Zenith Investment Partners

Highly Recommended
Recommended
Approved
Not Rated
Redeem

Product Assessment

Rating issued on 20 Feb 2017

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

VIEWPOINT & RATING

The Fund offers Australian investors exposure to a U.S. private real estate strategy which seeks to generate returns through income and long-term capital appreciation. The Fund focuses on the U.S. retirement sector and will have a fixed investment term of up to 10 years with nil liquidity. Management have demonstrated significant depth of skill in this niche sector and Zenith believes that the Fund offers diversification advantages to traditional property exposures.

The Fund gains its exposure by investing in a portfolio of assets alongside institutional investors in the Bridge Seniors Housing & Medical Properties Fund II LP (Bridge Seniors II). The strategy specifically targets independent living, assisted living and memory care facilities. The portfolio may also include skilled nursing facilities and continuing care retirement communities (collectively referred to as “seniors housing”).

The Investment Advisor is Bridge Seniors Housing Fund Manager, LLC (BSH). BSH have extensive credentials and experience in the acquisition and management of private real estate across a number of property asset classes including Seniors Housing. The Fund is offered through an Australian distributor, Spire Capital in a managed investment scheme structure denominated in AUD.

Bridge Seniors II (and therefore the Fund) seeks to provide investors with income and capital appreciation. The strategy targets properties which have attractive growth prospects and can be acquired at attractive prices. Bridge Seniors II will make use of gearing where appropriate to leverage returns. Bridge Seniors II was launched in September 2016 with a target equity raising of $US 750 million. The target return for the Bridge Seniors II Program is a net IRR of 14% to 16% p.a. Zenith notes that there is no explicit return forecast for Australian investors via the Fund.

BSH sees its ability to improve and add value to properties as key to their philosophy. The development, implementation and execution of business plans to enhance a property’s underlying value proposition is a critical factor. Unlike more traditional commercial real estate sectors, seniors housing is generally seen as an operations centric business with a real estate component. Choosing, incentivising and managing joint venture relationships with seniors housing operators is critical to success. BSH has extensive experience in operator selection and management and Zenith has a firm level of conviction that manager selection will be continue to be appropriate.

Zenith believes that there are significant benefits in accessing direct real estate strategies within global portfolios. The depth of talent and experience embedded in the BSH team is significant and they are specialists in this niche field. Zenith considers this opportunity as being potentially attractive for investors with a high risk tolerance given higher risks associated with combining property with operational businesses.

FUND FACTS

- Strategy targeting U.S. seniors housing with a value-add focus.
- Returns are currently unhedged.
- Portfolio cash flows are dependant on individual resident occupancy rates, while asset performance is strongly dependent on the quality of service delivery provided by third party operators.
- Bridge Seniors II program target is to acquire 75-115 properties.

APIR Code
ETL1507AU

Asset / Sub-Asset Class
Property
Direct

Investment Style
Value Add

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

Zenith Assigned Benchmark
FTSE EPRA/NAREIT Developed $A

Fees (% p.a., Incl. GST)
Management Cost: 1.08%
Performance Fee: N/A

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
				■

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 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 Fund Features [1]	Description
Property sector	U.S. Healthcare (Seniors Housing)
Minimum Investment	$50,000
Fund commenced	2017
No. of properties [1]	5
Fund target raising [2]	$US 50 million
Target raising: ROC Seniors II [3]	$US 750 million
Equity raised to date: ROC Seniors II [3]	-
Total Assets: ROC Seniors II [3]	-
Term	10 years [4]

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

PORTFOLIO APPLICATIONS

Global real estate has historically offered investors a stable stream of income, long-term capital growth potential and diversification benefits. An allocation to global property within a well-diversified portfolio may improve the portfolio risk/return profile.

Zenith believes the Fund could be used to reduce the volatility of an investor's existing growth-orientated portfolio, whilst also providing attractive returns. According to Zenith's analysis, global unlisted property has historically exhibited a low correlation with all major asset classes, including Australian unlisted property.

