style-type: none"> <li>Newly constructed industrial feedmill at Murray Bridge, SA.</li> <li>Leased back to ASX-listed Inghams with 22 years remaining (+ options 5x10 years).</li> <li>Triple net lease delivers an attractive 7% income yield. Annual increases the lesser of 2.75% or 2xCPI.</li> </ul>	<ul style="list-style-type: none"> <li>Limited alternative uses should the tenant default.</li> </ul>

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Property	Key Strengths	Key Weaknesses
<b>PACT Trust</b>	<ul style="list-style-type: none"> <li>Contains two industrial properties both leased to ASX-listed packaging group PACT.</li> <li>Joel Court, Moorabbin (Vic) and Bannister Rd, Canning Vale (WA) on triple net leases with 3.5% p.a. rental increases.</li> <li>Long average WALE of 13.9 years.</li> </ul>	<ul style="list-style-type: none"> <li>Canning Vale appears significantly over-rented (net passing \$148/sqm vs market \$89/sqm). Older buildings may require capital expenditure.</li> <li>Moorabbin is an older style specialised building and not a prominent position, with one way entry and exit.</li> </ul>
<b>Eureka Trust (Riverside Place)</b>	<ul style="list-style-type: none"> <li>Comprises Levels 88 and 89 of the tower (observation deck / restaurant) and ground floor retail (gift shop / office).</li> <li>25 year lease back to tenant Journey Beyond (parent Hornblower Group g/tee).</li> <li>Annual 2.5% rental increases with 10% floor 'collar' at market review at options (2x20 years).</li> </ul>	<ul style="list-style-type: none"> <li>Entertainment based income stream that had restricted opening during COVID-19 lockdowns.</li> </ul>
<b>Industrial Infill Trust</b>	<ul style="list-style-type: none"> <li>Open-end trust with seven assets located in inner city infill locations (WA &amp; Qld).</li> <li>Major tenants Farm Pride (ASX listed); Farmsave; Telis; NatDrill; Kresta.</li> <li>Some opportunities to improve site coverage.</li> </ul>	<p>Note: Trust Properties – not Weaknesses.</p> <ul style="list-style-type: none"> <li>Hurley St C/vale - Older style office/warehouse that has been refurbished.</li> <li>Mugul Rd Malaga – Older style office/warehouse that has been upgraded.</li> <li>Keysborough – 1970's production facility.</li> <li>Welshpool – Older style office/industrial/warehouse and small café.</li> <li>Victoria Rd Malaga – Older style office/warehouse/ industrial.</li> <li>Formation St Wacol – Two older style office/warehouses adjacent to each other.</li> </ul>

### Underlying Trust Expiry Dates

Trust	Commenced	Expiry	Target Return* p.a.
CORPORATE CENTRE TRUST	JUNE 2017	JUNE 2022**	10%-12%
WORKZONE TRUST	DEC 2016	DEC 2025	10%-12%
26 FLINDERS ST TRUST	JULY 2018	JUNE 2024	8%-10%
33 LONGLAND ST TRUST	MARCH 2021	March 2026	10%-12%
INGHAMS MURRAY BRIDGE TRUST	JUNE 2017	JUNE 2025	8%-10%
PACT TRUST	MAY 2014	JUNE 2020	10%-12%
INDUSTRIAL INFILL TRUST	JULY 2021	OPEN-END	10%-12%
EUREKA TRUST	JULY 2021	SEP 2026	12%-14%

(\* Geared equity internal rate of return)

(\*\* A vote is likely to be put to members to extend the Corporate Centre Trust term by five years. CVPF as a related entity to the RE will not participate in this vote as a matter of best practice from a corporate governance perspective).



