Zenith Investment Partners

Highly Recommended
Recommended
Approved
Not Approved
Redeem

Product Assessment

Rating issued on 25 May 2012

Real Estate Opportunity Capital Fund II LP

Real Estate Opportunity Capital Fund II LP (ROC II) is a private equity (PE) real estate fund domiciled in the U.S. ROC II's strategy is as an opportunistic fund which will pursue value-add tactics in distressed multifamily and commercial U.S. real estate. The Investment Manager ROC | Bridge Partners, LLC (ROCBP) is a core manager of real estate investments with a 19 year track record in running specialist real estate funds for institutions, High Net Worth clients (HNW), family offices and endowment funds principally from the U.S. and Asia. The ROC Bridge group currently has total assets under management of US$926m and has managed a pipeline with an enterprise value of US$2.2bn over their history.

ROCBP sees current opportunities in the U.S. as representing a confluence of conditions which create a significant opportunity to undertake counter-cyclical opportunistic and value add strategies in distressed real estate opportunities. The combination of cyclical repricing combined with the ability to target distressed assets gives the ability to acquire properties at a significant discount to replacement cost. The execution of appropriate value add programs effectively means that the strategy does not rely on a recovery in U.S. markets but captures the margin generated by a reworking of the asset into a stabilised income producing property. The additional attraction for Australian investors lies in a historical divergence between AUD/USD exchange rates.

Zenith sees ROCBP as a highly skilled real estate manager and one in which we have a high conviction. Given the relative difficulty for Australian institutional investors to access quality offshore direct real estate opportunities effectively and their strong historical home bias to direct real estate, Zenith sees the opportunities offered by ROC II to appropriate investors as being a quality opportunity. In addition, distressed asset investing of this type is not a strategy easily actionable in Australian markets.

Management's depth of talent and experience is significant and they are specialists in the field of deep value real estate investing and we see this opportunity as highly attractive for risk tolerant investors. Zenith rates the Real Estate Opportunity Capital Fund II LP **HIGHLY RECOMMENDED.**

FUND FACTS

- U.S. domiciled PE real estate fund targeting distressed multifamily and commercial assets in the U.S. aiming to generate strong capital appreciation and opportunistic income.
- ROCBP is a highly experienced real estate manager with a 19 year track record managing institutional investments specialising in value add and opportunistic strategies.
- ROC II has a 6 year fixed term and will be unhedged and thus exposed to the full effect of currency movements.
- ROC II had its first close in April 2012 and has raised US$65m with initial funds already deployed.

ABSOLUTE RISK (SECTOR)

VERY HIGH
HIGH
MODERATE
LOW
VERY LOW

RELATIVE RISK (FUND WITHIN SECTOR)

OPPORTUNISTIC
VALUE ADD
CORE ENHANCED
CORE

INCOME DISTRIBUTIONS PER

MONTH | QUARTER | 6 MONTH | ANNUM

INVESTMENT TIMEFRAME

1-2 YRS | 3-4 YRS | 5-6 YRS | 7+ YRS

APIR Code
N/A

Asset Class
Real Estate

Sub-Asset Class
Private Equity

Investment Style
Value Add

Investment Objective
To generate high absolute returns (net IRR target of 20%) through investing in a diversified portfolio of distressed US real estate

Minimum Investment
US$1,000,000

Key People
Robert Morse
Chairman

Donaldson Hartman
CEO

Danuel Stanger
CIO Asset Management

Dean Allara
COO Operations

Jonathan Slager
MD Asset Management

Winston Chiu
Director - Financials & Treasury

Team Size
25

Australian Distributor
Spire Capital Pty Ltd

Analyst
Dugald Higgins
Senior Investment Analyst
(03) 9642 3320
dugald.higgins@zenithpartners.com.au

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

Unlisted Direct Real Estate

Unlisted direct real estate investments can encompass a wide range of risk/return profiles depending on the nature of the portfolio assets and fund strategy being employed. Generally however, investment into direct unlisted real estate exhibits a lower volatility to most other asset classes and a generally weak correlation of returns. Much of this outcome however is driven by the fact that by their nature such investments are generally low in liquidity with either limited opportunities to exit for open ended funds or nil liquidity for closed ended funds. This is in contrast to listed property funds (A-REITs/G-REITs) which in Zenith's view represent a real estate proxy as their returns can often be generated by sources other than rent and property values and whose liquid nature exposes them to market trading sentiment thus heightening their correlation to equities.

Real estate strategies can range from stabilized assets to opportunistic real estate development. Stabilised portfolios have existing assets which are tenanted and tend to produce relatively low volatility income streams with a small to moderate capital growth component. Value-add and opportunistic strategies are higher risk, often involving real estate development programs or assets with delayed or otherwise impaired cashflows. It should be appreciated however that even within stabilized strategies, a wide range of risk/reward scenarios can present themselves.

When taking into account portfolio construction issues and asset class classification, unlisted direct property funds are generally considered by Zenith to share the characteristics of direct property ownership while being open to different levels of risk. Funds in this asset class are considered to generally have moderate to high risk characteristics from an overall perspective. Investors should also be aware of the consequences of an allocation to what is an inherently illiquid asset class in their investment portfolio.

Private Equity Real Estate

Real estate PE funds typically focus on value add and opportunistic strategies focusing on capital growth and as such are a tactical play rather than the buy and hold strategies typified by core and core plus strategies which generally seek to generate stable long term rental income streams.

Real estate PE funds are generally structured like corporate PE funds where investors commit to provide capital on a draw-down basis for several years (as assets are acquired), followed by a period of asset rehabilitation. Finally, assets are sold returning capital and any profits to investors. Real estate PE funds are a longer term investment, and can have terms of 10–12 years. They generally require a large amount of capital investment, and are usually illiquid, with no option for investors to exit or sell their investment before the fund is wound up.

PORTFOLIO APPLICATIONS

Australian institutional property exposures are overwhelmingly domestically focused (reported at 98% by value). Offshore investment as an alternative to non-listed Australian real estate offers strong diversification benefits, a way to address domestic supply constraint and to access investment strategies unavailable domestically.

Strength of the Australian dollar against the U.S. compared to longer term historical averages should be recognised as a potential bonus as opposed to a core rationale

Investing in non-core real estate strategies is generally seen as a way to further enhance the expected returns of a real estate portfolio. In general, non-core real estate is expected to deliver a 300-500+ bps return premium over core real estate holdings. The historical record also tends to evidence that non-core funds launched during or immediately following periods of recession perform better than other vintages.

In Zenith's opinion, ROC II may be suitable for investors seeking tactical exposure to offshore physical real estate. Suitable investors must however be able to accept the risks associated with offshore investments, value add / opportunistic investing in distressed assets and nil liquidity in order to achieve this aim. Potential investors also need to be comfortable with the not inconsiderable risks posed by investments in the U.S. multifamily and commercial sectors and the Fund should only be considered by high risk tolerant investors.

While Zenith usually sees long term illiquid funds in real estate as a strategic allocation in a portfolio, an investment in ROC II also represents a tactical play. Given that the Fund represents a specific investment style, Zenith recommends that it may not be suitable for portfolios seeking a diversified exposure to direct property unless an allocation is blended with other investment vehicles in other real estate sectors. Based on our analysis, correlation of U.S. real estate assets to other mainstream asset classes focussed on by Australian investors is generally very weak so there are solid diversification benefits even within an existing property portfolio.

From a macroeconomic perspective, the return drivers underpinning real estate returns differ from those of many other classes of financial assets, thus providing a diversification benefit to a multi-asset portfolio. Additionally, the diverse nature of the individual real estate markets and property types available to real estate investors generate distinctive performance characteristics. While its diversification benefits may be overstated due to appraisal smoothing, core real estate as evidenced by the NCREIF Fund Index–Open-end Diversified Core Equity (NFI-ODCE) has demonstrated very low correlation to equity and bond indexes on a historical basis.

However, within the asset class, certain styles of investing will benefit from different economic conditions. For example, opportunistic investing, which seeks to capitalize on market dislocations and anomalies in real estate and

Asset correlations: Quarterly returns 1989-2011

	Aust. Equities	Global Equities	Bonds	A-REIT	G-REIT	Aust. Unlisted Property	US Real Estate (Core)	US Real Estate (Value Add)	US Real Estate (Opportunistic)
Aust. Equities	1.00								
Global Equities	0.60	1.00							
Bonds	(0.11)	0.07	1.00						
Listed Aust. Property	0.62	0.43	0.09	1.00					
Listed Global Property	0.53	0.06	(0.12)	0.77	1.00				
Mercer Unlisted Property Funds Index - Pre Tax	(0.03)	(0.06)	(0.33)	0.05	0.06	1.00			
US Real Estate (Core)	0.08	0.19	(0.11)	0.24	0.30	0.67	1.00		
US Real Estate (Value Add)	0.12	0.17	(0.15)	0.29	0.26	0.56	0.56	1.00	
US Real Estate (Opportunistic)	0.29	0.22	(0.23)	0.41	0.37	0.60	0.60	0.87	1.00

Indicies: S&P/ASX 300 Index, MSCI World Unhedged A$, UBS Composite Bond Index, S&P/ASX 300 A-REIT, FTSE EPRA NAREIT Developed Total Return Index (Unhedged), Mercer Unlisted Property

capital markets conditions, tends to perform best during or immediately following periods of market turbulence and recession. In contrast, many types of value-added strategies, which depend on leasing momentum and rent growth to generate returns, are more attractive during expansionary phases of the business cycle.

Prior to investing in the Fund, potential investors need to be comfortable with the risk profile and return expectations of U.S. real estate markets more broadly. U.S. markets have experienced a radical re-rating over the past 5 years and at this point it is difficult to determine whether or not markets have found their bottom when measured on a national basis. Even if these markets have bottomed out, the wait for any recovery may be prolonged and any rebound may also be weak.

That said, it needs to be recognised that the Fund is designed to exploit a series of interlocking factors which have come together to present a unique opportunity to exploit distressed assets and which do not necessarily rely on a full blown recovery in U.S. real estate markets to achieve its strategic goal.

