Zenith Investment Partners

Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

Rating issued on 08 May 2018

Spire USA ROC IV Fund (AUD)

VIEWPOINT & RATING

Spire USA ROC IV Fund (AUD) (the Fund) is structured and distributed in Australia by Sydney based, Spire Capital (Spire) and provides access to a suite of unhedged Private Real Estate (PRE) programs, with a focus on the U.S. multifamily and commercial office markets. The Fund's underlying assets are managed by U.S. based Bridge Investment Group LLC (Bridge), who has extensive experience in the deployment, management and realisation of these strategies. Zenith has developed a strong conviction in Bridge's abilities and views the Fund as a relatively unique opportunity for investors to access a high quality investment strategy in U.S. markets.

Bridge has over 26 years' experience as a privately held real estate investment and property management firm that manages in excess of $US 10 billion in Assets Under Management (AUM) as at 31 March 2018. The investment business also operates with an integrated property management platform with specialised investment teams focused on select real estate markets across the U.S. The Fund Manager is Sydney based Spire Capital (Spire). The Fund's portfolio exposure is via participation in two separate programs as a Limited Partner (LP), which are implemented by various entities of Bridge.

The Fund's underlying asset mix is expected to comprise 60% to 70% in multifamily property assets and the remainder in commercial office. Zenith highlights that while the underlying investment programs have been established, they are currently in the process of raising and deploying capital, with full deployment expected to be no later than mid-2021. The Bridge Multifamily Program (Multifamily Program) is seeking to raise a total of $ US 1 billion in equity, while the Bridge Office Program (Office Program) is seeking to raise a total of $ US 750 million in equity. While the Australian Fund will not use leverage, Bridge has the flexibility to apply leverage of up to 75% of the loan-to-value ratio (LVR) of the underlying portfolio, with a maximum target of 60 to 65%.

In Zenith's opinion, on a fully leveraged basis, the Fund represents an aggressive investment structure with the potential for high capital volatility. Notwithstanding this, Bridge has a strong track record in managing these types of strategies, particularly with respect to matching financing obligations with rental payments.

Bridge's core strategy across both asset classes is fundamentally based, focusing on the acquisition of assets which offer value-add opportunities for repositioning and increasing operating cashflow. The successful implementation of value-add programs is typically less reliant on the cyclicality of markets. Instead, value is primarily generated by focusing on capturing the margin available by a reworking of assets with sub-optimal cashflows into stabilised, higher yielding properties. Under each program, there is a target framework in relation to the level of repositioning/works that would be expected ('Light', 'Moderate' and 'Heavy'). This target is approximately 30%/40%/30% respectively.

While the Fund's closed-end structure is generally the most efficient for holding illiquid assets in value-add programs, it does bring additional risks to investors posed by illiquidity. Consideration should be given as to the appropriate allocation of illiquid exposures within an investment portfolio. Zenith sees the Fund as attractive for investors with a high-risk tolerance.

FUND FACTS

- Access to a portfolio of U.S. PRE funds targeting multifamily and commercial assets
- The Fund is an unhedged, closed-end, illiquid vehicle with an expected term of 6 to 8 years
- Highly experienced investment manager with strong record managing value-add and opportunistic strategies
- Deployment of capital has commenced, removing some of the traditional 'blind pool risk' associated with PRE funds

ABSOLUTE RISK (SECTOR)

VERY HIGH
HIGH
MODERATE
LOW
VERY LOW

RELATIVE RISK (FUND WITHIN SECTOR)

OPPORTUNISTIC
VALUE ADD
CORE ENHANCED
CORE

INCOME DISTRIBUTIONS PER

MONTH | QUARTER | 6 MONTH | ANNUM

INVESTMENT TIMEFRAME

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

APIR Code
ELT8946AU

Asset / Sub-Asset Class
Property
Direct

Investment Style
Value Add

Investment Objective
The Fund seeks to provide annual income and attractive capital growth through investment in U.S private real estate.

Zenith Assigned Benchmark
FTSE EPRA/NAREIT Developed $A

Fees (% p.a., Incl. GST)
Management Cost: 0.75%
Performance Fee: Nil

Zenith charges a fee to the Product Issuer to produce this report.
For further information please refer to the Disclaimer & Disclosure at the end of this report.

