Zenith Investment Partners

Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

Spire USA ROC Seniors Housing and Medical Properties Fund (AUD)

Rating issued on 20 May 2014

APIR Code
ETL0412AU

Asset Class
Property

Sub-Asset Class
Direct

Investment Style
Value Add

Investment Objective
To seek and generate income and capital appreciation by investing in US healthcare real estate with a focus on Seniors Housing.

Zenith Assigned Benchmark
FTSE EPRA/NAREIT Developed Rental Index Net TR AUD (Hedged) - Composite

Key People
Robb Chapin
CEO

Rick Steinberger
COO, Head of Asset Management

Phil Anderson
CIO

Dean Allara
Investment Committee

Donaldson Hartman
Investment Committee

Robert Morse
Investment Committee

Jonathan Slager
Investment Committee

Investment Team Size
15

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VIEWPOINT & RATING

The Spire USA ROC Seniors Housing and Medical Properties Fund (AUD) (the Fund) offers Australian investors access to a private equity style real estate fund domiciled in the U.S. via a Parallel Partnership. This Parallel Partnership allows the Fund to invest in a portfolio of assets alongside a Main Fund, the ROC Seniors Housing & Medical Properties Fund LP (ROC Seniors). ROC Seniors will seek to acquire a portfolio of healthcare real estate located throughout the United States and will focus on the retirement sector, specifically independent living, assisted living and memory care facilities. The portfolio may also include skilled nursing facilities and continuing care retirement communities (collectively referred to as "Seniors Housing"). ROC Seniors was launched in November 2013 with its first close in February 2014 and to date has raised US$89m in investor equity with a target raising of US$450m. **Zenith rates the Spire USA ROC Seniors Housing and Medical Properties Fund (AUD) HIGHLY RECOMMENDED.**

Similar to many developed nations, the US is entering a phase of significant demographic expansion of retirees with associated higher requirements for infrastructure to service these needs. In addition to the demographic shift associated with the 'Baby Boomer' generation, a key thematic is the increasing prevalence of dementia related conditions requiring specialist care combined with the mismatch in supply of stock to service these needs. These issues are also increasing underpinned by the acceptance of older generations to seek available care as opposed to staying in their own homes.

ROC Seniors Investment Manager is ROC Seniors Housing Fund Manager, LLC (RSH). RSH has been formed as a partnership between Bridge Investment Group Partners, LLC (Bridge) and Servant Capital Group (SCG). Both Bridge and SCG have extensive credentials and experience in private equity real estate transactions and management across a number of property asset classes including Seniors Housing. The Fund is offered through an Australian distributor, Spire Capital in a managed investment scheme structure. The Fund will have a term of up to 10 years and will be illiquid.

Given the relative difficulty for Australian retail 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 the Fund to appropriate investors as being a quality opportunity. In addition, this market thematic has not traditionally been a strategy easily actionable in a diversified platform in Australian markets (particularly in an unlisted REIT) and virtually impossible in offshore markets. Management's depth of talent and experience is significant and they are specialists in this niche field. Zenith views RSH as highly skilled and a team in which we have solid conviction. Zenith sees this opportunity as potentially highly attractive for investors with a high risk tolerance although we advocate constrained exposure in a well balanced portfolio.

FUND FACTS

- Gives access to a U.S. private equity real estate fund targeting Seniors Housing for a fixed 10 year term. Returns are currently unhedged.
- Whilst portfolio cash flows are dependant on individual resident occupancy, asset performance is strongly dependent on the quality of service delivery provided by third party Seniors Housing operators.
- Management have a deep skillset in this niche asset class as well as significant experience in funds of this type with an impressing track record.
- ROC Seniors has already begun to deploy initial funds across 5 assets, removing some of the traditional 'blind pool risk' associated with private equity funds. Target is 75-100 properties.

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** (selected)

INVESTMENT TIMEFRAME

1-2 YRS | 3-4 YRS | 5-6 YRS | **7+ YRS** (selected)

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

Unlisted Direct Real Estate

Unlisted direct real estate investments encompass a range of risk/return profiles depending on the portfolio assets and fund strategy. Typically investment into unlisted real estate exhibits lower volatility than other asset classes and weak returns correlation. This is largely driven by the low liquidity of such assets 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 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 stabilised assets to opportunistic real estate development. Stabilised portfolios have existing, tenanted assets and tend to produce low volatility income streams with small to moderate capital growth. Value-add and opportunistic strategies are higher risk, often involving real estate development or assets with delayed or impaired cash flows. It should be appreciated that even within stabilised strategies a wide range of risk/reward scenarios can be manifested. 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. The asset class is considered to pose moderate to high risk characteristics. 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 private equity 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 private equity funds are generally structured like corporate private equity funds where investors commit to provide capital on a drawdown basis for several years (as assets are acquired), followed by a period of asset rehabilitation or value-add strategies. Finally, assets are sold returning capital and any profits to investors. Real estate private equity 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

Key Features are as follows:

Key Fund Features [1]	Description
Property sector	U.S. Healthcare (Seniors Housing)
Minimum Investment	$50,000
Fund commenced	2014
No. of properties [1]	5
Fund target raising [2]	$36m
Target raising: ROC Seniors [3]	US$450m
Equity raised to date: ROC Seniors [3]	US$89m
Total Assets: ROC Seniors [3]	US$65.05m
Term	10 years [4]

[1] Purchased or under contract by ROC Seniors Program as at PDS date. [2] Initial allocation to the ROC Seniors Program, may be extended. [3] Refers to the Master Fund. [4] May be extended for up to 2 x 1 year periods. [5] Or at manager discretion.

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 those non-core funds launched during or immediately following periods of recession perform better than other vintages.

In Zenith's opinion, the Fund may be suitable for investors seeking tactical exposure to offshore real estate. However it should be recognised that Seniors Housing has exposure to operational risks and in this case may be considered a real estate proxy. Suitable investors must be able to accept the risks associated with offshore investments, value add / opportunistic investing, operations risks and nil liquidity. The Fund should only be considered by high risk tolerant investors. Despite our high conviction in the Fund and its management, given its highly specialised nature, Zenith stresses that investors should be cautious about over-allocating to the Fund and recommends that any allocation should be limited to 5% of a portfolio.

While Zenith usually sees long term illiquid funds in real estate as a strategic allocation in a portfolio, an investment in the Fund 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 focused 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 (NFIODCE) has demonstrated very low correlation to equity and bond indexes on a historical basis.

Asset correlations: Quarterly returns 1989-2013	Aust. Equities	Global Equities	Bonds	A-REIT	G-REIT	Aust. Unlisted Property	US Real Estate (Core)	US Real Estate (Value Add)	US Real Estate (Opp.)
Aust. Equities	1.00								
Global Equities	0.58	1.00							
Bonds	(0.14)	0.01	1.00						
Listed Aust. Property	0.60	0.41	0.09	1.00					
Listed Global Property	0.74	0.08	(0.37)	0.87	1.00				
Unlisted Aust. Property	(0.02)	(0.05)	(0.33)	0.05	0.08	1.00			
US Real Estate (Core)	0.09	0.21	(0.12)	0.25	0.27	0.67	1.00		
US Real Estate (Value Add)	0.12	0.17	(0.15)	0.29	0.27	0.56	0.56	1.00	
US Real Estate (Opportunistic)	0.28	0.22	(0.23)	0.41	0.46	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 Funds Index, NCREIF Fund Index Open-End Diversified Core, NCREIF Townsend Fund (Value Add), NCREIF Townsend Fund (Opportunistic). Data range 4Q89-4Q13.

However, within the asset class, certain styles of investing will benefit from different economic conditions. For example, opportunistic investing, which seeks to capitalise on market dislocations and anomalies in real estate and 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 and Seniors Housing / Healthcare specifically. 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 a strong thematic.

LIQUIDITY

The Fund is an unlisted property vehicle with term of up to 10 years and may be extended for up to 2 consecutive 1 year periods past this point. Investors will have no recourse to redemption's during the term. While the ultimate timeframe will be determined by the execution of the investment strategy, Zenith advises prospective investors to treat the Fund as a fixed 10 year term. 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

Funds within the “Direct Property” sector are exposed to the following broad risks:

MARKET & ECONOMIC RISK: As is the case with all Australian property funds, a significant risk to performance is a sustained downturn in the real estate markets. Supply and demand balances of assets (and leasing opportunities), will also impact outcomes. In addition, changes in economic, social, technological or political conditions, as well as market sentiment, could also lead to negative fund performance. This risk can be significantly reduced by investors adhering to the Fund's prescribed investment time frame (for open ended funds).

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, obsolescence, tenant covenants, environmental issues and government or planning regulations. Changes to these drivers may affect the end value of the property.

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

ILLIQUIDITY RISK: Long duration illiquid assets means investors typically have limited ability to react to any changing conditions by reducing or redeeming their investments. Changes may be internal and/or external to the fund in question. Regardless of any liquidity mechanisms present, investors may face circumstances where availabile liquidity dries up.

