Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

Spire USA ROC III Fund (AUD)

Rating issued on 04 Jan 2016

VIEWPOINT & RATING

Spire USA ROC III Fund (AUD), (SRF or the Fund) offers Australian investors access to a private equity real estate fund domiciled in the U.S. The strategy pursues value-add opportunities in select multifamily and commercial office assets located across the U.S. The management team is highly experienced with an impressive record in similar strategies. Zenith has developed a high conviction in the team's abilities over several years and views the Fund as a relatively unique opportunity for Australian investors to access a high quality investment. **Zenith rates the Spire USA ROC III Fund (AUD) as HIGHLY RECOMMENDED.**

The Fund will access the strategy via a Parallel Partnership. This Partnership allows SRF to invest in a portfolio of assets alongside a Main Fund, the Real Estate Opportunity Capital Fund III LP (ROC III). ROC III was launched in December 2014 and had its first close in January 2015. ROC III has raised US$308.1 million in investor equity as at 18 August 2015 with a target of US$750 million. To date ROC III has purchased US$603.0 million of assets.

The strategy's Investment Manager is Bridge Investment Group Partners, LLC (BIGP), a core manager of real estate investments with a 24 year track record in running specialist real estate funds for institutions, High Net Worth clients (HNW), family offices and endowment funds principally from the U.S. and Asia. BIGP has total assets under management of US$4.3 billion as at 31 October 2015. BIGP will also act as the Investment Manager for SRF.

Despite a significant cyclical rebound in the multifamily sector, BIGP continues to view current opportunities in the U.S. as conducive to their investment philosophy. Their strategy of selecting assets on the basis of implementing value-add programs is less reliant on the cyclicality of markets. This seeks to capture the margin generated by a reworking of assets into stabilised income producing properties.

Australian investors are generally faced with limited opportunities to access quality offshore direct real estate opportunities effectively. This tends to result in a strong historical home bias to direct real estate. Zenith sees the opportunities offered by SRF (to appropriate investors) as being a high quality opportunity. Management's depth of talent and experience is significant and they are specialists in the field of value real estate investing. Zenith views BIGP as highly skilled and a team in which we have strong conviction. Zenith sees this opportunity as highly attractive for investors with a high risk tolerance although we advocate constrained exposure in a diversified portfolio.

FUND FACTS

- Access to a U.S. real estate fund targeting multifamily and commercial assets in the U.S. generating strong capital appreciation and opportunistic income.
- Highly experienced real estate manager with a 24 year track record managing value-add and opportunistic strategies.
- SRF has a 8 year fixed-term and will be unhedged.
- ROC III has already deployed initial funds across seven assets, removing some of the traditional 'blind pool risk' associated with PE funds.

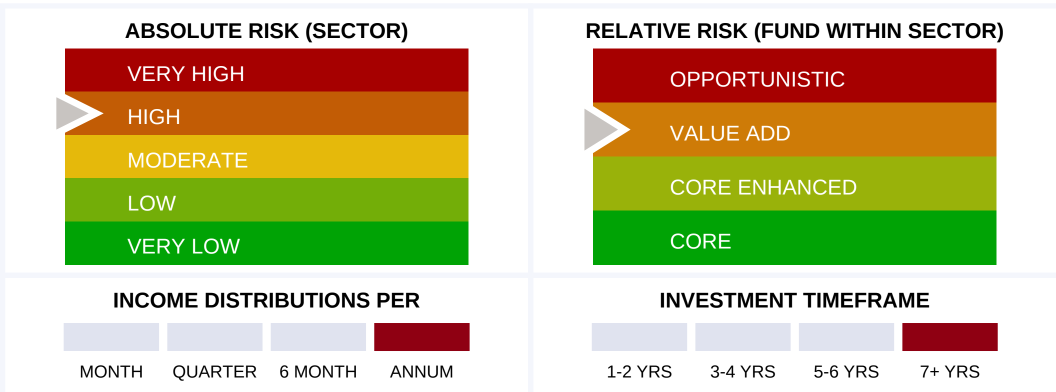
APIR Code
ELT0460AU

Asset / Sub-Asset Class
Property
Direct

Investment Style
Value Add

Zenith Assigned Benchmark
FTSE EPRA/NAREIT Developed $A

Fees (% p.a.)
Management Cost: 0.58%



APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

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. In contrast, listed property funds (A-REITs/G-REITs) represent a limited real estate proxy as returns can often be generated by sources other than rent and property values. The liquid nature of A-REITs/G-REITs 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 occur.

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.

PRODUCT FEATURES

Key Features	Description
Property Sector	Multifamily , Office (U.S.)
Minimum Investment	$50,000
Fund commenced (SRF)	2015
No. of properties (to date)	16
Target raising (SRF)	AU$50m
Target raising (ROC III)	US$750m
Equity raised to date (ROC III)	US$308.1m
Total Assets (ROC III)	US$603.0m
Term [1]	8 years
Applications close [2]	31-Jul-16

All data as at PDS date unless specified. [1] May be extended for up to 2x1 year periods. [2] Or at Managers discretion.

PORTFOLIO APPLICATIONS

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

In Zenith's opinion, SRF may be suitable for investors seeking tactical exposure to offshore physical real estate. Suitable investors must however be able to accept the risks associated with offshore investments, value-add / opportunistic investing in distressed assets, high leverage and nil liquidity in order to achieve this aim. SRF should only be considered by high risk tolerant investors. Given its highly specialised nature, Zenith stresses that investors should be cautious about over-allocating to this Fund and recommends that any allocation should be limited to 5% of a portfolio.

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 Zenith's analysis, correlation of U.S. real estate assets to other mainstream asset classes focused on by Australian investors is generally very weak. This trend is exhibited both in long-term and rolling correlations, so there are solid diversification benefits even within an existing property portfolio.

Asset correlations: Quarterly returns 1989-2014	Aust. Equities	Global Equities	Bonds	A-REIT	G-REIT	Aust. Unlisted Property	US Real Estate (Core)
Aust. Equities	1.00						
Global Equities	0.44	1.00					
Bonds	0.10	0.02	1.00				
Listed Aust. Property	0.58	0.31	0.26	1.00			
Listed Global Property	0.07	(0.50)	0.23	(0.25)	1.00		
Unlisted Aust. Property	(0.08)	0.04	(0.10)	(0.03)	(0.50)	1.00	
US Real Estate (Core)	(0.07)	0.20	0.04	0.05	(0.60)	0.59	1.00

Indicies: S&P/ASX 300 Index, MSCI World Unhedged A$, Bloonberg AusBond Composite Index, S&P/ASX 300 A-REIT, FTSE EPRA/NAREIT Developed Rental Index $A (Hdg), Mercer Unlisted Property Funds Index, NCREIF Fund Index Open-End Diversified Core. Data range 30/6/94-30/6/15.