Investors should recognise that seniors housing typically has significant exposure to operational risks and in this case the strategy may be considered a real estate proxy. Investors must be able to accept the higher risks associated with offshore investments, value add investing, operational risks and nil 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.

While Zenith usually sees long-term illiquid funds in real estate as a strategic allocation in a portfolio, an investment in the Fund also represents a tactical investment. Given that the Fund represents a niche investment exposure, 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.

LIQUIDITY

The Fund is an unlisted property vehicle with a term of up to 10 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 10-year term. Investors should be aware of the implications of an investment of this type where liquidity is a limiting factor. Investors should also be aware of the consequences of an inherently illiquid allocation in their investment portfolio.

RISKS OF THE INVESTMENT

SECTOR RISKS

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

MARKET & ECONOMIC RISK: 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:

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.

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.

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

RELATED PARTY RISK: Bridge is an integrated group who may procure services through several subsidiaries or affiliates. While any fees will be examined internally for appropriateness and based on market rates, conflicts may arise as compensation will not be determined through arm's length negotiation.

EXECUTION RISK: Not all assets to which the Fund will be exposued 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.

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

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

CONCENTRATION RISK: The Fund will be concentrated in healthcare related real estate (Seniors Housing). The Fund therefore is therefore subject to the extraneous risks and drivers associated with this niche market.

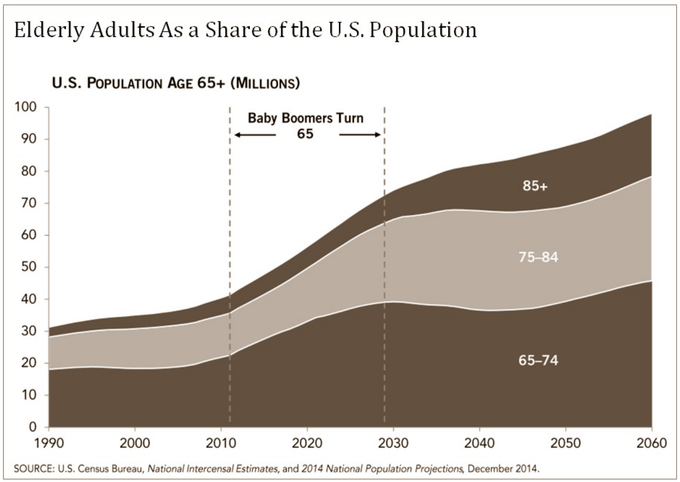
MARKET PENETRATION RISK: Risks associated with the perception by seniors that seniors housing is less desirable than remaining in their own homes and as such the preference for home-ownership and lifestyle amenities may significantly undermine market penetration. Affordability issues are also relevant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

CAPACITY RISK: Excessive levels of assets under management (AUM) can inhibit a manager's ability to operate portfolios effectively, which can limit performance potential. BSH has indicated that it would be comfortable managing 100 to 140 assets in the strategy during the acquisition and operational phases. As at 31 December 2016, BSH managed a portfolio of 50 seniors housing assets in an existing program. Given the Fund will expects to acquire an additional 75 to 115 assets, adequate operational capacity will be a key issue.

MARKET OUTLOOK

SENIORS HOUSING

US Seniors Housing is a growth market which is needs driven by strong demographic trends. In the US, the seniors population (defined as persons age 65), is growing at twice the national average. With the growing wave of baby boomers entering retirement from 2011 onwards, this trend is set to increase strongly over the next decade before entering a consolidation phase between 2030-2050. In context, this will represent close to a 70% increase on 2016 levels. Estimates are that in excess of 3.6 million individuals in this age cohort will turn 65 annually, a trend which will continue until an expected slowdown from 2030 onwards.



