

Spire Multifamily Growth and Income Fund Founders (AUD) Hedged Class

Rating issued on 12 Dec 2024 | APIR: ETL4846AU

Investment objective

To provide a a total net return of 7.0% to 11.0% p.a. (including 3.0% p.a. income) over rolling five year periods.

Manager	Spire Capital
Distributor	Spire Capital
Sector	Real Assets Real Estate - Global
Investment Style	Core Plus
RI Classification	Aware
Absolute Risk	Moderate
Relative Risk	Core Plus
Investment Timeframe	7+ Years
Benchmark	CPI Plus 5%
Min Investment Amount	\$20,000
Redemption Frequency	Monthly
Income Distribution	Half Yearly
Fund Size (30 Sep 2024)	\$70.14M
Management Cost	1.72% p.a. Incl. GST
Performance Fee	N/A
Buy / Sell Spread	0.00% / 0.00%
Inception Date	30 Apr 2021

Fund facts

- Hedged exposure to unlisted, US multifamily apartment real estate, listed property securities and cash
- Monthly liquidity up to a maximum of 5% of NAV per quarter
- Differentiated investment approach including multiple return drivers

Viewpoint

The Fund, managed by Spire Capital (Spire) offers investors a hedged exposure to direct, US multifamily apartment real estate with monthly liquidity via listed property securities and cash through a feeder fund structure. The direct real estate exposure is managed by the Atlanta-based, Cortland Investment Management LLC (Cortland). In Zenith's view, Cortland's ability to pursue value-creation and asset repositioning strategies, independent of the investment cycle, is an attractive feature of the Fund.

Sydney-based Spire is a privately owned, specialist private markets investment manager that facilitates access to global private markets, by providing best-in-class global strategies via feeder funds, primarily for Australian private wealth investors. As at 30 September 2024, Spire currently has commitments and assets under management (AUM) of approximately \$A 1.2 billion across a range of private market strategies.

Cortland operates as a vertically integrated real estate investment, development and management firm, focusing solely on US multifamily apartments. Cortland is led by Founder and Chief Executive Officer (CEO), Steven DeFrancis. With over 20 years of experience in multifamily apartment development and management, Zenith views DeFrancis as a highly experienced sector specialist.

Investments are accessed via the Cortland Growth and Income, L.P (Cortland Fund) which is managed in a core-plus risk profile targeting multifamily apartment assets across high-growth US markets. Investing with a total return approach, Cortland seeks to supplement the rental yield of the assets with capital growth strategies of asset improvement and operational enhancements leveraging its integrated model.

All operations of the assets are internally managed and by controlling all aspects of residents' living experience, Cortland believes it can maximise value for investors, independent of the market cycle while achieving above-average tenant satisfaction. Zenith has a favourable view of Cortland's investment process, believing it possesses multiple return drivers both at the asset level in rental yield and value creation opportunities but also in asset and market selection.

The Cortland Fund is an established open-ended fund representing a portfolio of 70 assets comprising over 21,000 apartment units, across 18 metropolitan areas and a gross asset value (GAV) of \$US 6.64 billion as at 30 September 2024. As at the same date, the Cortland Fund has leverage of 54.1% LTV.

To facilitate monthly liquidity, Spire manages the Fund with a liquidity sleeve. The target allocations are 80% direct real estate, 15% global listed property securities (accessed via an ASX-listed ETF) and 5% cash. The Fund offers monthly redemptions in normal market conditions up to 5% of net asset value (NAV) per quarter. While the underlying Cortland Fund offers liquidity quarterly, Zenith highlights the underlying assets are inherently illiquid and there may be circumstances where there is zero liquidity available for Spire to redeem units. Zenith believes the Fund is best suited to investors with long-term investment horizons (7 years and over) and that have a high tolerance to the risks posed by illiquidity. In addition, Zenith highlights the investment structure employed is complex, including the use of interposed entities to manage a range of administration and tax planning purposes. Zenith recommends investors seek their own personal tax advice with respect to the suitability of the structure.



Fund analysis

Fund characteristics

Constraint	Value
Target asset allocation	
Private real estate - US multifamily	80% to 90%
Listed property securities	5% to 15%
Cash	0% to 5%
Primary growth markets	Min: 70%
Other growth market	Max: 30%

Investment objective and philosophy

The Fund's performance objective is a total net return of 7.0% to 11.0% p.a. (including 3.0% p.a. income) over rolling five year periods.

To achieve this objective, Spire employs a feeder fund structure to access a direct US multifamily apartment investment program (the underlying Cortland Fund) along with allocations of G-REITs and cash for the purposes of liquidity management.

Cortland

Cortland operates as a vertically integrated developer and manager of US multifamily apartments assets. In managing these assets, a resident-centric approach is employed seeking to achieve high levels of tenant satisfaction by delivering best-in-market living environments.

Leveraging its integrated model, all aspects of the assets are internally managed by Cortland. By owning all aspects of the living experience, Cortland believes it can maximise value for investors independent of the market cycle while achieving above average tenant satisfaction.

The Cortland Fund is managed with a core-plus strategy that targets medium to higher quality multifamily apartment assets across high growth US markets. Investing in a total return approach, Cortland seeks to supplement the rental yield of the assets with capital growth strategies of asset improvement and operational enhancements. The Cortland Fund operates with a higher level of gearing than is traditional in the Australian market, with a maximum level of 50%.

Overall, Zenith has a favourable view of Cortland's investment process, believing it possesses multiple return drivers both at the asset level in rental yield and value creation opportunities but also in the selection of markets and individual assets.