APPLICATIONS OF INVESTMENT

SECTOR CHARACTERISTICS

Unlisted direct real estate investments encompass a range of risk/return profiles depending on portfolio assets, fund strategy, capital structure and domicile. Typically, investments into unlisted real estate exhibits lower volatility than other asset classes, along with a generally weak correlation of returns. This is primarily 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 exposures (A-REITs/G-REITs) reflect a real estate proxy as their liquid nature exposes them to public market sentiment. This in turn tends to heighten their correlation to equities, particularly in periods of heightened market volatility. In addition, REITs often contain exposure to sources of return other than real estate, such as funds management operations.

Direct real estate strategies can range from core/core enhanced assets through to value-add and opportunistic. Core/core enhanced assets have existing, tenanted assets and tend to produce robust income streams with potential for capital growth. Given their income focus, they are expected to display greater distribution consistency of returns. Value-add and opportunistic assets are higher risk, total return orientated strategies. These typically involve real estate development or assets with delayed or impaired cashflows. Such strategies may often pay comparatively lower income levels or experience greater volatility of cashflows. The majority of these returns will be via capital gain.

It should be appreciated that even within core/core enhanced strategies, a wide range of risk/reward scenarios can occur. In particular, the risks associated with fund leverage needs to be considered as this tends to be a fixture of the asset class.

When taking into account portfolio construction, unlisted direct property funds can posses either defensive (core/core enhanced) or growth (value-add and opportunistic) characteristics. However this is highly dependant on strategy, asset mix and execution. The asset class is generally considered to pose moderate to high risk characteristics in a wider portfolio context. 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	2018
Target Raising (Fund)	$A 50m - $75m
Target Raising (Office Program)	$US 750m
Target Raising (Multifamily Program)	$US 1bn
Term	6 to 8 years
Liquidity	Nil
Applications Close	At Fund Manager discretion

All data as at PDS date unless specified.

PORTFOLIO APPLICATIONS

Global real estate markets can offer a greater breadth of market segments and differentiating returns drivers than local markets. By virtue of these factors, a discrete allocation to unlisted direct global property within a diversified portfolio has the potential to enhance returns and improve portfolio efficiency.

Zenith believes the Fund may be used to potentially reduce the volatility of an investor's existing growth-orientated portfolio, whilst also providing attractive total returns. According to Zenith's analysis global direct property has historically exhibited a low correlation with all major asset classes, including Australian listed and unlisted property. However, while the assets will show a low level of correlation, investors should take note of the potential impact of currency movements on returns, given the Fund is unhedged. As such, Zenith expected that the Fund will have higher levels of volatility than Australian direct property funds.

The Fund may be suitable for those investors seeking unhedged exposure to a high conviction real estate strategy that focuses on U.S. multifamily and office markets. As a benchmark unaware strategy, the Fund is likely to generate a set of portfolio outcomes that are highly differentiated to peers and benchmark-sensitive competitors. Given that the Fund represents a niche investment exposure, Zenith recommends that it is not suitable for portfolios seeking a diversified exposure to direct property unless an allocation is blended with other investment vehicles in other real estate sectors. Investors should note that the Fund's global exposures are not hedged and movements in exchange rates have the potential to meaningfully impact performance.

Investors must be able to accept the higher risks associated with offshore investments, value-add investing, leverage and no liquidity. The Fund should only be considered by investors with a high risk tolerance. Despite our high conviction in the Fund and its management, given the highly specialised nature of the strategy, Zenith stresses that investors should be cautious about over-allocating.

LIQUIDITY

The Fund is an unlisted property vehicle with an expected term of six to eight years which may be extended for up to two consecutive one-year periods. Investors will have no recourse to redemptions 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 eight-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: 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 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) 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:

PRIVATE REAL ESTATE RISK: Private investments are typically less transparant than public market investments. Lack of transparent pricing of the underlying assets where valuations may be based on internal estimates or on historical costs, can create increased pricing uncertainties with flow on effects to the Net Asset Value (NAV) of the Fund. Private investments also typically involve establishing exit strategies that depend on a number of events and hurdles being met, some of these are outside the control of private funds.

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 exposures to reduce short-term volatility.

VALUE-ADD RISK: Value-add real estate strategies typically seek to increase asset cashflow over time by improving or repositioning the property. While successful value-add projects will typically generate higher returns than core/core plus strategies, these strategies bear more risk due to the fact that at the time of acquisition, the property is not operating at its full potential. Any failure to adequately execute the proposed asset plan can result in higher losses than would otherwise be expected in lower risk strategies.

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.

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: Not all assets to which the Fund will be exposed are as yet identified. As such the Fund is more opaque at the outset meaning greater reliance in manager skill. 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.

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.