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

Seniors Housing Categories

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

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

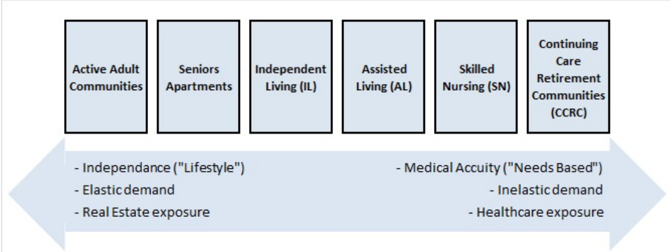
Senior Apartments (SA): Similar to AAC, SA has age restrictions and minimal services but tend to be larger, multi-unit facilities with a rental payment structure. May have income restrictions.

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

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

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

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



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

Other Healthcare Catagories

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

Market Penetration

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

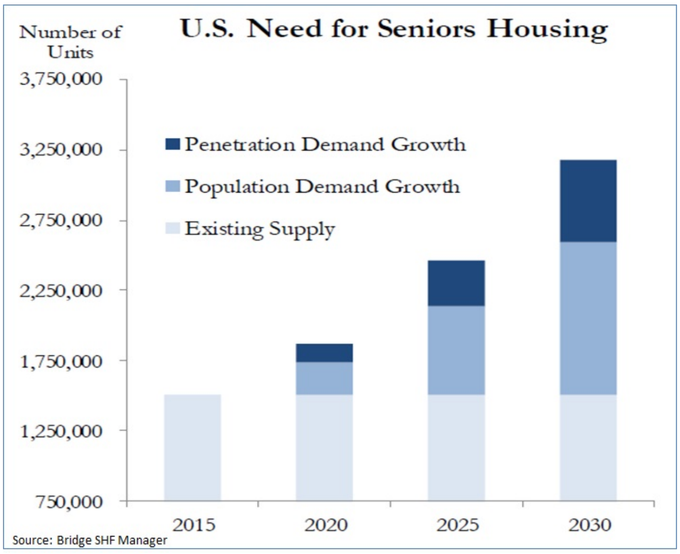
It should be noted that not all the senior population constitutes effective demand for senior living facilities. A substantial number of seniors continue to reside in self-owned single-family homes and many others reside with spouses and/or family. The improving national housing market has considerably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

A significant factor is the rise in Alzheimer's disease and other dementia conditions. Alzheimer's is the 6th leading cause of death in the United States overall and the 5th leading cause of death for those aged 65 and older. Alzheimer's is the only fatal illness among the top ten that currently has no prevention or cure. Deaths from Alzheimer's increased 71% between 2000 and 2013, while deaths from other major diseases, including the number one cause of death (heart disease), decreased.

Barring the development of medical breakthroughs to prevent or slow the disease, approximately 13.8 million people age 65 and older are expected to have the disease by 2050. This is driving the need for senior housing options that address the highly specialised needs of dementia patients which usually cannot be fulfilled via home or hospitalisation options.

Supply & Demand

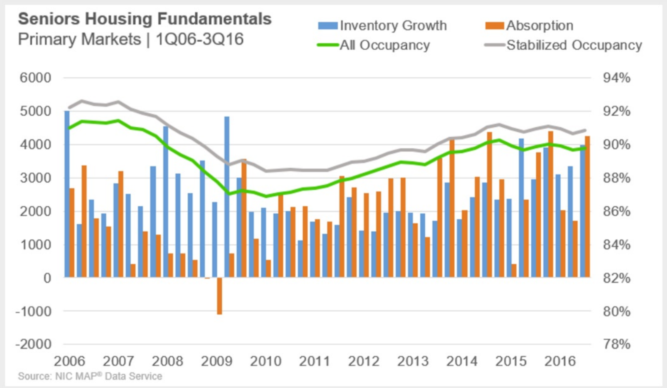
Facilitated by a relatively constricted pipeline of supply, recent occupancy levels have seen a solid resurgence from the last building phase. Annual demand growth for senior housing is expected to increase as Baby Boomers pass the over 75 age-threshold after 2020.



