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# MONTHLY UPDATE

## SPIRE USA ROC II FUND (AUD)
December 2014

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### Key Fund Details

| | |
|---|---|
| **APIR Code:** | ETL0371AU |
| **Responsible Entity:** | Equity Trustees Limited |
| **Commencement:** | 1 July 2013 |
| **Fund Size:** | A$47.88 million |
| **Application Status:** | CLOSED |

### Ordinary Unit Price and Performance

*as at 30 November 2014*

| | |
|---|---|
| **Unit Price:** | **$1.1979** |
| 1 month: | 4.60% |
| Rolling 3 months: | 10.44% |
| Rolling 6 month: | 9.05% |
| FYTD: | 10.76% |
| Since inception (p.a): | 15.39% |

### Fund Profile

The Fund acts as an Australian feeder fund into the assets of Real Estate Opportunity Capital Fund, LP ("ROC II"). ROC II is a US$600 million (equity) "buy, fix, sell" private equity real estate fund, investing in value-add US multifamily apartment communities and office buildings, which are generally acquired opportunistically from distressed sellers or Mortgagees in Possession.

The Fund owns a 5.88% share of a diversified portfolio of 54 separate real estate assets across the US. As at the date of this update, the ROC II portfolio owns 46 multifamily apartment communities comprising 15,588 individual "for rent" multifamily apartment units. It also owns 7 office buildings providing a total of 1,877,213 square feet (177,440 $m^2$) of leasable commercial office space.

### Manager Profiles

The US Investment Manager is Bridge Investment Group Partners, LLC. Bridge has over 25 years experience in successful investment in US value-add real estate and a platform of over 1,000 employees.

Spire Capital Pty Ltd is the Australian Fund Manager. Spire via its Global Investment Series democratises and

structures leading global institutional quality investment opportunities for the Australian private wealth and SMSF market.

### Monthly update

The positive performance of the Fund during the month of November has been influenced by two factors; firstly the receipt of Q3 2014 Partner Statements, which records the value of the Fund's investments in the ROC II Program at 30 September 2014, and secondly the continued devaluation of the Australian dollar against the US dollar, which declined from $A1 = US$0.8790 to $A1 = US$0.8535 - a decline of 2.9%. A depreciating Australian dollar is positive for the Fund, as the Fund is unhedged and the Fund's assets and income are US dollar denominated. The Fund's future ROC II

Capital Calls are insulated from the declining Australian dollar as at inception the Fund acquired (at circa US$0.94) sufficient USD to fund 100% of its USD Capital Commitments.

The table below summarises the key metrics for the ROC II Portfolio and compares Q2 to Q3 2014.

| ROC II Portfolio Metrics | Q2 2014 | Q3 2014 |
|---|---|---|
| Percentage of Committed Capital called (i.e. invested) | 62.7% | 79.9% |
| Uncalled Capital | 37.1% | 19.8% |
| Percentage of ROC II assets owned greater than 6 months (by cost) | 77.3% | 77.8% |
| Gross value multiple (inc distributions) on ROC II assets owned greater than 6 months | 1.36x | 1.36x |
| Gross IRR (inc distributions) on ROC II assets owned greater than 6 months | 29.9% | 28.2% |
| Percentage of ROC II assets owned less than 6 months (by cost) | 22.7% | 22.2% |
| Gross value on ROC II assets owned less than 6 months | 0.91x | 0.86x |
| Net value multiple (inc distributions) on all ROC II assets | 1.26x | 1.25x |
| Net IRR (inc distributions) on all ROC II assets | 21.9% | 21.4% |

Key takeaways from these metrics are as follows:

- There is a significant difference in value, expressed as a multiple of acquisition price, between those assets which have been owned for 6 months (1.36x) versus those that have been owned for less than 6 months (0.86x). This is expected, as under US GAAP accounting standards, those assets which are owned for greater than 6 months, are valued at market (usually using Discounted Cash Flow analysis). Assets which have been owned less than 6 months must be valued at Cost, less expenditures - which includes acquisition expenses, plus any rehabilitation capital expenditure to date.

- This effectively dilutes a 1.36x multiple on assets valued at fair market, to a blended 1.25x multiple for all assets held. This dilution will continue until all ROC II assets have been acquired and have been owned for greater than 6 months.

- The lower multiple for less than 6 month owned assets in Q3 (0.86x) versus Q2 (0.91x), implies a higher level of capital expenditure has been spent in Q3 as part of the rehabilitation and value-add process.

Distributed with this Monthly Update is a comprehensive summary of the ROC II Portfolio and each individual asset. A notable takeaway from this data, is the wide dispersion of equity multiples within the 1.36x aggregate multiple for assets owned greater than 6 months. Multiples range from a high of 2.37x for the Venetian on Ella Apartments (formerly known as La Jolla Apartments) in Houston, Texas, which was acquired (with a vacancy factor of 70%) in May 2012, to a low of 1.00x for Silver Shadows Apartments in Las Vegas, Nevada, which was acquired in January 2014.

Assets which have been owned for longer, typically have a higher value multiple and IRR, than those that have been more recently acquired. This is logical, as the assets which have been owned longest will be most advanced in their individual value-add and repositioning programs, with therefore higher occupancies and cash flows.

**Dispositions**

Generally, in order to crystallise profits, assets will be marketed for sale when they have completed their rehabilitation and value-add programs and have been stabilised for at least 6 months - unless an attractive and unsolicited offer is received prior. To date, three assets from the ROC II portfolio have been sold, with the profit and capital from each sale returned to Limited Partners. These dispositions are detailed in the table below. Two of these assets have been sold at prices that have generated an IRR in excess of pro-forma based expectations - one significantly above. The other (Andorra), achieved an IRR slightly below pro-forma expectations, however management did not believe they could add any further value to the asset and determined that a sale was in the best interest of investors.