Portfolio applications

The Fund offers investors a currency-hedged exposure to direct investment programs in US multifamily apartment real estate supplemented by listed real estate securities and cash. The underlying Cortland Fund is managed in a core-plus style with a total return approach, with the rental yield combined with capital growth strategies of asset improvement and operational enhancements.

As a well-developed institutional asset class within the US, multifamily apartments offer investors a set of unique

characteristics, which are not typically available when investing in Australian direct real estate. With the institutional ownership and competitive nature of markets, the assets typically offer attractive amenities targeting different demographics within sub-markets.

The sub-sector is known for having stable demand (relative to more cyclical sectors such as office and retail) and steady rental growth. While the terms of the lease are typically short (i.e. 12 months), each asset's lease profile will be diversified across hundreds of tenants and the average length of tenancy will be significantly higher providing assets with a more stable occupancy profile. With these factors combined, US multifamily is characterised as having defensive returns relative to more cyclical property types.

Zenith believes the Fund could be used to reduce volatility and provide diversification within an investor's growth-orientated allocation, whilst also providing attractive returns.

Notwithstanding high levels of diversification by assets and markets, the Fund represents a US-only, sector-specific vehicle. Zenith believes that it may not be suitable for investors seeking exposure to global direct property highly diversified by way of sectors and countries.

To facilitate monthly liquidity, Spire manages the Fund with a liquidity sleeve. The target allocations are 80% direct real estate, 15% global listed property securities (accessed via an ASX-listed ETF) and 5% cash. The Fund offers monthly redemptions in normal market conditions up to 5% of NAV per quarter. While the underlying Cortland Fund offers liquidity quarterly, Zenith highlights the underlying assets are inherently illiquid and there may be circumstances where there is zero liquidity available for Spire to redeem units.

In Zenith's opinion, the Fund may be suitable for investors seeking income and growth, who can accept the risks of gearing and low liquidity. Zenith believes the Fund is best suited to investors with long-term investment horizons (7 years and over) and that have a high tolerance to the risks posed by illiquidity.

Spire employs a feeder fund structure which Zenith considers to be complex, including the use of interposed entities to manage a range of administration and tax planning purposes including US tax reporting obligations. While our preference is for a more simplified approach, in our opinion, the structure is broadly appropriate considering the complexities involved in accessing the investment program in an efficient manner. Zenith recommends investors seek their own personal tax advice with respect to the suitability of the structure employed (outlined in further detail within this report under Fund Structure).

Fund responsible investment attributes

Key Information	Description
Zenith RI classification*	Aware
Has Responsible Investment Policy	Yes
PRI Status	
PRI Signatory	Yes



*Zenith RI Classification scale:

- Traditional
- Aware
- Integrated
- Thematic
- Impact



Absolute performance

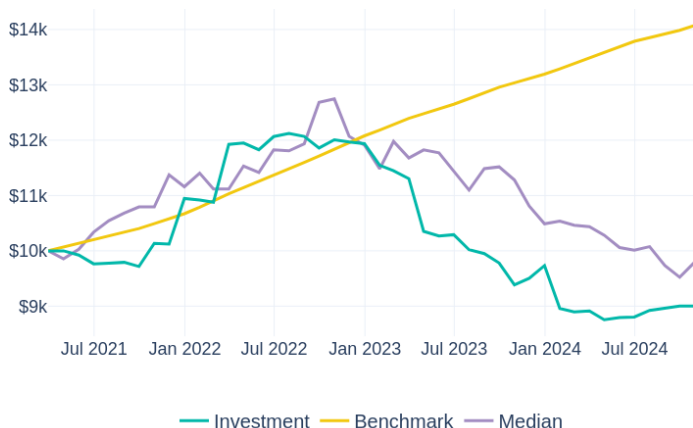
Performance as at 31 Oct 2024

Monthly performance history (% , net of fees)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	BM YTD*
2024	-7.95%	-0.69%	0.19%	-1.81%	0.46%	0.12%	1.34%	0.50%	0.39%	0.02%			-7.50%	6.68%
2023	-3.29%	-0.86%	-1.23%	-8.42%	-0.83%	0.24%	-2.64%	-0.71%	-1.70%	-4.03%	1.25%	2.42%	-18.46%	9.24%
2022	-0.24%	-0.37%	9.60%	0.22%	-1.02%	2.00%	0.48%	-0.46%	-1.73%	1.25%	-0.32%	-0.27%	9.06%	13.19%
2021				0.00%	-0.76%	-1.60%	0.12%	0.15%	-0.77%	4.30%	-0.12%	8.13%	9.46%	6.71%