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.

LIQUIDITY

The Fund is an unlisted property vehicle with a fixed-term of 8 years and may be extended for up to 2 consecutive 1 year periods. SRF investors will have no recourse to redemptions during the 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.

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

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

LEVERAGE RISK: Investors should be aware that the effects of gearing can magnify gains as well as losses. In a loss scenario this may result in potential impairment of values and forced disposal at a time when markets may not be ideally placed to 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 person 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: Investment in direct real estate investment funds can be prone to liquidity dislocations owing to the fundamentally illiquid nature of the underlying assets. Long duration illiquid assets means investors typically have limited ability to react to any changing conditions by reducing or redeeming their investments. Regardless of any liquidity mechanisms present, investors may face circumstances where available liquidity dries up.

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: Many of the portfolio management functions will be outsourced to U.S. entities. The Fund will be exposed to the potential risk of counterparties defaulting on their obligations or otherwise acting in their own interest rather than that of the Fund.

REGULATORY RISK: The funds will be potentially exposed to regulatory risks both is Australia as well as the U.S. Regulatory risks can encompass a variety of areas ranging from potential changes to legal structures to direct intervention in real estate markets.

RELATED PARTY RISK: BIGP 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. Spire will sit on the LP Advisory Committee which mitigates some of this risk.

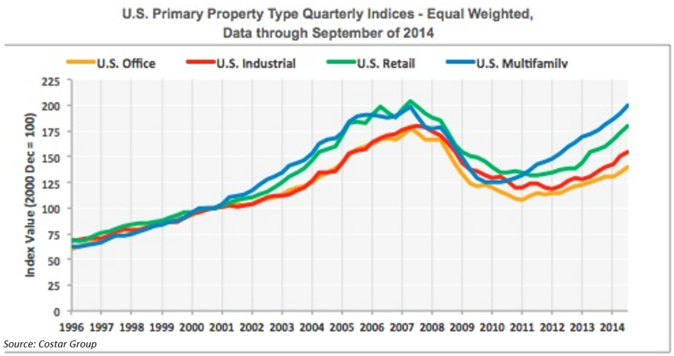
EXECUTION RISK: Unlike most unlisted direct property funds, not all assets are as yet identified for the portfolio. This makes the opportunity more opaque at the outset for potential investors, meaning greater reliance in manager skill.

DISTRIBUTION RISK: The timing of initial cash flows and therefore distributions for the Fund is not certain and will be dependent on the progression of acquisitions, refurbishment and letting up of assets.

MARKET OUTLOOK

Overview

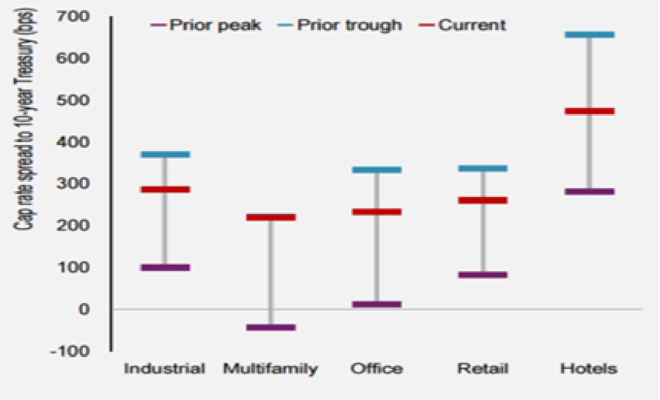
Successive years of accommodating interest rates have allowed real estate markets to recover from its downturn, with a swift recovery in asset values. Strong capital flows continue to boost real estate activity as portfolios reposition themselves to capitalise on historically low cost of capital. Availability of capital through traditional and non-traditional channels is likely to continue to drive investor interest. This has had the effect of driving core markets back to (or past) pre-GFC levels, with attendant run-off into secondary markets.



The market expects a small-to-modest interest rate hike in the US in late 2015/early 2016. However, it seems likely that longer-term US interest rates are likely to remain at lower levels that they have been in previous property cycles. Should this bear out, it will underpin US real estate in the medium-term. However, volatility in financial markets will continue to drive uncertainty. Increased liquidity reflects the generally positive outlook for commercial real estate, but the strengthening economy has also supported momentum.

Cap rate compression has been a significant factor in real estate core markets, falling steadily over the past five years. However, spreads over 10-year US Treasuries remains strong and the rate of year-on-year yield compression appears to be softening. Further short/medium-term value appreciation will likely be driven primarily by value-add operations.

Low interest rate environment supportive of healthy spreads



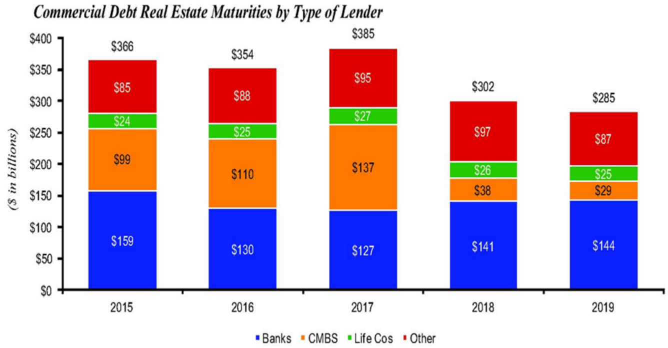
Source: JLL Research, NCREIF, Board of Governors of Federal Reserve

The slow pace of the economic recovery has been a positive for most commercial real estate as it has kept a relative cap on new construction. Typically, new starts increase rapidly during recovery cycles. However the uncertain outlook has largely kept large scale development in check. Construction is re-entering the scene (particularly for multifamily and apartments), but this is largely centred in core 'gateway' markets. As property fundamentals continue to improve, landlords will likely seek to continue to reposition existing stock to enhance competitiveness.

