



# Product Review

## URB Investments Limited

ISSUE DATE 17-10-2018

### About this Review

ASSET CLASS REVIEWED	AUSTRALIAN EQUITIES
SECTOR REVIEWED	AUSTRALIAN LARGE CAP
SUB SECTOR REVIEWED	LIC
TOTAL COMPANIES RATED	11

### About this Company

LIC REVIEWED	URB INVESTMENTS LIMITED
ASX CODE	URB
ASX LISTING DATE	12 APRIL 2017
COMPANY OBJECTIVE	CAPTURE LONG TERM VALUE BY INVESTING IN A DIVERSIFIED PORTFOLIO OF EQUITY ASSETS AND DIRECT PROPERTY ASSETS WITH EXPOSURE TO URBAN RENEWAL REGENERATION
MANAGEMENT COSTS	1% P.A.
PERFORMANCE FEE	15% (HURDLE RATE: 8% POST DIVIDENDS)

### Market data

MARKET CAPITALISATION	\$69M
SHARES ON ISSUE	73M
SHARE PRICE (15-10-2018)	\$0.94
52 WEEK HIGH/LOW SHARE PRICE	\$1.10 / \$0.88
NTA (28-9-2018)	\$1.09
52 WEEK HIGH/LOW NTA	\$1.09 / \$1.03
SHARE PRICE PREM/(DISC) TO NTA	-14.22%

### Board of Directors

NO. OF DIRECTORS	4
MAJORITY INDEPENDENT DIRECTORS	YES
CHAIRPERSON	WARWICK NEGUS

### About the Investment Manager

INVESTMENT MANAGER	CONTACT ASSET MANAGEMENT PTY LTD
OWNERSHIP	80% STAFF, 20% WASHINGTON H SOUL PATTINSON
ASSETS MANAGED IN THIS SECTOR	\$76M
YEARS MANAGING THIS ASSET CLASS	7

### Investment Team

PORTFOLIO MANAGER	TOM MILLNER, WILL CULBERT
INVESTMENT TEAM SIZE	4
STRUCTURE / LOCATION	SYDNEY

### Investment process

STYLE	THEMATIC / QUALITY AT A REASONABLE PRICE
MARKET CAPITALISATION BIAS	MID TO LARGE
BENCHMARK	BENCHMARK UNAWARE
TYPICAL STOCK NUMBERS	20 - 30
TYPICAL PROPERTY NUMBERS	CURRENTLY 4, WILL LOOK TO INCREASE TO 7-10+ OVER TIME

### Company rating history

OCTOBER 2018	INVESTMENT GRADE
MARCH 2017	INVESTMENT GRADE

### What this Rating means

The 'Investment Grade' rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.

### Scope of this rating

- Lonsec has used its Managed Funds research process in forming an opinion on this Listed Investment Company's (LIC or Company) ability to meet its stated investment objectives. The extent of any 'point-in-time' divergence between URB's share price and its underlying Net Tangible Asset Value (NTA) per share is not part of the ratings consideration.
- Lonsec does consider whether structural or management issues could potentially lead to a LIC trading at a significant discount to its NTA over an extended period of time without any recourse for shareholders. This aspect forms part of the wider qualitative and quantitative assessment that Lonsec undertakes when assessing the relative investment merits of a LIC.

### Strengths

- Investment Manager has a sound track record of managing BKI using a proven equities investment process.
- Reduced risk through co-investment agreement with Soul Pattinson for the direct property assets.
- Portfolio Managers and Board Members are shareholders and performance fees has high hurdle rates, which create strong alignment of interest with investors.
- Well designed strategy for investors to get access to development potential associated with properties most would not normally have the financial means or expertise to participate in.

### Weaknesses

- Contact has a smaller team of four.
- High level of related-party risk via the provision of services (including investment management) by related entities.
- The urban renewal theme provides exposure to a reasonably concentrated portfolio of interest rate sensitive equities.
- The size of LIC and unlisted nature of the property assets may cause the LIC to trade at a discount to NAV for an extended period.
- Dilution of potential property investment gains via two separate performance fees. Performance fees are considered generous when compared to direct property managers researched by Lonsec.

We strongly recommend that potential investors read the product disclosure statement or investment statement. Lonsec Research Pty Ltd ABN 11 151 658 561 AFSL No. 421445. This information must be read in conjunction with the warning, disclaimer and disclosure at the end of this document. This report supersedes all prior reports.