QUALITATIVE DUE DILIGENCE

ORGANISATION

Fund Manager

The Fund Manager and promoter is Spire Capital Pty Ltd (Spire). Spire's role is essentially one of facilitating access to an offshore investment opportunity to local investors. 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 participants in the investment programs.

In addition, Spire will be responsible for implementing capital commitments between the Fund and the Bridge investment programs into which the Fund will invest. Equity Trustees Limited is the Responsible Entity and Custodian of the Fund.

Investment Manager

Bridge Investment Group LLC is the Investment Manager for the Fund. Bridge is based in Salt Lake City, Utah, with additional offices in San Francisco (Capital Raising & Operations) and New York (Capital Raising & Fund

Management).

Bridge was originated in 1992 as Bridge Investment Group and Bridge Stabilized Apartment Investments which acted as an owner/operator of real estate joint ventures and co-investment vehicles for institutional and high net worth clients. Bridge now operates a series of pooled vehicles as well as a property management platform across the U.S. which services the operational aspects of the various investment assets held in the funds.

Bridge specialises in investing across multifamily, commercial office, seniors housing/medical and real estate debt strategies. As at 31 March 2017, Bridge had total Assets Under Management (AUM) in excess of $US 10 billion.

In 2016, Bridge augmented their investment capability in office programs by acquiring Atlanta based Fairlead Commercial Real Estate LLC (Fairlead). Fairlead was a vertically integrated real estate business founded in 2012 specialising in office, with leasing, construction and investment operations. The majority of the Fairlead team have joined the Bridge team as part of this transaction.

While Bridge are well versed in the execution of office strategies which have been a feature of past investments, Bridge saw an opportunity to extend their talent pool and operational capabilities by partnering with a firm where there was a similar philosophy to investment strategy and execution. This philosophy is largely similar to Bridge's entry into the seniors housing market in 2014, where they bought a specialised investment firm operating in this space. As Bridge have moved to an investment model where their funds offer dedicated strategies rather than blended, management has realised that dedicated vehicles ideally require larger, dedicated investment teams.

Bridge Multifamily Fund Manager LLC and Bridge Office Fund Manager LLC respectively act as the General Partners (GPs) for the Multifamily and Office Programs, with Bridge Investment Group Partners, LLC as the Investment Manager. The GPs (and affiliates) will commit funds alongside investors of at least 2% of the total raised up to a maximum of US$10 million. These holdings will be largely on the same terms and conditions as other investors. However, the GP’s holdings will not be charged management fees or be subject to carried interest, nor will their interests confer voting power.

Zenith notes that GP investment into past Bridge funds has been material in terms of commited capital. 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 Bridge 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 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.

Zenith notes that Bridge has experienced a significant rise in AUM in recent years. While we are relatively comfortable that this high growth has been adequately planned, we are conscious that rapid AUM growth must be matched by the appropriate resourcing and systems to facilitate expansion and manage investment processed and risk.

INVESTMENT PERSONNEL

Name	Title	Tenure
Robert Morse	Executive Chairman (Bridge)	8 Yr(s)
Dean Allara	Vice Chairman (Bridge)	25 Yr(s)
Jonathan Slager	Co-Chief Executive Officer (Bridge), CIO (Multifamily Program)	14 Yr(s)
John Ward	Chief Investment Officer (Office Program)	1 Yr(s)
Kelley Hansen	Deupty Chief Investment Officer (Office Program)	10 Yr(s)
Jeff Shaw	CEO, Leasing & Property Management (Office Program)	1 Yr(s)
Mark Ferris	Senior Managing Director of Operations (Office Program)	1 Yr(s)
Russell Minnick	President of Bridge Acquisitions, Asset Management and Dispositions (Multifamily Program)	18 Yr(s)
David Coelho	Chief Strategy Officer (Bridge)	1 Yr(s)
Matthew DeGraw	President and COO (Bridge Property Management)	15 Yr(s)

Bridge is based in Salt Lake City, Utah, with key offices in San Francisco (Capital Raising & Operations) and New York (Capital Raising & Fund Management). In addition to investment management operations, Bridge maintains a large in-house property operations and management business consisting of over 1,000 employees spread out across more than 50 real estate submarkets in the U.S. as well as head office staff.

Management of the investment programs relies on a series of committees. Each program is overseen by an Investment Committee (IC), who are the ultimate decision-making body. The IC's are tasked with the implementation of the investment decisions approved by each of the GPs involved in each program. The IC's also delegate to Execution Teams for each program the day-to-day management and implementation of the investment strategies in the individual investment holdings.