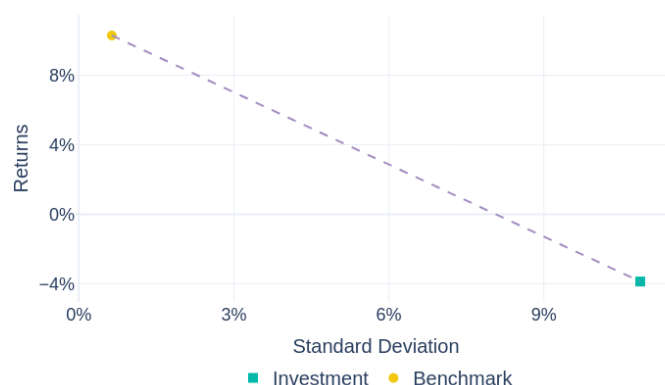
*CPI plus 5%

Growth of \$10,000

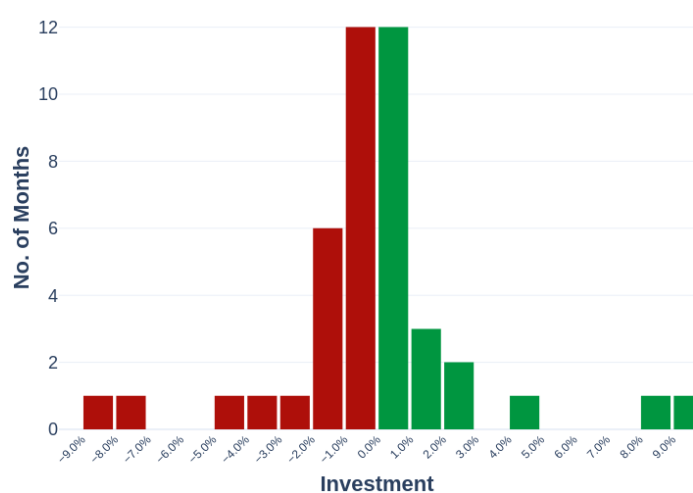


Risk / return

3 Yrs (% p.a)



Monthly histogram



Minimum and maximum returns (% p.a.)





Absolute performance analysis

Instrument	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Investment	2.86%	-4.07%	-13.41%	-3.87%	-2.89%
Income	1.10%	2.00%	2.17%	2.42%	2.05%
Growth	1.76%	-6.07%	-15.58%	-6.29%	-4.94%
Benchmark	3.62%	7.97%	9.06%	10.29%	10.01%
Median	-4.67%	-13.11%	-12.30%	-3.16%	-0.56%
Cash	2.23%	4.41%	4.04%	2.93%	2.45%

Ranking within sector (p.a.)

Ranking within Sector	1 Yr	3 Yrs	Inception
Fund Ranking	1 / 6	3 / 6	5 / 6
Quartile	1st	2nd	4th

Absolute risk

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Standard Deviation (% p.a.)				
Investment	8.70%	8.84%	10.87%	10.26%
Benchmark	0.37%	0.50%	0.64%	0.62%
Median	6.61%	8.22%	9.52%	9.08%
Downside Deviation (% p.a.)				
Investment	8.19%	9.45%	7.81%	7.22%
Benchmark	0.00%	0.00%	0.00%	0.00%
Median	7.08%	7.76%	6.61%	6.10%

Absolute risk/return ratios

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Sharpe Ratio (p.a.)				
Investment	-0.98	-1.97	-0.63	-0.52
Benchmark	9.68	10.07	11.52	12.27
Median	-2.65	-1.99	-0.64	-0.33
Sortino Ratio (p.a.)				
Investment	-1.04	-1.85	-0.87	-0.74
Benchmark	infinity	infinity	infinity	infinity
Median	-2.47	-2.11	-0.92	-0.49

Investors should note that for consistency purposes Zenith benchmarks all funds in the Real Assets - Real Estate/ Global category against CPI + 5% p.a. It should be recognised that Zenith's assigned benchmark is intended as a broad market indicator only. Return characteristics of Real Assets should be expected to vary materially at different points in the investment cycle given their inherently lower correlation to liquid benchmarks.

In addition, Zenith notes that the returns of some Real Assets funds may not be in line with the elevated CPI levels of recent years.

The following commentary is effective as at 30 November 2024.

The Fund's performance objective is a total net return of 7.0% to 11.0% p.a. (including 3.0% p.a. income) over rolling five year periods.

The Fund has failed to achieve its total net return performance objective over all time periods of assessment.



Relative performance

Excess returns

Statistic	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Excess Return	-0.76%	-12.05%	-22.47%	-14.16%	-12.90%
Monthly Excess (All Mkts)	33.33%	33.33%	16.67%	22.22%	20.93%
Monthly Excess (Up Mkts)	33.33%	33.33%	16.67%	22.22%	20.93%
Monthly Excess (Down Mkts)	0.00%	0.00%	0.00%	0.00%	0.00%

Capture ratios (% p.a.)

Statistic	6 Mths	1 Yr	2 Yrs	3 Yrs	Inception
Downside Capture	0.00%	0.00%	0.00%	0.00%	0.00%
Upside Capture	79.20%	-53.95%	-164.43%	-40.05%	-30.54%

Tracking error (% p.a.)

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Investment	8.86%	8.94%	10.75%	10.16%
Median	6.53%	8.24%	9.37%	8.99%

Information ratio

Instrument	1 Yr	2 Yrs	3 Yrs	Inception
Investment	-1.36	-2.51	-1.32	-1.27
Median	-3.23	-2.59	-1.44	-1.18

Beta statistics

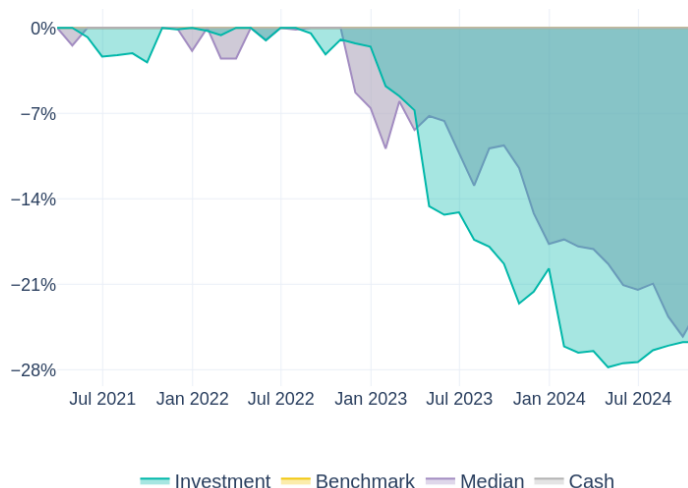
Statistic	1 Yr	2 Yrs	3 Yrs	Inception
Beta	-9.84	-2.95	3.45	3.40
R-Squared	0.17	0.03	0.04	0.04
Correlation	-0.42	-0.17	0.20	0.20

The following commentary is effective 30 November 2024.