LIQUIDITY

The Fund is an unlisted property vehicle with a fixed term of 6 years and may be extended for up to 2 consecutive 1 year periods. ROC II investors will have no recourse to redemptions during the term. While there is no formal regulated secondary market, PE funds generally have the ability to engage in secondary trades of holdings. There is no guarantee however that secondary trades will occur or that pricing will be equitable. Investors should be aware of the implications of an investment of this type where liquidity is a limiting factor. Investors should also be aware of the consequences of an inherently illiquid allocation in their investment portfolio.

RISKS OF THE INVESTMENT

SECTOR RISKS

- 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 & demand, rental agreements, occupancy levels, obsolence, tenant covenants, environmental issues and government or planning regulations. Changes to these drivers may affect the end value of 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 recoup the equity position.
- STRATEGY RISK – Real estate strategies can vary from stabilised 'core' strategies which are generally low risk to opportunistic plays on development or distressed assets which can have complex and severe risks associated with them. Potential investors should have a clear understanding of the individual strategies posed by real estate investments.
- MANAGEMENT RISK – Management risks can encompass a wide range of factors relating to personnel (key man risk), counterparty risk (risk of management not being able to fulfil their duties due to insolvency etc) and skillset (ability to effectively and efficiently carry out strategies).

FUND RISKS

- CURRENCY RISK – The Fund will be unhedged and so remain fully exposed to the effects of currency movements. While this is a targeted strategy on the part of management owing to the historically high A$, long term currency predictions are impossible to predict. Investors should be aware of both the benefits and risks posed by unhedged portfolios.
- FOREIGN COUNTERPARTY RISK – Many of the portfolio management functions will be outsourced to U.S. entities. The Fund will be exposed to the potential risk of counterparties defaulting on their obligations or otherwise acting in their own interest rather than that of the Fund.
- MARKET RISK – U.S. real estate markets has suffered a significant re-rating and are currently depressed with ongoing systemic issues weighing the system down and hampering recovery. While markets are almost unprecedentedly cheap, management will need to be conscious of a 'value trap'. Due diligence and management of assets will need to be robust to minimize the risks associated with investing in depressed markets.

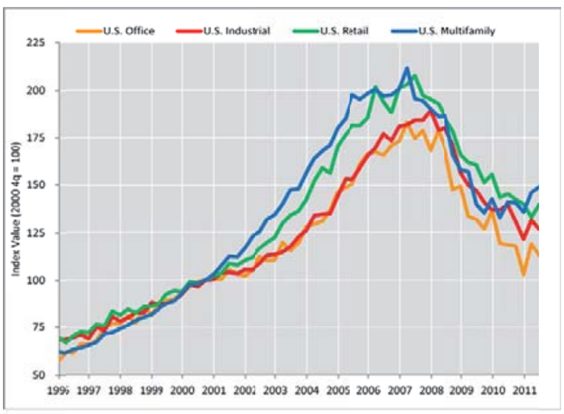
- REGULATORY RISK – the Fund will be potentially exposed to regulatory risks both is Australia as well as the U.S. Regulatory risks can encompass a variety of areas ranging from potential changes to legal structures to direct intervention in real estate markets.
- ECONOMIC RISK – Critical to the performance of the Fund will be the timing and speed of recovery to economic conditions.
- RELATED PARTY RISK – ROCBP is an integrated group who may procure services through several subsidiaries or affiliates. While any fees will be examined internally for appropriateness and based on market rates, conflicts may arise as compensation will not be determined through arm's length negotiation.
- EXECUTION RISK - Unlike most unlisted direct property funds, not all assets are as yet identified for the portfolio making this opportunity more opaque at the outset for potential investors meaning greater reliance in manager skill.
- DISTRIBUTION RISK - The timing of initial cashflows and therefore distributions for the Fund is not certain and will be dependent on the progression of acquisitions, refurbishment and letting up of assets.

MARKET OUTLOOK

Overview

The deflating of the twin housing and credit bubbles in 2008-2009 continues to act as a brake on U.S. economic growth. Adding to this, global headwinds during the past year are still prevalent in 2012. Political dysfunction in the U.S. and Europe has prevented effective handling of difficult economic conditions. Even if long term debt issues are solved optimally, they will continue to be a drag on growth.

The risk of events that might derail the U.S. economy remains significant in magnitude but is decreasing in probability. In response investors are shifting to a more offensive position. Despite relatively tepid economic growth in the U.S. and a torpid recovery in jobs, real estate fundamentals continue to improve across all sectors albeit with different degrees of success. The severe recession of 2008-2009 has delayed or banished any new construction pipelines, leaving negligible new supply. This has been a fundamental factor driving positive results to date and will help underpin outcomes going forward. Improvements in fundamentals were most notable across multifamily and CBD office markets which are key arenas for ROC II.



Source: Costar Group

The ongoing problems in the U.S. housing market continue to impede economic recovery. U.S. single family house prices have fallen an average of 34% from their peak in July 2006 and an unprecedented number of households have lost, or are on the verge of losing, their homes. The previous inability to afford a home has been replaced by declining house prices and high unemployment as the primary driver of new foreclosures. Now, a large foreclosure pipeline hangs over U.S. housing markets, creating headwinds for housing market recovery and the economy at large.

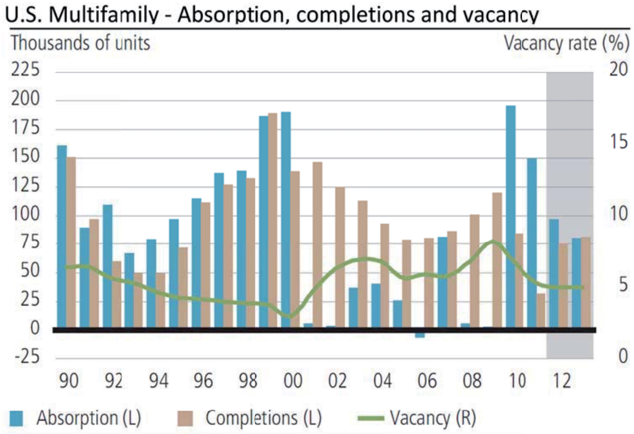
While the outlook for U.S. housing on the price side of the equation is lacklustre in terms of a recovery in the near term, rental markets for both single family and multi-family housing are strengthening in some areas of the country reflecting in part the decline in home ownership. The rental market is being driven by a combination of factors, but predominantly those who are either displaced home owners or are unable to enter the market in the wake of tighter credit availability. Effectively, the combination of declining house prices, constrained mortgage credit, ongoing liquidations and better rental options is fundamentally changing the way people live in the U.S.

Strong investor interest in quality core assets in primary markets has kept pricing competitive and yields tight with cap rates for these assets showing compression. This has had the effect of limiting further declines in value and even showing some upside as these progress. Given increasing traction in the economy and solid performance in real estate markets over the last two years for core assets, returns expectations are now moderating as the focus shifts and investors are now moving up the risk curve where capital is not yet focussed.

While significant headwinds are blowing on global markets Zenith believes that there are opportunities to be had in the changing conditions in U.S. real estate, particularly when considering acquisition of over-leveraged value add and opportunistic assets that are favourably priced for future income growth and capital appreciation. While the risks associated with such strategies are very real, the prevailing opportunities are actionable when combined with careful valuation and pricing, deep due diligence and robust asset management.

Multifamily

On the whole, multifamily housing has performed well over the past two years and been the first to make the transition from recovery into growth. Multifamily has benefited from the early demand surge that has driven a recovery in occupancy and rents. Their typically short term leases (one year) have permitted rent growth to efficiently and speedily translate into income growth. A lower proclivity for home ownership owing to the recent performance in the single family housing market which has been driven by distressed mortgages and foreclosures reinforces this view.

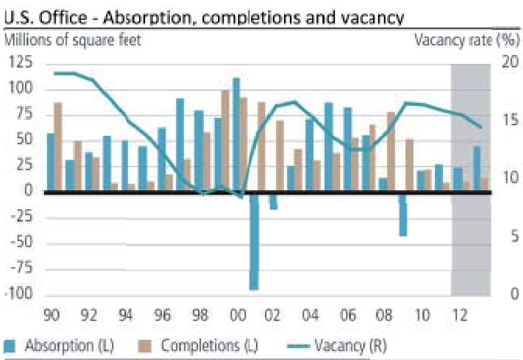


Source: Reis as of December 2011
Shaded area indicates forecast data

Office

U.S. office markets remains highly two tiered, with CBD space in primary markets showing solid improvement while conditions in suburban offices continue to be soft. While some fundamentals have shown signs of stabilisation it is unlikely that they will be sufficient to mount a recovery in the short term in all but trophy assets. National vacancy rates, while having improved, look likely to stabilise at a historically high level owing to subdued employment growth. Positive demand drivers are thin although the lack of new supply is fortunate as it will ultimately underpin any improvement in office market conditions.

Corporate occupiers have been able to take advantage of lower rents and increased incentives to lease better quality space. The predictable flight to quality has bolstered significant improvements in A grade stock in most markets at the expense of non-core space. Some companies are also taking advantage of conditions to expand space and locking in cheaper overheads, driving an increase in net absorption. Counterpointing this however is the significant amount of shadow space in downsized businesses which will delay recovery.

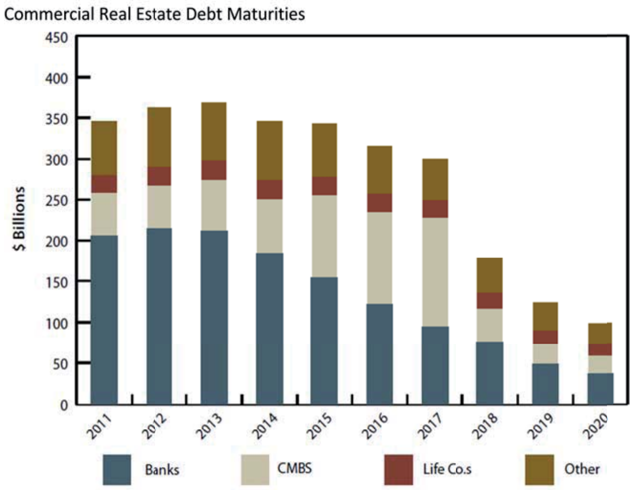


Source: CBRE Econometric Advisors as of December 2011
Shaded area indicates forecast data

Strategy Drivers

Investment opportunities in value add and opportunistic strategies are being driven by several key metrics, deleveraging, capital flows, flight to quality (core) assets and thin supply pipelines.