### ROC II Assets sold to date

| Property | Type | Date Acquired | Date Sold | Equity Invested | Equity Realised | Equity Multiple (Gross) | IRR (Gross) |
|---|---|---|---|---|---|---|---|
| 39 LaSalle Street, Chicago, IL | Office | Apr 2013 | Jan 2014 | 11.58m | 21.01m | 1.81x | 120.3% |
| Andorra Apartments, Indio CA | Multifamily | May 2012 | Apr 2014 | 3.34m | 4.48m | 1.42x | 20.2% |
| Pinewood Apts, Seattle WA | Multifamily | May 2012 | Oct 2014 | 1.66m | 2.65m | 1.59x | 24.2% |

The table below summarises the key metrics for the Fund's investment in ROC II and compares Q2 to Q3 2014.

| Fund Metrics | Q2 2014 | Q3 2014 |
|---|---|---|
| **INVESTMENT** | | |
| Committed Capital (US$) | 35,000,000 | 35,000,000 |
| Cumulative Called (i.e. invested) Capital (US$) to date | 21,928,265 | 27,963,788 |
| Cumulative Called Capital as % of Committed Capital | 62.7% | 79.9% |
| Cumulative Additional Amount (i.e. Equalisation Premium) paid to date (US$) | 719,020 | 719,020 |
| Total Investment Paid In (US$) | 22,647,285 | 28,682,808 |
| **RETURN** | | |
| Cumulative distributions of rental income received (US$) | 1,299,697 | 1,618,945 |
| Cumulative distributions of profit from sale received (US$) | 304,589 | 321,724 |
| Unrealised Value of ROC II investments (inc expected FITOs) | 25,790,946 | 32,654,649 |
| Total Value | 27,395,232 | 34,595,318 |
| Total Value to Paid In multiple (TVPI) | 1.21 | 1.21 |

Key takeaways from these metrics are as follows:

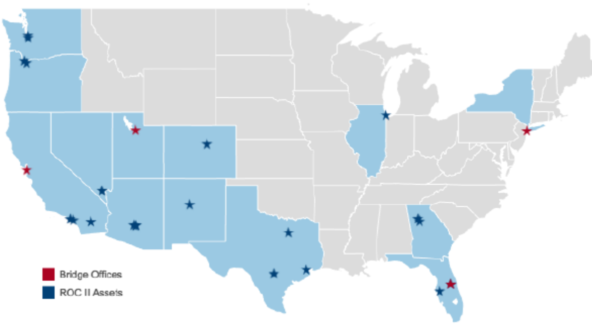
- An additional 17.2% of the Fund's Committed Capital was called for deployment into new investments during Q3 2014. However, pleasingly, the TVPI multiple has remained constant between Q2 and Q3 - even taking into account this newly deposed capital - at 1.21x. Therefore, the normal negative J-curve effect on the value of newly deployed capital, has been fully made up by the increases in value from the rest of the portfolio. As such, we believe that ROC II has now reached a tipping point whereby the TVPI will continue to increase, as the values from assets owned greater than 6 months increase, and the pool of greater than 6 month owned assets, as a proportion of the whole portfolio, continues to increase as ROC II nears full deployment.

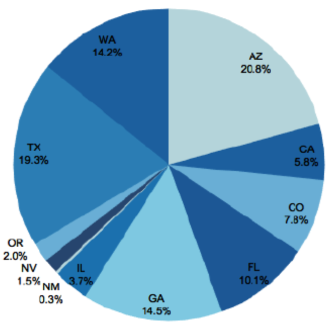
## Bridge IGP CEO Letter

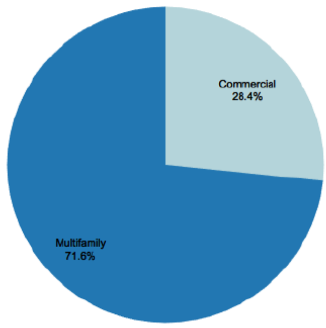
Dear Investor,
The Managers of the ROC II Program are pleased to report a successful third quarter of 2014.

The ROC II Program is now within two quarters of the end of the investment period. Deployment continues with eight new properties acquired during the quarter, three properties acquired since the end of the quarter and three presently under contract. The addition of these investments is expected to bring deployment to approximately 95% of commitments, which is close to our internal target. The remaining 5% will likely not be called, but will be left in reserve in the event that any additional liquidity is needed for investments owned.

Below are a map and pie charts which summarize the geographical allocation of the portfolio by invested capital as of September 30, 2014:




The ROC II Program will likely make a few more investments before the end of the investment period. These investments will be made to redeploy capital returned from properties currently being marketed for sale including: LaSalle 29 Building, Biltmore Commerce Center, and 1700 West Loop Building (not for sale, but being refinanced). This will add to capital already redeployed from the successful early realisations of Andorra Apartments, Pinewood Apartments and LaSalle 39 Building. Overall, we are quite happy with the portfolio we have composed since inception of the ROC II Program (from the standpoint of investment type, geography and cash flow characteristics). While the allocation figures above include inception-to-date investment data, we anticipate that the ROC II Program will be around 15% commercial, 85% multifamily at the end of the investment period.

Thank you for being our partner

Donaldson Hartman
Chief Executive Officer

## Conclusion & Spire Christmas message