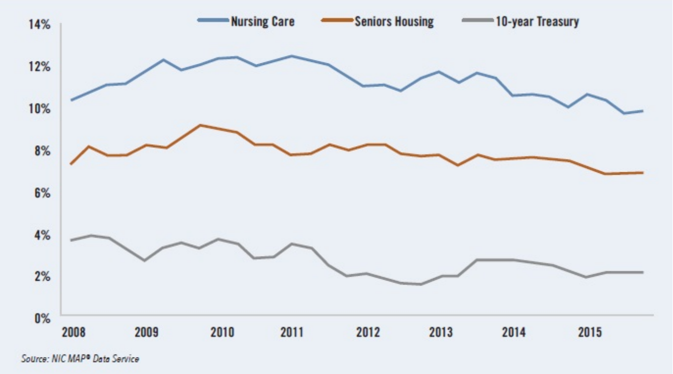
Source: Bridge SHF Manager

As interest in the sector has increased, supply side dynamics have strengthened significantly in response. Impacts have tended to be localised however the overall effects on absorption levels, occupancy rates and rent growth are as yet uncertain. Zenith notes that saturation in some markets is already impacting occupancy levels and rents. Surges in supply will mean that asset owners need to ensure that robust due diligence is undertaken along with clear programs to ensure investment outcomes are maximised.

Another aspect of the suppy-demand equation is the staffing requirements of operators of seniors housing properties. Finding and retaining staff is set to become a key issue in the future as the demographic shift that is propelling the seniors housing opportunity also creates a situation where the ratio of workers to seniors declines commensurately.



The sector continues to see strong levels of interest from investors due to the attractive demographic fundamentals and as an alternative asset for yield seekers. Capitalisation rates have compressed to historic lows in many markets due to prolonged aggressively accommodative monetary policies. While yields are currently attractive in comparison to the relative yields of other real estate sectors and the US risk-free rate, it will remain to be seen if yields are commensurate with the operational risks.



Rental Rates

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

QUALITATIVE DUE DILIGENCE

ORGANISATION

Fund Manager

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

The Fund RE is Equity Trustees Limited.

Investment Manager

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

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

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

Bridge is based in Salt Lake City, Utah with offices in San Francisco (Capital Raising & Operations) and New York (Capital Raising & Fund Management). The firm is highly resourced with approximately 1,000 staff covering more than 40 real estate submarkets in the U.S. as well as head office staff. As at 31 December 2016, BGIP has approximately $US 6.7 billion of Assets Under Management (AUM) of which approximately $US 1.5 billion is in seniors housing.

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

Bridge Seniors Housing Fund GP, LLC, is the General Partner (GP) for all Bridge Seniors Limited Partnerships. The GP (and affiliates) will commit funds alongside investors of at least 2% of the total equity raised (proportionate contributions from each of the JV partners). This holding will be largely on the same terms and conditions as other investors. However the GP’s holdings will not be charged a management fee or be subject to carried interest, nor will their interests confer voting power. Zenith sees this as an important alignment of interest when combined with performance incentives.

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

Zenith notes that Bridge has experienced a significant rise in AUM in recent years ($US 534 million as at December 2012). While ambitious growth has been planned, we are conscious that rapid AUM growth must be matched by the appropriate resourcing and systems to facilitate expansion.

INVESTMENT PERSONNEL

Name	Title	Tenure
Phil Anderson	Chief Investment Officer	2 Yr(s)
Robb Chapin	Chief Executive Officer	2 Yr(s)
Blake Peeper	Managing Director - Acquisitions	3 Yr(s)
Rick Steinberger	Chief Operating Officer	2 Yr(s)

The GP's management structure is committee based with an Investment Committee (IC) being the ultimate decision making body. The IC will implement the investment strategy through the identification, analysis, acquisition, management, improvement and sale of the Bridge Seniors II assets.