ANALYST: AMBER SUNIL | APPROVED BY: PETER GREEN

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## Company Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK			●
CAPITAL VOLATILITY			●
LEVERAGE RISK		●	
SECURITY LIQUIDITY RISK			●
SECURITY CONCENTRATION RISK		●	
RELATED PARTY RISK			●

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

## BIOmetrics

### Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME			●

### Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG AWARENESS	●		

### Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE			●
FEES VS. ASSET CLASS			●

Fee BIOmetrics are a function of expected total fee as a percentage of expected total return.

## What is this Company?

- URB Investments Company Limited ('URB' or 'the Company') provides investors with an opportunity to invest in an actively managed portfolio of ASX listed equities and direct property assets via an Australian listed company vehicle (ASX: URB). The Company was founded in October 2016 and listed on ASX in April 2017. URB has a current market cap of \$72.44m and 73m shares on issue.
- The Company is externally managed by Contact Asset Management Pty Limited ('Contact' or 'the Manager'). The appointment of the Manager is governed by an Investment Management Agreement with a term of ten years; an initial five-year term followed by an automatic five-year roll-over if there is no shareholder vote requisitioned. The Company's investment objective is to capture long term value by investing in a diversified portfolio of equity assets and direct property assets with exposure to urban renewal regeneration. URB will seek to maximise shareholder returns through a combination of capital and income growth, with the aim of allowing fully franked dividends to be paid to shareholders.
- Contact is an Australian based fund manager specialising in ASX listed equities. It was established in late 2016 by Tom Millner and Will Culbert. Contact is also responsible for managing BKI Investment Company Limited (ASX: BKI), which had assets of approximately \$1.12 billion as at 31 August 2018. The

Company leverages the same investment process and investment team as BKI, though URB focuses on investment opportunities deemed most likely to benefit from the urban renewal theme. Contact, URB, Washington H Soul Pattinson and Company Limited (Soul Pattinson), and Pitt Street Real Estate Partners Pty Limited (PSRE) have entered a co-investment agreement under which URB has the right to invest on an equal basis with Soul Pattinson in direct property assets. Contact originates direct property opportunities as part of Investment Management agreement and does not draw a separate fees (apart from 0.5% management fee) for providing these services.

- Soul Pattinson (ASX: SOL) is one of Australia's oldest investment houses whose principal activities include its traditional field of pharmacy as well as retail, building materials, natural resources, equity investments, agriculture, telecommunications and corporate advisory. PSRE was established seven years ago as the real estate division of Soul Pattinson (ownership 75% Soul Pattinson and 25% Managing Director, Hugh Williams). PSRE also originates the direct property opportunities for URB and receives fees for providing these services. There are many common directorships between these companies and the influence of Soul Pattinson's investment strategies on URB should not be underestimated.
- The equity component of URB's investment portfolio offers investors a high conviction portfolio of 25-30 stocks (26 stocks as at 30 June 2018), with diversified sector exposure to the urban renewal and regeneration theme. The equity component accounted for 51.3% of URB's total investment assets as at 30 June 2018.
- The direct property component of the portfolio offers investors an exposure to developmental and passive direct property assets and consisted of three seed assets (Kingsgrove, Preston and Penrith) and a relatively new asset in Artarmon, Sydney for FY18. The direct property assets accounted for 44.6% of URB's total investment assets as at 30 June 2018.
- Capital management decisions are made at the Board's discretion. This includes, for example, any share buybacks and/or dividend payments. The intention is to pay dividends, fully franked, annually if sufficient profit and reserves and franking credits are available and any payment is considered prudent business practice. In FY18, a total ordinary dividend of 1.50 cents per share was announced and a dividend reinvestment plan was announced in September 2018 with nil discount to the share price.
- A key risk for investors in any LIC is the possibility for such structures to trade at a substantial discount to NAV for lengthy periods of time. Lonsec notes that URB had traded at a discount for an extended period since its listing in April 2017. Lonsec believes it to be further exaggerated by the unlisted nature of the direct property assets which are subject to periodic revaluation.
- The Company has a management fee of 0.50% p.a. of the NAV of the Company's portfolio. A performance fee of 15% of the outperformance above a pre-tax net tangible asset (NTA) per share return of 8.0% is also payable. The NTA also reflects property management fees and any performance fees paid on

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## URB Investments Limited

the direct property assets. In FY18, total management costs were 1.00% p.a. of the NAV of the company's portfolio. This included the MER of 0.50% p.a. along with LIC running costs of 0.50% p.a.