The IC members for each investment program (listed above), comprise Bridge senior personnel. Each IC is chaired by Robert Morse. Zenith has met with a number of members of these IC's on multiple occasions and rates them highly given their extensive experience and track record in PRE investing.

The IC for the Office Program comprises Robert Morse, Dean Allara, Mark Ferris, Kelly Hansen, Jeff Shaw, Jonathan Slager and John Ward. The IC for the Multifamily Program consists of Morse, Allara, Slager, Russell Minnick, Matthew DeGraw and David Coelho. These individuals have an average of 24 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 IC's each have significant depth of knowledge and experience in this specialist asset class which Zenith regards highly. While the Fairlead team that have merged into Bridge have less tenure, their level of industry experience is generally synonymous with that of the existing Bridge team.

The Executive Committee (EC) is responsible for the implementation of investment decisions made by each IC, with these decisions being then delegated to the Execution team. The EC also implements 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)
- Capital Markets (development of debt and equity strategies).

Each of these committees is operated by the senior executives of 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 EC 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's and team regarding pre-screened and underwritten assets as potential acquisitions.

In particular, Zenith holds the IC members of the Multifamily Program in high regard (Morse, Allara, Slager) given their extensive experience and commercial acumen. Although Bridge are largely market agnostic, multifamily has historically been the foundation of their investments. Zenith have noted that at the senior level, management have been highly cohesive and stable.

While over the past three years there is an observable pattern in succession planning, most recent being former Co-CIO Danuel Stanger stepping back from his role, Zenith believes that these issues are generally well planned and executed. While the members of the former Fairlead team are a less well known quantity, Zenith views them as capable. Zenith believes that their former connections with the Bridge business and similarities in investment philosophy will help smooth the transition to working together. However team integration will be an issue to monitor.

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 in the past 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.

Zenith notes that Bridge has in place a strong succession planning framework. This is demonstrated through widely dispersed management responsibilities (mitigating key person risk) and long-term equity participation initiatives (designed to align the interests of the investment team and the investors). Senior staff have equity in Bridge, which via its GP activities, participates as a co-investor in all funds. This provides a material level of alignment of interests between the investment staff and investors.

While Bridge is generally considered well resourced, their current scale of operations is significant. Zenith has previously indicated the potential for operations to exceed the deliverable capacity of senior management in the business as a whole. Management continues to indicate their consciousness of capacity constraints and continue to add resources as necessary. Business FUM continues to increase rapidly and management will need to focus on resourcing sustainability going forward. Clearly, capacity constraints will be a key metric to watch.

INVESTMENT OBJECTIVE AND PHILOSOPHY

The Fund seeks to provide annual income and attractive capital growth through investment in two separate PRE programs operated by Bridge. These programs will focus on value-add opportunities in multifamily and commercial office assets in the U.S. Each program has its own return target. The multifamily program has a target Internal Rate of Return (IRR) on invested capital of between 12-14% while the office program has a target IRR on invested capital of between 14-16% (net IRR being post applicable fees, carried interests etc).

Common to both programs is a philosophy of seeking 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 each assets work-out strategy has been implemented. While the Fund will be unlevered, the Bridge programs will make use of leverage where appropriate.

One of the core philosophies of Bridge is a strategic objective to establish investment strategies that take advantage of market opportunities without exposing portfolios to uncompensated risk. As such, Bridge has demonstrated an ability to implement real estate strategies depending on 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, Zenith believes it is evident that value-add and opportunistic strategies is a cornerstone of the Bridge philosophy and the team's core strength.

SECURITY SELECTION

The Fund will target value-add assets in urban and suburban locations of major metropolitan areas where there is a reasonable prospect of a recovery in underlying demand in the mid-term. Physical assets are most attractive when they have the flexibility to appeal to a broad spectrum of users and can be acquired at values deeply below their replacement cost.

Bridge seeks to target assets where;

- Purchases can be made at a discount, typically between 50% and 80% of replacement cost;
- In cities demonstrating strong macro-economic prospects;
- At a lower price level than large institutional investors where markets are less competitive;
- Where full due diligence can be undertaken on the asset;
- They are projected to be cashflow positive either immediately or after a short repositioning/improvement program; and
- Located in growth markets with upside to market occupancy and rents.

The investment programs have a relatively unconstrained investment universe within their respective real estate segments and purchases can be either on the debt or equity side of the transaction. The emphasis, however, is on equity assets with current or near-term potential income with high capital appreciation upside. Allocations to real estate debt 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) or for bridging finance deals with high risk-adjusted returns.