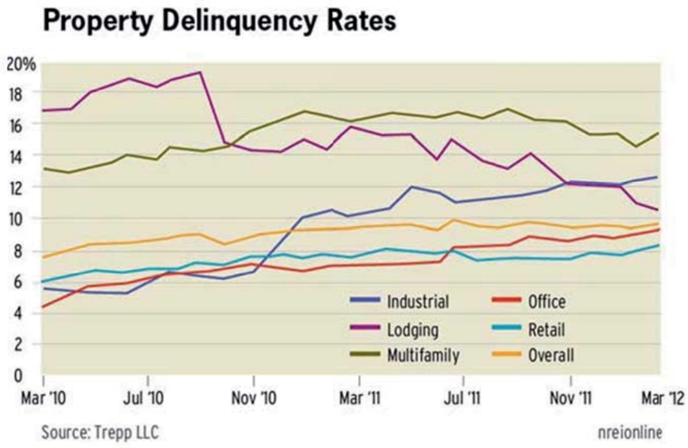
With relevance to the Fund's strategy, distressed assets arising from debt is one of the biggest issues. A looming tsunami of loan maturities from Banks, CMBS, Life Companies and others needs to be refinanced or face foreclosure. The wave of maturities will peak in 2013 and aggregate at US$1.8 trillion between 2012-2015. Many of these loans will face a difficult and protracted refinancing environment. In addition, loans that were restructured during the GFC or were extended in the hopes of better conditions will have to be reckoned with in the near term. Estimates are that this could increase the amount of target refinancing significantly. This massive systemic cycle of dislocation in capital markets provides significant opportunities for the right strategy.



Source: Trepp, LLC, 1q 2011 Update.

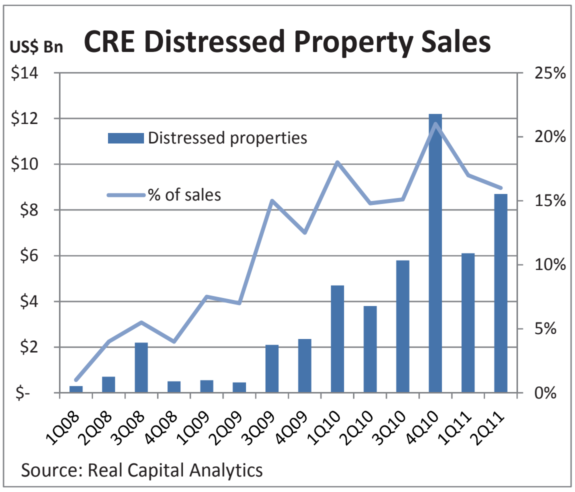
In addition to loan maturities, delinquencies in property loans are a significant issue. While delinquencies have plateaued across some property sectors, 2012 may well be a watershed year as US$55bn of CMBS matures. Of this, there is US$19bn of 2007 vintage loans which were written at the height of the real estate bubble and are generally accepted to have the weakest underwriting standards and likely to have trouble paying off at their maturity. Some industry estimates are that 60% of these will fail to refinance (up to US$11.4bn).

Zenith notes that while multifamily is currently running the highest levels of delinquency at 16%, the office sector eclipses this in terms of being the greatest dollar value contributor to CMBS delinquency. With constrained issuance of CMBS and tight credit controls from over-exposed banks, this will be a significant issue in generating distressed opportunities.



In addition to the wave of loan maturities is the problems posed by bank distress and failure. The pace of bank failures has accelerated markedly with the total number of failures at 436 since 2008. Lingering economic uncertainty and its effects also continue to weigh on many banks with the need to absorb bad loans offered during the credit explosion making them susceptible to severe problems and thus an additional source of distressed opportunities. Indeed some industry estimates indicate that another 750 banks could be at risk of collapse in the next 3 years in the absence of a strong economic uptick.

To date there has not been a significant volume of distressed assets (comparatively speaking) as lenders have taken the ‘extend and pretend’ option. This has allowed them to partially offset losses with earnings as well as providing a tempered approach to foreclosures. However capitulation is appearing as discounts began to narrow, prompting lenders to dispose of stock, particularly for non-core assets. Indicators are that disposals to date are merely the tip of the iceberg.



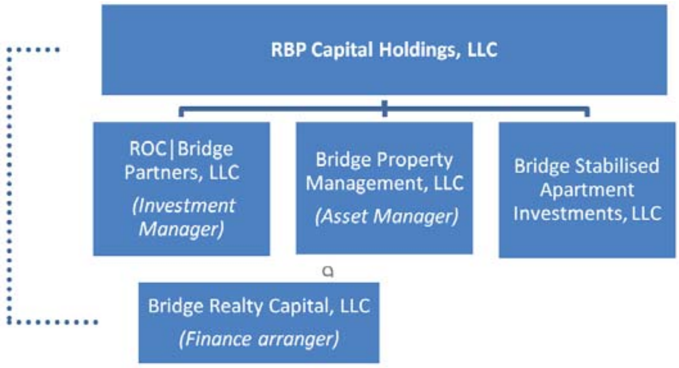
ROCBP is of the opinion that the opportunity to purchase assets at substantial discounts to replacement cost will continue over the next several years due to inventory from U.S. government agencies, failed and stressed financial institutions and other motivated sellers.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Investment Manager

ROC|Bridge Partners, LLC is a boutique U.S. investment manager specialising in real estate investment for institutional and High Net Worth clients. ROCBP was incorporated in September 2011 as a result of a merger of Pacific Finance Holdings (PFH) and Bridge Investments Group (BIG) along with other BIG subsidiaries to create a unified corporate entity under by a holding company, RBP Capital Holdings, LLC (RBPC). The original entities, Bridge Investment Group and Bridge Stabilized Apartment Investments (BSAI) were formed in 1992. RBPC is wholly owned by senior individuals of RBPC through various underlying companies.



The other related company of importance is Bridge Realty Capital (BRC) Founded in 1999, BRC is a mortgage broking and debt placement company which is partially owned by BIG, now ROCBP. BRC is expected to be the broker of choice for debt used by the Fund.

Until the launch of their first formal PE real estate fund, ROC I in 2009, real estate investments undertaken by BIG were traditionally structured as Joint Ventures or other co-investment structures with private and institutional investors with each investment typically involving a single asset. ROC I represents the first formalised fund structure for the business. To date ROCBP and associated entities have applied their investment strategies to 112 individual properties since 1992, with a combined enterprise value of US$2.2bn and current assets under management of US$926m.

ROC Bridge GP II, LLC is the General Partner (GP) for ROC II with ROC Bridge Partners LLC as the Investment Manager. The GP (and affiliates) will commit funds alongside investors of at least 2% of the total raised (the GP has currently committed US$21m based on the first close). This holding will be largely on the same terms and conditions as other investors. However the GP’s holdings will not be charged a management fee or be subject to carried interest, nor will their interests confer voting power. GP investment into ROC I constitutes over 10% of the committed capital and they are the single largest investor in this fund. Zenith sees this as an important alignment of interest when combined with performance incentives.

Overall, Zenith has been impressed with the organisation in terms of its structure and processes. Of particular note has been the impressive level of transparency embedded in the organisation in the way it deals with external investors and JV parties.

Key Personnel

Name	Title	Tenure [1]
Robert Morse *†	Chairman	19 yrs
Donaldson Hartman*†	CEO	8 yrs
Danuel Stanger *†	CIO Asset Management	19 yrs
Deal Allara *†	COO Operations	18 yrs
Jonathan Slager *†	MD Asset Management	8 yrs
Winston Chiu *†	Director - Financials & Treasury	5 yrs
Rich Stayner†	MD - Property Management	19 yrs
Matthew Degraw	VP - Property Management	10 yrs
Robert Hallock†	SVP - Assets	15 yrs
Matt Jensen	VP - Operations	6 yrs
John Pennington†	Chief Compliance Officer	9 yrs
Paul Hutchinson†	Director - Capital Markets	9 yrs
Kelley Hansen†	SVP - Assets	6 yrs
Chad Briggs	CFO - Finance	2 yrs
Adam Campbell	Controller	2 yrs
Charley Howarth	VP - Financials & Treasury	<1 yr
Tom Forster	MD - Capital markets	1 yr
Kyle Prachett	Asset Manager	1 yr
Steve Wallace	Associate	1 yr
David Frazier	Analyst	1 yr
Viola Edge	Accountant	1 yr
Adam O'Farrell	General Counsel	<1yr

[1] Tenure with ROC Bridge entities. * Denotes 'Key Man' for the purposes of Key Man Events. † Ownership stake in ROCBP.

ROCBP is a highly resourced direct real estate manager based in Salt Lake City, Utah with offices in San Francisco (Capital Raising & Operations) and Hong Kong (Capital Raising & Fund Management). In-house resources consist of over 500 employees spread out across more than 40 real estate sub-markets in the U.S. as well as head office staff. This gives the group a solid footprint although it is evident that there is a propensity to favour the western states.

Zenith views management very strongly and one in which we have a very high conviction. Senior management as listed above have an average 22 years' experience in a wide range of fields including real estate investment, development & management, private equity fund management, investment & commercial banking, mergers & acquisitions, accounting, law and other relevant disciplines. We have interviewed the majority of the investment team personally and see this as one of the most highly experienced management teams in direct real estate investment we have reviewed to date.

Senior personnel have worked with each other for many years in entities outside ROCBP due to the recent formation of this entity which represents the consolidation of several businesses within the Bridge collection of companies. When taking this into account, average co-experience of the individuals listed above working together within various Bridge entities is over 10 years. This is a highly cohesive, long running team which has suffered no departures at the senior management level.

While we see ROCBP and the investment manager as being significantly resourced, it is apparent that the current scale of operations is placing a heavy burden on the senior management team and Zenith considers that they are operating at maximum capacity. Currently ROCBP entities manages a portfolio of 112 properties of which 79 are managed for individual investors (JV's & Co-investments) and 33 in ROC I. While the properties outside ROC I are generally past the point where they require heavy lifting from management they will add to the management workload which is in addition to ROC I and II.