- Lonsec notes that URB is quite a small LIC (market cap below \$100m) which makes it inefficient from a fixed cost point view.
- Lonsec notes that the performance fee structure for the underlying direct property assets is considered generous when compared to direct property funds rated by Lonsec and it is passed through to investors.

### Using this Company

**This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.**

- Lonsec believes the Company may be suitable for higher risk profile investors with an ability and willingness to invest in a sophisticated non-traditional equities product. The Company should be used within the 'growth' component of an investor's balanced portfolio and with at least a five-year investment horizon.
- The Company invests in ASX listed equities and direct property assets and is subject to movements (both positive and negative), at times sharp, in the prices of the underlying shares and properties in the portfolio. Investors should therefore be aware that the Company may experience periods of negative returns and that there is a risk of potential capital loss being incurred on their investment. The Company's performance is expected to vary from traditional equities benchmarks (such as the S&P/ASX 200 Index) throughout a business cycle.

### Suggested Lonsec risk profile suitability

SECURE DEFENSIVE CONSERVATIVE BALANCED GROWTH HIGH GROWTH

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

### Changes Since Previous Lonsec Review

- Contact hired two investment analysts, Rahul Tamilarasan and Jovana Gagic, in 2017. Tamilarasan has two years of prior experience in the financial services assurance division at EY, whereas Gagic previously worked at Pitcher Partners for three years as an accountant and senior auditor.
- During FY18, 250,473 options (issued during IPO) were exercised at \$1.10 raising capital of \$275,520, with rest of the options expiring in April 2018.
- URB made a net profit of \$2.16m in FY18 and paid a total dividend of 1.50 cents per share.

### Lonsec Opinion of this Company

#### Board of directors

- The Company's Board of Directors consists of four members, with three directors (Victoria Weekes, Tony McDonald, Bruce Dungey) designated as 'independent' under ASX listing rules. Chair Warwick Negus is not considered 'independent' since he is a director of Soul Pattinson (WHSP), which owns 20% of the Investment Manager and is co-owner of the Direct Property seed assets. Lonsec highlights the majority of 'independent' directors and believes it to be a 'good practice' as per ASX listing rules.
- The Board is considered by Lonsec to be reasonably sized. The Board's primary responsibility lies with the corporate governance of the Company. While day-to-day management of the portfolio has been delegated, the Board is more actively involved in idea generation than most other LICs reviewed by Lonsec. In Lonsec's opinion it is less usual for Board members to be such active participants in the investment process, particularly the independent members. However, Lonsec notes the business and investment experience these individuals add to the investment process.
- The Board has elected to establish two sub-committees being the Investment and Audit Committee. The Investment committee (IC) comprises all four Board members, whereas the Audit committee (AC) comprises three independent directors and is chaired by Dungey. Lonsec considers a separate chair for the AC versus the LIC to be an adequate segregation of duties.
- Overall, Lonsec believes the Board has sufficient experience in overseeing LICs, and considers it to be comprised of a mix of individuals with the requisite experience and skills to allow the Company to meet its investment objectives.
- Lonsec has assessed URB to have a high level of related-party risk. This stems from it entering into service agreements with several related-party entities. This includes a co-investment agreement and three call option agreements with WHSP, which were exercised subsequent to the IPO. URB also co-invests in property deals with PSRE and pays property-related fees to Pitt Capital Partners ('Pitt') which are related-parties. Additionally, URB appointed Contact as their external Investment Manager, which is owned 20% by WHSP. URB also appointed Pitt as a financial advisor for the Company's IPO. Lastly, Corporate and Administrative Services Pty Ltd, a related-party entity, provides administrative, company secretarial and accounting services to URB. All are WHSP-owned entities. Lonsec notes that Tom Millner is also a current director for WHSP.
- Having highlighted the risk, Lonsec is pleased to note that the Company has firm procedures in place to handle such conflicts. This includes the hard rule that no director or representative of Contact can be present in an IC meeting when any related party stocks are up for discussion and all service agreements are contracted on arm's length terms.
- Being ASX-listed, the Company will also need to comply with the stringent listing rules of the ASX.

