

AUSTRALIAN

RESEARCH

INDEPENDENT INVESTMENT RESEARCH

URB Investments Limited (URB)

March 2017

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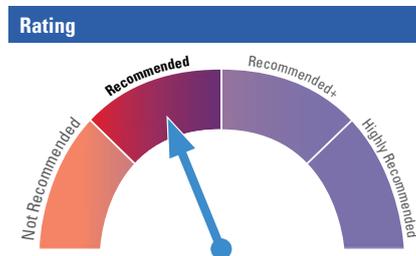
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Note: This report is based on information provided by the Issuer as at March 2017



Key Investment Information	
Name of Fund	URB Investments Limited
Investment Manager	Contact Asset Management Pty Ltd
ASX Code	URB
Offer Open	3 March 2017
Close Date	30 March 2017
Listing Date	7 April 2017
Min/Max Raise (Gross)	\$75-\$300M
Issue Price	\$1.10
Pro-forma NAV	\$1.07
Options ASX Code	URBO
Exercise Price	\$1.10
Exercise Date	On or before 7 April 2018
NAV Pricing	Monthly
Dividend Frequency	Half-yearly
Base MER	0.50%
Performance Fee	15% over an 8% hurdle

Fees Commentary

Fees comprise a base MER of 0.50% and a 15% performance fee over an 8% hurdle. The 8% hurdle is based on Net Tangible Asset (NTA) performance and, therefore, effectively excludes dividend payments to shareholder. In effect, the actual hurdle is more likely to be in the low teens. Overall, we view the fee level and structure as a positive. The MER is low for a high-conviction mandate, as reflects a general view of the Manager that acts in the best interests of investors. In relation to the performance fee structure, the effective hurdle rate is high which again is a positive for investors.

The investment opinion in this report is current as at the date of publication. Investors and advisers should be aware that over time the circumstances of the issuer and/or product may change which may affect our investment opinion.

OFFER OVERVIEW

URB Investments Limited was incorporated on 13 October 2016 to capitalise on urban renewal and regeneration opportunities. The actively managed investment portfolio will comprise ASX-listed equities, unlisted direct properties and a degree of cash. The equities portfolio will comprise at least 50% of the total portfolio and will consist of companies that the Manager has identified as being exposed to the multiple and growing forces of urban renewal and regeneration, including population growth and density, major infrastructure investment, housing growth, revitalisation of town centres, education services, healthcare services and tourism growth. The direct property portfolio will target under-utilised, underdeveloped assets where there are identifiable drivers of future revaluations (coupled with sustainable income) stemming from urban renewal and/or regeneration, for example rezoning, an infrastructure announcement, commencement of a rail tunnel, or an on-road or off-road development. Property investments will be made as close to the identified point of change as possible. The investment portfolio will be managed by Contact Asset Management Pty Limited (Contact or the Manager). Contact was formally established in 2016 but the investment team, comprising Tom Millner and Will Culbert as joint portfolio managers, have a long and successful track-record in managing BKI Investment Company Limited (ASX:BKI). Contact will also draw on the property expertise of Pitt Street Real Estate Partners (PSRE), which is the real estate advisory division of Washington H Soul Pattinson and Company Limited (Soul Pattinson) and has experience identifying and securing direct property assets for Soul Pattinson over the last seven years. URB is seeking to raise between \$75 million and \$300 million and will list on 7 April 2017 under the ASX code of URB.

INVESTOR SUITABILITY

URB is a thematic based investment vehicle and, as such, investors should have a positive view on urban renewal and specifically for the ability of some well positioned companies and direct property assets to benefit from that process. URB is also a high-conviction mandate and, as such, it is important that investors have confidence and conviction in the abilities of the investment team. In this regard, we believe the team is well qualified, both in relation to the equities portfolio (with a proven track-record in managing the listed investment company BKI Investment Company Limited) and the acquisition of direct property assets where drivers of future revaluations based on urban renewal and regeneration have been identified. The Company represents a unique investment proposition in the domestic market, being the first such vehicle to specifically target the theme of urban renewal and gentrification. That in itself provides a value proposition but, moreso, in our view the companies in the universe should generally benefit from a long-term tailwind of growth as well as provide diversification benefits for investors given the urban renewal universe exhibits relatively low correlation to the broader ASX market. Expected returns will be in form of capital growth and what we would anticipate to be a relatively high and stable level of income, the latter of which can be well managed through the company structure of the investment vehicle.