Over the last six years, investment opportunities in value add and opportunistic strategies have been driven by several key metrics: deleveraging; capital flows; flight to quality (core) assets; and thin supply pipelines. While there has been a material reduction in the severity of several of these drivers, their presence is still apparent.

Distressed assets remains a significant issue, with a solid pipeline of loan maturities from Banks, CMBS, Life Companies still in evidence. These loans need to refinanced. While the CMBS market has recently re-emerged as a viable commercial real estate finance vehicle, it is much narrower in scope and generally more restrictive than it was prior to its downturn in 2007. While the wave of maturities peaked in 2013, they are still a major factor. This systemic cycle of dislocation in capital markets continues to provide opportunities for those positioned to capitalise on commercial real estate debt maturities with the right strategy.

Commercial Debt Real Estate Maturities by Type of Lender



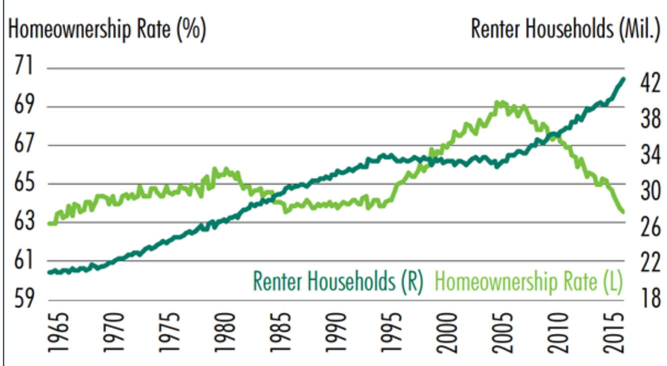
Source: Trepp, LLC, Q4 2014 U.S. Update

Multifamily

Multifamily housing has continued its strong performance and was arguably the first sector to make the transition from recovery into growth. Multifamily has benefited from the early demand surge that has driven a recovery in occupancy and rents. Their typically short-term leases (one year) has permitted rent growth to efficiently and speedily translate into income growth. A lower tendency for home ownership reinforces this view.

In the years immediately following 2007, the sharp declines in home ownership related to economic stress and high foreclosures in the single-family housing market benefited the multifamily market. Going forward, demand is expected to remain relatively strong over the medium-term primarily due to demographic trends and a shift in home ownership preference. The falloff is evident across nearly all age groups in the U.S.

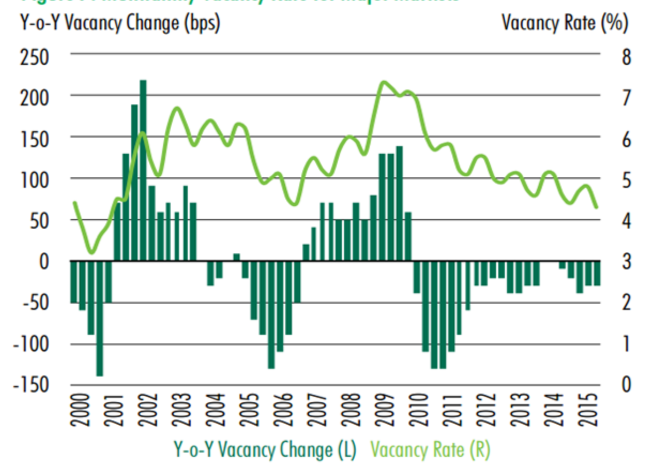
Figure 2: U.S. Homeownership Continues Downward Slide



Source: U.S. Bureau of the Census, Q2 2015.

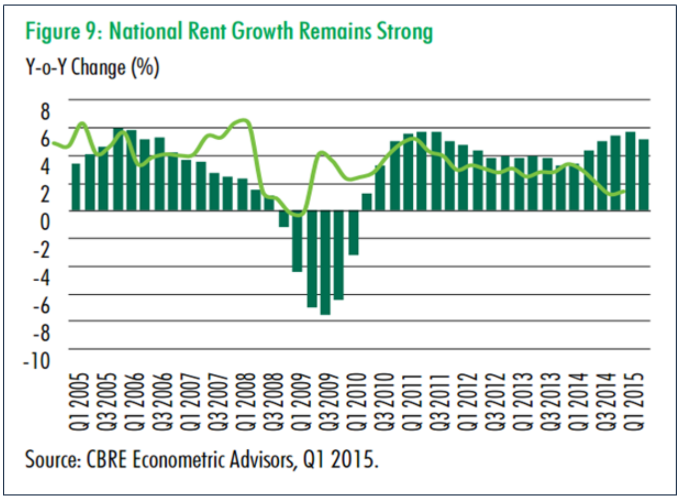
A combination of price growth significantly outstripping wages growth and tight access to credit has meant that the own-versus-rent scenario remains difficult to attain for many. Demographic themes in play include delayed marriages and family starts, strong immigration levels, seniors downsizing homes, student indebtedness and desire for flexibility. Strong demand has kept a cap on vacancy rates in major markets, reaching the lowest level since 2001.

Figure 7: Multifamily Vacancy Rate for Major Markets

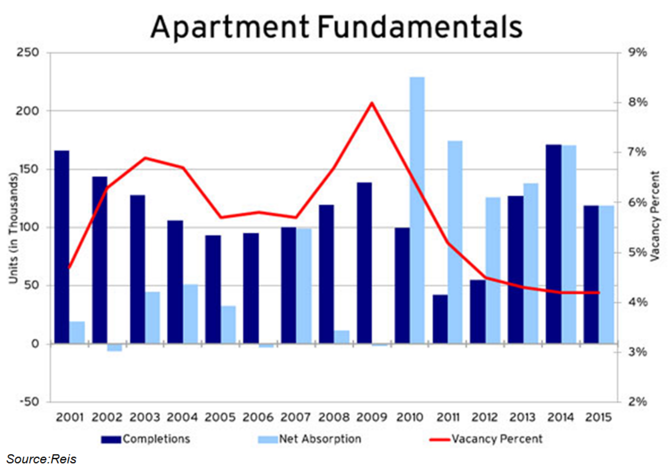


Source: CBRE Econometric Advisors, Q2 2015.

Rents have also risen strongly over the last four years. While this has been a positive, comparatively low income growth combined with strong rent growth has seen average rent affordability decline. This may place pressure on forward rental increases over the medium-term, meaning that the greatest gains will come from repositioning assets rather than maintaining core stabilised positions.