FUND RISKS

Zenith has identified the following key risks associated with the Fund; this is not intended to highlight all possible risks:

AUD CURRENCY APPRECIATION: The AUD has historically experienced declines during weaker market environments, and appreciation in market upturns. For funds that maintain an unhedged currency exposure, an appreciating Australian Dollar (AUD) is likely to have a negative impact on a fund’s total return. Conversely, an unhedged fund is likely to benefit relative to hedged global equities funds in periods where the AUD depreciates. Zenith believes that over the long-term, the currency impact on performance will be minimal and therefore does not advocate retail investors making active currency decisions based on near-term currency predictions. For investors who are concerned about the short-term risks associated with taking fully unhedged or hedged currency positions, Zenith suggests blending hedged and unhedged global equity exposures to reduce short-term volatility.

FOREIGN COUNTERPARTY RISK: 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.

FUND REGULATORY RISK: The Fund will be potentially exposed to regulatory risks in Australia and 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. In addition, healthcare is inherently subject to the vagaries of government intervention and planning. While this is not expected to impact healthcare as significantly as it can other sectors, unexpected outcomes can appear rapidly.

ASSET REGULATORY RISK: Legislation affecting health care reform, reimbursement, and regulation can have a significant impact on the wider industry. Most states have defined governing agencies that oversee licensing, regulation, and inspection to operate properties' units or beds with the level and type of regulation varying from state-to-state. Tax credit and incentive based financing programs may be affected by changes in their respective governmental programs.

RELATED PARTY RISK: Bridge 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 fixed term 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. In addition, the successful execution of the Fund's strategy will be in part dependant in a suitable pipeline of assets being available for purchase as well as being able to source appropriately qualified operators to undertake the facilities management.

OPERATIONS RISK: Senior housing industry is both an operating service business and a real estate investment. Choosing, incentivising and managing joint venture relationships with partners and/or operators is critical to success. Rising healthcare costs (significantly in excess of inflation) may affect the medical service aspect of the business.

DISTRIBUTION RISK: The timing of initial cash flows, and therefore distributions; is not certain and will be dependent on the progression of acquisitions, refurbishment (if necessary) and operation and /or letting up of assets.

CONCENTRATION RISK: The Fund will be concentrated in healthcare related real estate (Seniors Housing) and have zero exposure to the wider and deeper 'core' real estate markets such as Office, Industrial and Retail. The Fund therefore is therefore subject to the extraneous risks and drivers associated with this niche market.

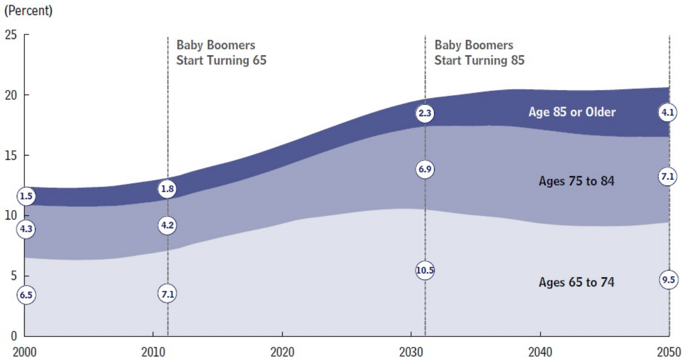
MARKET PENETRATION RISK: Risks associated with the perception by seniors that seniors housing is less desirable than remaining in their own homes and as such the preference for homeownership and lifestyle amenities may significantly undermine market penetration. Affordability issues are also relevant given the the Fund will target a user pays model which relies on the residents ability to afford the services.

MARKET OUTLOOK

SENIORS HOUSING

US Seniors Housing is a growth market which is needs driven by strong demographic trends. In the US, the seniors population (defined as persons age 65), is growing at twice the national average. With the growing wave of baby boomers entering retirement from 2011 onwards, this trend is set to increase strongly over the next decade before entering a consolidation phase between 2030-2050 where those 65 will make up approximately 20% of the population, a 73% increase on 2011 statistics. Estimates are that in excess of 3.6 million individuals in this age cohort are turning 65 annually, a trend which will continue until the slowdown in 2030 kicks in.

Elderly Adults As a Share of the U.S. Population, 2000 to 2050



Source: Congressional Budget Office tabulations based on population projections reported in *The 2012 Long-Term Budget Outlook* (June 2012), www.cbo.gov/publication/43288.

On top of this significant trend is healthcare spending, which is significantly higher for the over-65 cohort compared to those under age 45.

Seniors Housing Categories

Senior housing sector generally comprises the following segment types which are defined by the level of care and amenities provided in conjunction with the living setting. Monthly fees for senior housing increase as the required level of service increases.

Active Adult Communities (AAC): Active adult communities for rent or purchase (typically condos, co-ops or single-family homes) with minimal or nil services. Age requirement of 55+, typically offers amenities which appeal to independent, active homeowners.

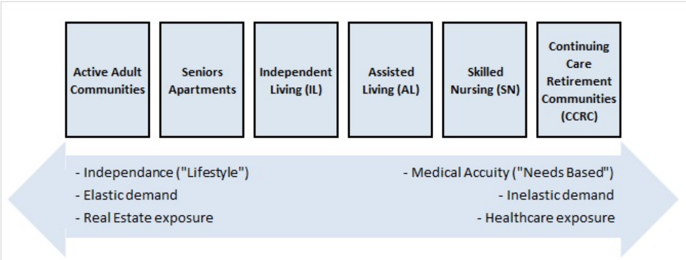
Senior Apartments (SA): Similar to AAC, SA has age restrictions and minimal services but tend to be larger, multi-unit facilities with a rental payment structure. May have income restrictions.

Independent Living (ILs): Multi-family design for those less active and who may have difficulty with routine housekeeping. Similar to SAs but generally offer additional services such as meals, housekeeping, transportation and organised group activities. Typically rent at a premium to local apartments to cover cost of common area charges and additional services.

Assisted Living (ALs): Multi-family properties with personalised support services, generally catering to those needing assistance with daily activities, but do requiring full nursing care. Designed to accommodate a higher level of support while retaining characteristics of residential apartments. Cost effective alternative to in-home care as they primarily have non-medically intensive support activities. Increasingly, a sub-set of this segment is properties dedicated to specialised care of residents with Alzheimer's or other forms of dementia (Memory Care - MC). MC facilities can be freestanding properties or wings or floors within traditional AL.

Skilled Nursing (SNs): Provides the highest level of care (similar to hospitals) and are the most expensive of all senior housing options. Also the most highly regulated, typically requiring state licenses. May offer acute / intensive medical care and post-hospital and rehabilitation.

Continuing Care Retirement Communities (CCRCs): Combines residential living with high levels of service, designed to address comfort, health, wellness, security and developing needs of aging patrons (age-in-place). CCRCs offer continuing-care services at one location by providing skilled nursing facilities mixed with large numbers of IL and AL units. In addition to a monthly fee, there is typically a large, one-time entry fee to enter a CCRC.



Residents typically pay directly for services provided and with the exception of SNFs, reimbursement is less reliant on governmental support programs such as Medicare and Medicaid. Residency agreements are typically for an annual term. Agreements generally provide for annual increases in rents, typically 2% to 5% per year.

Other Healthcare Catagories

Broader healthcare assets targeted by the Fund may include medical office buildings, speciality clinics & hospitals, centres for long-term acute care, surgery and emergency treatment and other healthcare related properties. Generally these assets have more in common with core commercial real estate categories in that they tend to have triple net leases to tenants (healthcare operators).

Market Penetration

Market penetration is a major factor of demand and currently the total pool of seniors is greater than those currently in senior housing. Industry sources indicate that even without an increase in the penetration ratio of the industry to the available pool of potential participants (currently ~8%), favourable demographic trends are expected to produce significant demand growth. In addition, family dynamics which previously allowed former generations to keep parents / grand parents in the home are changing, as is the economic ability to do so. While demographics will play a fundamental role in driving market demand, it should be considered that those segments dominated by the 'private pay' cohort will still remain linked to the trends in the broader economy to some extent (sources of income are principally savings, insurance, children's support and asset sales).

While there is increased development taking place nationwide, the aging population and large proportion of functionally obsolete facilities (particularly in IL) is expected to see supply / demand imbalances persist for the foreseeable future.