Asset selection will focus on existing multifamily apartment and commercial office properties. Emphasis will also tend to be in the Western states owing to greater price dislocation and market opportunities and closer proximity to Bridge personnel and operations.

Bridge sees current market opportunities arising from four principal sources and aims to unlock value from each type:

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

The key source of deal flow for the Fund is driven by existing market relationships. Bridge also have strong relationships with banks, special loan servicers, bankruptcy courts, distressed funds and private investors whose assets can be a valuable source of stock. These relationships have been forged over years of operation in the market as a known buyer of such assets.

Bridge utilises a clear, repeatable formula for consolidating what they see as the key success factors to enable their strategies. This strategy is summed up in the acronym FAAMISR; Finding, Analysing, Acquiring, Managing, Improving, Selling & Reporting.

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.

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

Following the standardised investment process (FAAMISR), during the preliminary stages, members 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 acquired. 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.

The assessment and underwriting process is driven by income and expense assumptions looking forward three to five years. Bridge aims to maximise the income stream of each asset over each holding period and to exit assets based on a mature, stabilised net operating income. The combination of producing an asset with a stabilised mature cashflow 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.

Management has emphasised that a key focus is a quick exit where possible once a property's mature potential is reached. 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. Zenith believes that this is appropriate for value-add and opportunistic strategies as it tends to boost the IRR. Management has however acknowledged that if a market was rising strongly they would consider holding the asset, provided the overall IRR target was consistent with the Fund's IRR objectives.

While divestment of assets is the final step in the process, management ensure that where possible a clear exit strategy is in place before acquisition in order to maximise investment value. Bridge have regularly demonstrated their tactical approach to divestment to maximise IRRs. Zenith sees this as strong evidence of management's clear strategy planning in adding value as well as the discipline to execute.

Zenith sees this in-depth process as logical and believes that it is appropriately structured to deliver results.

PORTFOLIO CONSTRUCTION

The Fund's portfolio will target an asset exposure of approximately 60% to 70% in U.S multifamily and 30% to 40% in U.S. commercial office. The mandates of the underlying investment programs are relatively informal, with the exception of limiting exposure to single assets within each program (maximum 15% at the time of purchase).

The portfolio composition of each investment program is generally an outworking of the due diligence process regarding asset selection and acquisition. Under each program, there is a target framework in relation to the level of repositioning/works that would be expected ('Light', 'Moderate' and 'Heavy'). This target is approximately 30%/40%/30% respectively. While Bridge will take into consideration issues such as concentration with markets and investment drivers in the portfolio, the predominant focus is on the risk/return outcome of each asset.

Once capital is fully deployed, each program expects to purchase approximately 50 to 60 properties, while the multifamily program expects approximately 80 to 100.

During the capital raising period, the Fund Manager will be responsible for implementing capital commitments between the Fund and the Bridge investment programs into which the Fund will gain exposure. While it is the intention that the targeted asset exposures be met once the capital raising period ends, there is no guarantee that this will eventuate. This is due to the unpredictability of timing of inflows to the underlying investment programs from other investors.

Overall, while the Fund is executing a concentrated strategy within a single country and limited sectors, Zenith believes that this is appropriate given the Fund's aims and Bridge's core area of expertise.

OPERATIONAL DUE DILIGENCE

RISK MANAGEMENT

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

The investment programs have guidelines around minimum diversification limitations where it is intended not to invest more than 15% of the Fund in any single investment. However, in limited circumstances, Bridge 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.

Bridge has indicated that regular independent valuations of assets under the investment programs will not be undertaken and instead detailed internal valuations will be used on an asset by asset basis. These valuations are prepared quarterly by a subcommittee of the IC for committee approval. These valuations are also reviewed annually by the fund auditor and LP Advisory Committee. Valuation inputs, valuation methodology and fair-value asset-level balance sheets are provided to fund investors quarterly. While acknowledging that the process is not as independent as using third party valuers, Bridge believes that given the auditor utilises real estate valuation specialists in assessing the valuations, the cost of external valuations would be an unnecessary load on the fund.

The use of independent valuations is an important risk control measure. However, given the role of Bridge as a relatively short-term, deep value investor in a fund structure which is wholly illiquid, Zenith believes the cost of independent valuation on such a large portfolio to be an unreasonable drag on returns. With the quick exit focus of the strategy where some investments can be exited in as little as a year, we accept that formal valuations are not as necessary. This is in comparison to core and core plus strategies (particularly where open-ended), which tend to be longer-term, and as such robust unit pricing is more imperative. Zenith has examined managements' internal valuations process and believe they are sufficiently detailed with robust methodologies to act as a reasonable proxy.