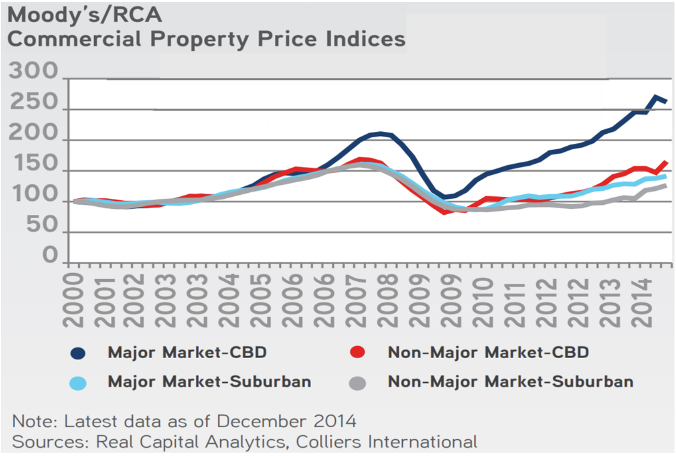


Despite a weaker overall environment for real estate development, this momentum in rental prices has drawn increased developer activity. Despite the construction surge, vacancy rates are expected to remain broadly stable. However market participants should be aware of localised supply pipelines and the possibility that tenant demand will not sufficiently offset new development in the medium-term.

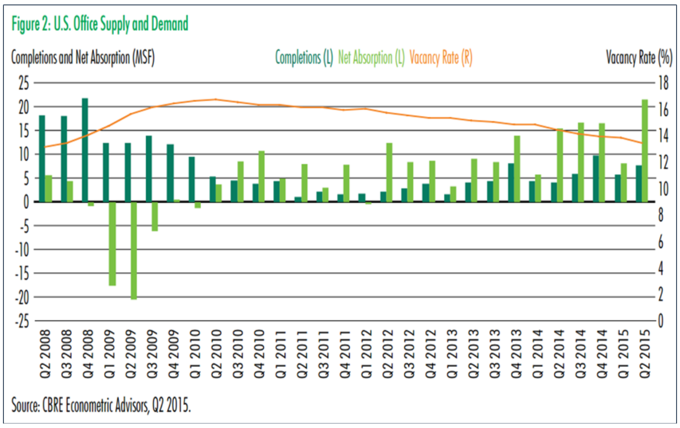


Office

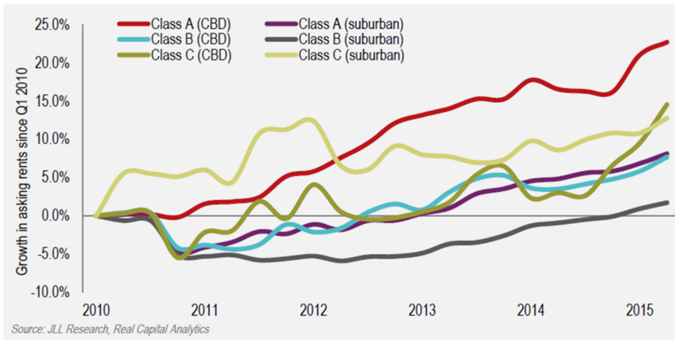
U.S. office markets remain two tiered, with CBD space in primary markets outperforming suburban offices. Major CBD markets have experienced a strong rebound in values and are being transacted near, or above, pre-recession peaks. Assets outside of major markets however are experiencing more limited demand, often causing values to remain substantially below the pre-recession peak.



Markets across the U.S. expect to see continued growth in white collar employment. Strong demand and falling vacancy rates have maintained reasonably steady upward pressure on asking rents for the past four years. Construction activity is increasing as a result of tightening markets. However this remains moderate by long-term historical standards and limited to a few markets nationwide (particularly technology and energy centric markets). Continuation of corporate expansion and high levels of pre-leasing should drive net positive absorption.



Office Rent Growth



The office market outlook anticipates demand outpacing new supply, resulting in lower vacancy, fewer large blocks of space, and higher occupancy costs in the years ahead. Those higher costs will be reflected in rising rents and construction costs for tenant improvements.

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 SRF to invest in parallel to the same investment portfolio and strategy adopted by ROC III. Spire's role is to undertake the capital raising for SRF and facilitate the connection between the US Investment Manager, Australian Investors and the Responsible Entity on an ongoing basis.

Investment Manager

Bridge Investment Group Partners, LLC (BIGP) is the Investment Manager for the Fund. BIGP is a specialist U.S. investment manager specialising in real estate investment for institutional and High Net Worth clients. As at 31 October 2015, BIGP has total Assets Under Management (AUM) of US$4.3 billion.

BIGP 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 a holding company, Bridge Investment Group Holdings, LLC (Bridge-IGH). The original entities, Bridge Investment Group and Bridge Stabilized Apartment Investments were formed in 1992. Bridge-IGH is wholly owned by senior individuals of Bridge-IGH through various underlying companies.

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

Until the launch of their first formal PE real estate fund ROC I in 2009, real estate investments undertaken by BIG were traditionally structured as Joint Ventures or other co-investment structures with private and institutional investors with each investment typically involving a single asset. ROC I represented the first formalised fund structure for the business.

ROC FUND III, GP LLC is the General Partner (GP) for all ROC III Limited Partnerships with Bridge Investment Group Partners, LLC as the Investment Manager. The GP (and affiliates) will commit funds alongside investors of at least 2% of the total raised up to a maximum of US$10 million (the GP has currently committed US$25.8m). This holding will be largely on the same terms and conditions as other investors. However the GP's holdings will not be charged a management fee or be subject to carried interest, nor will their interests confer voting power. GP investment into ROC I constituted over 10% of the committed capital and they are the single largest investor in ROC II. Zenith sees this as an important alignment of interest when combined with performance incentives. We have also noted that there has been significant co-investment at a personal level with key BIGP staff in the past, which also gives strong conviction in the alignment of interest between parties.