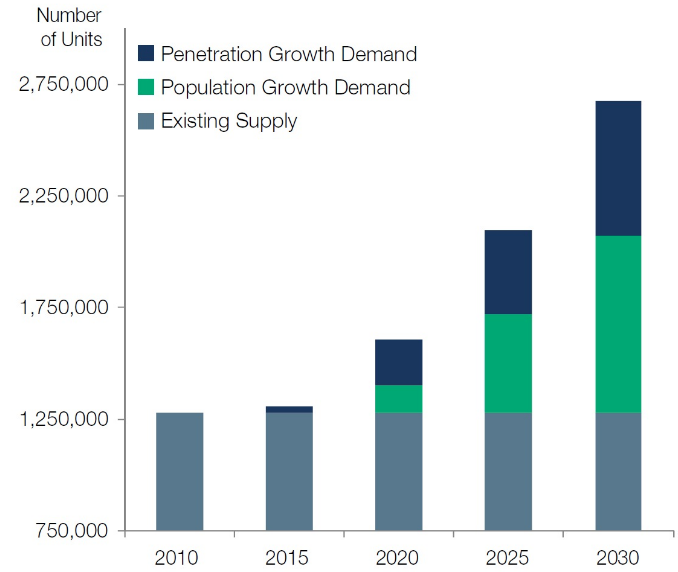
It should be appreciated that not all the senior population will constitute effective demand for senior living facilities. A substantial number of seniors continue to reside in self-owned single-family homes and many others reside with spouses and/or family. The improving national housing market is reducing the numbers of underwater mortgages and enabling those seniors who were in negative equity to sell their homes and transition to IL facilities.

A significant factor is the rise in Alzheimer's disease and other dementia conditions. Alzheimer's is the 6th leading cause of death in the United States overall and the 5th leading cause of death for those aged 65 and older. Alzheimer's is the only fatal illness among the top ten that currently has no prevention or cure. Deaths from Alzheimer's increased 68% between 2000 and 2010, while deaths from other major diseases, including the number one cause of death (heart disease), decreased. Barring the development of medical breakthroughs to prevent or slow the disease, approximately 13.8 million people age 65 and older are expected to have the disease by 2050. This is driving the need for senior housing options that address the highly specialised needs of dementia patients which usually cannot be fulfilled via home or hospitalisation options.

Supply & Demand

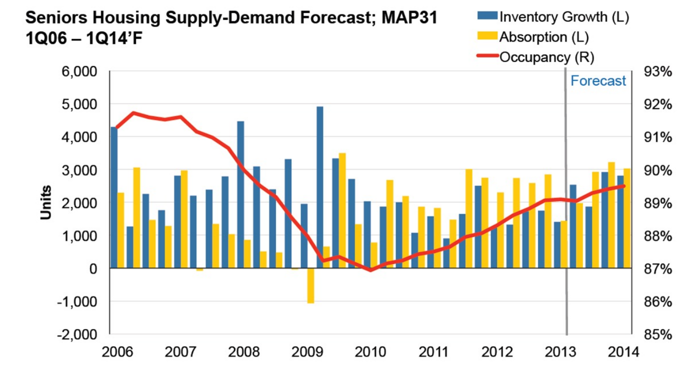
Facilitated by a relatively constricted pipeline of supply, occupancy levels have seen a solid resurgence from the last building phase. Annual demand growth for senior housing will increase as Baby Boomers pass the over 75 age-threshold after 2020. A relative lack of new product being developed continues to underpin the thematic with low growth projections likely to continue to buoy occupancy.

Need for U.S. Seniors Housing



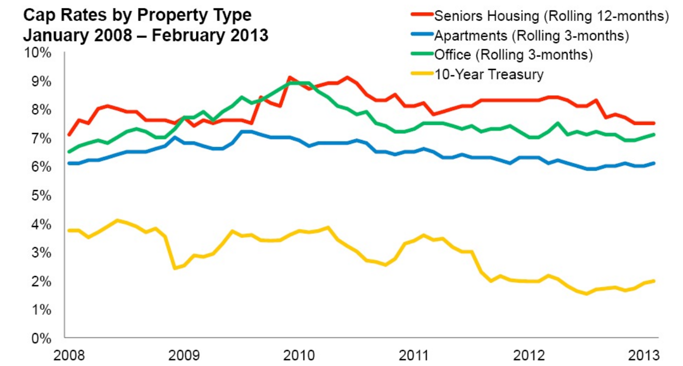
Source: ROC SHF Manager

Supply growth of senior housing over the last decade declined following a boom in development during the 1990's. Since 2006, there has been modest growth in the total national inventory with compound annual growth rates of 1.7% for AL facilities and 1.9% for IL facilities. However, new units under construction are increasing. Muted supply growth has helped rental levels recover and occupancy improve despite a modest economic recovery. In addition to low stock levels, increasing obsolescence and changing needs in terms of where Seniors are located is combining to limit the attractiveness of stock in place.



Source: NIC MAP® Data & Analysis Service 38

The sector is seeing a resurgence in interest from investors due to the attractive demographic fundamentals materialising and as an alternative asset for yield seekers. Asset prices are increasing while cap rates are falling to single digits, ranging from 7% to 9%. Average cap rates have shown compression from early-mid 2010 with demand outpacing supply. While yields are currently attractive in comparison to the relative yields of other real estate sectors and the US risk-free rate, it will remain to be seen if yields are commensurate with the operational risks.

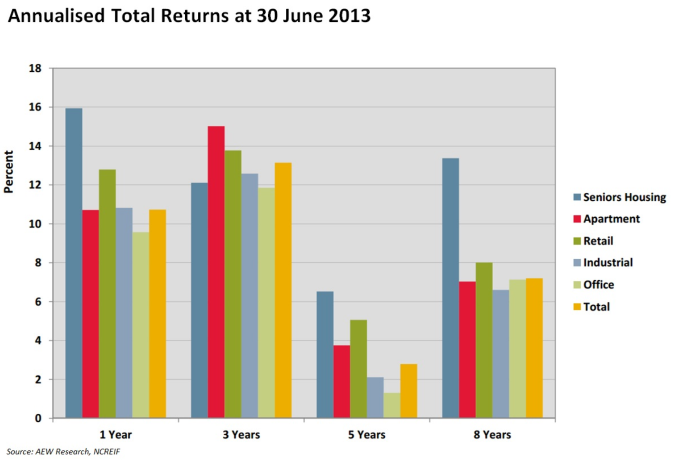


Source: NIC MAP® Data & Analysis Service

Asset Class Returns

Rental rates (and revenues) for seniors housing have historically increased on average by 3% to 5% p.a. over the last several decades with variances according to localised market forces. More recently rental rates have seen only modest increases due to downward pressure from the slower economic growth and pressures on the personal finances of residents and their adult children.

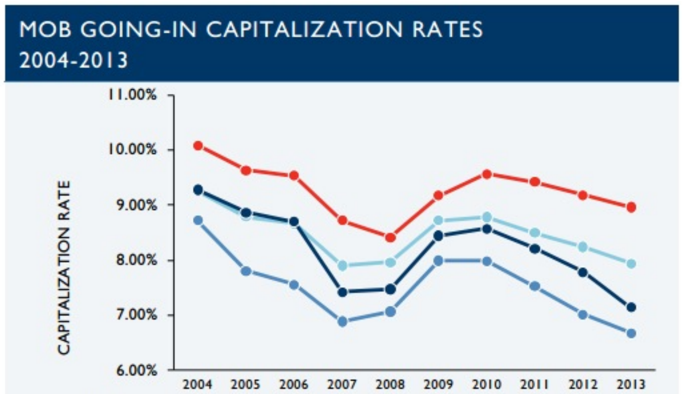
Over the longer term, total returns from U.S. Seniors Housing have been competitive in comparison to the U.S. core real estate sectors. Much of this has to do with its needs based attributes however its emerging nature has also undoubtedly played a part as interest increases.



As a result of the key demographic drivers, the senior housing market is expected to transition away from a niche to a major (albeit specialised) market with the long-term outlook becoming increasingly positive as markets gain depth.

MEDICAL OFFICE

Market conditions for Medical Office Buildings (MOBs) continue to remain robust notwithstanding specific geographic indicators. Financial markets, healthcare demographics and medical office investors continue to remain upbeat regarding MOBs as an asset class overall. Strong leasing fundamentals, coupled with plentiful capital chasing a limited supply of product continues to be the primary drivers fuelling aggressive pricing for good-quality medical office properties.



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
A: On-Campus	8.72%	7.80%	7.55%	6.88%	7.06%	7.99%	7.98%	7.52%	7.01%	6.67%
B: On-Campus	9.26%	8.79%	8.67%	7.90%	7.96%	8.72%	8.78%	8.49%	8.24%	7.94%
A: Off-Campus	9.28%	8.86%	8.70%	7.42%	7.47%	8.44%	8.57%	8.21%	7.78%	7.14%
B: Off-Campus	10.08%	9.63%	9.53%	8.72%	8.41%	9.17%	9.56%	9.42%	9.18%	8.96%

Source: Cushman & Wakefield

QUALITATIVE DUE DILIGENCE

ORGANISATION

Fund Manager

The Fund Manager is Spire Capital Pty Ltd (Spire). Spire's role is essentially similar to that of a local distributor, facilitating access to an offshore investment opportunity. Spire has developed the Underlying Fund and Feeder Fund structure which allows the Fund to invest in parallel to the same investment portfolio and strategy adopted by ROC Seniors. Spire's role is to undertake the capital raising for the Fund and facilitate the connection between the US Investment Manager, Australian Investors and the Responsible Entity on an ongoing basis.