STRUCTURE

Fund Structure

The Fund is a feeder fund for two underlying funds. The underlying funds are Bridge Multifamily Fund IV Australian Feeder (USD) LP and Bridge Office Fund Australian Feeder (USD) LP. These underlying funds in turn invest into the underlying investment programs through a series of master funds and holding companies.

The respective GPs manage the affairs of the underlying funds, the master funds and the partnerships, which includes making all investment decisions on behalf of the LPs.

The structure of flows and underlying vehicles of the Fund is complex owing to the desire to limit investors exposure to tax reporting that would otherwise be required if investing directly into the investment programs through the U.S. vehicles. Zenith believes that eliminating the need to file U.S. alien non-resident tax returns is a considerable benefit. However we encourage investors to examine the offering document closely and seek their own legal advice.

Unit Pricing

It should be noted that during the offer period, the unit price of the Fund remains fixed and is only adjusted for currency exchange. Once the capital raising period closes, fund pricing (adjusted monthly) will reflect movements in Net Asset Value (NAV), the impact of distributions, accrued interest on deposits and expenses and other adjustments.

Debt

While the Fund will not borrow, the underlying investment programs 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%. Bridge ensures that debt obligations are matched to the income profile of the underlying assets, ensuring that debt coverage ratios remain conservative upon stabilisation. Although Bridge have indicated that they will not typically entered into a loan where the interest cover is 1.25x, 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.

Debt covenants across individual loans typically 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 Bridges use of leverage under past offerings and believes that overall, while the associated risks are of these gearing levels are high, they are not extreme.

It should be recognised that while it is intended that the individual loans across the investment programs will not be cross collateralised, Bridge has the ability to use temporary collateralisation against other assets in each program 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 acknowledging that it raises the risk/reward outcome significantly. We do note however that Bridge are highly experienced users of this strategy with considerable past success in its execution. Zenith has undertaken several walkthroughs regarding deployment of these strategies in practice with Bridge which gives us a level of comfort. 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

The sector average management cost (in the table below) is based on the average management cost of all Property - Direct funds surveyed by Zenith. Data references both NAV and Gross Aset Value (GAV) values to provide comparisons across different fee methodologies used by managers. NAV figures are principally influenced by fund leverage.

The annual management cost for the Fund is 0.75% p.a. of Net Asset Value (NAV) p.a. These comprise ongoing management fees (0.60%) and administration and expense recoveries (0.15%).

The Fund Manager will make capital commitments (in USD), to the underlying funds during the offer period. It is estimated that between four to six different close dates will apply to each underlying fund during that time. This timeframe is dictated by capital raising objectives in the underlying funds, but cannot exceed 18 months after the applicable underlying fund’s first close date.

The initial capital call on the Fund (but not investors) is priced based on the capital commitments of the underlying funds adjusted to reflect an equalisation premium. The equalisation premium is a once off charge to investors used to compensate existing investors in the programs for dilution.

The equalisation premium is calculated based upon the 8% annual preferred return rate, applied to the duration of an earlier investor’s investment in the investment programs and the amount of dilution earlier investors are caused by new investors entering. It is important to note that the actual equalisation premium is likely to be significantly lower than the 8% hurdle rate. The current estimation of the equalisation premium is 2.85% of capital raised (treated as an indirect cost of the Fund).

The presence of an equalisation premium structure for subsequent investors is common to this type of arrangement and Zenith views the arrangements as reasonable. Given that the general expectation is that the time between capital will be relatively short (between 20 – 40 days) and original set up costs relatively low, Zenith expects the initial unitholder discount to NAV to be broadly in-line with the figure offered.

It should be recognised that while the Fund's management costs in the following table are below are lower than peers, this does not take into account fees charged by the underlying funds and investment programs. These fees will impact net assets attributable to the Fund. Zenith has assessed the fee structures of the underlying funds and believes that they are contemporary with other PRE funds we have observed.