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

INVESTMENT PERSONNEL

Name	Title	Tenure
Robert Morse	Chairman	6 Yr(s)
Donaldson Hartman	Vice Chairman (Bridge-AGH), CEO (Bridge-IGP)	10 Yr(s)
Dean Allara	Vice Chairman (Bridge-IGH), COO (Bridge-IGP)	21 Yr(s)
Christian Young	CEO (Bridge-IGH)	22 Yr(s)
Richard W. Stayner	CEO - BPM	22 Yr(s)
Matthew Jensen	Vice President - Operations	9 Yr(s)
Jonathan Slager	Co-Chief Information Officer	11 Yr(s)
Danuel Stanger	Co-Chief Investment Officer	22 Yr(s)
D. Russell Minnick	CEO - Bridge Acquisitions and Dispositions	16 Yr(s)
Robert Hallock	SVP - Property Acquisitions	18 Yr(s)
Kelley Hansen	SVP - Bridge Acquisitions and Dispositions	8 Yr(s)
Matthew DeGraw	President - BPM	13 Yr(s)

BIGP is based in Salt Lake City, Utah with offices in San Francisco (Capital Raising & Operations) and New York (Capital Raising & Fund Management). The business is well resourced with in-house resources consisting of over 1,000 employees spread out across more than 50 real estate sub-markets in the U.S. as well as head office staff. This gives the group a solid footprint although it is evident that there is a past propensity to favour the western states. Zenith notes that there has been a significant uplift in total staff headcount from when we first visited management in 2012 where in-house resources were around 500.

The senior investment management as listed above have an average of 25 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. The total management team comprises 26 individuals, with a senior team of 11.

Senior personnel have worked with each other for many years in Bridge related entities (given the relatively recent consolidation of several businesses within the Bridge collection of companies). When taking this into account, the average co-experience of the investment team working together within various Bridge entities is over 15 years.

BIGP has three key management groups; the Investment Management Committee (IMC), the Executive Committee and the Execution Team. The IMC is tasked with oversight of the investment portfolio, strategy implementation and ongoing operations of the Investment Manager and the Main Fund. The IMC comprises eight individuals (Slager, Allara, Hartman, Jensen, Morse, Stanger, Stayner and Young), and meet formally on a bi-weekly basis.

The Executive Committee implements strategy and investment decisions for the group. This committee comprises 10 individuals of which seven are members of the IMC (all IMC members excluding Jensen). The Execution Team comprises 17 individuals, principally being all members of the IMC and Executive Committee plus other senior management. This team spans key areas of the business (Treasury, Operations, Capital Markets, Legal and Asset Management).

While the IMC has no independent members; PE funds in general have the ability to give key investors 'a seat at the table' via Limited Partner Advisory Committees. LP Advisory Committees are composed of representatives of LP's that are appointed by the general partner. This measure does bring a level of direct external oversight from parties who have a direct vested interest in the investment fund in question. Spire will have a seat on the LP Advisory Committee to represent the interests of the Fund.

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

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

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

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

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). BIGP has stated that the majority of the senior team's time will be devoted to ROC III.

ROC III has a key person event clause which will be triggered if at least three of the core management team (defined as Dean Allara, Don Hartman, Robert Morse, Jonathan Slager, Danuel Stanger or Christian Young), are no longer actively involved in the operations (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 III) is given.

While the presence of such a clause is a comfort, ideally Zenith would prefer a system whereby the GP also automatically notifies LP's of any departures of key personnel. We do note however that the significant depth of the team is a mitigating factor in this instance. While management have strong depth in investment personnel, strong growth in operations and AUM means adequate resourcing is critical going forward to guard against capacity constraints.

BIGP has indicated that they are very conscious of capacity constraints and has plans in place to address this issue. At the senior level each of the key individuals acts in a mentor type role with a more junior staff member who works alongside in preparation for roles which will ultimately increase team depth and capacity. This will also work toward providing a measure of redundancy from an HR perspective.

The GP provides the ability for all LP's to have regular access to meetings either in person or remotely by internet and teleconference facilities. Zenith has been impressed by the depth of transparency offered to investors. 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.

Compensation comprises a base salary, a short-term incentive program (cash bonus) and potential participation in a long-term incentive program based on the KPI's relevant to the Fund's activities and individual performance. Long-term awards typically vest between a four and five year period for each grant year.

Zenith sees this is a highly experienced, cohesive team. Management are close knit and demonstrate strong investment discipline. The team are at their heart deep value, high conviction real estate investors, a style which has been evident in previous ROC funds.

Asset Management

Asset management of the properties is undertaken in-house by Bridge Property Management (BPM) which is a sister company of the Investment Manager. BPM was established in 1993 and manages over 2,400,000m2 of office space and more than 31,000 multifamily apartment units. BPM manages the greater majority of BIGP's investment portfolio. BPM also manages real estate holdings for other funds, institutional capital aggregators and individual private investors.

BPM has significant resources on the ground with 845 personnel comprising property managers, leasing agents and on-site service staff. This gives BPM in depth coverage of local market conditions across a range of vital issues. BPM also has extensive capabilities in property management over a wide range of disciplines from rezoning through to full scale development as well as management, operation, rehabilitation, repositioning and refinancing of real estate assets.

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

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

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

INVESTMENT PROCESS

SRF aims to generate annual income from operations, realise long-term capital appreciation with a net IRR target of 13 to 14% pa and manage risks appropriately to preserve and return invested capital (net IRR being post applicable fees, carried interests etc.).

The core philosophy of BIGP has traditionally been to establish investment strategies that take advantage of market opportunities without exposing portfolios to uncompensated risk. The team has proved flexible in their adaptation to various real estate strategies depending on prevailing real estate market conditions and credit cycles.

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

ROC III (and therefore SRF) seeks to provide investors with strong capital appreciation through strategies involving primarily value-add real estate strategies. The Fund will seek either properties which can be acquired at a significant discount to historic values and replacement cost, or are projected to be cash flow positive either immediately or after the respective work out strategy has been implemented. The Fund will also make use of leverage where appropriate to leverage returns.

BIGP's investment philosophy is to seeks assets where;

- Purchases can be made at a discount to replacement cost;
- In cities demonstrating strong macro-economic prospects;
- At prices between US$10 to US$25 million (representing a less competitive market);
- Where full due diligence can be undertaken on the asset;
- That are projected to be cash flow positive either immediately or after improvements; and
- Located in growth markets with upside to market occupancy and rents.

While allocations to real estate debt can be made, this is only intended to be on a limited basis, generally as a play to take control of an asset if the borrower defaults (loan-to-own). Any allocations to debt are more likely to be for bridging finance deals with high risk adjusted returns. BIGP has been successful in pursuing such strategies in the past, however it is not expected to be a targeted feature of the Fund.