# RF CorVal Property Fund

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## 2 Financial Analysis

### 2.1 Income/Expenses analysis

Year end	Jun-22	Jun-23
	\$m	\$m
	Annualised	
INCOME FROM INVESTMENTS	0.912	1.745
INTEREST INCOME	0.000	0.000
<b>TOTAL INCOME</b>	<b>0.912</b>	<b>1.745</b>
MANAGEMENT FEE	0.000	0.000
OTHER EXPENSES	-0.047	-0.095
INTEREST EXPENSE	0.000	0.000
<b>TOTAL OPERATING EXPENSES</b>	<b>-0.047</b>	<b>-0.095</b>
NET OPERATING INCOME	0.865	1.650
INCOME SUPPORT (RETAINED)	-0.040	-0.030
<b>NET DISTRIBUTION</b>	<b>0.825</b>	<b>1.620</b>
ORD UNITS ISSUED (M)	15.000	27.000
DISTRIB./UNIT	5.50c	6.00c
YIELD @ \$1.0013	5.49%	5.99%
% TAX DEFERRED	55%	55%

#### Assumptions underlying income

- The above estimates are based on data supplied by the Manager and reflects the income earned by the CVPF via distributions from the underlying property trusts that it has investments in.
- FY22 represents the annualised income based on the four months to March 2022. FY23 is an estimate assuming further capital is raised and deployed into the underlying CorVal property trusts.
- The above distribution estimates exclude any special distributions that may be made should asset sales occur within the underlying funds and/or the CVPF itself.

#### Allowances for vacancies and capital expenditure

- At the underlying wholesale property trust/ asset level, cash flow projections include allowances made by the Manager regarding potential vacancies, letting up allowances and capital expenditure.

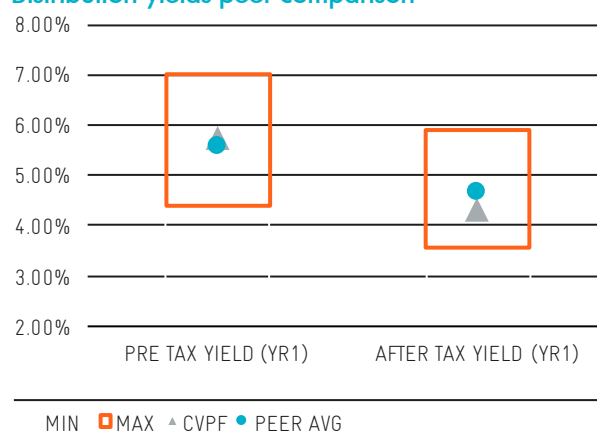
### 2.2 Distribution / taxation

#### CVPF estimated distribution yields

Year end June	FY22E	FY23E
DISTRIBUTION/UNIT <sup>1</sup>	5.50C	6.00C
PRE-TAX YIELD (@\$1.0013) <sup>2</sup>	5.49%	5.99%
TAX ADVANTAGED	55%	55%
YIELD AFTER 47% TAX	4.33%	4.73%
GROSSED-UP YIELD	8.17%	8.92%
YIELD AFTER 15% TAX	5.12%	5.59%
GROSSED-UP YIELD	6.02%	6.57%

1: Distribution annualised. 2: Yield based on 31 March 2022 entry price \$1.0013 (ex-distribution).

#### Distribution yields peer comparison



- Lonsec has compared the CVPF distribution yields with a sample of unlisted property trusts over the last 12-18 months.
- The estimated CVPF distribution yield is slightly above the Lonsec peer group average on a pre-tax basis.
- Due to the estimated 55% tax deferred portion, the Fund's after-tax distribution yield is slightly below Lonsec's sample average.

### 2.3 Debt position / interest costs

- The debt position of the underlying investments shows an average gearing level of 42% (loan to value ratio) compared to an average LVR covenant of 55%.
- On average 86% of debt is hedged for just over three years using interest rate swaps.