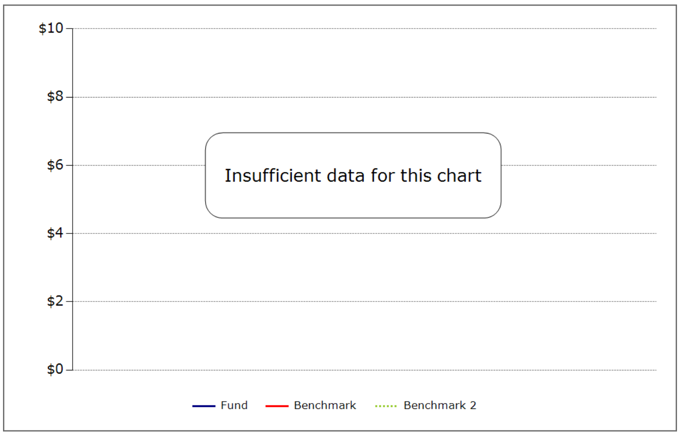
Zenith believes the Fund's fee structure is appropriate given its stated objectives.

Fee Type	Fund	Sector Average
Acquisition Costs	0.00%	2.62%
Management Costs p.a. (% of NAV)	0.75%	1.65%
Management Costs p.a. (% of GAV)	0.75%	0.85%
	Description	
Performance Fee	Nil [1]	

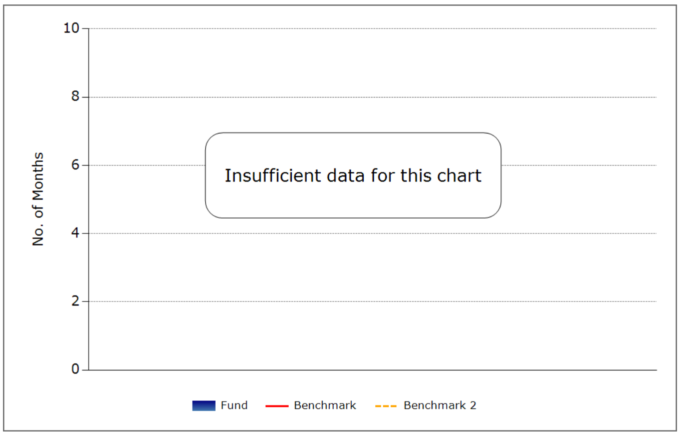
[1] *Performance fees may apply to the underlying funds*

PERFORMANCE ANALYSIS

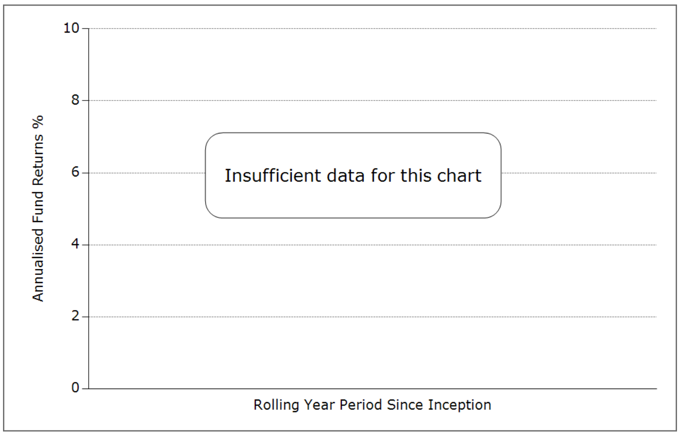
Monthly Performance History (%, net of fees)
Growth of $10,000



Monthly Histogram



Minimum and Maximum Returns (% p.a.)



ABSOLUTE PERFORMANCE ANALYSIS

Commentary as at 30 April 2018.

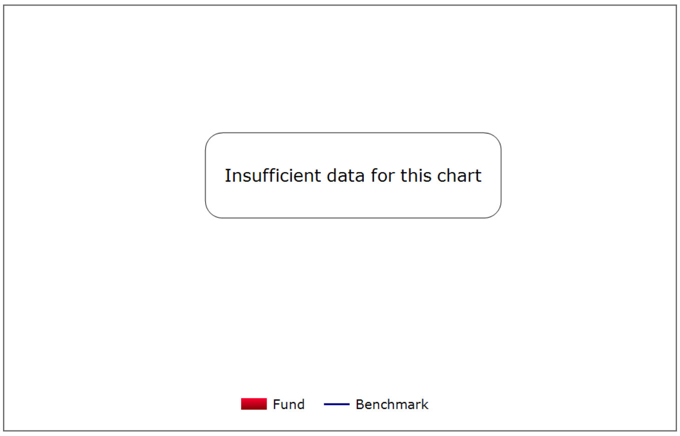
The Fund seeks to provide annual income and attractive capital growth through investment in two separate PRE programs. Each program has its own return target. The multifamily program has a target Internal Rate of Return (IRR) on invested capital of between 12% to 14% while the office program has a target IRR on invested capital of between 14 to 16% (net IRR, being post applicable fees, carried interests etc).