RECOMMENDATION

IIR has a high degree of conviction in the investment team's ability to deliver solid returns consistently over a full economic cycle. This is based on a range of factors. Firstly, the team is experienced, stable and has a collegiate, democratic culture where there is a high degree of co-ownership and accountability of investment decisions. The investment process is, by way of BKI, well established and proven over a full market cycle. PSRE is experienced in the direct property urban renewal thematic. We note the investment teams are small but we do not believe over stretched. Key person risk in such a small team inevitability exists. The fee level and structure are a distinct positive and reflects the Manager's interest in acting in the best interest of investors. Overall, IIR rates URB Investments Limited **RECOMMENDED**.

SWOT ANALYSIS

Strength

- ◆ Proven management team, with BKI recording total shareholder returns of 11.3% p.a. over a 13-year track-record.
- ◆ The LIC company structure is beneficial in relation to managing income payments to investors, particularly with an investment vehicle that is expected to realise gains from the sale of direct property assets. It enables the Manager to retain profits at times in the interests of providing income stability over time.
- ◆ Through BKI, we note a high degree of transparency given the Manager's degree of contact with the market and a large shareholder base. This has also been an important factor in managing and mitigating discount to NTA risk that LICs are subject to. Historically, BKI has consistently tracked at near parity to NTA.
- ◆ The fee level and structure are a distinct positive and reflects the Manager's interest in acting in the best interest of investors.
- ◆ Prudent approach to direct property gearing, with target gearing levels around 40%.
- ◆ Strong alignment of interest with shareholders with Contact's shareholders (being Tom Millner, Will Culbert and Soul Pattinson) intending to hold securities in URB.

Weakness

- ◆ Key person risk in both investment teams. This is a given in small investment teams, and hardly unusual, but nevertheless is a risk that investors need to be aware of. Should a key man leave the team, then our view of the company may possibly change.
- ◆ While we have confidence in the abilities of PSRE, it should be noted that there has been a limited number of asset sales since the team partnered with Soul Pattinson. Consequently, hard evidence of the abilities of the team through realised capital uplift is limited.

Opportunities

- ◆ Investments exposed to urban renewal and regeneration. URB is the only listed investment company investing solely in equity assets and direct property assets exposed to urban renewal and regeneration.
- ◆ The vast majority of retail investors rarely get the opportunity to invest alongside institutional investors in direct property assets, particularly those that are well placed to capitalise on urban renewal and regeneration.
- ◆ URB's unique focus on urban renewal and regeneration investments provides a greater opportunity for diversification and growth of an investor's portfolio.

Threats

- ◆ URB does not intend to take on high density residential development risk. However, URB may re-organise assets in a controlled way to enhance the returns from that asset. This may include development for industrial and commercial property but only on a basis where development risk is substantially mitigated. Despite the mitigation arrangements, URB may suffer loss where completion of construction works are delayed. Where a development is under a fixed price contract, there is a risk that an increase in costs to a level materially greater than the expected development costs.
- ◆ Should an identified driver of valuation uplift in direct property assets not transpire, for example a re-zoning, then the capital upside potential of the asset may be materially impacted. We do note, however, that the Manager is targeting assets that have a sustainable income to manage this downside risk.

PRODUCT OVERVIEW

URB Investments Limited was incorporated on 13 October 2016 to capitalise on urban renewal and regeneration opportunities. The actively managed investment portfolio will comprise ASX-listed equities, unlisted direct properties and a degree of cash.

URB is seeking to raise between \$75 million and \$300 million. The issue price is \$1.10 per share, and for every one share under the offer, investors will receive one option exercisable at \$1.10 at any time before 7 April 2018. The offer is open to new investors with a priority offer available for Soul Pattinson and BKI shareholders. Soul Pattinson has committed to subscribe for a minimum of 10% of the securities under the offer and will also be a 20% owner in the Manager. For each share issued to an applicant, the Company will issue to that applicant one option. Applicants do not have to pay to subscribe for options under the offer. Each option is exercisable into one fully paid ordinary share at \$1.10 until 5:00pm (Sydney time) on 7 April 2018.

The equities portfolio will comprise at least 50% of the total portfolio and will consist of companies that the Manager has identified as being exposed to the multiple and growing forces of urban renewal and regeneration, including population growth and density, major infrastructure investment, housing growth, revitalisation of town centres, education services, healthcare services and tourism growth. The Manager has established an urban renewal universe of ASX-listed companies which, based on its screens, comprises 89 stocks and accounts for roughly 20.5% of the ASX All Ordinaries Index. Based on this screen and the Manager's investment processes, an initial portfolio of 30 stocks has been identified. The portfolio is diversified by sector, but may exhibit low correlation to a typical ASX portfolio given the relative absence of banking and resources exposure.

Similar to BKI, we would expect the portfolio to be low turnover, reflecting the Manager's long-term buy-and-hold approach and focus on companies with sustainable business models, strong balance sheets, strong management, reasonable valuation metrics and solid income levels.