The Fund RE is Equity Trustees Limited.

Investment Manager

The Investment Manager is ROC Seniors Housing Fund Manager, LLC (RSH). RSH is a new entity jointly owned by Bridge Investment Group Partners, LLC (Bridge) and Servant Capital Group (SCG) with ownership being 60/40 respectively. Both Bridge and SCG have extensive credentials and experience in private equity real estate transactions and management across a number of property asset classes including Seniors Housing. RSH will also act as the Fund Investment Manager.

SCG is a private U.S. commercial real estate fund manager specialising in healthcare and Seniors Housing for High Net Worth clients. SCG was incorporated in 2012 however the origins of the firm go back to the establishment of Servant Healthcare Investments in 1999. SCG is wholly owned by its senior principals and is based in Orlando, Florida.

Bridge is a private U.S. investment manager specialising in real estate investment for institutional and High Net Worth clients. Bridge 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.

Bridge is based in Salt Lake City, Utah with offices in San Francisco (Capital Raising & Operations) and New York (Capital Raising & Fund Management). The firm is highly resourced with over 850 employees spread out across more than 40 real estate submarkets in the U.S. as well as head office staff. BGIP has approximately $1.5 billion of assets under management and with its affiliates manage more than 32,000 apartment units in 15 states and more than 2 million square feet of commercial office property.

The creation of RSH has been advantageous to both businesses. While SCG had undertaken several seniors housing investments with private clients previously, they saw the venture with Bridge as being providing access to capital and greater resources, leaving them to be able to focus on the investment side. Bridge had for some time been seeking additional avenues for expansion of their business into specialist real estate sectors and approached SCG. Both parties have indicated that the fit has been excellent with skill transferral from both sides. While the team behind SCG will be the key drivers behind the execution of the Fund strategy, Bridge also bring significant core real estate investment skills to the table as well as providing the back office functionality.

Zenith notes that the former SCG team are now employees of the RSH and as such have 100% of their focus on the JV (no legacy funds of their own remain in play). The partnership agreement cannot be dissolved until the ROC Seniors fund is complete. Given that JV's can frequently come at a cost to business focus (on all sides), Zenith is encouraged that the SCG team will be fully committed to the ROC Seniors platform.

ROC Seniors Housing Fund GP, LLC, is the General Partner (GP) for all ROC Seniors Limited Partnerships. The GP (and affiliates) will commit funds alongside investors of at least 2% of the total equity raised (proportionate contributions from each of the JV partners). 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. 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.

INVESTMENT PERSONNEL

Investment team is as follows:

Name	Title	Tenure [1]	Industry Experience
Robb Chapin †	CEO	9 Yrs	17 Yrs
Rick Steinberger †	COO, Head of Asset Management	2 Yrs	17 Yrs
Phil Anderson †	CIO	<1 Yr	28 Yrs
Blake Peeper	Director	2 Yrs	10 Yrs
Robert Morse †	Investment Committee	5 Yrs	30 Yrs
Deal Allara †	Investment Committee	20 Yrs	25 Yrs
Jonathan Slager	Investment Committee	10 Yrs	29 Yrs
Donaldson Hartman †	Investment Committee	10 Yrs	22 Yrs
Chad Briggs	CFO	4 Yrs	25 Yrs
John Pennington	Chief Compliance Officer	11 Yrs	23 Yrs
Adam O'Farrell	General Counsel	2 Yrs	13 Yrs
Matt Burkett	VP Controller	1 Yr	7 Yrs
Matt Jensen	VP - Operations	8 Yrs	8 Yrs
Paul Hutchinson	Director - Capital Markets	11 Yrs	16 Yrs

[1] With respective organisations within the JV (i.e. SCG or BIGP). † Denotes 'Key Man' for the purposes of Key Man Events.

The SCG team have a significant depth of knowledge and experience in this specialist asset class which Zenith regards very highly. Individuals have an average of 19 years of real estate experience with the 4 key senior individuals (Chapin, Steinberger, Anderson and Peeper) having previously worked with each other for an average of 7 years in a major public unlisted REIT developing and managing seniors housing and medical properties (CNL Financial Group - CNL).

The Bridge team has been reviewed by Zenith on previous occasions and we also view this team with very high conviction. Senior management in BPIG have an average 23 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. As with SCG, senior personnel have worked with each other for many years with their average co-experience within various Bridge entities being over 12 years. Bridge represents a highly cohesive, long running team which has suffered zero departures at the senior management level.

As the ROC Seniors platform is still in its early stages of capital raising and deployment, management expects to add additional headcount specific to this area as the workload builds. Over the past five months, the team has added a Senior Investment Analyst and a Due Diligence Manager with further appointments planned, expecting to add another 10-12 team members. Management have indicated that a mature headcount is expected to be reached by the end of 2014.

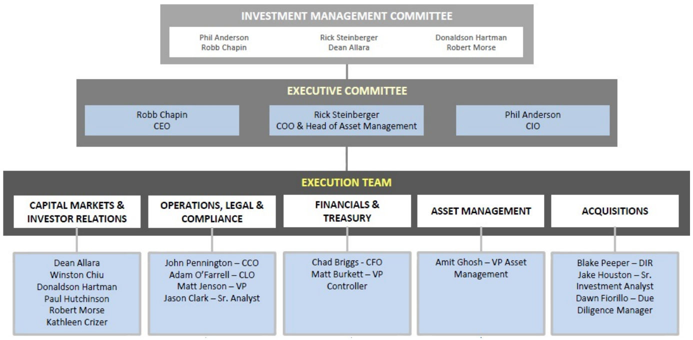
While the Bridge team is significantly resourced, it is apparent that the current scale of operations with two other real estate funds currently operational, is placing a heavy burden on the senior management team. Zenith has previously stated that in our opinion they are operating at maximum capacity. It is obvious that the development of ROC Seniors will not create the same level of 'heavy lifting' at the asset level as their own existing funds as much of the workload is handled by the SCG team. However it will represent a net increase to the scale of operations and as such Zenith does have some concern regarding the burden this will place on a management team considered to be operating at their peak. Bridge has indicated that they are very conscious of capacity constraints and have plans in place to address this issue and additional hires have been taking place over the past 12 months. Business FUM is increasing rapidly however and as such management will need to focus on the sustainability of forward growth. 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).

ROC Seniors, like most Private Equity 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 in ROC Seniors) 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 depth of the team is a mitigating factor in this instance.

The management structure is committee based with an Investment Committee being the ultimate decision making body for management of the GP. The Investment Committee will make all decisions regarding identification, analysis, acquisition, management, improvement and sale of the ROC Seniors assets. The Investment Committee is divided with three members each from the SCG team and Bridge. The structure of the Investment Committee and underling Executive Committee is as follows.



The Executive Committee is responsible for the implementation of investment decisions made by the Investment Committee, with these decisions being then delegated to the Execution team. The Executive Committee will also implement strategic and investment decisions formulated by the GP. There are also Committees for Asset Management (target market monitoring and analysis), Underwriting Management (analysis of target assets and financing structures) and Capital Markets (development of debt and equity strategies). Each of these committees is operated by the senior executives of SCG and Bridge.

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, Executive Committee, Investment Management Committee
- Monthly: Board of Directors
- Quarterly: 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 prescreened 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 several of these meetings 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 Bridge team in particular are at their heart deep value, high conviction real estate investors, a style which we believe will work well when combined with the talents of the SCG team with the healthcare expertise.

Asset Management

Operational management of the Seniors Housing assets is expected to be primarily undertaken by third parties. It is an accepted practise in the U.S. that the operation of Seniors Housing is outsourced by landlords to third parties owing to the way U.S. REIT legislation is structured. Unlike more traditional real estate sectors (i.e. Commercial categories), Seniors Housing is more similar to Hotels or Self Storage in that they are operating business rather than purely rent collectors.

Normally, the liability risk associated with operating these facilities is shared by the local manager and ROC Seniors; however, the local manager will be typically asked to indemnify ROC Seniors from losses, damages, claims or any other liability arising from the local manager. In addition to insurance maintained by the local manager, ROC Seniors will maintain appropriate supplemental insurance to protect against operating risk.

Operational management of Seniors Housing is a highly specialised activity with specific skill sets. Appropriate analysis, selection and oversight of third party operators is a vital part of the ROC Seniors strategy. The SCG team (and in particular CIO Phil Anderson) has extensive experience in the selection of these operators and so Zenith has a firm level of conviction that manager selection will be appropriate (see 'Investment Process' for more details). Management expects to select approximately 15 managers to operate the facilities it acquires.

Financial Position – Bridge Investment Group Partners, LLC

Bridge Investment Group Partners, LLC remains a relatively newly formed consolidated entity. Zenith has been provided with raw data illuminating the unaudited financial year management accounts for US Financial Years 2011, 2012 & 3013. Although we have been given access to the data, Bridge have requested that it remain confidential.