#### CVPF Debt Details (average across trusts)

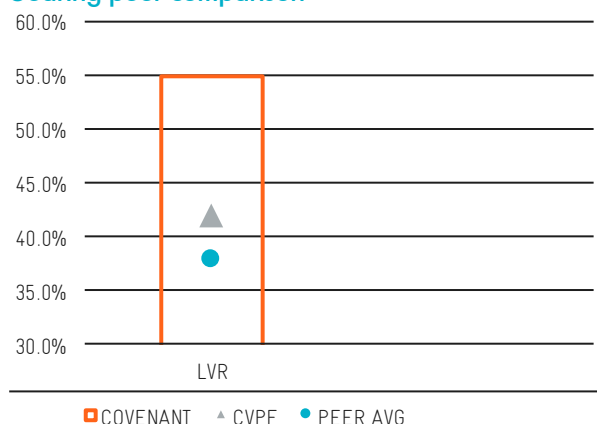
FACILITIES - LIMIT	\$5.2M
DRAWN-DOWN (MAR 2022)	\$4.9M
EXPIRIES (DATES)	2014 (16%); 2025 (56%); 2027 (28%)
COST OF DEBT (AVG)	3.24%
% DEBT HEDGED	86%
WTD AVG HEDGE TERM	3.14 YRS
LVR (LOOK-THRU)	42%
LVR COVENANT (LOOK THRU)	55.4%
ICR YR 1 (BANK CALC) - AVG	6.31X
ICR COVENANT (BANK)	2.24X



## RF CorVal Property Fund

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### Gearing peer comparison



- The Fund's look-through gearing position (LVR 42%) is regarded as moderately high compared to the peer group average (38%) and in relation to the average bank covenant of 55.4%.

### 2.4 Fee Structure

- The Manager is entitled to receive a number of fees and incurs other expenses related to the management of the Fund.
  - Acquisition & Disposal of properties;
  - Annual management fee & expenses;
  - Performance Fee
- Note that property-related expenses (such as stamp duty) are not included in this analysis.
- Acquisition fee** of 1.0% of the gross purchase price of any Direct Property asset (including indirect Property Investments) acquired by the Fund. No acquisition fee will be charged by the RE in relation to the initial portfolio.
- Disposal** fee of 1.0% of the gross purchase price of any Direct Property asset (including indirect Property Investments) disposed of by the Fund.
- In both of the above cases, if these fees are paid at the underlying trust level, then they won't be charged at the CVPF level (i.e. the Fund pays its share of fees at the underlying trust level).
- These costs are built into the unit price via Buy (0%) and Sell (0.25%) spreads applying to enter and exit the Fund. These amounts are retained in the Fund to cover these costs and to ensure fairness to exiting and continuing investors.
- Annual management cost** comprises management fee of 0.60% p.a. of **gross assets** levied at the underlying trust level. There is no additional management fee at the CVPF level. Expenses at the CVPF level are 0.29% p.a. of gross assets (capped at 0.35% p.a.).
- Performance Fee:** The RE/Manager is entitled to a **20% share** of excess total return (Internal Rate of Return) **above 8.0% p.a.** The fee is calculated periodically and reflected in the Unit Price and payable at the end of each five year period of the Fund. Lonsec's analysis shows that the 20% share is at the higher end of the peer group, and the 8% p.a. hurdle is less difficult to attain compared to some other funds (8%-10% p.a.).

- The RE may reduce the performance IRR hurdle to a minimum of 6% p.a. or raise it to a maximum of 10% prior to the next five year calculation period. However, it is not the intention of the RE to do so.

### Comparison of management costs (RG97)

% Net Assets <sup>1</sup>	CVPF	Open-end Avg
M'MENT FEE	1.13%	
EXPENSES	0.55%	
	<b>1.68%</b>	<b>1.32%</b>
OTHER INDIRECT COSTS	0.14%	
PERF FEE <sup>2</sup>	0.89%	
<b>TOTAL ANNUAL</b>	<b>2.71%</b>	<b>1.64%</b>

1: On average net assets in a twelve month period and assumes gearing of 45%

2: Fund's estimated performance fees including performance fees accrued in the underlying property trusts.

### Other fees and costs

- Removal/Retirement Fee:** There is no fee payable if the RE is removed by a unit-holder vote or retires.