It should be noted that while the Fund focuses on value-add and opportunistic strategies, these will be materially different from the traditional definition (particularly in Australia) which is usually typified by real estate development projects that have little or no initial cashflow generation and are leveraged to high levels. The Fund's emphasis is on opportunities that involve improved assets with existing income or those that are ready to lease.

The location specific nature of real estate traditionally means that the investment approach is usually dictated by intense scrutiny of local factors. The Investment Manager is intimately aware of the fact that assets will still need to be appropriately located with supporting local drivers in order to maximise the terminal value once strategy execution is complete. Accordingly, asset selection takes a focus on growth markets with solid macroeconomic and microeconomic factors to drive real estate dynamics.

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

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

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

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

The assessment and underwriting process is driven by income and expense assumptions looking forward three to five years. The Investment Manager aims 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. The combination of producing an asset with a stabilised mature cash flow with built in rent growth and a return to more typical cap rates reflective of their historical medians is expected to drive superior risk adjusted returns for the Fund.

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

While divestment of assets is the last step in the process, management ensure that, where possible, a clear exit strategy is in place before acquisition in order to maximise investment value. Zenith notes that management have consistently demonstrated the ability to exit assets quickly to maximise outcomes. Zenith believes this exemplifies BIGP's clear strategy planning in adding value as well as the discipline to execute.

SECURITY SELECTION

The Fund will target assets in both urban and suburban locations of the major metropolitan areas. The Fund will focus on the top 65 U.S. Metropolitan Statistical Areas (MSA's), particularly on secondary cities where competition is limited. Specifically, by tracking population growth, job growth, household formation, multifamily, single family and office supply in these MSA's, the General Partner has developed and uses a proprietary algorithm to help determine markets that offer the greatest opportunity to employ their investment strategy.

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

As part of assessing the deal flow, The Investment Manager reviews approximately 70 acquisition opportunities per week. These deals are sourced from their expansive network of real estate agents, government entities, loan servicers and banks. Usually approximately 10 of the most attractive proposals received each week are presented to the Investment Management Committee, with around 60% of these making it to the offer stage.

The team has an established list of criteria that would result in the termination of a deal. These include failure to meet return hurdles, deals which would result in overweighting to a region or sector, assets not located in a target market, unviable for economic refurbishment (i.e. functional obsolescence), and unfavourable supply/demand indicators.

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

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

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

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

PORTFOLIO CONSTRUCTION

ROC III has a relatively unconstrained investment universe, being limited only to U.S. multifamily and commercial office real estate. It is intended however that the main focus will be on multifamily. All geographic regions and markets in the U.S. will be considered.

Management aims to assemble a diversified portfolio of existing apartment and commercial office assets offering strong current or projected income and potential for capital appreciation. Investments will be acquired throughout the United States with an emphasis on assets where the management believes distinct opportunities to add value exist. These assets will primarily be located in those areas in which Bridge-IGP has the most managing/operating experience.

Three main strategies will be utilised:

ROC III	Middle-Class Multifamily Housing Moderate Value-Add	Middle-Class Multifamily Housing Heavy Value-Add	Commercial Office Opportunistic
Role in the portfolio	Cash flow focus	Total return focus	Total return focus
% of Portfolio	40%	40%	20%
Average hold	6 years	6 years	4 years
Strategy	Stabilised properties in preferred markets with upside through amenity enhancements and unit upgrades.	Capital expenditure, intensive management oversight and residential repositioning.	Well located assets in high growth markets requiring strong management renovations.
Characteristics	Stable-near stable occupancy (~90%), positive NOI growth	Major capital requirements, typically some resident repositioning to improve NOI.	Typically 50%-70% leased, requires renovation of common areas and leasing up.

Owing to the nature of the Fund, much of the work goes into sourcing the right investments and undertaking the right management plans. The portfolio is bottom-up focussed and is expected to contain a large number of assets.

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 net IRR targets set by management.

As at the date of this report, the Fund is a new vehicle and the underlying Main Fund has yet to fully raise and deploy capital. As such, detailed asset analysis has not been practical. To date, ROC III has acquired 16 assets with an additional three under contract.

ROC III Asset Portfolio

Property	Sector	Location	No. of Units / Square Feet	Purchase Price (US$m)
Westheimer & Villas	Multifamily	Houston, TX	660	85.70
Westshore 500	Commercial	Tampa FL	129,726 SF	20.90
Southwood Vista	Multifamily	Atlanta, GA	300	25.20
Embassy Row	Commercial	Altanta, GA	NA	70.00
The Enclave Apts.	Multifamily	Paramount, CA	306	61.20
Sheffield Square	Multifamily	Grand Prarie, TX	400	33.50
Landmark at Baynon Bay	Multifamily	Atlanta, GA	646	30.00
Spring Lake	Multifamily	Altanta, GA	380	23.98
The Enclave	Multifamily	San Antonio, TX	384	22.15
Promenade Terrace	Multifamily	Corona, CA	330	78.50
Fairwat in Deerfield Beach	Office	Deerfield Beach, FL	176,890 SF	21.00
Legacy Ridge	Multifamily	Atlanta, GA	374	31.28
The Crossing at Chino Hills	Multifamily / Development	Chine Hills, CA	346	18.09
Reserve at Racho Belago	Multifamily	Moreno Valley, CA	176	30.10
Amara at Metrowest	Multifamily	Orlando, FL	411	51.40
TOTAL				**603.00**

RISK MANAGEMENT

Risk management parameters are relatively unconstrained within the Fund aside from limitations relating to no non-North American investments and the use of leverage (maximum 75%).

The Fund has guidelines around diversification limitations where it is intended not to invest more than 15% of the Fund in any single investment. However, in 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. 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, that is, the 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. Although unconventional and less transparent, Zenith concurs with this approach in this instance.

Given the role of the Fund as a relatively short-term, value investor in a fund structure which is wholly illiquid, we see the cost of independent valuation on such a large portfolio to be an unreasonable drag on returns. With the quick exit focus of the strategy where some investments can be exited quite rapidly, we accept that formal valuations are not as necessary as opposed to core 'long-only' vehicles who need to have regular unit pricing. Zenith has examined managements' internal valuations and believes they are sufficiently detailed with robust methodologies to act as a reasonable proxy. In addition, an independent auditor undertakes an annual review of these and other aspects which brings an element of rigour to the process.