In relation to the direct property component of the portfolio, the Manager, drawing on the expertise of PSRE, will target assets that are set to benefit from changes in use, such as rezoning, gentrification and the maximisation of available floor space in order to enhance returns. Investments will be made as close to the point of change as possible, but the assets will also be underpinned by a sustainable and generally growing income stream. The initial investment portfolio will include a 49.9% interest in three direct property assets in Sydney. These assets will be co-owned by URB with Soul Pattinson, who will hold a 50.1% interest in each of the assets. While the Manager is open to all urban markets in Australia, we anticipate the direct property portfolio will predominantly contain Sydney properties over the foreseeable future given the degree of infrastructure and town redevelopment spend occurring in the city.

The Manager will adopt a very active approach to managing the direct property as the very nature of the strategy is based on identifying and then capitalising on drivers of future revaluations. The Manager will actively engage with all stakeholders to maximise future uses and value uplift (for example, re-zoning). Once these events transpire and the valuation uplift crystallised, then the likelihood is the asset will then eventually be sold and the capital recycled for new property purchases.

Through a Co-Investment Agreement, URB will have the right to invest, on an equal basis with Soul Pattinson, in all urban renewal and regeneration property opportunities originated by PSRE that are presented to Soul Pattinson. The Investment Management Agreement will commence on the date of Listing and will have a 10-year initial term unless otherwise terminated earlier in accordance with the terms of the Investment Management Agreement. At the end of the initial 10-year term, the agreement will be automatically extended until terminated by either party on the delivery of three months' notice.

The Investment Manager will be entitled to a monthly Base Fee equal to one-twelfth of 0.50% of the Total Assets of URB, to be paid at the end of the preceding month. In addition to the Base Fee, the Investment Manager will be entitled to a Performance Fee equal to 15% of the out-performance over pre-tax net tangible assets (NTA) 12 month return of 8.0%.

MANAGEMENT GROUP PROFILE

Contact Asset Management is fully owned by Tom Millner (40%), Will Culbert (40%) and Soul Pattinson (20%). While recently established as a stand-alone entity, the investment team have a long established track-record of managing BKI since 2003. A decision was made to externalise the investment entity (from BKI) in 2016 to enable the team to launch new investment vehicles. The Manager will continue to manage BKI.

URB Investments will have access to property opportunities through Soul Pattinson's real estate advisory division, Pitt Street Real Estate Partners. PSRE is an investment management firm focused on acquiring, developing and holding real estate assets on behalf of investors. PSRE will provide URB development expertise, structuring and risk management services to maximise long term returns through direct property investments.

Soul Pattinson will indirectly have some influence in the Company, specifically regarding direct property assets. Listed in 1903, Soul Pattinson is the second oldest listed company on the ASX and manages a portfolio investments valued at >\$6 billion. Soul Pattinson has a deep understanding of the business universe through its diverse investment portfolio.

INVESTMENT TEAM

Contact Asset Management is the overall portfolio manager as well as directly managing the equities component of the portfolio. As noted, through the co-investment agreement, URB will have access to urban renewal and regeneration property opportunities sourced by PSRE that are presented to Soul Pattinson.

The Contact investment team is made up of Tom Millner and Will Culbert. Our expectation is that over time the team will grow as FUM grows, with the Manager stating that it may add two more resources over the next 12-24 months. Robert Millner is in the position of Chairman and exercises oversight.

We view the team as appropriately experienced and qualified. The team's track-record with BKI has been strong, with the LIC generating an 11.3% p.a. total return over a 13-year period to January 2017. It has grown to a market capitalisation of \$1 billion and has over 14,500 shareholders and is characterised by an exceptionally low MER (the Manager acting in the best interests of shareholders). Will and Tom have now worked together for three years, and our sense is team stability and general dynamics (flat, egalitarian culture) are strong. It is also worth noting that given the scale of BKI FUM, the nature of the Soul Pattinson group and the 'weight' of the Millner name, the investment team generally benefits from excellent access to company management.

Tom Millner, Director and Portfolio Manager, has more than 15 years' experience in investment markets. Prior to the establishment of Contact, Tom was Chief Executive Officer of BKI Investment Company Limited from 2008 to 2016 – a period in which its market capitalisation total grew from ~\$400 million to over \$1 billion. Prior to joining BKI, Tom worked at Souls Funds Management covering research, portfolio management and business development. Prior to this Tom was an investment analyst with Republic Securities Limited, manager of the Investment Portfolio of Pacific Strategic Investments. Tom holds a Bachelor of Design, a Graduate Diploma in Applied Finance and Investment and is a Graduate of the Australian Institute of Company Directors. Tom is currently a Director of Washington H Soul Pattinson and Company Limited; New Hope Corporation Limited; and PM Capital Global Opportunities Fund Limited.