### 2.5 Balance Sheet / Net Asset Backing

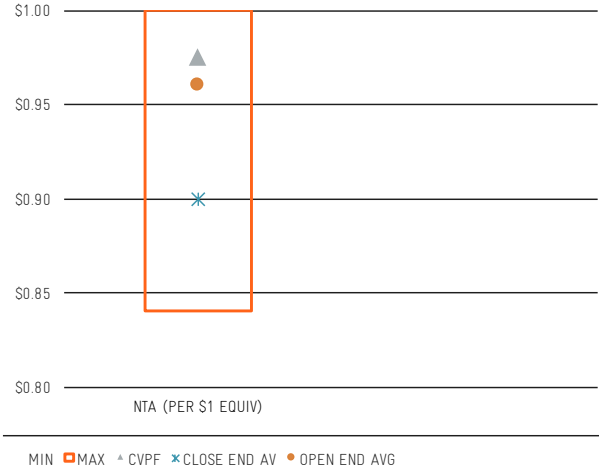
As at end	Mar-22
	\$m
CASH	1.100
INDIRECT PROPERTY INVESTMENTS	12.500
OTHER ASSETS	0.117
<b>TOTAL ASSETS</b>	<b>13.717</b>
CURRENT LIABS	-0.196
INTEREST BEARING LOAN	0.000
OTHER NON CURRENT LIABS.	0.000
<b>TOTAL LIABILITIES</b>	<b>-0.196</b>
<b>NET ASSETS</b>	<b>13.521</b>
NO. OF UNITS ISSUED (mill)	13.600
<b>NTA PER UNIT</b>	<b>\$0.994</b>

- On an equivalent \$1.00 invested basis, Lonsec calculates CVPF's adjusted NTA at \$0.975 (\$0.976/\$1.0013). Lonsec has applied the 2.5% sell spread to the unit price. This compares to the average for open-end funds of \$0.96 and for closed-end funds \$0.90. Lonsec considers CVPF's relatively high NTA to be an attractive feature of the Fund.

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Net Asset Backing Comparison (per \$1.00 invested)



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### 3 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.

#### 3.1 The Responsible Entity (RE)

- The RE of the Fund is **CorVal Partners Limited** (CVPL), which holds AFSL No. 326118.
- CVPL has appointed **CorVal Investment Pty Ltd** (CorVal) as the Manager of the Fund.
- Both entities are part of the **RF CorVal group** (RF CorVal), which is an Australian private real estate funds management business (\$1.5b in funds under management as at April 2022).
- The Board of CVPL consists of one Non-Executive Chair and two Executive Directors, noting that there is not a majority of independent directors.

#### 3.2 Management Team

##### Board & Key Personnel – CorVal

Name	Position	Joined	Ind (Yrs)
KEVIN NEVILLE	NON-EXEC CHAIR	2009	35
ROB RAYNER	EXEC DIR. & CHIEF EXEC OFFICER	2009	30+
KERR BRAY	EXEC DIR. & CHIEF OPERATING OFFICER	2010	25+
SANJEEV SAHOTA	FUND MANAGER	2019	15
OLIVER PICONE	HEAD OF TRANSACTIONS	2012	15
GARETH DINGLE	TRANSACTIONS MANAGER	2015	15
CON TSIIOULOS	DIRECTOR COMMERCIAL	2013	25+
BEN VICIC	DIRECTOR COMMERCIAL	2013	25
NOELLA TSANG	FINANCIAL CONTROLLER	2010	20+

- The CorVal property team comprises 20 staff involved in the management of the funds, property portfolios and support staff. There has been only one departure since the group formed in 2009.
- The group's staff have experience in property investment; asset and funds management; and property development.

#### 3.3 Investment Style / Process

##### Investment style

- CorVal's underlying philosophy is to preserve and grow client's investments over the long term. The Manager has a focus on capital preservation, without sacrificing investment performance.

##### Investment management process

- CorVal has built-up extensive industry contacts over many years of its executives being involved in the property investment industry. Many investment opportunities are brought to CorVal in an off-market situation given their good reputation for completing transactions, backed by access to capital.
- **RF CorVal's balance sheet financial strength** can, if necessary, be utilised to assist the Fund to make acquisitions, while external equity is raised.
- There is a clear delineation between assets suitable for the wholesale funds (more opportunistic) and the CVPF which will target assets that are stabilised.
- The transaction process starts at the formal weekly meeting where the team discuss and assess opportunities. At this stage, financial information (rents, tenants) are examined to map out the asset cash flows using CorVals own assumptions.
- Prospective opportunities are presented via a Discussion Paper to the **Investment Committee (IC)**, with Head of Transactions Oliver Picone attending. There must be unanimous support at the IC to proceed on proposed investments or divestments.
- **Detailed due diligence** is then undertaken utilising external consultants and lining up debt facilities. The proposal then goes back to the IC for approval to proceed to formal exchange.
- Required returns depend upon the asset and the level of work required to bring the asset up to standard. This Fund has a target geared equity IRR of 8%-9%p.a., including an income yield of 5%-6% p.a.