Given that ROC II will represent a net increase to the scale of operations, Zenith does have some concern regarding the burden this will place on a management team already operating at their peak. ROCBP has indicated that they are very conscious of capacity constraints and have plans in place to address this issue. At the senior level each of the key individuals acts in a mentor type role with a more junior staff member who works alongside in preparation for roles which will ultimately increase team depth and capacity. This will also work toward providing a measure of redundancy from an HR perspective.

ROCBP has indicated that they plan to add an additional 5-8 employees in the medium term (by mid-late 2014) and have a business FUM target of US$750-$1bn. This would represent a significant increase in FUM and as such management will need to focus on the sustainability of any forward growth. We note that ROC II is 2.7x larger in terms of commitments sought than ROC I, holding to the adage than PE funds usually more than double with each successive fund launch. Clearly capacity constraints will be a key metric to watch going forward.

Zenith notes that there is restriction on management launching other funds which somewhat aids resource management. Without the consent of the Advisory Committee, until either 75% of capital is either called or deployed or until the end of the Commitment Period, the GP, the Investment Manager and its affiliates will not close on any other investment fund that has essentially the same investment strategy (parallel or feeder funds excepted). ROCBP currently believes that by 2013, 50% of management's time will be devoted solely to ROC II, increasing to 75% by 2015.

ROC II, like most PE funds, has a key man event clause. This will be triggered if at least three of the core management team (as defined under the Key Man Event clause, refer to the Key Personal table above) are no longer actively involved in the operation of the GP, the Investment Manager, or the Fund for a continuous period of sixty days at any time prior to the expiration or termination of the commitment period. If this event occurs, the commitment period can be cancelled if a majority vote from the Limited Partners (LP's, being the investors) is given.

While the presence of such clauses is a comfort, ideally Zenith would prefer a system whereby the GP also automatically notifies LP's of any departures from the key personnel. We do note however that the significant depth of the team is a mitigating factor in this instance.

ROCBP has three key management groups; the Investment Management Committee (IMC), the Executive Committee and the Execution Team. Team structures are detailed in the chart below.

The IMC is tasked with oversight of the investment portfolio, strategy implementation and ongoing operations of the Investment Manager and the Fund and meet formally on a weekly basis. Four of the six members of the IMC are drawn from the Asset Management team with the remainder coming from the Executive Committee.

Ultimately Zenith would prefer to see some level of independent membership in the IMC as we believe that this represents best practice for fund managers. We note however that while CIO Danuel Stanger sits on the IMC and is the main driver behind presenting deals, he stands back from the voting process thus allowing the committee to veto deals. A majority vote is required for IMC approval.

It should be pointed out that while the IMC has no independent members; PE funds in general have the ability to give key investors 'a seat at the table' via Limited Partner Advisory Committees. LP Advisory Committees are composed of representatives of LP's that are appointed by the general partner. This measure does bring a level of direct external oversight from parties who have a direct vested interest in the investment fund in question.

In the case of ROC II, the Advisory Committee may provide advice on a wide range of issues regarding potential conflicts of interest, investment strategies, operating policies and other matters.

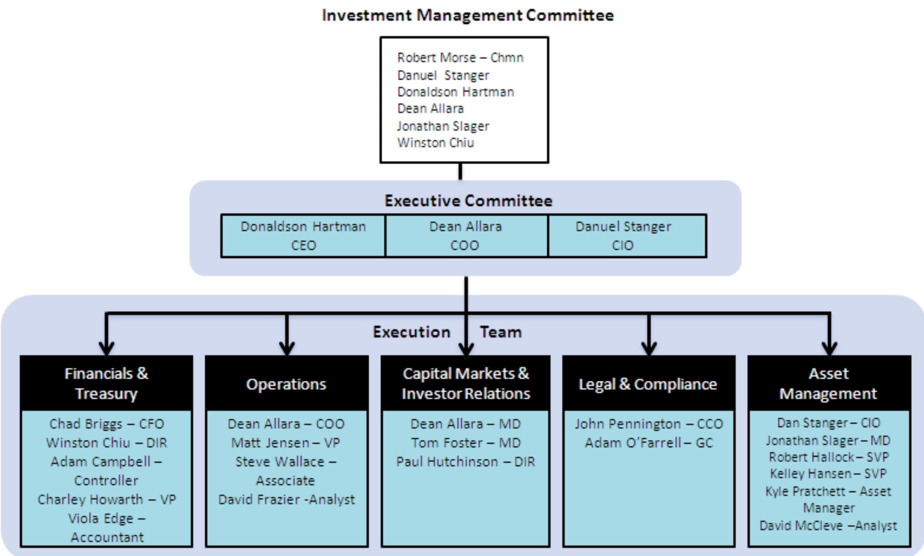
The key LP in the ROC I Fund is a global private markets investment management firm with a broad range of funds and assets in private equity, private debt, private real estate and private infrastructure. ROCBP has indicated to Zenith that the presence of this LP on the ROC I Advisory Committee has been particularly advantageous from the point of view of helping to institutionalise their processes and reporting. Zenith sees this as a key positive given that until recently, ROCBP's previous investments were more orientated to single investors rather than larger groups.

Management and team interaction is high with formal meetings carried out between the various committees and teams on a regular basis:

- Daily - Capital Markets Group, Asset Management Group
- Weekly - Underwriting & Management Committee, Investment Management Committee
- Monthly - Board of Directors
- Quarterly - Bridge property Management, Advisory Committee

The Underwriting & Management Committee (UMC) consists of all members of the Executive Committee and the Asset Management Group. The UMC is the most asset-intensive meeting of the group and drives decisions regarding management of existing assets, discussions on recommendations from the CIO and team regarding pre-screened and underwritten assets as potential acquisitions.

Of particular note, the GP provides the ability for all LP's to have regular access to this meeting either in person or remotely by internet and teleconference facilities. Zenith has attended one of these meetings in person and has been impressed both by the depth of transparency this offers investors as well as the utilitarian aspects on the management side. This high level of transparency is in addition to the GP at its discretion allowing one or more LP's to appoint a non-voting observer to the Advisory Committee to attend all meetings.



Overall, Zenith sees the management team as being highly experienced, close knit and showing strong investment discipline. The team are at their heart deep value, high conviction real estate investors, a style which has been perfectly borne out in the ROC I Fund which was launched in 2009 at the depths of market negativity in both real estate and financial markets. Zenith is impressed with their dedication to work the current value opportunities presenting themselves in the U.S. market and take the contrarian approach rather than wait for signs of market recovery and ride the market only on the visible upswing.

Asset Management

Asset management of the properties is undertaken in-house by Bridge Property Management (BPM) which is a sister company of the Investment Manager. BPM was established in 1993 and manages over 43,000m^2 of office space and more than 10,000 multifamily apartment units and have overseen the management of more than $2.5 billion in investment property. BPM manages the greater majority of ROCBP's investment portfolio (including ROC II). BPM also manages real estate holdings for other funds, institutional capital aggregators and individual private investors.

BPM has significant resources on the ground with 55 property managers, 120 leasing agents and in excess of 330 on-site service personnel. This gives BPM in depth coverage of local market conditions across a range of vital issues. BPM also have extensive capabilities in property management over a wide range of disciplines from rezoning through to full scale development as well as management, operation, rehabilitation, repositioning and refinancing of real estate assets.

As part of the value extraction process, BPM will usually place their own leasing agents' onsite as properties are reworked. Any outsourcing of this function is undertaken only if an asset was outside the effective footprint of the team or specialist enough to warrant an external agent with a better skill set and greater market experience. Letting up of assets is a fundamental plank of the value add process in order to create an asset with strong cashflow.

In Zenith's opinion, the inclusion of an experienced and market entrenched in-house team is a significant positive at it allows greater control over the whole process and increases overall alignment. It also reduces the counterparty risk of hiring outside parties to undertake physical asset management. Given the span of BPM's operations, the business also generates economies of scale in purchasing raw materials required for physical asset refurbishment.

Zenith notes that BPM is not treated as a profit centre within the Group regarding management of their own properties and therefore doesn't clip the ticket on fees. Zenith sees this as a fundamental positive as it aligns management to focus on overall investment returns rather than the potential distraction of making profits on services that erode the bottom line of the investment side. By having an in-house operator it also arguably provides greater flexibility and more efficient synergies in determining value-add opportunities at no additional cost to the Fund.

Financial Position – ROC | Bridge Partners, LLC

As ROC | Bridge Partners, LLC is a newly formed consolidated entity, little can be drawn from examination of financial information on the group as a whole. Zenith has been provided with raw data illuminating the unaudited financial year management accounts for US Financial Year 2011 (Jan-Dec 2011). ROCBP generates a high level of net income (2.8x total revenue over total expenses) but has a current ratio of <1.0. Although the business is privately leveraged (non-bank) at around 52%, Interest Cover Ratio is high at 9.5x.

On the whole, based on the information provided, the business appears to have a relatively sound financial footing however until detailed audited financial accounts become available, Zenith is limited in its ability to draw firm conclusions regarding the true financial position of the integrated company.

INVESTMENT PROCESS

One of the core philosophies of ROCBP has traditionally been a strategic objective to establish investment strategies that take advantage of market opportunities without exposing portfolios to uncompensated risk. As such, the team has proved flexible to adoption of various real estate strategies depending on prevailing real estate market conditions and credit cycles.

The core theme of the investment decision making process is matching the themes of 'right property, right place, right time, right price' with the drivers of real estate viability; management, physical condition, marketing, capitalisation and ownership objective. While being able to execute different strategies over the years, it is evident that value-add and opportunistic strategies is the mainstay of the business and the team's core strength.

ROC II seeks to provide investors with strong capital appreciation through strategies involving opportunistic acquisitions of real estate and real estate secured loans. The Fund will seek either properties which can be acquired at a significant discount to historic values and replacement cost, or are projected to be cash flow positive either immediately or after the respective work out strategy has been implemented. The Fund will also make judicious use of leverage where appropriate to leverage returns. Target return is a 20% net IRR or greater (net IRR being post applicable fees, carried interests etc.).