Given the heterogeneous nature of the asset class, Zenith highlights that relative performance statistics hold limited value in comparing real assets funds.

Drawdown analysis (since inception)

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.



The following commentary is effective as at 30 November 2024.

Prior to 2023, the Fund's drawdown profile had been relatively constrained. However, over the past 12 months the Fund has experienced its largest drawdown of -27.8% from which it is yet to recover. This has corresponded with the challenging conditions and asset write downs observed across the sector over the same period.

Zenith notes that consideration should be given to any leverage risk which may impact Fund NAV periodically.



Fund commentary

Fund risks

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks:

Key person risk: Given the structure of the Fund, Zenith views key individuals at both Spire and Cortland as key to the management of the Fund. Zenith believes key person risk exists with Matthew Cook, Fund Manager and Stuart Haigh, Fund Captain (Spire) and DeFrancis, Ned Stiker, Senior Managing Partner and Mike Altman, Chief Investment Officer (Cortland) and any of their departures may warrant a reassessment of the Fund's rating.

Fund structuring risk: Zenith highlights that the investment structure is complex, noting the use of interposed entities introduces additional structuring, complexity and regulatory risk, while also reducing the proximity between the responsible entity and the underlying investment portfolio. In addition, investors will not have voting control (i.e. a majority), over the underlying Cortland Fund. Zenith recommends investors seek their own personal tax advice with respect to the suitability of the structure.

Delayed withdrawal payment risk: Given the illiquid nature of direct real estate and potential illiquidity at the underlying Cortland Fund, the Fund is managed with a range of liquidity provisions, which are there to ensure the Fund remains liquid, protecting the unitholders. While Zenith is supportive of these provisions, we highlight under the Fund's constitution, payment of redemptions can be delayed by up to 1,074 days.

Leverage risk: The Cortland Fund is typically managed with a targeted Loan to Value Ratio (LTV) of up to 50% at a portfolio level. Leverage is applied on an asset-by-asset basis with a maximum permitted LTV at the asset level of 65%. While Zenith notes this is higher than many peers in the real assets sector, we believe this is commensurate with the diversified income profile of the assets and debt covenants whereby lenders focus on debt servicing coverage ratios rather than LTV limits.

Unit pricing risk: The Fund has monthly pricing while the underlying Cortland Fund calculates unit prices on a quarterly basis. Given this mismatch, monthly unit prices may not be reflective of up-to-date asset values.

Value-add risk: Value-add real estate strategies typically seek to increase asset cash flow over time by improving or repositioning the property. While successful value-add projects can generate attractive returns, 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.

Longevity risk: Funds that fail to grow FUM to a scalable level could be wound up and terminated by the Responsible Entity. The risks associated with a fund wind-up are principally that of timing, performance slippage, and forcing a crystallisation of tax consequences to investors which may not be suitable. The Fund currently has FUM of approximately \$A 70.14 million as at 30 September 2024. While Zenith highlights Spire's success in fundraising efforts to date, we will continue to monitor the growth of the Fund's asset base.

Credit facility risk: In addition to asset-level leverage, the underlying Cortland Fund has a \$US 75 million credit facility which represents approximately 2.48% of the underlying fund's NAV as at 30 September 2024. While the facility can be used for any purpose, typically it is used to temporarily manage cash flows and asset purchases on an intra-quarter basis and must be paid down within three quarters. It is not intended that the facility will be used to structurally leverage the underlying fund for investment purposes.

Security/asset selection

The asset selection process below refers to the underlying Cortland Fund.

Market selection

In targeting different markets across the US Cortland employ broad macroeconomic and more market-specific analysis. The macro research efforts are led by Head of Research, Lee Everett whose input is supplemented by a number of third-party providers such as MSCI's Real Capital Analytics, Axiometrics (specialist US apartment data) and the CoStar Portfolio system. The latter allows the aggregation of data across Cortland's portfolio, marrying the top-down research with the bottom-up asset level experience.

The core of Cortland's strategy is to target high growth suburban markets which typically display the following characteristics:

- Economic outperformance;
- High population growth with net in-migration;
- Stronger job markets compared with the broader US;
- Affordable rents compared with a) local downtown markets, and b) higher cost of living cities;
- Business-friendly, lower tax regimes; and
- Constrained suburban supply.

Markets that meet these criteria are classified by Cortland as 'Primary Growth Markets' which includes: Atlanta, Orlando, Dallas, Houston, Charlotte, Raleigh-Durham and Denver.

Typically the suburban markets offer a higher yield than assets with similar amenities located 'downtown' or in larger 'gateway cities' (i.e. New York, San Francisco, Chicago).

Cortland can opportunistically target 'Other Growth Markets' which may have less compelling demographics than 'Primary Growth Markets' when they see relative value opportunities.



With Cortland's integrated operating model, the asset selection and due diligence process (outlined below) is conducted on a platform-wide basis on behalf of several investment strategies including the Cortland Fund. An Allocation Committee (AC) convenes concurrently with (or after) the IC to approve the equity source for the asset which is determined by the profile of the asset, each strategy's mandate specifications and Cortland's allocation policy.