As at the date of this report, the Fund is a new vehicle with no track record.

The underlying funds have yet to fully raise and deploy capital. The majority of the investment manager's track record has been gained through deploying strategies broadly similar to that which the Fund will be exposed. Results to date in previous investment programs have exceeded their investment targets, however, it should be recognised that the funds concerned have yet to reach finalisation.

DRAWDOWN ANALYSIS

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.



Commentary as at 30 April 2018.

The Fund currently has no track record. Generally, direct real estate funds which employ value-add and opportunistic strategies will evidence greater volatility and core/core plus strategies. This is because of their higher risk positioning and propensity to have sharp movements in value once refurbishment and repositioning activities are revalued or disposed of.

Given the nature to the proposed portfolio and strategy, Zenith expects incidences of drawdowns will be primarily driven by currency movements and any softness in U.S. real estate markets.

INCOME/GROWTH ANALYSIS

Investors should be aware the Fund does not target a specific income levels.

Distributions will be made annually where possible. Given that the strategy aims to dispose of assets quickly once repositioning/refurbishment programs are complete, investors should expect that the annual income returns will also contain high levels of capital.

REPORT CERTIFICATION

Date of issue: 8 May 2018

Role	Analyst	Title
Author	Dugald Higgins	Head of Property & Listed Strategies
Sector Lead	Dugald Higgins	Head of Property & Listed Strategies
Authoriser	Andrew Yap	Head of Multi Asset & Australian Fixed Income

RATING HISTORY

As At	Rating
8 May 2018	Recommended

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

DISCLAIMER AND DISCLOSURE

Zenith Investment Partners (ABN 27 103 132 672) is the holder of Australian Financial Services Licence 226872 and is authorised to provide general financial product advice. This Product Assessment Report (report) has been prepared by Zenith exclusively for Zenith clients and should not be relied on by any other person. Any advice or rating contained in this report is limited to General Advice for Wholesale clients only, based solely on the assessment of the investment merits of the financial product. This report is current as at the date of issue until it is updated, replaced or withdrawn and is subject to change at any time without notice in line with Zenith's regulatory guidelines. Zenith clients are advised to check the currency of reports and ratings via Zenith's website for updates. Any advice contained in this report 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). Investors should seek their own independent financial advice, obtain a copy of, and consider any relevant PDS or offer document and consider the appropriateness of this advice in light of their own objectives prior to making any investment decision. Zenith charges an upfront flat fee to the Product Issuer, Fund Manager or other related party to produce research on funds that conform to Zeniths Research Methodology. Zenith's fee and Analyst remuneration are not linked to the rating outcome in any way. Views expressed in Zenith reports accurately reflect the personal, professional, reasonable opinion of the Analyst who has prepared the report. Zenith may also receive a fee for other non-research related services such as subscription fees for Zenith's research services and/or for the provision of investment consultancy services. Conflicts management arrangements are in place where Zenith provides research services to financial advisory businesses who provide financial planning services to investors and are also associated entities of the product issuers, with any such conflicts of interest disclosed within reports as appropriate. Full details regarding such arrangements are outlined in Zenith's Conflicts of Interest Policy
www.zenithpartners.com.au/ConflictsOfInterestPolicy

Zenith's research process seeks to identify investment managers considered to be the 'best of breed' through a comprehensive, multi-dimensional selection process. Zenith utilises both quantitative and qualitative factors in its ratings models. Models maximise commonality across different asset classes while retaining flexibility for specialist asset classes and strategies. The selection process is rigorous in both its qualitative and quantitative analysis and each component is equally weighted. Zenith does not manage any proprietary assets and as such Zenith is able to choose investment managers with absolute independence and objectivity. More detailed information regarding Zenith's research process, coverage and ratings is available on Zenith's website
www.zenithpartners.com.au/ResearchMethodology

This report is subject to copyright and may not be reproduced, modified or distributed without the consent of the copyright owner. The information contained in this report has been prepared in good faith and is believed to be reliable at the time it was prepared, however, no representation, warranty or undertaking is given or made in relation to the accuracy or completeness of the information presented in this report. Except for any liability which cannot be excluded, Zenith does not accept any liability, whether direct or indirect arising from the use of information contained in this report. Past performance is not an indication of future performance.

Full details regarding the methodology, ratings definitions and regulatory compliance are available at
www.zenithpartners.com.au/RegulatoryGuidelines

© 2017 Zenith Investment Partners. All rights reserved.

Zenith has charged Spire Capital a fee to produce this report.