ROCBP seeks to target assets where;

- Purchases can be made at a discount typically between 50% and 80% of replacement cost;
- In cities demonstrating strong macro-economic prospects;

- At prices between US$10 to US$25 million (representing a less competitive market);
- Where full due diligence can be undertaken on the asset;
- That are projected to be cash flow positive either immediately or after improvements; and
- Located in growth markets with upside to market occupancy and rents.

ROCBP management sees present conditions as favourable to generate strong capital appreciation by capitalising on market mispricing of otherwise quality real estate assets which are suffering in temporary but resolvable distress. This is important as it targets buying distressed assets from motivated sellers at liquidation cost and sell the resulting stabilised assets back at market rather than pursuing low quality assets which are difficult to rehabilitate. A key factor is that these strategies will seek capital gain by reaping the margin between price dislocation arising from distress and prevailing market prices and does not rely on a broad market recovery to pre-GFC levels. Asset selection with an eye to improving markets is however taken into account.

The Fund has a relatively unconstrained investment universe within U.S. real estate markets and purchases can be either on the debt or equity side of the transaction. Emphasis however is on assets with current or near term potential income with high capital appreciation upside. While allocations to real estate debt can be made, this is only intended to be on a limited basis, generally as a play to take control of an asset if the borrower defaults (loan-to-own). Any allocations to debt are more likely to be for bridging finance deals with high risk adjusted returns. However it should be recognised that the exact strategy targeted is not as important as the risk/reward outcome. ROCBP have pursued a wide range of strategies around distressed real estate investing in the past over a variety of asset types.

Asset selection will focus on existing multifamily apartment and commercial office properties but may also diversify in other attractive segments at the discretion of the investment manager. Emphasis will also tend to be in the Western rather than Eastern states owing to greater price dislocation and market opportunities in the west and a greater base of ROCBP personnel and operations.

It should be noted that while ROC II will focus on value add and opportunistic strategies, these will be materially different from the traditional definition which is usually typified by real estate development projects that have little or no initial cashflow generation and are leveraged to high levels. For ROC II, emphasis is on opportunities that involve improved assets with existing income or those that are ready to lease. Zenith believes that this strategy is currently capable of generating the type of return levels more typically associated with pre-GFC development projects, thus offering a higher risk-adjusted return than previously available.

The location specific nature of real estate traditionally means that the investment approach is usually dictated by intense scrutiny of local factors. The Investment Manager believes that given the ROC II strategy under current conditions, location is likely to be less relevant than the motivation of sellers. Given the current distressed opportunities where frequently the vendors' liquidity position is a key driver in dislocating market prices, this is obviously a watershed period for such a strategy.

Zenith sees the merit in this philosophy providing that the approach is still overlaid with a view to real estate fundamentals. The Investment Manager are intimately aware of the fact that assets will still need to be appropriately located with supporting local drivers in order to maximise the terminal value once strategy execution is complete. Accordingly, asset selection still takes a focus on growth markets with solid macroeconomic and microeconomic factors to drive real estate dynamics.

The Investment Manager sees market opportunities stemming from four principal sources and aims to unlock value from each type:

- Asset mispricing (usually driven by liquidity issues such as inability to refinance, can also arise from bank failure);
- Geographic opportunities (can be regional weaknesses or local dislocations, can also be a tactical play on contrarian views);
- Motivated sellers (poor debt structures or excessive leverage, often government drives through regulatory impacts); and
- Property management errors (poor positioning, asset deterioration, failure to complete, abandoned by management due to extraneous factors).

The key source of deal flow for the Fund is expected to come from assets which are capital distressed. As highlighted in Zenith's Market Outlook section, there is an impending peak wave of loan maturities from a variety of sources coming due over the next 5-6 years which aggregate into hundreds of billions of dollars. The Investment Manager believes that this creates a significant level of deal flow to acquire assets at deep discounts. The Investment Manager have already been able to demonstrate the validity of this strategy in their previous opportunistic vehicle following the same strategy, ROC I.

The GP is registered with the U.S. Federal Deposit Insurance Corporation (FDIC), the Department of Housing and Urban Development (HUD), the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation to buy discounted loans in government-directed auctions or through the duly appointed vendors of such governmental agencies. The GP also has strong relationships with banks, special loan servicers, bankruptcy courts, distressed funds and private investors whose troubled assets are also being liquidated at discounts. These relationships have been forged over years of operation in the market as a known buyer of such assets.

The quality and robustness of the deal flow available is a critical component to successful outcomes. At present, the evidenced deal flow to ROC I which has been executed indicates that the bulk of opportunities have been unearthed from CMBS (24%), Banks (18%) and FDIC (18%). Of particular note, ROCBP keep a close watch on the banks which are currently a rich source of deals. Management continually assesses key bank financial metrics for stability and will actively target them for sales when they can see their position being squeezed. ROCBP CEO Don Hartman plays a key role here given his deep background as a former banking analyst and 8 years at Citigroup.

The Investment Manager have developed a clear, repeatable formula for consolidating what they see as the key success factors to enable the ROC II investment strategy. This strategy is summed up in the acronym FAAMISR; Finding, Analysing, Acquiring, Managing, Improving, Selling & Reporting. Zenith sees this in-depth process as logical and believes that it is appropriately structured to deliver results.

The strategy takes a bottom up focus on distressed deals which are mispriced. The Investment Manager identifies the source of the mispricing and the level of motivation of the seller before undertaking a full analysis of the asset, surrounding market and a business plan for the workout phase. On acquisition the asset management phase is implemented to reposition and rehabilitate the property and restructure financing. Where necessary, gains harvested from improvement to management practices (tenancy management, collections etc) will also be applied. When the asset is appropriately repositioned for sale, independent brokers are used to move the asset back into the market for an orderly sale with timing to be assessed on a case by case basis.

The assessment and underwriting process is driven by income and expense assumptions looking forward 3 to 5 years in duration. The Investment Manager aim to maximize the income stream of each asset over time and to exit assets based on a mature, stabilized net operating income in that time horizon. The combination of producing an asset with a stabilised mature cash flow with built in rent growth and a return to more typical cap rates reflective of their historical medians is expected to drive superior risk adjusted returns for the Fund.

Management have emphasised that a key focus is a quick exit where possible once a property's mature potential is reached. This is appropriate for value-add and opportunistic strategies as it tends to boost the IRR. Management have however acknowledged that if a market was rising strongly they would consider staying in but only in the context of the overall IRR target and attendant risks.

While divestment of assets is the last step in the process, management ensure that where possible a clear exit strategy is in place before acquisition in order to maximise investment value. Zenith notes that management's first fund ROC I had profitably divested a number of assets even before the fund closed to final capital commitments. This speaks volumes about management's clear strategy planning in adding value as well as the discipline to execute.

ASSET SELECTION

The Fund will target assets in both urban and suburban locations of the major metropolitan areas that have a reasonable prospect of a recovery in underlying demand in the mid-term. Physical assets are most attractive when they have the flexibility to appeal to a broad spectrum of users and can be acquired at values deeply below their replacement cost. The GP has stated that they will avoid properties which present unworkable functional obsolescence, but may invest in any of the real estate sectors as opportunities present themselves.

Being a mature operator in distressed asset investment, ROCBP is already well recognised in the marketplace and as such (particularly given the current environment) has a relatively wide deal flow pipeline. ROCBP have stressed that their presence in the market creates a significant advantage in winning acquisition bids as the market has come to recognise they bid on assets with capital behind them as opposed to many parties which are often dependant on finance which they then can't secure.

As part of assessing the deal flow, The Investment Manager reviews between 50-75+ investment proposals per week. These deals are sourced from their expansive network of real estate agents, government entities, loan servicers and banks. Usually only 1 or 2 of the most attractive proposals received each week are typically presented to the Investment Management Committee.

While the overall analysis process is consistent, there are two distinct asset types that the Fund will pursue, physical real estate and Asset Backed Loans (ABS) which are secured by real estate.

For real estate, once initially screened and preliminary due diligence and underwriting are complete, the deal is submitted to the IMC for preliminary approval. Once preliminary approval is secured the IMC will advise the GP. Upon receipt of approval from the GP, a letter of intent will be provided to the seller and the purchase agreement negotiated. Upon completion of this negotiation, CIO Dan Stanger and the management team will be assigned the task of completing the final due diligence process. That follows the letter of intent.

When evaluating ABS loans management will uses the following steps:

- Assigning a fair market value of the underlying asset
- Understanding the legal enforceability of the loan documents;

- Calculating the cash flow and liquidity of the underlying asset;
- Understanding the quality and financial condition of the borrower; and
- Developing the exit strategy.

Management will target only loans that can be fully paid (or restructured on terms with acceptable yields), carry terms which can be serviced by borrowers; and have real estate collateral which can be foreclosed and sold in a reasonable time frame. Management has indicated that while it will undertake deals of this type for the fund the majority of the book is expected to be real estate backed rather than ABS.

Following the standardised investment process (FAAMISR), during the preliminary stages two or three of the management team will be involved in the due diligence process. Once an asset has progressed to the point just prior to going under contract, the entire asset management, property management, and legal teams become involved.

Management will conduct on-site visits of assets at least twice before closing a deal and monthly once the asset is owned. All key principals on the asset team and property management team visits the site at least once during ownership and generally more often as the workout process develops.

Property management of the assets will be primarily undertaken in house by BPM. In such cases where assets may be purchased outside the effective jurisdiction of BPM, ROCBP will make use of appropriately qualified and experienced property management partners.

PORTFOLIO CONSTRUCTION

Owing to the nature of the Fund, much of the work goes into sourcing the right investments and undertaking the right management plans. Portfolio construction has not played a major part in managements' previous experiences owing to the propensity of undertaking individual deals on specific (usually single) assets. It should also be noted that given the opportunistic nature of the fund as well as the private equity structure, the traditional aspects of portfolio construction are not as applicable as with more traditional investment funds.

The primary portfolio construction for ROC I & II is based around blending of each property's cash flows (performing vs. non-performing) to smooth out the return profile where possible. This approach is also taken with regard to the total expected returns across the portfolio with reference to the minimum 20% net IRR target.