Target assets

Assets targeted for the Cortland Fund are medium to higher quality multifamily apartments in suburban locations and typically represent the following core-plus opportunities:

- 1 Lease up assets** - High quality, newly built assets, currently still being leased up by the developers. Assets are acquired at a discount to stabilised value (i.e. fully leased) where developers may be incentivised to recycle capital to higher return projects and/or where Cortland's marketing and leasing teams can speed up the leasing to a stabilised level quicker.
- 2 Light value-add** - Cortland target assets in good locations with operational upside and which do not require complete repositioning. Cortland believes these assets are typically overlooked by value-add investors (who seek higher return upside) and can benefit strongly from targeted light improvements and improved operating focus, creating attractive return on cost uplifts in value.

Acquisition and due diligence

Cortland's local teams are tasked with the identification, evaluation, structuring and negotiations of prospective investments. The investment proposals are compiled in a collaborative manner with members from the acquisitions team working with asset managers. In addition, members from the operations, design and construction team will also visit the potential acquisitions to ensure all aspects of the assets are considered and incorporated into the business plan.

Financial models, asset business strategies and other key considerations are distributed to the IC. All final investment proposals are approved locally by the Investment Director of that region who then presents the investment to the IC.

The IC is tasked with approving acquisitions, refinances, recapitalisations, business plans and budgets and dispositions. Any comments from the IC are then incorporated into the asset's business plan, upon which a final decision is made whether to place a bid.

If a bid is accepted, then an internal due diligence team commences physical due diligence of the asset, together with an extensive review of the operations including management questionnaires and a full lease audit. Physical due diligence consists of a full property condition report incorporating an engineering and structural review. Cortland also uses outside counsel to assist with third-party due diligence items such as title search, survey, environmental and zoning analysis.

Asset improvements

While the Cortland Fund is not permitted new developments, asset improvement strategies are a central aspect of Cortland's investment strategy. Cortland seeks to improve the value of an investment through operational performance (referred to as Value Enhancement) as well as enhancing assets through light value-add programs (Value Creation).

Value enhancement

Leveraging its scale in each market and its in-house expertise, Cortland manages all aspects of the asset's operations with the aim of delivering a resident-centric service with higher levels of resident satisfaction than peers. Capitalising on its brand and service, Cortland aims to improve the target marketing of each asset. To monitor and improve operational efficiencies, robust measurement and analytics are employed at each asset.

Ultimately, this focus on operations and resident experience aims to achieve higher rental income growth, relative to other multifamily apartment operators. Zenith believes that adding value in this manner is independent of the market cycle and is an attractive feature of Cortland's investment approach.

Value creation

Where Cortland believes they can provide a higher quality product to residents, they will pursue a business plan with light repositioning of the asset. Design and interior elements are considered by Cortland's regionally located designers in the context of the local market.

As an integrated developer, contractor and asset manager, Cortland has invested in enhanced supply chain management and materials sourcing which provides costs savings on products. Also, the integrated model allows Cortland to execute projects quicker than if third-party companies were designing and managing the refurbishments.

While Zenith notes that many multifamily apartment investors execute value-add programs of asset repositioning, we believe Cortland's ability to leverage their breadth and scale, provides them with a competitive advantage. This in turn provides benefits to investors of higher asset level returns owing to the improvement in quality (and higher rental yields) whilst also maintaining greater control of project time and costs.

Overall, Zenith believes that the asset selection process is robust and detailed. Zenith highlights that the structure of regional multi-disciplinary teams (i.e. investors, operations, designers and construction), collaborating during the acquisition process is differentiated and is well suited to the execution of Cortland's strategy. Furthermore, Zenith believes Cortland's ability to pursue value-add opportunities, independent of the investment cycle, through operational improvements and asset improvement is an attractive feature of the Fund.

Responsible investment approach

ESG considerations are not specifically addressed by Spire within their manager selection or ongoing manager engagement.

Zenith notes that while the Cortland Fund does not have any specific environmental, social and governance (ESG) exclusions in the traditional sense, ESG considerations form part of Cortland's investment decision-making process across its assets.



Cortland is a signatory to the United Nation's supported Principles of Responsible Investing (PRI) and is also a participant in annual Global Real Estate Sustainability Benchmark (GRESB) surveys. GRESB is an internationally recognised standards body responsible for the assessment and benchmarking of the ESG performance of real assets. Zenith is supportive of Cortland's participation in an external ESG rating process.

Cass McFadden, Global Head of Sustainability, leads all aspects of Cortland's sustainability program, including policies, reporting and external certification programs at a corporate, fund level and asset level.

Cortland last updated its ESG policy in 2023. Adherence to the ESG Policy is the responsibility of the operations team. Zenith highlights that under McFadden's leadership Cortland is reviewing its overall ESG and sustainability approach.

Cortland has a dedicated ESG team of three which sits within the operations team. The team also participate in and steer Cortland's ESG Advisory Committee comprised of seven executives including Stiker who provides direction and leadership on ESG matters which are presented to DeFrancis as CEO for approval.

Within Cortland's investment process assets are subject to an environmental assessment detailing potential environmental or asset resiliency risks. Additionally, business plans at the asset level may contain ESG initiatives including energy, waste and water reduction achieved through asset improvements.

Assets are managed with energy, water and waste data aggregated into Cortland's utility management platforms and analysed by the ESG team in Mesurabl, a real estate ESG data platform. The ESG team are tasked with identifying trends and working with colleagues in the operations team to improve assets efficiency.

Overall, Zenith believes that Cortland manages ESG-related investment risks effectively within the Cortland Fund. Notwithstanding this, Zenith believes, that Cortland's overall approach to Responsible Investing remains in development. We are supportive of participation in GRESB and view further ESG policy enhancements and developments in external reporting may improve Cortland's peer relative standing.