##### Investment Committee – CorVal

Name	Position	Joined	Ind (Yrs)
CHRIS JUDD	EXTERNAL MEMBER	2022	35
JOHN DILLON	EXTERNAL MEMBER	2022	25
ANDREW ROBERTS	PRINCIPAL RF COVAL & RF GROUP	2007	35+
ROB RAYNER	EXEC DIR. & CHIEF EXEC OFFICER	2009	30+
KERR BRAY	EXEC DIR. & CHIEF OPERATING OFFICER	2010	25+

##### On-going property management

- Active management through asset and tenant management initiatives can add value to properties and fund performance. While the CVPF targets exposure to more stabilised assets, CorVal will develop a detailed **asset management plan** for each property that is acquired either in the underlying funds or the CVPF itself.
- Asset management plans include a strategy and budget for each property, incorporating leasing, maintenance, capital expenditure, and potential exit strategies.
- CorVal's asset management team has a focussed and hands-on involvement in the implementation of the plans. They regularly assess and refine the strategy in the light of market conditions, including potential sale opportunities.
- The team can draw upon the internal RF Group, which includes a construction team.

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### 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**.
- The **Compliance Committee** will review and approve, approve with conditions, or reject a proposed related party transaction.
- The CorVal Partners Ltd Board has the ultimate responsibility for ensuring related-party transactions or conflict of interest issues are resolved in accordance with the relevant policies and guidelines.
- At the time of review, CorVal or its staff do not retain an interest in any of the underlying funds / CVPF.

### Compliance Committee – CorVal

Name	Position	Joined	Ind (Yrs)
KEVIN NEVILLE	EXTERNAL MEMBER	2009	35
JAMES MCNALLY	EXTERNAL MEMBER	2022	20+
ROB RAYNER	EXEC DIR. & CHIEF EXEC OFFICER	2009	30+
FIONA DIXON	EXTERNAL COMPLIANCE OFFICER	2014	30+

### 3.4 Previous fund / trust performance

- CorVal has a good track record in managing unlisted property trusts in the Australian market since 2009, although this period has had the tailwinds of easing capitalisation rates/rising property values. The following is a summary of data supplied by CorVal.

	Realised	Existing
NO OF FUNDS	13	11
END/CURRENT VALUATION (RANGE)	\$1,961M (\$20M - \$839M)	\$883M (\$40M - \$172M)
EQUITY IRR - AVG (RANGE)	26.0% P.A. (11%-64% P.A.)	18.5% P.A. (9% - 31% P.A.)

- **Investors are reminded that past performance is not a guarantee of future performance.**

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### 4 Market Analysis

#### 4.1 Property Market Outlook Summary

	OFFICE	INDUSTRIAL & LOGISTICS
<i>Green – positive</i> <i>Orange – negative</i> <i>Yellow - neutral</i>		
<b>Demand/Supply for space</b>	<ul style="list-style-type: none"> <li>Demand good, new supply increasing</li> </ul>	<ul style="list-style-type: none"> <li>Demand strong, some increase in spec supply</li> </ul>
<b>Vacancy</b>	<ul style="list-style-type: none"> <li>Melb up to 11.9% and Sydney down to 9.3% (Jan 2022)</li> </ul>	<ul style="list-style-type: none"> <li>Low especially new logistics facilities</li> </ul>
<b>Rentals</b>	<ul style="list-style-type: none"> <li>Softer, given more supply</li> </ul>	<ul style="list-style-type: none"> <li>Rental growth to continue for some time</li> </ul>
<b>Yields/Cap Rates</b>	<ul style="list-style-type: none"> <li>At historically low levels, but holding</li> </ul>	<ul style="list-style-type: none"> <li>Tighter (Logistics &amp; Hardware); Industrial at risk.</li> </ul>
<b>Transactions</b>	<ul style="list-style-type: none"> <li>Improved after COVID hiatus</li> </ul>	<ul style="list-style-type: none"> <li>Very active including sale &amp; leaseback.</li> </ul>