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

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 III. 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 III.

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.

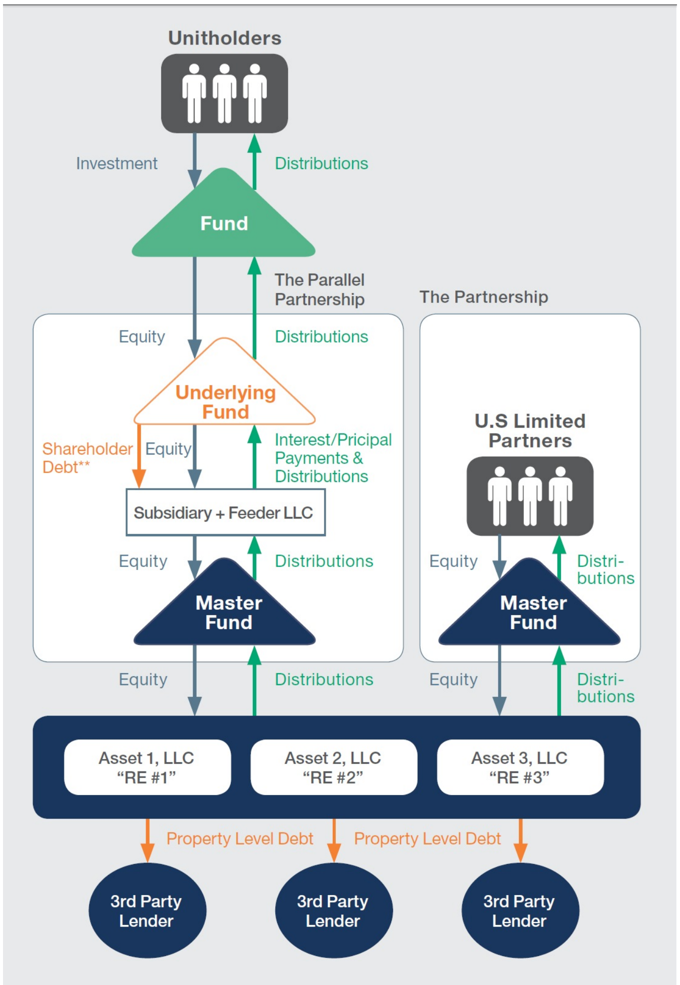
Spire Capital Pty Ltd (Spire) is an Australian limited liability company that was formed in 2009. EQT has appointed Spire as the fund manager. The principal activity of the Fund is to act as a feeder fund into ROC III. ROC III also includes parallel vehicles. While the Fund does not directly access ROC III, it does so through a parallel vehicle – ROC III 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 III.

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 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 III 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 allocated 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 allocated 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 subject to two layers of operational fees.



Fund assets will generally be held 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. While the Fund will also be subject to capital calls which will determine the issue price of fund units, individual unitholders are not subject to calls.

On application, investors are issued with $1.00 Ordinary Units. The issue price is 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 of investment.

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 to 65% LVR with a maximum of 75%.

The Investment Manager ensures it matches cashflows so that the timing of the debt matches the property's ability to service it. This ensures that each property has a healthy debt coverage ratio upon stabilisation. Ideally, Zenith would prefer to see some form of hard limit around the level of interest coverage required, particularly if assets are being held for longer periods.

As at 30 June 2015, ROC III had a Loan to Value Ratio (LVR) of 67.2%. 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 loan's applicable covenants and believes that overall while the associated risks of these gearing levels are present, they are not extreme. The portfolio is currently generating an overall ICR of 2.1x as at 30 June 2015. Currently, 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, BIGP has the ability to use temporary collateralisation against other assets in the portfolio as a way to provide partial recourse for a set period when 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 acknowledges that it raises the risk/reward outcome significantly. We do note however that BIGP 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 BIGP regarding past funds which gives us an additional level of comfort.

Borrowing for the Main Fund will be undertaken in U.S. dollars so the Fund will not be exposed to currency risk, however Australian investors in SRF will be. Zenith generally advises caution regarding use of leverage on real estate assets 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.

INVESTMENT FEES

Fees associated with an investment into the SRF can be broken into explicit and implicit components. Firstly there are fees directly applicable to the operation of the SRF. 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 III). While fees applicable to the Underlying Fund/Main Fund are not incurred directly by the SRF, they should be considered on a look through basis as they will impact the NAV of the Underlying Fund.

Fund Fees (SRF)

Fees – Spire USA ROC III Fund (AUD)	
Fund Manager Fee	0.50% pa of NAV
RE Fees	Max. 0.06% 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 cost 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

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

Fees – ROC Seniors Housing & Medical Properties Fund 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 charge 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 fee 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 III 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 generally 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. Zenith does not consider the overall fee burden to be excessive, although it is at the higher end of the scale. Given the nature of the opportunity however, we remain generally comfortable with. These fees compare to an average MER of 2.5% 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 and how fees and benefits are delivered.

Returns Structure			
Priority	**Details**		**Received by:**
1st	Return of capital	100% + costs to the LP	SRF
2nd	Hurdle rate (Preferred Return)	8% p.a. cumulative compound	SRF
3rd	Carried Interest (GP Catch-up)	80% to GP, 20% to LP until GP receives distributions equal to 20% of investment proceeds distributed net of fees, costs and carried interest.	SRF/GP
4th	Carried Interest (Profit share thereafter)	80%/20% split to the LP & GP respectively	GP

While the returns structure is 'industry standard' there are some aspects which Zenith would ultimately prefer seeing changed. The hurdle rate for ROC III (and therefore the Fund) is set at 8% which is roughly in-line with industry standards for private equity real estate funds which tend to see hurdles average around 8%-9%.

In our view, return 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 private equity 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.

PERFORMANCE ANALYSIS

As at the date of this report, the Fund is a new vehicle and the underlying Main Fund has yet to fully raise and deploy capital. As such, detailed asset analysis is not practical. The majority of the investment manager's track record has been gained through deploying strategies broadly similar to ROC III. While ROC III is somewhat less opportunistic than recent funds, management's record through several economic remains relevant.

The following table details the past ourcomes since inception for the investment managers' funds and earlier investments (non-pooled structures).