Portfolio construction

Spire

The Spire team meet formally on a monthly basis to review the Fund's capital allocations, with Cook as Fund Manager retaining the ultimate responsibility for the portfolio. The portfolio construction approach is primarily focused on maintaining the target allocations across the Cortland Fund and a liquidity sleeve while preserving the shorter term liquidity of the Fund. In addition to the liquidity sleeve, Zenith highlights that to maintain the monthly liquidity profile, the Fund has several liquidity provisions.

Spire operate the Fund with target allocations of: 80% Cortland Fund; 20% Liquidity Sleeve (15% Listed property securities and 5% Cash).

Zenith notes that the Cortland Fund offers liquidity on a quarterly basis. As such, allocations between the liquidity sleeve and Cortland Fund are based on various factors including the current and future forecasted cash flows in or out of the Fund and the Cortland Fund's application or redemption queue. Exposure to listed property securities is accessed via an ASX-listed ETF (VanEck Vectors FTSE International Property (Hedged) ETF).

Zenith highlights that Spire considers the allocation process to be relatively mechanical with 15% of net flows allocated to listed property securities and the remainder allocated to cash, with a portion of that later allocated to the underlying Cortland Fund during the quarterly subscription window.

While the Fund's inception is recent, it is allocating to an existing portfolio of assets. The underlying Cortland Fund is a well-established open-ended fund which helps to mitigate the typical challenges of cash drag and limited portfolio diversification during the build out phase of a new fund. As at 30 September 2024, the Cortland Fund offered access to an existing portfolio of 70 assets, across 18 metropolitan areas at NAV of \$US 3.02 billion.

The exposure to the underlying Cortland Fund is hedged via forwards and managed by third-party hedging specialists Rochford Capital which includes both the capital value and distributions. The listed property securities ETF is a hedged product.

Zenith believes that Spire's approach to portfolio construction is logical and is prudently focused on facilitating liquidity (further supported by Fund liquidity provisions). While Zenith highlights Spire's limited track record in managing open-ended funds with regular liquidity, we do note Haigh's prior experience in overseeing a similarly structured offering. Zenith will continue to monitor Spire's allocation process as the Fund's investor base matures.

Leverage

The Cortland Fund is typically managed with a targeted Loan to Value Ratio (LTV) of up to 50% at a portfolio level. While Zenith notes this is higher than many peers in the real assets sector, we believe this is commensurate with the stable and diversified income profile of multifamily assets and the limited LTV related-debt covenants. Leverage is applied on an asset-by-asset basis and typically has no cross-collateralisation. The maximum permitted LTV at the asset level is 65%. Typically individual loans do not have leverage-related covenants with debt servicing coverage ratios the most common covenant. The approach allows Cortland to optimise each asset's leverage depending on the characteristics of the asset and the particulars of the individual asset plan.

As at 30 September 2024, the Cortland Fund has a weighted average term to maturity of 4.2 years and an LTV of 54.1%. While the portfolio's current LTV exceeds the targeted maximum of 50%, reflecting the impact of the challenging market environment for the sector, the team are making steady progress in addressing this.

Risk management

The Fund operates with limited portfolio constraints which Zenith believes is consistent with the Fund's objective and structure.



The Cortland Fund operates under limited formal portfolio constraints however, there are a number of portfolio guidelines. Geographically the Fund is expected to be at least 70% allocated to the aforementioned 'Primary Growth Markets', with 'Other Growth Markets' permitted up to 30% of the portfolio. In terms of risk profile, assets are expected to be core plus with up to 20% permitted in higher risk/return value-add asset repositioning strategies.

Cortland's risk management is primarily centred around the due diligence process, asset selection, business planning and ongoing asset management. Zenith believes that Cortland's scale and integrated model helps to identify and mitigate individual market risk whereby groups of regionally located property professionals (i.e. team members from investment, operations, design, construction) are focused on their respective markets.

Valuation and Unit Pricing

While the Fund offers monthly unit pricing, the NAV is calculated for the Cortland Fund quarterly. The assets in the underlying Cortland Fund are independently valued on a quarterly basis and are used for the calculation of NAVs. The monthly unit pricing for the Fund is performed by the fund administrator, Unity Fund Services on behalf of the Responsible Entity (Equity Trustees) with no discretionary input from Spire.

Zenith has reviewed the policies pertaining to valuations and unit pricing from Cortland, Spire and Unity Funds Services and we believe them to be appropriate given the operations of the Fund. Notwithstanding this and as is the case with all real assets funds, there is the risk that with a mismatch between the quarterly NAV of the Cortland Fund, monthly unit prices of the Fund may not be reflective of up to date asset values.

Fund Structure

To access the underlying direct real estate investments, Spire employs a feeder fund structure with the Fund investing in another AUD domiciled fund, which in turn, invests in the Cortland Fund (a Delaware Limited Partnership). The Cortland Fund access the underlying investments through a further series of vehicles including a Real Estate Investment Trust (REIT), partnerships and other entities.

Zenith highlights that the investment structure is complex, including the use of interposed entities to manage a range of administration and tax planning purposes including US tax reporting obligations. In addition, the use of interposed entities introduces additional structuring, complexity and regulatory risk, while also reducing the proximity between the Fund's Responsible Entity (Equity Trustees) and the underlying investment portfolio. While our preference is for a more simplified approach, in our opinion, the structure is broadly appropriate considering the complexities involved in accessing the investment program in an efficient manner.

Notwithstanding this, the taxation of Australian investors, investing through interposed entities is a highly complex area and Zenith recommends investors seek their own personal tax advice with respect to the suitability of the structure.