Will Culbert, Director and Portfolio Manager, has 17 years' experience in the funds management industry in Australia and the UK. Prior to the establishment of Contact in 2016, Will was Portfolio Manager for BKI Investment Company for 3 years. Will spent 11 years with Invesco Asset Management (formerly Concord Capital Pty Ltd) as an Equity Analyst and Portfolio Manager. He has also worked for the Bank of New York and Challenger Group. Will has a Bachelor of Business, a Graduate Diploma of Applied Finance & Investment and a Masters of Commerce from the University of New South Wales. He is also a Graduate of the Australian Institute of Company Directors.

Robert Millner has extensive experience in the investment industry, and currently holds eight listed company directorships, including a number of listed investment companies.

The PSRE investment team consists of two members. Hugh Williams, Managing Director, is the co-founding Managing Director of Pitt Street Real Estate Partners. Hugh's role is to run the business, identify and structure financial assets, liaise with investors and financiers and manage capital raising programs. Hugh has over 15 years' experience in financial markets having previously been an Executive Director at Goldman Sachs JB Were and Citigroup. Hugh has been engaged with Soul Pattinson since 2009, so it's a stable relationship. Hugh owns 25% of PSRE, Soul Pattinson 75%.

Mike Hercus, Portfolio Manager, is responsible for locating and negotiating acquisitions, setting and executing asset strategy, engaging with council and other relevant authorities relating to proposed zoning changes, lease negotiation and asset management. Mike previously worked for the Goodman Group for 5 years negotiating large development transactions. This experience combined with a decade abroad is where he developed his strategy and passion for urban renewal. He joined PSRE approximately two years ago.

Key Investment Personnel	
Name, Position	Years Experience
Robert Millner	35
Tom Millner	15
Will Cubert	17
Hugh Williams	17
Mike Hercus	7

BOARD OF DIRECTORS

The Board of Directors comprises independent and non-independent directors with a broad range of experience in investment management combined with financial and commercial expertise. We view the quality of the Board, as well as for the ability of the investment team, to access the Soul Pattinson board and the expertise there, as a particular strength.

Mr Negus has more than 30 years' of finance industry experience in Asia, Europe and Australia. His most recent executive roles include Chief Executive Officer of 452 Capital, Chief Executive Officer of Colonial First State Global Asset Management and a Goldman Sachs Managing Director in Australia, London and Singapore. He was also a Vice President of Bankers Trust Australia. Warwick is a Director of Washington H Soul Pattinson and Company, Bank of Queensland Ltd, Terrace Tower Group and FINSIA.

Ms Weekes is a professional non-executive director and independent business advisor. Victoria has over 30 years' experience in the investment and financial services industries in senior management and advisory roles working with major listed companies. Having held senior roles in both the private and public sector, Victoria has led a number of large-scale change programs for major organisations. She is currently Chairman of OnePath Funds Management Limited and OnePath Custodians Limited, Non-Executive Director of ANZ Share Investing Limited, Sydney Local Health District, FINSIA and is the Chairman of the Audit and Risk Committee of the Urban Growth Development Corporation.

Mr McDonald is a professional, non-executive director and an executive with extensive business experience, across a range of disciplines and industries. Tony co-founded and led the Snowball Group (now part of Shadforth within IOOF Ltd) from a start-up to a fully integrated business listed on the ASX. Tony is also an Independent Non-Executive Director of 8IP Emerging Companies Limited and Chairman of a not-for-profit organisation, HUB24 Limited.

Mr Dungey is a Chartered Accountant with over 40 years' experience providing assurance, taxation and business advisory services to a broad range of enterprises in a variety of industries, notably entrepreneurial growth companies, international private companies and High Net Worth Family offices. Bruce also held a number of leadership roles with two 'Top 4' global accounting firms, namely, Deloitte Private and Ernst & Young.

INVESTMENT PROCESS

For the equities portfolio, the investment process mirrors that which has been used at BKI for the last 13-years, with the exception of the addition of the urban renewal screen. Drawing on the BKI track-record, the investment process is well established and proven over a full market

cycle. The experience of the investment team combined with the stability of the relationship between the co-portfolio managers ensures consistency of process and, in this regard, we believe the solid track record of BKL is very much repeatable in relation to the equities portfolio in URB.