### 5 Exit Strategy/Liquidity

- CVPF unit-holders will have limited opportunities to withdraw from the Fund.
- The RE intends to provide a quarterly **Capped Withdrawal Facility**, but this is capped at 2.5% of net asset value per quarter (10% p.a.), which is above average for the sector. This will also be subject to funds being available and be predominantly funded through new investments into the Fund. The RE may use its discretion to increase this amount in any given quarter. If liquidity is insufficient, the RE may reduce, scale-back or suspend withdrawals.
- The RE also intends to offer a **Periodic Liquidity Events** on or around each five year anniversary of the commencement of the Fund. The first is expected to occur around January 2027 and this and future offers may be funded by:
  - the sale of assets;
  - raising new equity for the Fund
  - via debt (increasing the gearing ratio)
- The RE will attempt to satisfy redemption requests within a twelve month period from the close of the offer or may be paid in instalments.

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### 6 Lonsec Methodology

The research methodology includes a rating process designed to assess the qualitative and quantitative factors of the investment. The process is consistent for comparable investment products, enabling projects to be individually rated, comparatively ranked, and to establish a Lonsec Research recommendation status for use by financial planners.

The rating determinants are:

- Financial Analysis / Gearing
- Properties/Investments
- Management
- Market Analysis
- Liquidity/Exit Strategy

#### Lonsec Direct Assets research rating definitions

<b>Highly Recommended</b>	The <b>Highly Recommended</b> rating indicates that Lonsec has very strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered a preferred entry point to this asset class or strategy.
<b>Recommended</b>	The <b>Recommended</b> 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.
<b>Investment Grade</b>	The <b>Investment Grade</b> rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.
<b>Fund Watch</b>	The <b>Fund Watch</b> rating indicates that no new investment into this financial product is recommended. A significant change has occurred with the financial product and a detailed assessment of the change is needed and / or series of rectifying actions required prior to this rating being changed.
<b>Screened Out</b>	The <b>Screened Out</b> rating indicates that Lonsec currently does not have conviction that the financial product can generate risk adjusted returns in line with relevant objectives. The financial product currently has insufficient competitive advantages relative to its review peer group (if applicable).
<b>Redeem</b>	The <b>Redeem</b> rating indicates the financial product is no longer considered worthy of investment for any time period and investors should immediately redeem units from the financial product, subject to seeking financial advice. An adverse development has taken place that is considered detrimental to the interests of investors.

#### Financial Products withdrawn from research process

<b>Capital Raising Closed</b>	As the Trust is closed to new investment, it is no longer included on the Lonsec Recommended List and existing Lonsec research reports and ratings have been withdrawn from the Lonsec website. Going forward, Advisers should not rely on prior research in respect of this product.  Lonsec will only be providing further updates should circumstances require. The Trust manager will have to obtain a new Lonsec rating for any new capital raising. Lonsec may also make a recommendation if a roll-over of investor capital is proposed or a liquidity offer is made. An investment in the Trust can be retained.
<b>Discontinued Review</b>	The <b>Discontinued Review</b> status is applied where a fund manager that has approached Lonsec and agreed to tender a financial product for assessment, subsequently elects to discontinue participating in the Review prior to its completion for any reason, other than the financial product being closed or unavailable to retail investors. The Discontinued Review status will be published on the Lonsec website.
<b>Cease Coverage</b>	The <b>Cease Coverage</b> status is applied to financial products where fund managers withdraw from the Lonsec research process after the research process has been completed.
<b>Closed / Wind Up</b>	The <b>Closed / Wind Up</b> status is applied to a financial product when the fund manager advises Lonsec that the financial product is being wound up and the capital is to be returned to investors.

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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 rating outcome. 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(s) 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 financial product(s) to which this document refers.

#### Date prepared

June 2022

#### Analyst

Kevin Prosser

#### Release authorised by

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