Investment fees

	Fund	Sector Average
Total Fees and Costs (RG 97)	1.72% p.a.	2.72% p.a.
Management Fees and Costs	1.71% p.a.	2.49% p.a.
Transaction Costs	0.01% p.a.	0.09% p.a.
Performance fees	N/A	0.28%
Performance fees description	N/A	
Management Cost	1.72% p.a.	0.96% p.a.
Buy / Sell spread	0.00% / 0.00%	0.03% / 1.63%

All fees and costs are inclusive of GST unless indicated otherwise. The Performance Fee shown is the performance fee disclosed in the PDS. It is calculated by taking the average performance fees charged over the last five financial years (or less if the investment or performance fee mechanism has not been in place for five financial years).

The sector average management cost (in the table above) is based on the average management cost of all 'Real Assets – Real Estate / Global' funds surveyed by Zenith.

The management cost listed in the table above include the management costs of both Spire and the underlying Cortland Fund.

The Fund does not charge any performance fees directly, but are charged by the Cortland Fund. Performance Fees for the Cortland Fund are eligible for payment every five years from 1 December 2018.

Zenith notes that all fees payable at the underlying fund are paid in USD owing to the USD denomination of the underlying Cortland Fund. Zenith understands that this is unavoidable owing to no AUD unit classes offered by Cortland. While Zenith acknowledges the hedging program should align AUD investors with the local currency returns, we believe it to be sub-optimal for investors to be charged performance fees in USD to then have their performance experience in AUD.

(The fees mentioned above are reflective of the flagship version only and may differ when the product is accessed through an alternate investment vehicle such as a platform).

About the fund manager

Organisation

The Sydney-based Spire Capital Pty Ltd (Spire) is a privately owned, specialist private markets investment manager founded in 2009. Spire facilitates access to global private markets, by providing best-in-class global strategies via feeder funds, primarily for Australian private wealth investors. Spire currently manages investments across private equity, private real estate, distressed debt, private infrastructure and venture capital.

On behalf of clients, Spire has deployed in excess of \$A 2 billion across open and closed-end vehicles since 2009 and currently has \$A 1.2 billion in commitments and assets under management (AUM) as at 30 September 2024.



Cortland Investment Management, LLC (Cortland)

Originally founded as a development firm in 2005, the Atlanta-based Cortland operates as a vertically integrated real estate investment, development and management firm focusing solely on US multifamily apartments.

Cortland has \$US 20.3 billion in assets under management (AUM), representing over 78,000 units, and over 126,000 residents as at 30 September 2024.

As at 30 September 2024, Cortland managed \$US 6.64 billion of AUM in the Cortland Fund. As at the same date Spire managed \$A 70.14 million in the Fund.

Investment personnel

Name	Title	Industry Experience (yrs)	Tenure (yrs)	Location
Matthew Cook	Founder and Fund Manager (Spire)	32	15	Sydney, Australia
Stuart Haigh	Director and Fund Captain (Spire)	20	5	Sydney, Australia
Steven DeFrancis	Founder and Chief Executive Officer (Cortland)	19	19	Atlanta, USA
Mike Altman	Chief Investment Officer (Cortland)	17	17	Atlanta, USA
Ned Stiker	Senior Managing Partner, Investments and Capital Markets (Cortland)	10	10	Atlanta & Connecticut, USA

Spire

The Spire team consists of 14 staff, who contribute to various functions including research and partner relations, product development, capital raising, investor relations and operations. The investment team of three is led by Director and co-founder, Matthew Cook who acts as Fund Manager for the Fund.

Cook has over 30 years of experience across property funds management and broader commercial real estate. Zenith believes Cook is integral to Spire's value proposition in the identification and ongoing relationship management of third-party private market investment managers. Furthermore, since founding Spire in 2009, Cook has been central to the team's proprietary knowledge of fund structuring and investing via offshore vehicles.

Supporting Cook in the management of the Fund is Stuart Haigh, Director and Fund Captain. Haigh joined Spire in 2019, following five years at Partners Group and twelve years across MLC Investments, nabInvest and MLC Private Equity. Haigh's role in managing the Fund is the monitoring and forecasting of capital flows and coordination with the underlying Cortland portfolio management team.

Zenith believes Haigh brings complementary private market perspectives to the Spire team with prior experience in private equity, private real estate and infrastructure and credit. Zenith highlights Haigh also has previous experience in managing

similarly structured open-ended private real estate fund which included capital raising and deal sourcing responsibilities.

Cook and Haigh are supported by a Portfolio Analyst who oversees the Fund's dealing, accounting and administration aspects. While compact in size, Zenith hold the Spire team in high regard owing to their ability to identify best-in-class third-party private market investment managers and effectively manage feeder fund programs on behalf of Australian investors.

Zenith highlights Spire's track record has been previously in closed-end fund structures with this Fund representing one of their first open-ended strategies. Zenith believes open-ended funds require a greater ongoing focus on capital allocation and liquidity management, compared with closed-end funds that have set capital raising periods. Notwithstanding this, Zenith is confident that Spire has developed the requisite skill sets and collective experience to manage open-ended funds including this Fund.

Cortland

Headquartered in Atlanta, Cortland is led by the Founder and Chief Executive Officer (CEO), Steven DeFrancis. DeFrancis has over 20 years of experience in multifamily apartment development and management which includes over 15 years leading Cortland. Zenith views DeFrancis as a highly experienced investor in the specialist multifamily apartment sector.