PSRE related transactions over the past seven years have been targeted at undervalued assets that again are expected to benefit from urban renewal in its various forms. To date, the targeted assets have typically required either a short term repositioning for income, capital for restructuring, or have an underlying opportunity for capital revaluation through a change in use. Where property assets have been sold, PSRE has generated attractive historical returns from such assets which have benefited from changes in use (including rezoning and gentrification of areas) and maximising available floor space to enhance returns. We note the number of sales to date, however, has been limited. In essence, the property acquisition strategy PSRE has been pursuing to date very much mirrors the urban renewal strategy that will be pursued on behalf of URB.

Investment Philosophy

Urban renewal and regeneration is the transformation of existing urban areas to accommodate much denser and mixed used environments. It involves the redevelopment of existing urban areas into spaces and built environments that meet contemporary living, working or community needs. It can generate a number of benefits including new infrastructure, better use of existing infrastructure, increased productivity, additional expenditure and new employment opportunities.

The Manager will seek to benefit from urban renewal and regeneration by investing in equity assets and direct property assets that have exposure to population growth, population density, major infrastructure investment, housing growth, new employment, revitalisation of town centres, re-zoning and use of land changes, education services, healthcare services and tourism growth.

The Manager believes that exposure to urban renewal and regeneration can deliver attractive long term value and provide diversification benefits for investors' portfolios. Furthermore, the Manager is of the view that the vast majority of retail investors rarely get the opportunity to invest alongside institutional investors in direct property assets, particularly those that are well placed to capitalise on urban renewal and regeneration.

Equity Investment Process

As evident in the management of BKL over the years, the Manager utilises a high-conviction, fundamental bottom-up investment approach. The Manager will target companies with exposure to urban renewal and regeneration, specifically those set to benefit from significant infrastructure spend, re-zoning and use of land changes as well as capitalising on low-to-high density urban transformation projects. Additionally, other key criteria include: dividend income and dividend sustainability; principal activity and competitive advantage; appropriately geared balance sheet; quality of management; and valuation.

Based on its thematic screens, the Manager has established an urban renewal universe made up of 89 stocks. This universe, when weighted based on market capitalisation, represents approximately 20.5% of the ASX All Ordinaries Index.

Direct Property Investment Process

PSRE will target property assets that incorporate some or all of the following underlying investment fundamentals: sustainable income; location benefits; beneficiaries of significant Government infrastructure investment; and opportunity for uplift in zoning, use and density, to enhance valuation. Assets may include commercial, industrial and residential property as well as undeveloped land. As noted, the Manager will seek to capture value in direct property assets by purchasing as close to the point of uplift in use prior to re-valuation. However, and hence the focus on sustainable income, the properties need to represent solid assets even when the identified driver of future revaluations does not transpire.

In terms of maximising asset returns, the Manager will take a very active approach, engaging all stakeholders to maximise future uses and value uplift. For example, actively engaging governments in an effort to have a property re-zoned.

URB does not intend to take on high density residential development risk. However, it may re-organise assets in a controlled way to enhance the income stream. This may include development for industrial and commercial property (which may include mixed use development). However, the Manager will seek to mitigate any development risk through the use of fixed price building contracts and pre-commitments from potential lessees.

Debt may be used at the property level to fund acquisitions of direct property assets or developments of those assets. Borrowings will be limited to the property/trust level with security over the relevant underlying property. It is the Company's intention to conservatively gear the relevant direct property asset, stating it will generally target a 40% level of gearing.

Under the co-investment agreement with Soul Pattinson, both parties have a first right but no obligation to invest. From a process perspective, investment opportunities will come to either PSRE, Soul Pattinson, URB or from a third party. They will then go through the first screen conducted by PSRE and in which Tom Millner and Will Culbert will also be heavily involved in. It will then go to an investment committee and, if approved, then undergo a more detailed due diligence process undertaken by PSRE who, amongst other aspects, will drill down into the upside potential of the asset, for example through re-zoning. Subject to the outcome of this, direct property assets will then be reviewed by the Board of both URB and Soul Pattinson which determines whether the assets are to be acquired.

Investments will typically be 50/50 between URB and Soul Pattinson and the expectation is they will be conservatively geared (maximum of 40% gearing). Each property will be held in a separate, single trust. The Manager's rationale for structuring as such is to provide greater funding flexibility (enabling a third-party to potentially participate in a particular asset) as well as a more focus approach to managing each particular unique property asset.