Tailoring of the cashflows can also be undertaken within individual assets, particular multifamily. During the refurbishment process, often the works will be staged to minimise disruption and get cashflows started quicker. Multifamily can also be split into different grades of refurbishment to a certain end quality which widens the market appeal.

OPERATIONAL DUE DILIGENCE

RISK MANAGEMENT

Risk management parameters are relatively unconstrained within the Fund aside from limitations relating to no non-North American investments and the use of leverage (maximum 75%). Assets may include physical real estate assets, debt, equity or any other collateralised instruments backed by real estate in any sector.

The Fund has guidelines around minimum diversification limitations where it is intended not to invest more than 15% of the Fund in any single investment. However, in the limited circumstances the Investment Manager can invest up to 25% in any one investment if the GP believes that such an investment can be reduced to no more than a 15% allocation within two years from the date of the initial investment.

ROC II will not be hedged. Current US/AUD exchange rates represent a significant statistical deviation on longer term values and Zenith believe that over the longer term a reversion to the longer term mean is the most likely scenario. Investors concerned about hedging risks may find it possible to create their own 'dirty hedge' by investing in U.S. currency to offset FX effects. Overall, Zenith is of the opinion that lack of fund hedging is not a major concern and we would prefer to see investors manage their own currency risk in this instance and have The Investment Manager retain their focus on real estate which is their core strength.

One of the traditional risk tools used by real estate investors is visibly missing from the managers' tool box, use of external valuations. The Investment Manager have indicated that regular independent valuations of assets will not be undertaken and instead detailed internal valuations will be used on an asset by asset basis. Although unconventional and less transparent, Zenith concurs with this approach in this instance.

Given the role of the Fund as a relatively short term, deep value investor in a fund structure which is wholly illiquid, we see the cost of independent valuation on such a large portfolio to be an unreasonable drag on returns. With the quick exit focus of the strategy where some investments can be exited in as little as a year, we accept that formal valuations are not as necessary as opposed to core 'long only' vehicles who need to have regular unit pricing. Also, Zenith has examined managements' internal valuations and believe they are sufficiently detailed with robust methodologies to act as a reasonable proxy.

Prior to the formation of ROCBP, BIG ran investments through a series of JV's and co-investment opportunities with a variety of institutional and private high net worth investors. Typically each deal was based around a single asset. Going forward, all investment opportunities sourced by the Investment Manager during the investment phase will be destined for ROC II as the private deals structure will be largely abandoned going forward. This concentrates management's attention on the fund at hand, which we see as a positive. Zenith notes however that if a large, quality opportunity is uncovered that would breach the diversification limitation imposed on the Fund, the manager has the opportunity to JV this asset between the Fund and an outside investor.

We see this as having benefits in two ways. Firstly, it means the Fund can access quality opportunities that it would otherwise be forced to pass over due to size limits. Secondly, ROCBP has indicated that any proportional carried interest earned by the GP during the course of facilitating a JV between an external investor and the Fund will become property of the Fund, adding to revenue generation. We see this action as highly appropriate given the Fund is supplying part of the capital in such instances.

STRUCTURE

ROC II has a fairly typical PE structure. The investment period is 6 years in total from capital commitment with a 3 year investment period and 3 year harvest period. The fund may be extended by up to 2 consecutive 1 year periods. Zenith notes that this is shorter than most PE real estate funds, driven by managements' short term tactical strategies. During the investment period profit will be distributed and committed capital reinvested. During the harvest period profit will be distributed along with committed capital. Investors must contribute 5% of their capital commitment at the time of their subscription.

Capital calls may be made at any time during the commitment period (1st 3 years) with 10 business day's notice. Past this point, LP's are released from further obligations regarding undrawn capital except under certain conditions. These conditions include outstanding fees, follow-on investment or debt repayments.

Summary of Key Terms

Partnership	Real Estate Opportunity Capital Fund II LP
General Partner	ROC | Bridge GP II, LLC
Investment Manager	ROC | Bridge Partners, LLC
Fund Size	Target US$375m (Max. US$500m)
Minimum Commitment	US$1,000,000
General Partner commitment	A minimum 2% of total capital
Commitment Period	3 years from initial closing
Target Return	20% or greater net IRR
Term	6 years from initial closing, may be extended for up to 2 consecutive 1 year periods
Distributions	Quarterly [1]
Preferred Return (Hurdle rate)	9%
Carried Interest	20% on realised profits
Management Fee	2% p.a. [2]

[1]The GP will only be required to make income distributions once they exceed $3m and capital distributions from divestment once it reaches $15m.

[2]Based on total capital commitment during the commitment period and on capital under management thereafter.

Taxation

Non-US investors are subject to U.S. withholding tax on rental income (FDAP) and capital gains (FIRPTA) generated by the Fund. Australian investors are entitled to discounted withholding tax rates by virtue of the U.S. – Australia tax treaty. Treaty reductions reduce the withholding tax on portfolio interest payments to 0% and rental income to 15% for all investor types. U.S. withholding tax on capital gains varies based upon the profile of the investor. For individuals and trusts (which have Individuals as beneficiaries and are accepted as such by the U.S. Internal Revenue Service - IRS) it is currently 15% rising to 20% at the end of 2012. For non-individual investors it is currently 35%. Corporate investors may also be subject to an additional 5% Branch Profits Tax on residual capital gains. The Investment Manager is required to withhold the appropriate amount of withholding tax for submission to the IRS.

Investors will receive Foreign Tax Offsets (FTO) for the U.S. withholding tax paid. Corporate investors will also receive an FTO for any Branch Profits Tax paid. In Australia, an investor's tax obligation to the Australian Tax Office will be calculated on the gross rental and capital gains generated by the Fund. The Foreign Tax Offsets can then be used to meet all or some of the Australian tax liability. If surplus Foreign Tax Offsets result, these may be applied against any other foreign sourced income or capital gains.

The Australian Distributor of the Fund, Spire Capital, has produced, in conjunction with Allen & Overy as the Australian tax advisor, a tax matrix for Investors. This matrix shows that for most investors the after tax position is much the same as had the returns been generated in Australia. Where this is not the case, surplus Foreign tax Credits are available for use. As the Fund is a Limited Partnership structure, Investors are required to file U.S. Federal tax returns and State tax returns for states in which properties are owned. The U.S. tax year ends 31 December. The Investment Manager and Australian Distributor have developed a support framework to facilitate this process for Investors if required.

Taxation implications relating to an investment in the Fund have not been assessed by Zenith as taxation is a specialist field. Zenith have assumed for the purposes of this report that an investor invests directly into ROC II and no fund structuring or alternate entry mechanisms such as feeder or parallel funds has been taken into account to mitigate the effect of U.S. taxation laws for foreign investors.

Zenith understands that there are different structures which may be used to present a more attractive taxation aspect of the Fund for different investors. Zenith recommends that investors seek independent advice regarding taxation and legal aspects of an investment in the Fund.

Operations

Deloitte & Touche (Deloitte) and Cortland Capital Market Services LLC (Cortland) have been respectively appointed as the Fund's auditor and fund administrator.

Deloitte is a member firm of UK private firm Deloitte Touche Tohmatsu Limited, a global financial services firm with more than 182,000 people in over 150 countries. ROCBP's relationship with Deloitte commenced in 2009 with their appointment as auditor of ROC I.

Cortland is a independent investment servicing company providing fund administration, commercial bank loan servicing, securitization services, and middle-office support to financial institutions including proprietary trading and alternative investment managers, banks, and commercial lenders. Cortland has been a servicing provider for ROCBP and BIG for several years.

Financial controls for the Fund are relatively straight forward. Unencumbered cash sits in a holding account with Wells Fargo (who is the Fund's Custodian) with reconciliation reported quarterly. BPM collects property rents with each individual property held as a separate company with separate accounts.

In addition to internal compliance personnel, ROCBP utilise the services of third party consultants CWI Compliance (CWI) based in California. With the move to a more sophisticated fund environment, ROCBP intends to use CWI to implement a more robust compliance training environment within the firm.

Debt

The Fund will utilise leverage as part of the investment strategy. The level of leverage undertaken is dependent on the ability of each property to generate cashflow. Typically The Investment Manager expects leverage will range between 60 – 65% LVR with a maximum of 75% (ROC I is approximately 65% geared). The Investment Manager ensures that matching of the timing of the debt is done to the property's cashflow property's ability to service debt to ensure that each property has a healthy debt coverage ratio upon stabilization. Debt will not be cross collateralised on individual acquisitions however some acquisitions may consist of more than one asset in the transaction. This is however expected to be relatively rare. Ideally, Zenith would prefer to see some form of hard limit around the level of interest coverage required, particularly if assets are being held for longer periods.

Borrowing will be undertaken in U.S. dollars so the Fund will not be exposed to currency risk however Australian Investors themselves will be. Zenith generally advises caution regarding use of leverage on real estate assets when pursuing value-add strategies. However the use of leverage in a market which has already experienced a significant price correction is generally likely to be less risky than in a market experiencing strong upward momentum where the likelihood of a price reversal is potentially greater. Overall we believe that The Investment Manager are experienced enough in the application of debt to real estate assets in these strategies to maintain a prudent approach owing to their long experience using this tactic through various interest rate cycles.

RETURN STRUCTURE & FEES

Returns			
Priority	**Details**		**Received by**
1st	Return of capital	100% + costs to the LP	LP
2nd	Hurdle rate (Preferred Return)	9% p.a. cumulative compound	LP
3rd	Carried Interest (GP Catch-up)	80% to GP, 20% to LP until GP receives distributions equal to 20% of investment proceeds distributed net of fees, costs and carried interest.	LP/GP
4th	Carried Interest (Profit share thereafter)	80%/20% split to the LP & GP respectively	GP

Fees	
Annual management fee	2% of total capital commitments prior to the end of the commitment period and 2% of Capital Contributions thereafter of assets remaining (not yet disposed of).
Performance fee	20% as per carried interest above.

Fee structures adopted for the Fund are similar to those seen as relatively standard for the industry. While high in comparison to more mainstream managed funds, PE strategies require a high level of skill in order to generate outperformance and as such engender a high level of management fees.