DeFrancis leads an executive team responsible for a range of functional areas including investment management, development, property and facilities management, general contracting (building), architecture and engineering, interior design and supply chain logistics. In terms of investment management, this is overseen by an Investment Committee of nine including DeFrancis who oversees all aspects of Cortland's investment vehicles including the Cortland Fund.

Key individuals on this committee include the following: Mike Altman, Chief Investment Officer - who leads Cortland's investments with a focus on asset management; Ned Stiker, Senior Managing Partner, Investments and Capital Markets - who is responsible for the capital raising, fund and investor relations efforts; and Mike Gomes, Chief Experience Officer - who works across the platform to implement Cortland's approach to resident and community experience.

While the majority of Cortland's 50 investment professionals are based in Atlanta, there are a number of regional offices located across Dallas, Houston, Orlando, Charlotte and Denver. These offices include investment professionals dedicated to the acquisition of assets and also ongoing management.

An acquisition team of ten is led by Chief Acquisition Officer, Brad Brown. Located across Cortland's offices, team members are responsible for developing and maintaining relationships with brokers, owners, developers and other potential sellers within their local markets. Zenith believes that Cortland's regional approach provides high levels of localised expertise and aids in maintaining a large investment pipeline.

Given the localised nature of residential real estate markets and the fact that Cortland operates across over 16 different US markets, Zenith believes operating in a regional model, located in key markets is a competitive advantage for Cortland. Zenith believes the regional approach provides Cortland with a greater understanding of the nuances of the sub-markets it invests in compared with peers who operate under a more centralised approach.



Asset Management

Once an asset is acquired, the investment team, led by Investment Manager, Max Rothkopf, is responsible for all aspects of the performance including the execution of the business plan. Asset managers, who report up to Altman as CIO, are organised regionally across Cortland's offices. With all aspects of property and facilities management carried out in-house, asset managers work with colleagues across the operations, marketing, design and construction functions to manage the assets.

Asset managers are also responsible for making recommendations to the IC with respect to the acquisition, recapitalisation, refinance, business plan and the disposition of assets in their region.

With an emphasis on high levels of tenant satisfaction, Zenith highlights Cortland manages assets with a strong focus on service, operations and attractive amenities which is differentiated from many other multifamily apartment investors. Zenith notes this operational aspect of Cortland's approach does differ from more passive real estate sectors like office or industrial. Zenith views Cortland's scale and vertically integrated model as a competitive advantage in managing the assets with a tenant experience focus.

About the sector

Sector characteristics

The Zenith 'Real Assets – Real Estate / Global' sector consists of strategies which predominantly invest in real estate outside Australia. These funds hold the majority of their portfolio in unlisted assets as opposed to listed securities. Funds in the sector are generally benchmark unaware, with most utilising absolute return objectives.

Real estate investments encompass a range of risk/return profiles depending on the portfolio assets, fund strategy and capital structure. Depending on this mix, funds may exhibit characteristics of either defensive or growth type assets in a portfolio context. Zenith considers this asset class to possess a moderate risk profile, although individual fund risk profiles will vary widely.

Typically, investment into unlisted real estate exhibit lower volatility than listed property and equities, and lower returns correlation to listed assets. This is largely driven by the low liquidity of such assets, which generally have limited opportunities to exit. Fund liquidity mechanisms vary but should not always be relied on to deliver in periods of market stress. Investors should be aware of the consequences of an allocation to what is an inherently illiquid asset class in their investment portfolio.

Sector risks

Funds within the 'Real Assets – Real Estate / Global' sector are exposed to the following broad risks:

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.

Valuation risk: Given the nature of private market investing, valuation risk is considered high relative to public listed markets. As such, the reported value of investments may be higher than the ultimate realisable value of these assets.

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.

Australian dollar (AUD) currency risk: 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 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 exposures at the portfolio level (rather than within this asset class) to reduce short-term volatility.

Income 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 and ultimately fund distributions.

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.

Management risk: Management risks encompass a wide range of factors relating to personnel (key person risk), counterparty (risk of management not being able to fulfil their duties due to insolvency) and skill set (ability to effectively and efficiently carry out strategies).

Capital expenditure risk: Real Assets typically require capital expenditure programs to ensure value and operations effectiveness is being maintained. Ageing assets, technological innovation and changing regulations may all impact expenditure required to maintain asset values, impacting fund returns.

Capital deployment risk: The ability to deploy capital rapidly in Real Assets tends to be slower than for liquid markets. Inability to deploy capital in an appropriate time frame may result in dilution to strategy returns due to cash drag.

Administration and operations



Responsible Entity	Equity Trustees Limited
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Zenith rating

Report certification

Date of issue: 12 Dec 2024

Role	Analyst	Title
Analyst	Alan Chuong	Investment Analyst
Sector Lead	Bonnie Corbett	Senior Investment Analyst

Association & relationship

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Rating history

As At	Rating
12 Dec 2024	Recommended
13 Dec 2023	Recommended
15 Dec 2022	Recommended
30 Nov 2021	Recommended
23 Sep 2021	Not Rated - Screened Out

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

In March 2021, Zenith implemented a new ratings methodology for products classified as Traditional Index. Any rating issued from this date forward for Traditional Index products only reflect this change in methodology, with the relevant Traditional Index ratings being Index Approved, Index Recommended and Index Highly Recommended. Ratings issued for Traditional Index products prior to March 2021 are retained for historical purposes in line with our regulatory requirements and were issued in line with Zenith's Fund Research Methodology. Further information in relation to Zenith's Traditional Index Research Methodology and Traditional Index Ratings can be found on the Zenith website.



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This report refers to the Australian unit trust for the fund, and the fund and benchmark returns are all in AUD.

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