On the whole, based on the information provided, the business appears to have a relatively sound financial footing however, Zenith is limited in its ability to draw firm conclusions regarding the financial position of the integrated company over a longer timeframe. However it is apparent that the group is profitable with robust cashflows and is financially stable at this point in time.

INVESTMENT PROCESS

Investment Philosophy

ROC Seniors (and therefore the Fund) seeks to provide investors with income and capital appreciation through strategies involving targeted acquisitions of healthcare related real estate. The Fund will seek either properties which can be acquired with attractive growth prospects at attractive prices. ROC Seniors will also make use of gearing where appropriate to leverage returns. The target return for the ROC Seniors Program is a 16% net IRR or greater (US$ return, net IRR being post applicable fees, carried interests etc.). It should be noted that there is no explicit return forecast for Australian investors in the Fund.

Management see is its ability to improve and add value to properties as a key part of their philosophy, developing, implementing and execute business plans that will enhance a property's underlying value proposition. Key activities to add value are:

• Implementing expense controls, aggressive and appropriate marketing, personnel changes and the creation of individual incentives, managing reputational risk and creating resident / tenant satisfaction and referrals;

• Improving the quality of service, adding enhanced services such as memory care and increasing or decreasing pricing;

• Eliminating obsolescence and improving appearance and comfort, resulting in the ability to command higher rents;

• Improving operational quality while a property fills and stabilises;

• Addressing the long-term capital structure by lowering interest rates and increasing / decreasing leverage to the appropriate level; and

• Securing zoning and entitlement changes to increase the value of undeveloped land.

Process

Dealflow is expected to be driven by the teams' significant industry experience and contacts with strong relationships with local managers, institutional property owners and REITs, broker networks, banks and non-bank financial institutions.

The Investment Manager's preliminary review examines multiple factors, including the experience and success of the facilities manager, sub-market dynamics, age, location, condition, occupancy, capital expenditure requirements of each asset and how that asset will fit into the allocation strategy for the Fund. The analysis process is driven by Underwriting Management Committee and the Investment Committee which conducting bottom-up and top down analysis of investment opportunities.

The Investment Manager initially evaluates each potential investment opportunity using proprietary models with detailed inputs of historical data and operating margin assumptions, demographic analysis of the senior and caregiver populations, and real estate attributes such as location, visibility, quality and competitive analysis, to the extent available from the seller or by desktop methods. If the opportunity appears to satisfy the Partnership's investment goals, the Investment Manager may pursue a more rigorous underwriting and evaluation, including detailed financial analysis, market analysis and potentially site visits.

After findings are presented to the Investment Committee (and approval granted) the Investment Manager will prepare a nonbinding letter of intent providing for, among other items, a full due diligence period with exclusivity and a preliminary agreement on the transaction terms.

The full due diligence process includes visiting and inspecting every property. Each property will have its own financial model and capital expenditure budget. During the due diligence period and generally before any deposit money becomes non-refundable, thorough due diligence on the real estate and on the local manager and facility (facility certification reports, state regulatory satisfactions, etc.) is performed.

During this period (and generally before closing), the Investment Manager determines the appropriate debt terms (if any), and submits the recommended financing options to the Investment Committee for approval.

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 maximise the income stream of each asset over time and to exit assets based on a mature, stabilised net operating income in that time horizon. 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 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.

The management and improvement of the assets is split into strategic and operational aspects. As Seniors Housing is at heart an operational business as opposed to being a pure landlord, operational effectiveness is paramount. RSH will contract with third party managers to undertake physical operations on their behalf. Key factors in the selection of these operations is;

- Experience and tenure of senior management;
- Appropriateness of systems and training programs;
- Ability to effectively market and maintain occupancy levels;
- Reputation and ability to attract and retain employees and provide benefits;
- Demonstrated operating efficiencies and expense management;
- Insurability of the firm;
- Quality of service in existing operations;
- Fees charged for management; and
- Possession of requisite licenses and satisfactory health inspections and audits.

Typically operator relationships are long-standing, representing 5-25 years of experience Operators are compensated in accordance with a Management Agreement with management fees paid to the operator typically struck at 5% of gross revenue. The Investment Manager typically attempts to align the interests of the Fund and operators by creating incentives for financial performance and quality measures such as occupancy and resident satisfaction.

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. Management will make acquisitions with a target holding period of eight to ten years but will continuously monitor the portfolio for assets that may no longer meet the goals of the strategy or where a premium is greater for either a portfolio or individual sale. Divestment strategies will vary depending on market conditions. The GP expects that a majority of individual property sales and any portfolio sale will be through an auction process led by a third-party broker or investment banker. The GP will commence an orderly liquidation of any remaining assets still held at the end of the Partnership's term.

Zenith notes that both the Bridge and SCG teams have proven to be highly proactive in asset divestment strategies in the past which crystallise returns for investors. We treat this evidence as highly positive as we believe that too managers are prone to being reluctant to divest assets and interrupt management fee streams.

SECURITY SELECTION

Management see the following principles as being key to meeting their objectives:

- invest in solid fundamentals;
- invest in diversified markets; and
- invest in relationships.

In addition to the overall drivers of the market also discussed, management sees other characteristics as vital: drive-by visibility and appeal; an excellent reputation; experienced local managers; state of the art facilities and facilities that are not obsolete (or can be repositioned to be functional); good or restorable building condition; competitive units and amenities; discernible barriers to entry; risk-adjusted return expectations; and a competitive investment basis. Management targets assets which exhibit these traits.

Management will also focus on "emerging opportunities" where it expects ROC Seniors will realise greater long-term value rather than focusing on fully priced assets reflecting the premium valuations in the largest markets.

Management also intends to focus on secondary markets which they believe will offer the best total return profile. In addition, select opportunities identified in top-ten markets may be considered as value-add and new construction opportunities.

Management believes that cultivating relationships with experienced third-party managers in secondary markets may facilitate possible joint venture acquisition or strategic disposition opportunities. The team have developed relationships and contacts through over their careers which also provide the potential for possible transaction partners. In addition, cultivating relationships in select larger markets in which competition is greater may also provide possible future construction and value-add opportunities. The lack of capital available to public REITs and other investment vehicles for construction equity provides ROC Seniors with significant opportunities to form new relationships with developers and local managers in these larger markets and to pursue transactions in these markets.

PORTFOLIO CONSTRUCTION

ROC Seniors has a relatively unconstrained investment universe, being limited only to U.S. healthcare real estate. It is intended however the main focus will be on Seniors Housing, specifically IL, AL and MC facilities. Some assets acquired may also have exposure to SN or CCRC if the fundamentals are sound and risks associated with these can be appropriately managed. It is anticipated that the portfolio will have an allocation of ~70% to Seniors Housing and the balance to Medical Office and other healthcare related assets. Less than 10% is expected to be exposed to SN. All geographic regions and markets in the U.S. will be considered.

Three main strategies will be utilised:

- Income Assets: Stabilised properties (those being 70% - 90% occupied), that can be improved through repositioning, enhanced marketing or operations;
- Value-Add Assets: Properties that may have with low occupancy, suffer partial obsolescence, require rehabilitation or expansion, or manager replacement and can provide significant opportunities for the GP to grow net operating income; and
- New Assets: Select newly constructed properties providing

the GP with state-of-the-art facilities with enhanced amenities that are expected to meet residents' preferences and posses barriers to entry to competitors.

Management is expected to focus on Seniors assets which utilise a "private payor" revenue model (>90% of the portfolio). Private payors do not usually rely on programs such as Medicare or Medicaid and are therefore not subject to reimbursement policies or government support.

Owing to the nature of the Fund, much of the work goes into sourcing the right investments and undertaking the right management plans. As the portfolio is focussed on a niche asset class and is expected to contain a large number of assets, the traditional aspects of portfolio construction are not as applicable as with more mainstream investment funds.

Some regard is given to the 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 16% net IRR target set by management.

OPERATIONAL DUE DILIGENCE

RISK MANAGEMENT

Risk management parameters are relatively unconstrained within the ROC Seniors strategy 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 other collateralised instruments backed by real estate related to healthcare.

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.

Currently, the Fund will not be hedged. The Fund Manager has indicated that they may at some future point implement hedging by any appropriate means if they believe that it is in the best interests of investors. Management has indicated that a trigger for hedging would likely be if the AUD fell to ~US$0.70 (representing a long term median value point). Current US/AUD exchange rates represent a statistical deviation on longer term values and Zenith believes that over the longer term a reversion to the longer term mean is the most likely scenario (although by no means assured). 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.

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 has 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. Management also notes that Deloitte (as the Auditor) will review and sign-off on directors valuations annually and any lenders will require an independent valuation at purchase.