While the fee structure is a relative 'industry standard' there are some aspects which Zenith would ultimately prefer seeing changed.

ROC II's hurdle rate is set at 9% which is roughly in-line with industry standards for PE real estate funds which tend to see hurdles average around 8%-9%. In our view, returns hurdles should reflect the long term return outlook for the real estate market, adjusted to reflect leverage and strategy. Zenith believes that the industry as a whole tends not to place enough emphasis on this issue. We do note however that the GP has increased the hurdle by 1% between ROC I & II to better reflect market rates. This evidences a greater level of thinking about returns hurdles than some other managers we have seen in the past who seem to have a 'set and forget' mentality.

Carried interest of 20% on realised profits is probably reasonable in most cases if the hurdle and catch-up are well designed. However the carry for the Fund is not vested to management over the longer term which we see as a generally more appropriate structure for aligning interests.

The management fee will be levied on uninvested cash at the outset which will add to the ‘J curve’ effect, delaying fund returns. Zenith would ultimately prefer that fees only be charged on deployed capital (phased in).We do however support the fact that the fee scales back as assets are divested which is not always a feature of funds of this type (phased out). We are strongly in favour of the management structure being based on equity capital rather than total assets as this can lead to the temptation of imprudent gearing to generate higher fees.

We also favour that there are no other additional fees for other services (transactions, auditing, valuations etc.) which tends to be a sticking point of many other PE type funds in general. We do note however that some related party transactions may be entered into with affiliate entities to which fees for service may be charged and will not be subject to independent oversight.

The management fee set at 2% is generally aligned with other PE real estate funds, albeit slightly higher than average. Ideally, Zenith would prefer that management fees be charged ‘at cost’ rather than at a flat rate which can contain an element of profit in the calculation, particularly when profit sharing structures are already in place.

Lastly, we would prefer to see a waterfall structure in the carried interest where the LP receives all its capital, costs and the preferred return before the GP receives it carry.

It should be noted that most of Zenith’s comments regarding the appropriateness of fees are aimed at the PE industry at large and that we are not specifically targeting the GP. We recognise that high calibre investment management professionals need to be appropriately rewarded but we favour the most appropriate structure that best serves all parties interests while doing so. Based on the nature of the Fund, Zenith believes that the total fee load is generally comparable to peer group vehicles.

PERFORMANCE ANALYSIS

Given this is a new fund which as at the date of this report has not yet fully deployed funds and the nature of PE funds generally, detailed asset analysis is not possible. While most asset classes retain the opportunity for investment in a passive (beta) version, PE funds do not have a passive investment path with risk and return characteristics which are a proxy for industry performance and returns analysis/ benchmarking. As such the analysis of past performance in direct PE funds presents several unique challenges. Returns are absolute, generally having no relative benchmark and by nature are sporadic and irregular.

As a result the examination of PE fund returns requires measures divorced from traditional equities analysis methods. Zenith uses three measures of analysis relative to performance, a Total Return Multiple on investment, an Internal Rate of Return and a Public Market Equivalent, details of which are explained below. Zenith has not attempted to rank ROCBP’s past investments on a relative basis against peer funds, a popular performance measure. This is due to the fact that we are not confident in the use of such measures owing to the high risk of survivorship bias in private equity funds generally.

TOTAL RETURN MULTIPLE

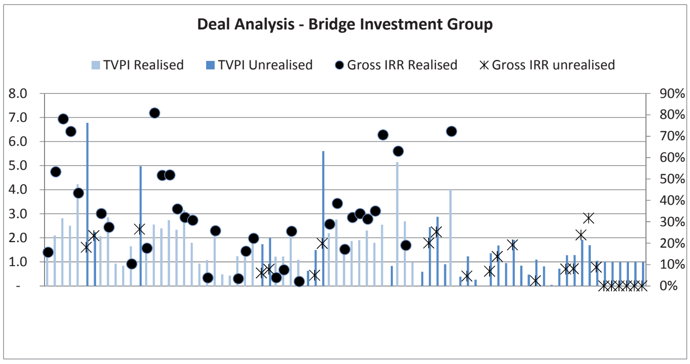
The Total Return Multiple (TRM) is a measure of the value of an investments net return as a multiple of its cost. TRM can be calculated in three different ways, Distributed Value to Paid In ratio (DVPI), Residual Value to Paid In ratio (RVPI) or Total Value to Paid in ratio (TVPI). The difference between DVPI and RVPI is the basis as to whether investments have been fully realised or not, with TVPI essentially being the sum of the two.

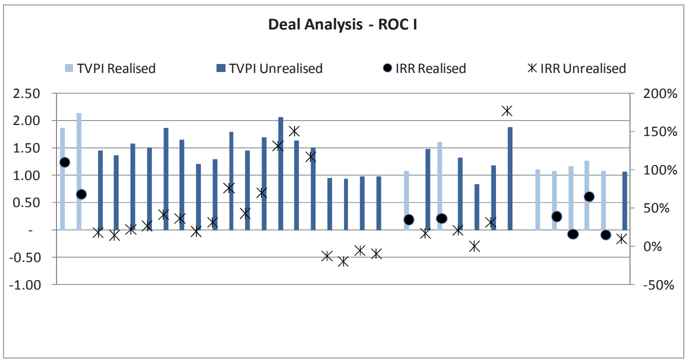
Since inception of ROC I in March 2009, TVPI is 1.25x to 31 March 2012 (net to investor). While this would not be considered a high multiple, this fails to take into account the time taken to achieve this result. Given the speed with which reworking of the assets has been achieved (particular for assets already realised), this boosts the IRR considerably. As an extreme example, one of the assets in ROC I returned a TVPI of 1.1x from an investment period of 12 days, equating to a net IRR of over 1,700% (Note: Zenith has not included the IRR for this deal in the chart opposite owing to resulting scale distortion). This would be somewhat atypical of the Fund strategy as this is essentially a ‘flip’, but it highlights the difference between use of multiples and IRR’s. Across the BIG portfolio since 1992 to 31 December 2011, average TVPI was 1.8x.

INTERNAL RATE OF RETURN

Results for individual deal IRR’s are predominantly positive, with a raw average (unweighted) IRR of 19.8% across all realised BIG deals. The spread of individual results clearly shows the presence of plenty of ‘home runs’ lifting the average (more than one in 10 deals have crystallised a gross IRR >40%) but there is clear evidence that these superior outcomes carry the underperformers. This is important for the ROC funds as under BIG’s investments where investors where wholly exposed to a single deal, the risks are obviously much higher. Deal vintages in the following charts run left to right, oldest to newest.

For the ROC I Fund, the net IRR to date on realised and unrealised assets is 20.4%. This is in-line with the fund net IRR target of >20%.





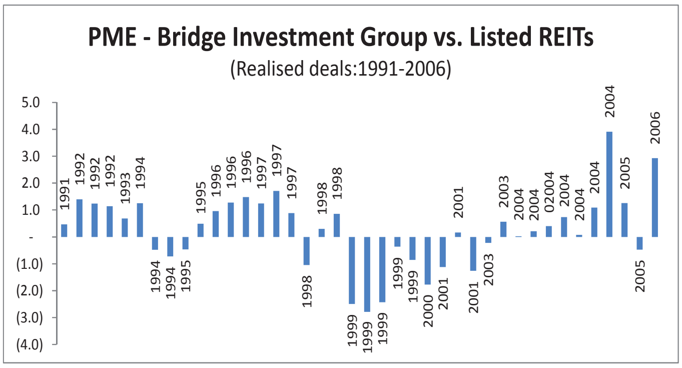
Realised investments	Return Multiple	Net IRR
ROC I (19/3/09 - 31/3/12)	1.5x	21.6%
Bridge Investments Group (17/7/92 – 30/9/11)	1.8x	21.8%
Total investments		
ROC I (19/3/09 - 31/3/12)	1.3x	20.4%
Bridge Investments Group (17/7/92 – 30/9/11)	1.5x	16.8%

Overall Zenith considers these results to be robust considering the higher risk strategies being enacted. While results above evidence that some deals have a negative IRR, the vast majority of these represent as yet unrealised projects which have yet to return any capital. On a look through basis, only 5 of their 50 realized investments have resulted in a negative IRR, an impressive result. In cases where results have fallen short of expectations, ROCBP have been open in discussing the causes and these discussions have not undermined our opinion of their overall capabilities.

PUBLIC MARKET EQUIVALENT

The use of a Public Market Equivalent (PME) is to judge performance of PE funds in a relative sense. Given that PE investments are long term and illiquid and arguably should incur a risk premium to public equity, PE returns should ideally exceed that of suitably appropriate public equity market benchmark. While the calculation and application of PME's have several approaches, for Zenith's purposes we are taking the simpler approach of a PME to be the ratio of the fund return against a public equity return for a specific period, allowing for cashflow movements as necessary.

A PME score >1.0 means that a PE investment exceeded that of the public equity investment. For our public investment data, Zenith have measured against the FTSE NAREIT Composite Index (a broad spectrum US listed REIT index). Each data point in the PME Chart below represents a realised asset (single investment) from BIG deals measured against the equivalent REIT returns over the same period. As an example, for the first deal in the chart (vintage 1991, far LHS), this represented a TVPI of 2.10x vs. 1.64x from the public index over the same timeframe, thus outperformance is 0.47x. Ultimately, it can be seen that there have been periods where ROCBP's deals have underperformed the public market. This however must be taken in the context of each deal standing alone with no pooling of results (ROC I has 33 'deals', ROC II is expected to be significantly larger) and the fact that few of the individual deals returned an actual negative result. In aggregate realised deals have scored a 'win rate' of 65% against the public market.



POTENTIAL FOR RETURN BIAS

The information Zenith has relied upon in assessing past performance potentially biases these results and care should be taken in their interpretation to the following issues.

Gross & Net IRR's

Track record data for BIG is based on gross IRR's which are pre applicable fees, costs and carried interests. Net IRR information has been unavailable owing to the length of time this information stretches back over and complex nature of the individual agreements around JV's and co-investments. Accordingly this data must be treated with caution. Net IRR is however used for ROC I.