The GP have engaged BSH as the Investment Manager to oversee ongoing operations. BSH makes recommendations to the Investment Committee (IC) of the GP. Members of BSH's Board are listed above. Each of these members also sit on the IC along with four other senior executives of Bridge; Robert Morse (Chairman), Donaldson Hartman (CEO), Dean Allara (COO) and Jonathan Slager (CIO).

The IC has significant depth of knowledge and experience in this specialist asset class which Zenith regards highly. Individuals have an average of 20 years of real estate experience with the BSH Board having previously worked with each other for an average of seven years in a major public unlisted REIT developing and managing seniors housing and medical properties (CNL Financial Group).

Zenith holds the Bridge team in high regard. Senior management in Bridge have an average 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. As with SCG, senior personnel have worked with each other for many years with their average co-experience within various Bridge entities being over 13 years. Bridge represents a highly cohesive, long running team which has suffered zero departures at the senior management level.

BSH has continued to add headcount at all levels of the organisation as their portfolio has developed. The team currently has 28 full time staff in the seniors housing strategy. The appointment of Caryl Barnes in June 2015 as Managing Director of Asset Manager to oversee the seniors living operators is viewed by Zenith as a key appointment. Barnes has 18 years experience as a senior operations executive in the senior care industry.

The Executive Committee (EC) is responsible for the implementation of investment decisions made by the 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) and Capital Markets (development of debt and equity strategies). Each of these committees is operated by the senior executives of SCG and Bridge.

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

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

The Underwriting & Management Committee (UMC) consists of all members of the 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 and team regarding pre-screened and underwritten assets as potential acquisitions.

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

Overall, Zenith considers the management team to be highly experienced, close knit and demonstrating strong investment discipline. The Bridge team in particular are at their heart deep value, high conviction real estate investors, a style which we believe will work well when combined with the talents of the BSH team with the healthcare expertise.

While the teams within both Bridge and BSH are 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.

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

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

Asset Management

Operational management of the assets is expected to be primarily undertaken by third party operators. Unlike more traditional real estate sectors (i.e. commercial categories), seniors housing is more similar to hotels or self-storage in that they are operating business rather than purely rent collectors.

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

Operational management of seniors housing is a highly specialised activity with specific skill sets. Appropriate analysis, selection and oversight of third party operators is a vital part of the Bridge Seniors II strategy. The BSH team (and in particular CIO Phil Anderson) has extensive experience in operator selection. Zenith has a firm level of conviction that manager selection will continue to be appropriate. Management currently utilises the services of 12 operators in its existing portfolio.

INVESTMENT OBJECTIVE AND PHILOSOPHY

Bridge Seniors II (and therefore the Fund) seeks to provide investors with income and capital appreciation through strategies involving targeted acquisitions of healthcare related real estate. The Fund will seek properties which can be acquired with attractive growth prospects at attractive prices. Bridge Seniors II will also make use of gearing where appropriate to leverage returns. The target return for the Bridge Seniors II program is a 14% to 16% p.a. net IRR or greater (US$ return, net IRR being post applicable fees, carried interests etc.). It should be noted that there is no explicit return forecast for Australian investors in the Fund.

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

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

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

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

•Improving operational quality while a property fills and stabilises;

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

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

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

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

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

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

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

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

The assessment and underwriting process is driven by income and expense assumptions looking forward 3 to 5 years in duration. The Investment Manager aim to maximise the income stream of each asset over time and to exit assets based on a mature, stabilised net operating income in that time horizon. Management have emphasised that a key focus is a quick exit where possible once a property has reached maturity. This is appropriate for value-add strategies as it tends to result in higher IRR's. Management have acknowledged that if a market was rising strongly they would consider holding for longer but only if such a decision does not impact the increase in the overall IRR target and increase risks.