Track record	Return Multiple	Net IRR
Realised Investments		
Bridge Investments Group (July 1992 – June 2015) [1]	1.9x	18.50%
ROC I (March 2009 - June 2015)	1.69x	19.90%
ROC II (April 2012 - June 2015)	1.23x	20.60%
Total investments		
Bridge Investments Group (July 1992 – June 2015) [1]	2.02x	18.00%
ROC I (March 2009 - June 2015)	1.79x	16.80%
ROC II (April 2012 - June 2015)	1.51x	28.60%

[1] Gross of fees. All other values are net of fees.

When analysing the team's track record on a look-through basis (i.e. individual assets), it is apparant that very few negative outcomes have been returned. The majority of these represent unrealised projects which are yet to return any capital. Overall, less than 10% of individual deals have evidenced a negative IRR over the period. Of these, all except one were pre-ROC I where investors were exposed to single assets. Having transitioned to using pooled fund structures, diversification benefits materially lower overall risk/return outcomes.

REPORT CERTIFICATION

Date of issue: 4 Jan 2016

Role	Analyst	Title
Author	Dugald Higgins	Senior Investment Analyst
Sector Lead	Dugald Higgins	Senior Investment Analyst
Authoriser	Andrew Yap	Head of Multi-Asset & Income Research

RATING HISTORY

As At	Rating
4 Jan 2016	Highly Recommended

Last 5 years only displayed. Longer histories available on request.

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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.

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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).

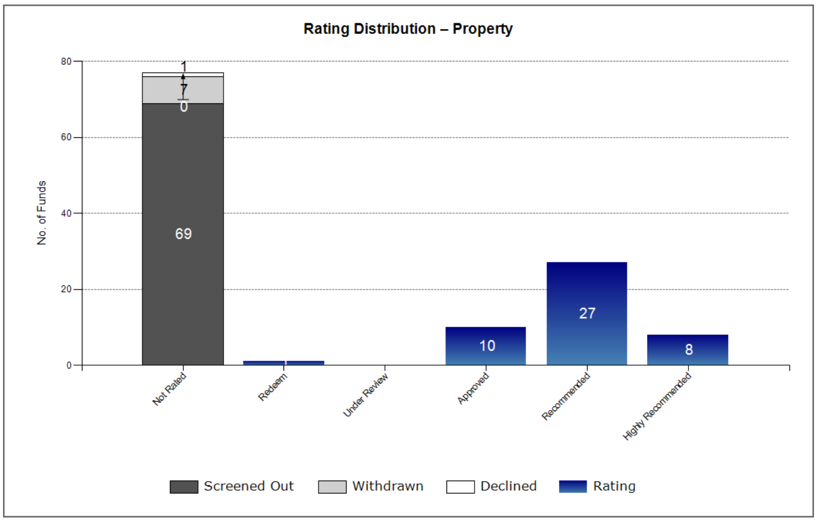
Zenith has charged Bridge Investment Group Partners, LLC a fee to produce this report.

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.

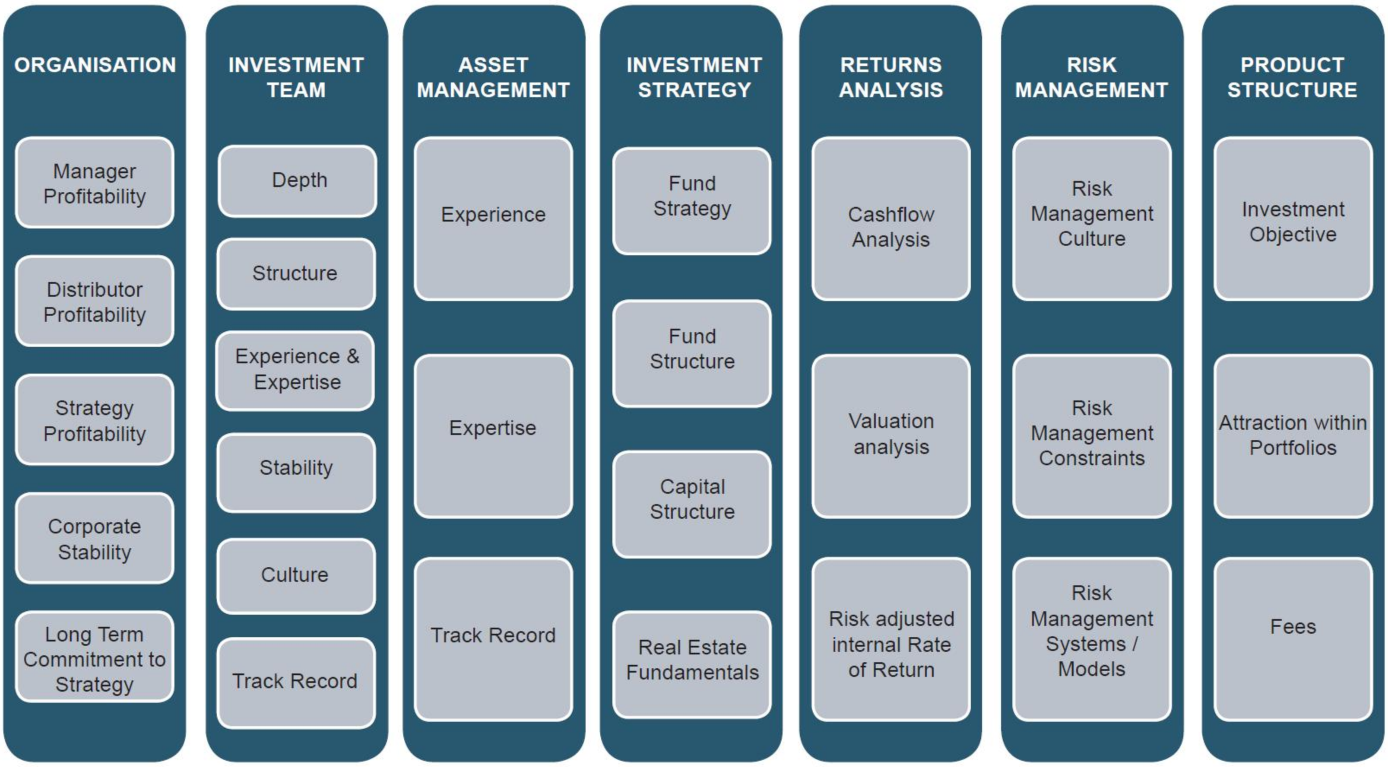
ZENITH RATING DISTRIBUTION

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.