PORTFOLIO CONSTRUCTION

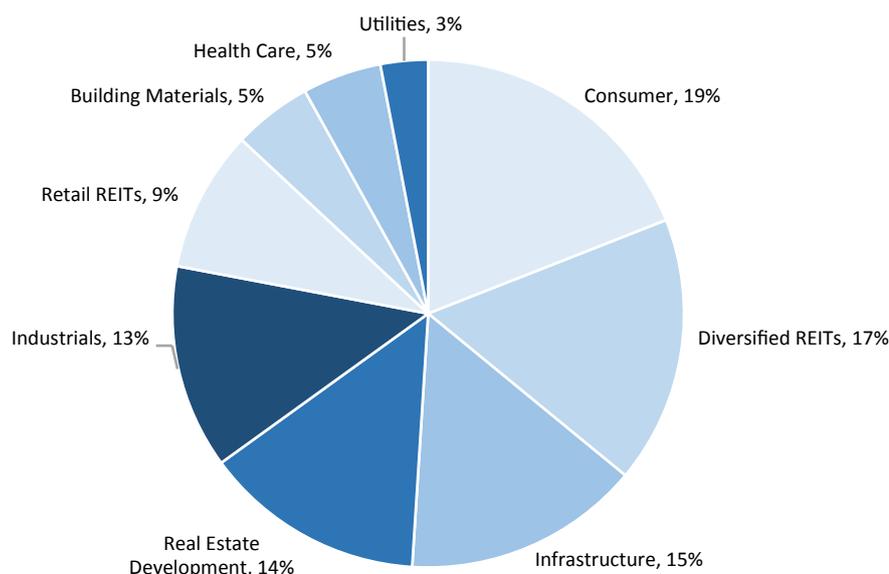
In terms of the composition of the investment portfolio, the portfolio is subject to a number of rules and guidelines. Specifically: at least 50% of the investment portfolio will be invested in the equity portfolio; 30% - 49.9% of the investment portfolio will be invested in the property portfolio; it is currently expected that the equity portfolio will comprise of 20 – 40 Equity Assets listed on ASX; the investment portfolio may include cash (and cash equivalents such as investment grade interest bearing debt securities) from time to time pending such cash being invested in the equity portfolio or the property portfolio.

The Manager estimates it may take approximately 1-4 months to fully construct the investment portfolio following listing. It is likely that, due to the fact that direct property assets are by nature less liquid than equity assets, a longer period is required to complete construction of the property portfolio.

Initial Equity Portfolio

The urban renewal universe can be categorised, as seen below, into clear investment outcomes and industry groups that are directly related to urban renewal and regeneration. Below is an illustrative representation of URB's potential equity portfolio which is made up of 30 stocks and is shown on a sector exposure basis. We expect this portfolio to represent the initial equity portfolio following the listing of the Company. The Manager believes that this portfolio should have a low correlation to a typical investor portfolio.

From a risk perspective, the portfolio will be managed from a qualitative perspective, specifically based on the Manager's investment approach which focuses on quality businesses, quality management, strong balance sheets and reasonable valuations. There will be a sufficient degree of diversification by company and sector, as evident by the initial equity portfolio illustrated below. Portfolio turnover is likely to be low to very low, as per BKI historically. This reflects the Manager's long-term view it takes on companies.

Illustrative sector exposure of the equity portfolio**Direct Property Seed Assets****Seed Properties**

The initial Investment Portfolio will include a 49.9% interest in three direct property assets in Sydney as described below. These specific assets will be co-owned by URB with Soul Pattinson, who will hold a 50.1% interest in each of the assets. The Manager can invest in any urban market in Australia but we expect it will be a Sydney centric portfolio over the foreseeable future given, and in the context of strong population growth, the significant degree of infrastructure and urban renewal spend occurring in the Sydney now and over the longer term, such as the second airport, new and extended train lines, toll roads, as well the focus on the development of town centres such as Parramatta and Penrith.

Kingsgrove Property

Purchase Price	\$15.85m
URB's proposed ownership interest	49.9%
Co-owner Soul Pattinson	50.1%
Proposed gearing at trust level at settlement	0%
Title	Freehold, Lot M, DP30732
Location	2 The Crescent Kingsgrove NSW
Type	Logistics/Industrial

The Kingsgrove Property is located in Kingsgrove, NSW, in the inner south-west of Sydney in close proximity to Sydney Airport and Port Botany. The property is 18,480m², with a 11,135m² office and warehouse. The property is currently leased to a manufacturing company until March 2018.

URB considers that the Kingsgrove Property has the potential to benefit from:

- ◆ following expiry of the current lease, increases in value and income from a possible subdivision of the property into smaller industrial lots subject to necessary approvals from local government and agreement with Soul Pattinson as the co-owner of the property;
- ◆ sustainable income;
- ◆ proximity to infrastructure (Westconnex Motorway, Kingsgrove railway station, Sydney Airport, Port Botany and Moorebank Intermodal Freight Precinct). With the King George's Road upgrade and the future widening and new M5 tunnel as part of West Connect, Kingsgrove is now the first industrial site out of the Port of Botany and Sydney Airport;
- ◆ the residential rezoning of the South Sydney suburbs of Alexandria, Mascot and Botany which has caused industrial property users to relocate; and
- ◆ from a possible re-zoning of the site from industrial to residential and/or commercial.