Although these measures provide some level of oversight and notwithstanding that the Fund will be wholly illiquid, we would prefer to see regular independent valuations undertaken, particular on those assets which are stabilised. Zenith recognises that regular independent valuations are not common in private equity style vehicles and that the cost of these valuations in a large portfolio is likely to be a drag on returns. However it must be appreciated that as a result, there will be significantly less value (unit pricing) transparency to the Fund in comparison to most other more traditional direct unlisted property funds available within the Australian marketplace which has higher expectations around use of independent valuations.

Zenith has examined managements' internal valuation process in the past and believe they are sufficiently detailed with robust methodologies to act as a reasonable proxy. Given the illiquid nature of ROC Seniors, the ultimate value will be determined by the market in any case.

FUND STRUCTURE

The structure of flows and underlying vehicles of the Fund is necessarily complex to order to achieve a significantly reduced tax reporting burden compared to an investment directly into ROC Seniors. We believe that eliminating the need to file USA alien non-resident tax returns is a considerable benefit and as such we encourage investors to read the following closely along with the statements in the offering document.

The Fund is offered through an Australian distributor, Spire Capital in a managed investment scheme structure. The Australian fund is a domestic vehicle that invests into a Parallel Partnership whose purpose is to invest in effectively the same manner of the US domiciled ROC Seniors.

Equity Trustees Limited (EQT) is the Responsible Entity (RE) and the Custodian of the Fund. The responsibilities and duties of EQT are defined within the Fund's constitution as well within the Corporation's Act.

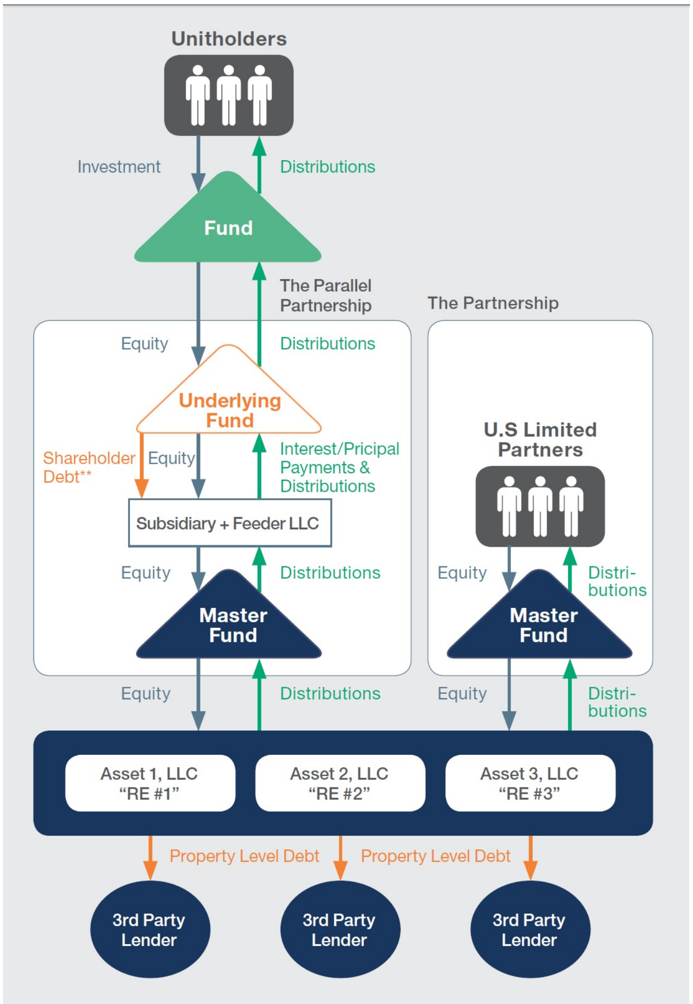
Spire Capital Pty Ltd (Spire) is an Australian limited liability company that was formed in 2009. EQT has appointed Spire as the fund manager. The principal activity of the Fund is to act as a feeder fund into ROC Seniors. ROC Seniors also includes parallel vehicles. While the Fund does not directly access ROC Seniors, it does so through a parallel vehicle – ROC Seniors Australian Feeder (USD) LP (the Australian Feeder). Importantly the General Partner of Australian Feeder is ROC Seniors Housing Fund GP, LLC, a US resident corporation who acts as the GP for all the funds and parallel vehicles associated with ROC Seniors.

A US limited liability company – Feeder LLC (Feeder) – will contribute cash received from Australian Feeder. Feeder will then invest into a Master fund as part of the parallel partnership and the and take the role as a Limited Partner. Australian Feeder makes up one of the three entities in the Parallel Partnership, and invests via equity capital invested in and shareholder loans provided to the ROC Seniors Australian Trust (AUT). Shareholder loans are made subject to the US' thin capitalisation and earnings stripping rules. AUT will be able, subject to US limits on interest deductibility, to deduct interest paid on the loan from Australian Feeder. The Australian Feeder will receive distributions from its equity capital invested in AUT, and interest payments from the shareholder loans provided to AUT. AUT will be taxed as a corporation for US income tax purposes. According to the structure documents AUT will not be a controlled foreign company for Australian tax purposes.

The result is that Master Fund will be required to withhold US withholding tax on AUT's allocable share of income. In doing so, the General Partner of the Master Fund is permitted in certain circumstances to take into account the shareholder loans provided by Australian Feeder to AUT, to determine a reduced amount of US withholding tax to apply at the Master Fund level. In turn, if the interest payments made by AUT to Australian Feeder satisfy the US portfolio interest exception, which is the intention, then no net withholding tax applies to such payments.

If the interest payments do not satisfy the portfolio interest exception, then US withholding tax (at the appropriate treaty rate – generally 10% to qualifying recipients) will apply. AUT will be subject to US tax on a net basis at a rate of 35% on its allocable share of US source income from the Master Fund less interest expense paid to Australian Feeder. However, as AUT will be required to file US federal (and possibly state and local) income tax returns, it may be entitled to a refund of withheld taxes to the extent the tax withheld exceeds the AUT's tax liability.

Such a structure carries risks that tax filing, if missed or is late, could impact all the entities in the chain. Zenith urges all investors and their advisors to carefully and studiously read the structure and tax sections of the offering documents. Importantly the costs of running the structure is being absorbed by the entire Master Fund. This means that Australian investors in the Fund are not subjected to two layers of operational fees.



Fund assets will generally be through wholly owned Special Purpose Vehicles (SPVs) in order to limit liabiity.

UNIT PRICING

Investors should also be cognisant of how units are issued and priced. As the Main Fund is a private equity style vehicle, investors undertake capital commitments and are then subject to capital calls. The Fund will also be subject to capital calls which will determine the issue price of fund units.

On application, investors are issued with Application Units which will convert to ordinary Units once capital is called. The issue price is calculated based on the NAV of the Fund just prior to this conversion, adjusted to reflect a Variable Buy Spread. This reflects an adjustment for foreign exchange where the issue price is A$1.00 plus or minus adjustments for the exchange rate. This is measured between the date Units are first issued and the date they are converted.

Operations - Main Fund

Deoitte & Touche (Deloitte) and JD Clark & Company (JD Clarke) have been respectively appointed as the Main 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. Bridge's relationship with Deloitte commenced in 2009 with their appointment as auditor of ROC I. JD Clark & Company is a division of UMB Fund Services and has been in the alternative investment servicing business since 1991. JD Clarke is a independent investment servicing company providing administration, accounting, tax and regulatory compliance services. The business specialises in providing these services to hedge funds, funds of hedge funds, registered hedge funds and private equity funds.

Financial controls for the Main 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, Bridge utilise the services of third party consultants CWI Compliance (CWI) based in California. With the move to a more sophisticated fund environment, Bridge intends to use CWI to implement a more robust compliance training environment within the firm.

Operations – The Fund

The Responsible Entity for the Fund will be Equity Trustees Limited (EQT). EQT will also undertake all functions related to custody, compliance, reporting, and external auditing and risk management. EQT has appointed White Outsourcing Pty Ltd (White) to provide unit registry and fund accounting services. While EQT holds the ultimate responsibility for the general administration of the Fund, it has outsourced the fund management (Spire), Investment Management (RSH) and Administration (White).

DEBT

The Main 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%.

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. Ideally, Zenith would prefer to see some form of hard limit around the level of interest coverage required.

As at 15 May 2014 the ROC Seniors portfolio had a Loan to Value Ratio (LVR) of 60.7%. While the portfolio is relatively highly levered (particularly in comparison to Australian gearing levels) this should be taken in the context of the asset improvement programs, debt structures and an environment of low interest rates.

Debt covenants across the individual loans encompass a wide range of measures including Interest Coverage Ratio (ICR), LVR, minimum cashflow requirements, construction deadlines, minimum occupancy levels and other metrics. Zenith has assessed each loans applicable covenants and believes that overall while the associated risks are of these gearing levels are present, they are not extreme. The portfolio is currently generating an overall ICR of 2.2x highlighting the solid income generation capacity of the portfolio. The majority of the loans are fixed rate providing a buffer against interest rate rises.