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

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

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

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

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

SECURITY SELECTION

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

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

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

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

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

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

PORTFOLIO CONSTRUCTION

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

Three main strategies will be utilised:

- Income Assets: Stabilised properties (those being 70% - 90% occupied), that can be improved through repositioning, enhanced marketing or operations;
- Value-Add Assets: Properties that may have with low occupancy, suffer partial obsolescence, require rehabilitation or expansion, or manager replacement and can provide significant opportunities for the GP to grow net operating income; and
- New Assets: Select newly constructed properties providing the GP with state-of-the-art facilities with enhanced amenities that are expected to meet residents' preferences and posses barriers to entry to competitors.

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

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

Some regard is given to the blending of each property's cash flows (performing vs. non-performing) to smooth out the return profile where possible. This approach is also taken with regard to the total expected returns across the portfolio with reference to the 14% - 16% p.a. net IRR target set by management.

OPERATIONAL DUE DILIGENCE

RISK MANAGEMENT

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

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

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

In contrast with most real estate strategies, management does not use external valuations. The Investment Manager has indicated that regular independent valuations of assets will not be undertaken and instead detailed internal valuations will be used on an asset by asset basis. Management also notes that Deloitte (as the Auditor) will review and sign-off on directors valuations annually and any lenders will require an independent valuation at purchase.

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

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

FUND STRUCTURE

The structure of flows and underlying vehicles of the Fund is necessarily complex to order to achieve a significantly reduced tax reporting burden compared to an investment directly into Bridge Seniors II. Zenith believes 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 Bridge Seniors II.

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.

EQT has appointed Spire Capital as the fund manager. The principal activity of the Fund is to act as a feeder fund into Bridge Seniors II. While the Fund does not directly access Bridge Seniors II, it does so through a parallel vehicle – ROC Seniors Australian Feeder (USD) LP (the Australian Feeder). Importantly the General Partner of Australian Feeder is ROC Seniors Housing Fund GP, LLC, a US resident corporation who acts as the GP for all the funds and parallel vehicles associated with Bridge Seniors II.

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

The result is that Master Fund will be required to withhold US withholding tax on AUT's allocatable 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 will apply (at the appropriate treaty rate – generally 10% to qualifying recipients). AUT will be subject to US tax on a net basis at a rate of 35% on its allocable share of US source income from the Master Fund less interest expense paid to Australian Feeder. However, as AUT will be required to file US federal (and possibly state and local) income tax returns, it may be entitled to a refund of withheld taxes to the extent the tax withheld exceeds the AUT's tax liability.

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

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

UNIT PRICING

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

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

Operations - Main Fund

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

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

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

Operations – The Fund

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

DEBT

The Main Fund will utilise leverage as part of the investment strategy. The level of leverage undertaken is dependent on the ability of each property to generate cashflow. The Investment Manager expects leverage will range between 60% – 65% LVR with a maximum of 75%.

The portfolio will be relatively highly geared. However this should be taken in the context of the asset improvement programs and debt structures utilised by management. The Investment Manager ensures that matching of the timing of the debt is done to the property's cashflow property's ability to service debt to ensure that each property has a healthy debt coverage ratio. Ideally, Zenith would prefer to see some form of hard limit around the level of interest coverage required.

Debt covenants across the individual loans will encompass a wide range of measures including Interest Coverage Ratio (ICR), LVR, minimum cashflow requirements, construction deadlines, minimum occupancy levels and other metrics. Zenith has assessed each loans applicable covenants and believes that while the associated risks are of these gearing levels are present, they are not extreme.

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

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

Zenith advises caution regarding use of leverage on real estate assets, particularly when pursuing value-add strategies. Overall we believe that the Investment Manager is experienced enough in the application of debt to real estate assets in these strategies to maintain a prudent approach owing to their long experience using this tactic through various interest rate and property cycles.