Penrith Asset

Purchase Price	\$23.1m
URB's proposed ownership interest	49.9%
Co-owner Soul Pattinson	50.1%
Proposed gearing at trust level at settlement	40%
Title	Freehold, Lot 1 in DP614190, Lot 2 in DP573145 and Lot 1 in DP573145
Location	510-536 High Street Penrith, NSW
Type	Retail/Commercial

URB believes that Penrith is set to undergo a shift in land use by virtue of infrastructure projects over the next 5 years. Federal, State and Local governments have recently signed the 'City Deals' agreement which aim to focus investment and development in regional city centres like Penrith by collaborating to unlock government owned land or relocate government businesses from the Sydney CBD or surrounds into the regional city centres. Local council is progressing changes to the planning controls within the city centre to accommodate 'City Deals' projects (large scale developments). URB considers that the Penrith Property has the potential to benefit from:

- ◆ immediate and sustainable income via existing tenancies;
- ◆ increased income through more active management of the property and tenancies, including car park charges;
- ◆ increases in value and income from a possible change to a mixed use site (residential, retail and commercial) subject to necessary approvals from local government and agreement with Soul Pattinson as the co-owner of the property;
- ◆ proximity to infrastructure (Penrith railway station and town centre, M4 motorway and Badgery's Creek Airport); and
- ◆ 'City Deals' projects (as described above).

Prestons Property

Purchase Price	\$20.0m
URB's proposed ownership interest	49.9%
Co-owner Soul Pattinson	50.1%
Proposed gearing at trust level at settlement	0%
Title	Freehold, Lot 1 in DP119428, Lot B in DP399509 and Lot 38 in DP2359
Location	55 Yarrunga Street Prestons, NSW
Type	Agricultural/Industrial

The property is located in Prestons, NSW, south-west of Sydney and close to the junction of the M5 and M7 motorways.

The Prestons Property is a 69,422m² undeveloped block of land that has been zoned for industrial use. URB believes land is increasingly scarce in this area for industrial purposes. URB and Soul Pattinson intend, subject to the granting of development approval from local government, to construct a logistics warehouse and distribution centre.

Construction of the logistics warehouse and distribution centre is expected to complete in the second half of 2018. PSRE will manage the development and will seek to reduce development risk through a fixed price construction contract. In addition to funding the purchase price as detailed below, both URB and Soul Pattinson have agreed to provide further equity funding up to \$7.5 million to fund the development. The balance of the development costs is intended to be funded by debt incurred at the trust level.

URB believes Prestons is a sought after logistics, warehouse and distribution location by virtue of its close proximity to the on/off ramp to the M7 Motorway allowing easy access to and from major roads connecting Melbourne, Brisbane and Sydney Airport and Port Botany. The new Badgery's Creek Airport will be approximately 5km west of the Prestons Property and is expected to be operational in 2024-2025.

URB considers that the Prestons Property has the potential to benefit from:

- ◆ sustainable income via a potential lease of the logistics warehouse and distribution centre once developed;
- ◆ proximity to infrastructure; and
- ◆ re-valuation opportunity upon completion of the development of the logistics warehouse and distribution centre.

Soul Pattinson has entered into an agreement to acquire the Prestons Property for a purchase price of \$20 million. The agreement is due to complete on 1 June 2017.

Soul Pattinson has granted URB a call option to acquire a 49.9% interest in the Prestons Property which URB has agreed to exercise if the Offer is successful.

RETURNS

Dividend Policy

The Manager's investment objective is to maximise total returns through a combination of capital and income growth, with the aim of allowing fully franked dividends to be paid to when possible.

URB's aim is to pay out between 50% and 70% of net operating profits as ordinary fully franked dividends. In circumstances where URB accumulates sufficient special investment revenue (i.e. through the divestment of a property asset), the Board will consider declaring special fully franked dividends to Securityholders. URB's long term target is to offer securityholders sustainable and growing fully franked dividends and a yield that is competitive within the listed investment company industry. We note that the initial equity portfolio has a forecast grossed up dividend yield of 5.3%.

Property Portfolio Valuations

The fair value of the property portfolio will be reviewed by the Board at each reporting date. To assist in the assessment of fair value, the Board will periodically engage an independent valuer to provide a valuation of each direct property asset, at least once every two years. Valuations may occur more frequently if there is reason to believe that the fair value of an asset has materially changed from its book value (for example, as a result of changes in market conditions, leasing activity in relation to the asset or increased capital expenditure).