It should be recognised that while it is intended that the majority of individual loans across the portfolio will not be cross collateralised, management has the ability to use temporary collateralisation against other assets in the portfolio as a way to provide partial recourse for a set period if borrowing against an asset whose cashflow is impaired. This is only done where management (and the lender) has the view that the asset can be sufficiently re-worked to 'stand-alone' as sufficient collateral. It is also important to note that these arrangements are typically only set in place until the subject asset can generate sufficient cashflow to service the debt and are generally subject to specific reduction clauses in the cross collateralisation over time.

Zenith sees the use of this type of structure as a high risk play although acknowledging that it raises the risk / reward outcome significantly. We do note however that Bridge are highly experienced users of this strategy with considerable success in its execution. We have undertaken several walkthroughs of the successful deployment of these strategies in practice with Bridge regarding past portfolios which gives us some level of comfort.

Zenith advises caution regarding use of leverage on real estate assets, particularly when pursuing value-add strategies. Overall we believe that the Investment Manager is 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 and property cycles.

RETURNS STRUCTURE & FEES

Fees associated with an investment into the SRSF can be broken into explicit and implicit components. Firstly there are fees directly applicable to the operation of the SRSF. Secondly, the Investment Manager and General Partner are paid fees from the Underlying Fund which is part of the Parallel Partnership (essentially a proxy for the fees applicable to the Main Fund, ROC Seniors). While fees applicable to the Underlying Fund/Main Fund are not incurred directly by the SRSF, they should be considered on a look through basis as they will impact the NAV of the Underlying Fund.

Fund Fees (SRSF)

The following fees will apply to SRSF;

Fees – Spire USA ROC Seniors Housing and Medical Properties Fund (AUD)	
Fund Manager Fee	0.50% pa of NAV
RE Fees	Max. 0.56% pa with minimum annual thresholds; *Year 1: $60,000* *Year 2: $60,000* *Year 3: $80,000* *Year 4 onwards: $95,000 p.a.*
Custodian Fees	0.02% pa (Annual minimum of $20,000)

The total ongoing cost to investors is expected to be 0.58% pa of the Fund's Net Asset Value (NAV). It should be noted that this does not include the fees payable to the Investment Manager, this is only the costs associated with the operation of the Australian Feeder Fund.

It should be noted that while Spire in its role as Fund Manager will only directly receive fees from the sale units, there is a business agreement in place whereby Spire is entitled to receive 25% of the management fees and 17% of the carried interest received by Bridge as a result of investments in the Fund flowing into the Underlying Fund. Zenith has witnessed this type of arrangement previously and considers it to be common between parties utilising the Parallel Partnership/Feeder Fund structure.

We consider the pricing of this agreement to be generally in-line with that of others we have witnessed in the past.

Investment Manager Fees (ROC Seniors)

Fees applicable to the Investment Manager from the Main Fund are as follows.

Fees – ROC Seniors Housing & Medical Properties Fund LP LP (Master Fund)	
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% (carried interest).

The fees levied by the Investment Manager onto the Main Fund are similar to those seen in other Private Equity Real Estate structures. While high in comparison to more mainstream managed funds, PE strategies require a high level of skill in order to generate out-performance (particularly in value add and opportunistic strategies) and as such typically engender a higher level of management fees.

The management fee in the Underlying/Main Fund is 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. It is important to note however that this impact is mostly on direct investors in ROC Seniors rather than investors in the Fund who are investing into a portfolio which already exists and continues to expand.

We also favour that there are no other additional fees for other services within the Main Fund (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.

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. 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.

Overall fees on a look through basis for investors in the Fund are difficult to calculate precisely due to the complexities of the feeder structure and the application of capital through the Parallel Partnership. However Zenith does not consider the overall fee burden to be excessive although we feel it is likely at the higher end of the scale. Given the nature of the opportunity however, we remain generally comfortable with it. These fees compare to an average MER of 2.53% pa for other unlisted direct property funds currently open to retail investors investing in U.S. real estate opportunities.

Return Payment Structure

It is also important to understand the structure of the returns of the Fund which are follow a priority series affecting how fees and benefits are delivered.

While the returns structure is a relative 'industry standard' there are some aspects which Zenith would ultimately prefer seeing changed. The hurdle rate for ROC Seniors (and therefore the Fund) is set at 8% 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.

It should be noted that most of Zenith's comments regarding the appropriateness of fees relevant to the Main Fund 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.

PORTFOLIO & RETURNS

As at the date of this report, the Fund is a new vehicle and the underlying Main Fund has yet to fully raise and deployed capital. As such, detailed asset analysis is considered neither practical nor useful. To date, ROC Seniors has acquired four assets and is contracted to purchase a further two. Based on the investment parameters of the investment manager and stock availability, it is expected that the ROC Seniors platform will acquire between 75-100 properties during the investment phase with equity commitements ranging between US$5-$20m.

ROC Seniors Asset Portfolio

Property	Location	Sector	No. of units	Occupancy at Purchase	Purchase Price (US$m)
Maristone of Franklin	Nashville, TN	AL/MC	54	74%	8.95
Maristone of Providence	Nashville, TN	AL/MC	61	46%	8.50
Peregrine Landing at Holcome Bridge	Norcross, GA	AL	48	85%	4.60
Town Village of North Dallas	North Dallas, TX	IL/AL	269	82%	43.00
Total Purchases			**432**		**65.05**
Royal Gardens	Camarillo, CA	AL/MC	105	97%	14.50
Total Under Contract			**105**		**14.50**
TOTAL			**537**		**79.55**

Sector legend: IL - Independent Living, AL - Assisted Living, MC - Memory Care

Leases

The majority of the portfolio is expected to comprise Seniors Housing properties. Structurally, this means that assets are leased to the 3rd party operators (facilities managers) who then have their own lease agreements with residents. Typically, leases to operators are net leases and operators will be liable to pay insurance, taxes, utilities and R&M in connection with the facilities.

Leases on other healthcare assets such as MOBs are expected to be triple net to single or multi-tenants.

DUE DILIGENCE

Zenith has relied upon information contained in the Private Placement Memorandum (PPM) for the ROC Seniors Housing & Medical Properties Fund LP dated November 2013, and the PDS for the Spire USA ROC Seniors Housing and Medical Properties Fund (AUD) dated 20 May 2014 as well as other documents supplied by the manager.

Zenith has also carried out its own independent inquires. In February 2014 a representative of Zenith physically inspected a range of U.S. properties with the Investment Manager that were under due diligence and judged to be broadly representative of the assets to be purchased by the Fund. Zenith interviewed a number of representatives of the Investment 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.

REPORT CERTIFICATION

Date of issue: 20 May 2014

Role	Analyst	Title
Author	Dugald Higgins	Senior Investment Analyst

Sector Lead	Dugald Higgins	Senior Investment Analyst
Authoriser	Steven Tang	Senior Investment Analyst

RATING HISTORY

As At	Rating
20 May 2014	Highly Recommended
Last 5 years only displayed. Longer histories available on request.	

ZENITH RESEARCH METHODOLOGY & REGULATORY COMPLIANCE

Zenith Investment Partners ("Zenith") ABN 60 322 047 314 provides the following guidelines on Zenith's processes and procedures relating to research services, research methodologies and conflict of interest management. Detailed information on Zenith's Research Methodology & Regulatory Compliance can be accessed via the Zenith website.

SCOPE OF RATING

The Zenith rating referred to in this document is limited to "General Advice" (as defined by section 766B of Corporations Act 2001) for Wholesale clients and based solely on the assessment of the investment merits of the financial product on this basis. This advice has been prepared without taking into account the objectives, financial situation or needs of any specific person who may read it. It is not a specific recommendation to purchase, sell or hold the relevant product(s). Zenith advises that investors should seek their own independent financial advice before making an investment decision and should consider the appropriateness of this advice in light of their own objectives, financial situation or needs. Investors should obtain a copy of, and consider, the product PDS before making any decision. This report is prepared exclusively for clients of Zenith. The material contained in this report is subject to copyright and may not be reproduced without the consent of the copyright owner. The information contained in the report is believed to be reliable, but its completeness and accuracy is not guaranteed. Zenith accepts no liability, whether direct or indirect arising from the use of information contained in this report.

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Zenith is the holder of Australian Financial Services License No. 226872 which was issued by the Australian Securities & Investments Commission (ASIC) on 10 April 2003 for the purposes of providing ***General Advice*** as defined under the Corporations Act 2001. Further information on the services we are licensed to provide and our expertise can be found on the Research Methodology & Regulatory Compliance page of the Zenith website.

CURRENCY OF RATING

This Research Report and Rating is current as at the date it is issued and is valid until it is updated, replaced or withdrawn. Research Reports will be subject to future updates on an ongoing basis unless the Rating is Withdrawn. The Rating may be subject to change without notice and clients are advised to check currency via the Zenith website. Further information on Currency of Ratings is available on the Zenith website.