RETURNS STRUCTURE & FEES

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

Fund Fees

The following fees will apply to the Fund;

Fees – Spire USA ROC Seniors Housing and Medical Properties Fund II	
Upfront Fees	
RE Sourcing & Structuring Fee	0.95% of capital commitments made by the Fund into the underlying fund
Ongoing Fees	
Management Fees	0.60% p.a. of NAV
Fund Expenses	Estimated at 0.15% p.a. of NAV

The total ongoing cost to investors is expected to be 0.60% p.a. of the Fund's Net Asset Value (NAV). It should be noted that this does not include the fees payable to the Investment Manager, this is only the costs associated with the operation of the Australian Feeder Fund.

It should be noted that while Spire in its role as Fund Manager will only directly receive fees from the sale units, there is a business agreement in place whereby Spire is entitled to receive 25% of the management fees and 17% of the carried interest received by Bridge as a result of investments in the Fund flowing into the Underlying Fund. Zenith considers this type of arrangement typical of 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 (Bridge Seniors II)

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

Fees – ROC Seniors Housing & Medical Properties Fund LP LP (Master Fund)	
Annual management fee	2% of total capital commitments prior to the end of the commitment period and 2% of Capital Contributions thereafter of assets remaining (not yet disposed of).
Performance fee	20% (carried interest).

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

The management fee in the Underlying/Main Fund is levied on uninvested cash at the outset which will add to the ‘J curve’ effect, delaying fund returns.

Zenith would ultimately prefer that fees only be charged on deployed capital (phased in). We do however support the fact that the fee scales back as assets are divested which is not always a feature of funds of this type (phased out). We are strongly in favour of the management structure being based on equity capital rather than total assets as this can lead to the temptation of imprudent gearing to generate higher fees. It is important to note however that this impact is mostly on direct investors in Bridge Seniors II rather than investors in the Fund who are investing into a portfolio which already exists and continues to expand.

Zenith also favour that there are no other additional fees for other services within the Main Fund (transactions, auditing, valuations etc.) which tends to be an issue of many other PE type funds. 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 of 2% is consistant with 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 considered 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 Zenith sees as a more appropriate structure for aligning interests. Lastly, Zenith 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.

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

Return Payment Structure

The structure of the returns of the Fund follow a priority series which affects how fees and benefits are delivered.

While the returns structure is commonly adopted, there are some aspects which Zenith would ultimately prefer seeing changed. The hurdle rate for Bridge Seniors II (and therefore the Fund) is set at 8% p.a. which is roughly in-line with industry standards for PE real estate funds which tend to see hurdles average around 8% to 9% p.a.

In our view, returns hurdles should reflect the long term return outlook for the real estate market, adjusted to reflect leverage and strategy. Zenith believes that the industry as a whole tends not to place enough emphasis on this issue.

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

PORTFOLIO

Assets

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. To date, Bridge Seniors II has not acquired any assets, but has contracted to purchase five properties. Based on the investment parameters of the investment manager and stock availability, it is expected that the Bridge Seniors II platform will ultimately acquire between 75-115 properties during the investment phase with equity commitments ranging between US$7-$30m.

Capital Deployment

The structure of the Fund will have implications for the returns profile during the capital raising period. Until fund capital is called, investor returns (as measured between the date Application units are issued and the date they are converted) will only reflect adjustments in the foreign exchange rate. Accordingly, any returns generated in Bridge Seniors II will not flow through to the Fund until units are converted.

Leases

The majority of the portfolio is expected to comprise seniors housing properties. Seniors housing does not typically rely on leases directly between landlords and tenants. Rather, assets are leased to a special purpose operating company controlled by the underlying fund who then have their own lease agreements with residents. In the case of the Bridge Seniors program, Bridge will rely on third party managers to oversee operations and provide services at each property. Operations are undertaken under an arms-length management agreement. The majority of Operational revenue is delivered as rent and operators will be liable to pay insurance, taxes, utilities and R&M in connection with the facilities.

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

REPORT CERTIFICATION

Date of issue: 20 Feb 2017

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
20 Feb 2017	Recommended
Last 5 years only displayed. Longer histories available on request.	

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