In terms of the valuation dynamic, a possible scenario may be the following. When the asset is acquired the net asset value is struck. Immediately, the rent is increased to existing and/or new tenants, resulting in an uptake in valuation. In the background, the Manager is actively engaged in realising the identified driver of a significant valuation increase, for example re-zoning. If and when this event transpires, the Manager may then be in a position to realise a significant uplift. Following this development, the Manager may choose to sell the asset, realising any potential gain in valuation.

Equity Portfolio Capital Returns

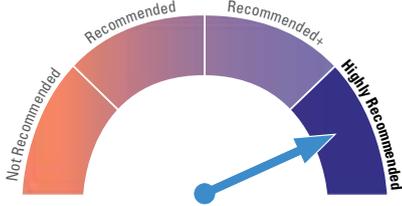
In terms of capital growth potential in the equity portfolio, we believe the past performance of BKI provides the best guide as to Manager ability and potential future performance.

BKI has a strong track record of investing in listed equities for over 13 years. BKI's assets have grown significantly since listing from \$173 million to approximately \$1 billion as at 31 January 2017 and recording total shareholder returns of 11.3% p.a. BKI was the winner of the 2011 Listed Investment Company of the Year award and its investors include self-managed super funds, personal investors and fund managers.

APPENDIX A – RATINGS PROCESS

INDEPENDENT INVESTMENT RESEARCH PTY LTD “IIR” RATING SYSTEM.

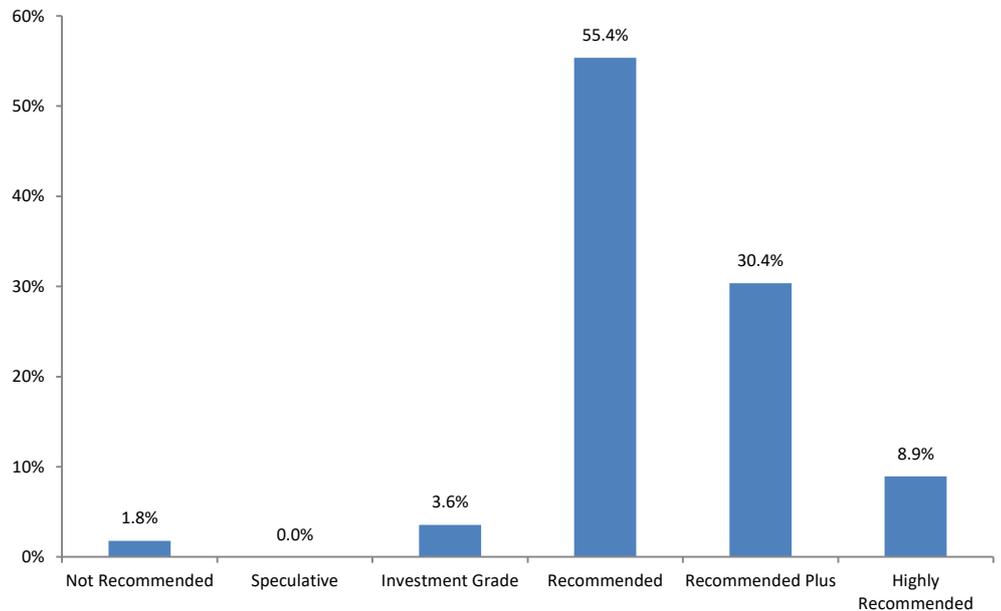
IIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction; investment management, product structure, risk management, experience and performance; fees, risks and likely outcomes.

LMI Ratings	SCORE
<p>Highly Recommended</p> 	<p>83 and above</p> <p>This is the highest rating provided by IIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved exceptionally high scores in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely effectively to apply industry best practice to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors.</p>
<p>Recommended +</p> 	<p>79–82</p> <p>This rating indicates that IIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and achieved high scores in a number of categories. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able consistently to generate above average risk-adjusted returns in line with stated investment objectives. The Fund should be in a position effectively to manage endogenous risk factors, and, to the extent that it can, exogenous risk factors. This should result in returns that reflect the expected level of risk.</p>
<p>Recommended</p> 	<p>60–78</p> <p>This rating indicates that IIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.</p>
<p>Not Recommended</p> 	<p><60</p> <p>This rating indicates that IIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives. However, concerns over one or more features mean that it may not be suitable for most investors.</p>

APPENDIX B – MANAGED INVESTMENTS COVERAGE

The below graphic details the spread of ratings for managed investments rated by Independent Investment Research (IIR). The managed investments represented below include listed and unlisted managed funds, fund of funds, exchange traded funds and model portfolios.

SPREAD OF MANAGED INVESTMENT RATINGS



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