COVERAGE POLICY

Zenith's coverage policy defines the investment universe of products which are potentially eligible to receive an investment rating. This universe primarily focuses on those products available to financial advisers via the major wrap platforms and master trusts. Products predominantly encompass Unlisted Managed Funds and Listed Managed Investments available via the ASX.

Zenith also includes in its coverage policy products in several asset classes which are traditionally only available directly 'off-platform'. These asset classes include sectors such as Unlisted Direct Property Funds and products in the Alternatives asset class including Hedge Funds and Private Equity Funds. Detailed information on Zenith's coverage policy, processes, sector classifications and current coverage list can be found on the Research Methodology & Regulatory Compliance page of the Zenith website.

CONFLICT POLICY

Zenith maintains a Conflict Management Policy regarding the provision of non-research services to Product Issuer's, Fund Managers or other related parties relevant to the investment being rated. This policy relates to the provision of;

- Underwriting, managerial, consultancy or market making services to such parties;
- Whether such parties are a corporate client of Zenith;
- Whether such parties are related or otherwise associated with Zenith.

Any conflicts relating to these issues will be prominently disclosed on the relevant Zenith Product Assessment Report. Further details on Zenith's Conflict Policy can be found on the Research Methodology & Regulatory Compliance page of the Zenith website.

FEE FOR SERVICE

Zenith charges an upfront flat fee to the Product Issuer, Fund Manager or other related parties to produce research on funds that conform to our Research Methodology (Direct business model). This fee is to compensate Zenith for the work required to undertake the process and is not linked to the rating outcome. Fees are generally standardised within each sector however a small number of sectors (typically those dealing with real assets) are charged based on individual complexity. Further details on how the fee for service arrangement is managed can be found on the Research Methodology & Regulatory Compliance page of the Zenith website and also in Zenith's Financial Services Guide (FSG).

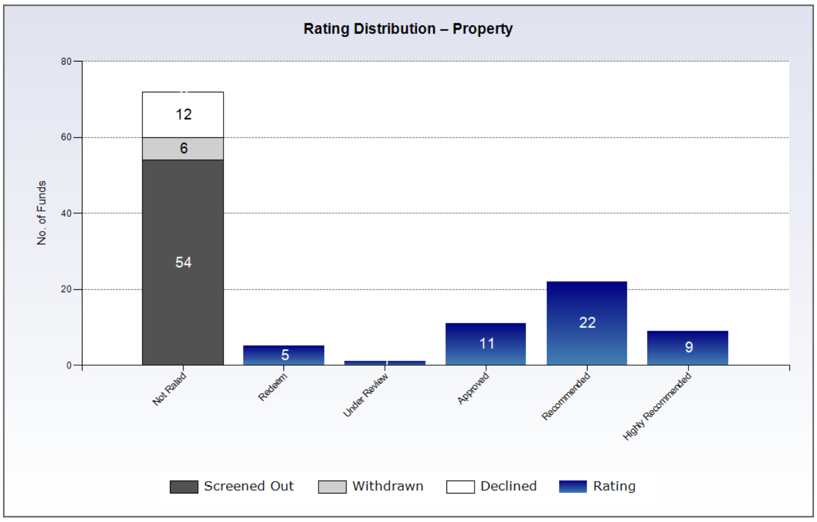
Zenith has charged Bridge Investment Group Partners, LLC a fee to produce this report.

ANALYST CERTIFICATION & DISCLOSURE

Analyst remuneration is not linked to the rating outcome. Analysts holdings in investment products must be non-material and done in accordance with Zenith's Trading Policy. The Analyst certifies that the views expressed in the Product Assessment accurately reflect their personal, professional opinion about the financial product to which this report refers.

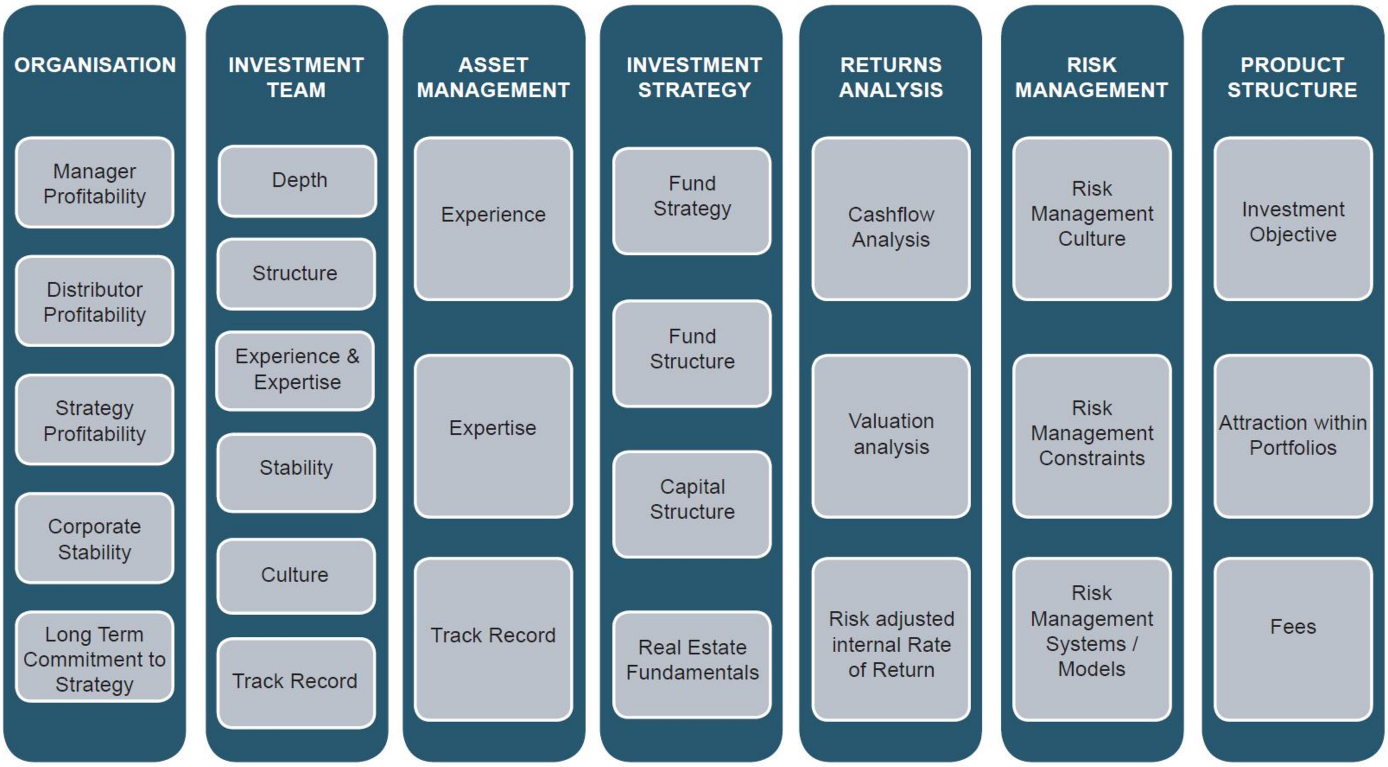
ZENITH RATING DISTRIBUTION

The following chart shows the current breakdown of Zenith's ratings as at the date of viewing. Ratings are based on the relevant fund peer group as determined by Zenith and include Parent funds only. Users can access more detailed information on ratings spreads on the Research Methodology & Regulatory Compliance page of the Zenith website.



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 (%)	Confidence in Meeting Objectives	Zenith Approved List
Highly Recommended	>= 80	Very High	YES
Recommended	>= 70 - 79	High	YES
Approved	>= 55 - 69	Moderate	YES
Not Rated - Declined	N/A	No previous rating held. The fund has passed Zenith's preliminary screen however the issuer has declined to participate in a full due diligence review.	
Not Rated - Withdrawn	N/A	Previous Zenith rating withdrawn due to either: Zenith downgrading the rating to below investment grade; the issuer electing to cease ongoing coverage; the fund has been closed to investment; or the fund has been terminated and wound up.	
Not Rated - Screened Out	< 55	No previous rating held. The fund has either passed Zenith's preliminary screen but failed the full due diligence process; failed Zenith's preliminary screen making it ineligible for a full due diligence review; or is yet to be included in Zenith's preliminary screen or sector review process.	
Redeem	N/A	Previous rating removed where there has been a significant event that Zenith strongly believes will severely impacts the product to such an extent that investors are advised to redeem (withdraw) their investment.	

The performance of the investment in this report is not a representation as to future performance or likely return.

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 (typically a 16+% p.a. plus standard deviation over a rolling 20 year period). 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 (typically a 8-16% p.a. standard deviation over a rolling 20 year period). 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 (typically a 4-8% p.a. standard deviation over a rolling 20 year period). 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 (typically a 2-4% p.a. standard deviation over a rolling 20 year period). 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 (typically a <2% p.a. standard deviation over a rolling 20 year period). 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.