Realised vs. unrealised transactions

Some of the data (both for ROC I and BIG), represent returns assumed on as yet unrealised transactions. In such cases we note that ROCBP use liquidation values rather than 'as if complete' or other forward looking equivalents and so Zenith has confidence that this approach is not necessarily without merit. Caution in interpreting these results if of course warranted.

It should also be noted that under U.S. Generally Accepted Accounting Principles (GAAP), investments less than 6 months old must be held at cost. This holds back stated numbers for ROC I as some of the last deployment of funds cannot show any uplift.

Effects of leverage

The majority of assets reviewed are leverage to some degree and this does alter the scope of returns. Given that real estate is by nature capital intensive and skill in applying appropriate leverage is in itself an art form when dealing with these strategies, Zenith has elected not to strip out the effect of gearing.

Looking forward, it should be remembered that while there is evidence to point to the persistence of returns phenomena in PE managers, past performance is still no reliable indicator of future returns.

ROC II – Current Portfolio

As at the date of Zenith's report, management have already purchased a series of assets and has purchase contracts out on several more. The following table provides a brief snapshot.

ROC II - Deals to Date

Property	Location	Sector	Purchase Price (US$)
La Jolla Champions[1]	Houston, TX	Multifamily	$6,860,000
Andorra[1]	Indigo, CA	Multifamily	$12,025,000
Mission Falls[2]	Houston, TX	Multifamily	$7,000,000
West Town Court[1]	Pheonix , AZ	Multifamily	$21,646,000
Autumn Lakes[2]	Houston, TX	Multifamily	$7,250,000
Autumn Chase[2]	Houston, TX	Multifamily	$5,450,000
1700 W. Loop[2]	Houston, TX	Office	$36,500,000
Pinewood[1]	Lynnwood, WA	Multifamily	$17,075,000
La Entrada/Monterra[2]	Alburquerque, NM	Multifamily	$33,000,000
Total			**$146,806,000**

[1] Sale settled [2] Contract pending.

Zenith is of the opinion that these assets are broadly representative of acquisitions made in the past by ROCBP entities and adhere to their investment themes and strategies. ROCBP has indicated that these assets are already generating a gross yield of 7.0% which is expected to rise to 9.2% in year two. While obviously the final portfolio composition cannot be known, we feel this is a solid start and gives us a higher level of conviction in the Fund as Australian investors will have the opportunity to avoid going into a blind pool investment, which is typical of private equity structures.

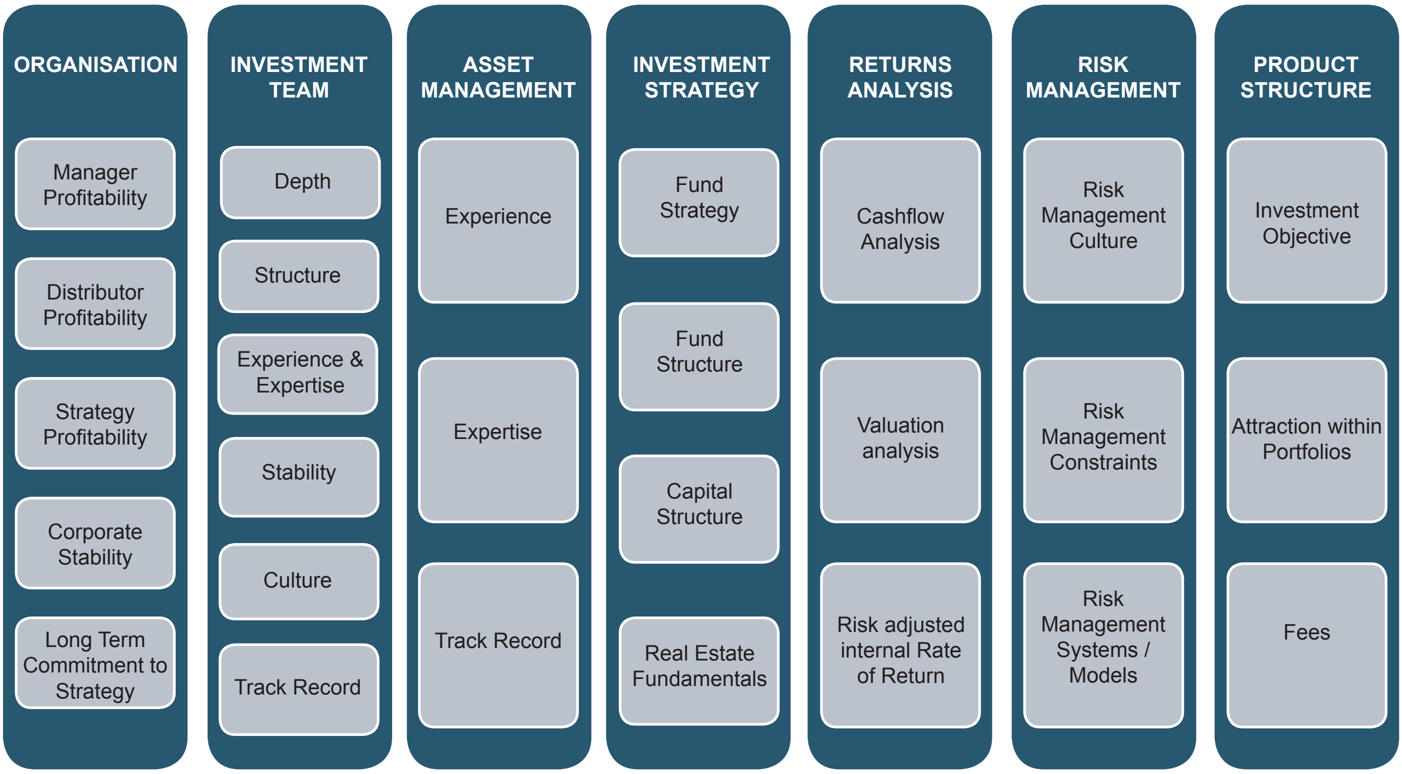
DUE DILIGENCE

Zenith has relied upon information contained in the Private Placement Memorandum (PPM) dated 10 January 2012 and Supplementary PPM dated 30 March 2012 as well as other documents supplied by the manager. Zenith has also carried out its own independent inquires. In March 2012 a representative of Zenith physically inspected a wide range of U.S. properties currently operated by the Investment Manager in similar managed investments. Zenith has held discussions with a number of representatives of the Manager during this period. There were no issues apparent from a physical inspection of the properties, or from discussions with the Investment Manager that would have a detrimental impact on an investment in the Fund, other than those identified in the offer document or other material received or identified in this report.

METHODOLOGIES & DISCLAIMER

Ratings Methodology

Zenith's ratings are based on the output of a proprietary scoring model. This model and its broad factors are shown in the following diagram. Please note we do not disclose the weightings of factors and sub-factors change for each sector. This information should be used as a guide only.



Ratings Bands

Based on the scores assigned by Zenith's analysts for the above mentioned proprietary scoring model, a rating of Highly Recommended, Recommended, Approved or Not Approved is applied to all funds that have undergone full due diligence by the Zenith research team. As shown in the following table the ratings are determined based on the overall score out of 100. Funds may also be screened prior to conducting full due diligence based on qualitative or quantitative concerns as Zenith's research model aims to focus on the best investments in each sector.

Rating	Scoring Output (%)	Zenith view of standing within peer group (guide only)	Confidence in meeting objectives	Zenith Recommended List
Highly Recommended	>80	Top Decile	Very High	Yes
Recommended	>70-80	Top Quartile	High	Yes
Approved	>55-70	Above Median	Moderate	No
Redeem	=<55	Below Median	Low	No
Other Ratings				
Not Approved	In most cases these funds have failed a preliminary quantitative or qualitative screen which leads us to believe the fund will not achieve the minimum threshold required to receive a Recommended rating or above. In some cases funds may have passed the filter but managers declined the opportunity to be rated.			
Under Review	The fund rating has temporarily been placed under review due to qualitative and/or quantitative issues that need to be addressed by the Zenith Research Team.			

ABSOLUTE RISK RATING

The Absolute risk rankings should be viewed as a guide to potential capital volatility (in both gains and losses) of the relevant investment strategy (Zenith Asset Class / Sub Asset Class classification) of this product. A number of factors have been considered in setting this risk level. For liquid asset classes, we have typically used the underlying historical return volatility of the product's benchmark if the benchmark is a reasonable proxy for returns for this strategy. Where the risk of an investment cannot be reasonably estimated by historical benchmark return analysis, we have made a qualitative assessment of absolute risk and considered factors such as illiquidity risk, transparency, strategy risk, operational risk etc.

VERY HIGH	Funds classified as Very High risk are exposed to sectors with very high historical absolute volatility (16+% p.a. plus standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Very High absolute risk level.
HIGH	Funds classified as High risk are exposed to sectors with high historical absolute volatility (8-16% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a High absolute risk level.
MODERATE	Funds classified as Moderate risk are exposed to sectors with moderate historical absolute volatility (4-8% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Moderate absolute risk level.
LOW	Funds classified as Low risk are exposed to sectors with low historical absolute volatility (2-4% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Low absolute risk level.
VERY LOW	Funds classified as Very Low risk are exposed to sectors with very low historical absolute volatility (<2% p.a. standard deviation over 20 years to June 30, 2011). Where the risk of an investment cannot be reasonably estimated by historical return analysis, we have considered a range of qualitative risks in assigning a Very Low absolute risk level.

RELATIVE RISK RATING

The relative risk rankings should be viewed as a guide to the relative risk of a product within its sector. The relative risk levels are listed from high to low and are intended to provide some insight into the potential divergence of the investment's return profile relative to its assigned benchmark.

RATING & REPORT DISCLAIMER

The Zenith Investment Partners ("Zenith") ABN 60 322 047 314 rating referred to in this document is limited to "General Advice" (as defined by section 766B of Corporations Act 2001) and based solely on the assessment of the investment merits of the financial product on this basis. It is not a specific recommendation to purchase, sell or hold the relevant product(s), and Zenith advises that individual investors should seek their own independent financial advice before investing in this product. The rating is subject to change without notice and Zenith has no obligation to update this document following publication. Zenith usually receives a fee for rating the fund manager and product against accepted criteria considered comprehensive and objective.

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