### People and resources - Investment manager

- Contact was formed in late 2016 by Tom Millner and Will Culbert, who each own 40% and Soul Pattinson which owns the remaining 20%. While there is no direct reliance on Soul Pattinson, URB enjoys the full support of the Group which provides back-office and operational support. Lonsec views the relationship between the Investment Manager and Soul Pattinson as a positive one and similarities in the investment philosophies are strong.
- Millner has over 17 years of investment experience. Prior to establishing Contact, Millner was CEO of BKI (from 2008 to 2016) and has also been an investment analyst and portfolio manager with Souls Funds Management (Souls). Millner has also property experience gained via his directorship with Souls and close association with PSRE over the years. Culbert also has a long-term investment track record, with 19 years of funds management experience in Australia and the UK. Culbert was previously portfolio manager for BKI for 3 years and spent 11 years at Invesco Asset Management as an equity analyst and portfolio manager. Lonsec views both portfolio managers to have solid investment credentials and considers them to be well qualified to meet the Company's objective.
- Lonsec considers Contact's investment team to be small versus many peers, having only four members. Tom Millner and Culbert are assisted by two junior analysts, Rahul Tamilarasan and Jovana Gagic, who both joined in 2017 from EY and Pitcher Partners respectively. While Contact is looking to expand the team in-line with its ambition to create a stable of LICs, it is likely that this will take some time and be linked to asset growth. However, Lonsec notes that outside of investment tasks, Contact runs a largely outsourced model and has heavily invested in automating its investment process. Nonetheless, resourcing of the investment team will form a critical part of Lonsec's future reviews.
- Lonsec is cognizant of both portfolio managers having limited property management experience and relying on PSRE for management of direct property assets. Lonsec however gains some comfort around PSRE having a good track record of managing direct property assets for Soul Pattinson for the last eight years.
- Key person risk in Millner and Culbert is considered by Lonsec to be high, however given the equity in the business in the early stage of its life-cycle, the probability of either departing the firm is considered low.
- The team's alignment with investor outcomes is considered to be strong, particularly given the Manager is in its start-up phase where fund flow tends to be dependent on positive performance outcomes.

### Research and portfolio construction

- Lonsec believes the investment philosophy and research draws heavily on the successful investment strategies adopted by investment house, Soul Pattinson, over many years. One of the key attractions of the Company is that the portfolio managers are exposed to the best ideas across the Soul Pattinson group of companies. The investment style could be described as 'Growth at Reasonable Price'.
- Once the urban renewal equities universe has been determined, currently 97 stocks in the All Ordinaries Index, a detailed qualitative analysis is conducted. This takes the form of a Q&A checklist. Reasonably standard valuation metrics supplement the qualitative analysis.
- The urban renewal equities portfolio excludes banking and resource stocks and contains sectors that could be described as interest rate sensitive – Retail, Diversified & Industrial REITs, Construction Materials, Construction & Engineering, Building Products, Home Furnishing Retail. Less interest rate sensitive sectors are Utilities, Highways & Railtracks and Airport Services.
- The direct property assets are classified as either Passive or Development Assets and attract different fees payable to PSRE. PSRE has been Soul Pattinson's in-house real estate advisory firm for eight years. During this period, PSRE has brought many deals to the Soul Pattinson Board ranging from office, development, retail, commercial and industrial. The performance of PSRE has never been measured independently like a REIT or an external property management business as PSRE has always been the manager of assets that have been 100% owned by Soul Pattinson. The main form of risk management when selecting properties is to ensure the properties are capable of multiple uses. Lonsec believes PSRE has a good record of identifying and managing assets like the three seed properties for the benefit of investors.
- Lonsec notes that typically, the Company will maintain a large proportionate ownership of each direct property asset, resulting in the Company having either control or significant influence over these investments. However, the Company invested in an unlisted direct property asset during FY18, which represents less than 5% of the trust's issued capital.
- It should be noted that investors assume the development risk associated with properties classified as Development Assets. These include risks such as the inability to secure tenants or development approvals, permits or finance.
- The portfolio construction framework involves sizing positions based on their assessed risk-adjusted return, and how each stock fits within the total portfolio. Lonsec considers the portfolio to be high conviction and representative of the Manager's best ideas, which is viewed positively. That said, there is currently a lack of clarity on some aspects of how the research effort is linked to portfolio construction.

## URB Investments Limited

### Risk management

- The Company's Board of Directors is responsible for the overall governance of the Company, including corporate governance policies, internal controls and risk management procedures which it believes are appropriate for the Company's business. The Board has established a separate Audit and Risk Committee to monitor the Company's risk framework with Bruce Dungey as Chair. Lonsec notes that not all LICs have set-up additional committees and Lonsec holds a positive opinion of this industry best practice.
- Lonsec notes that the equity portfolio operates with wide constraints, having only soft limits on stock positioning and no sector limits. Investors should be aware the portfolio will exhibit a different return and risk profile to the S&P/ASX 200 Index.
- While the Company's investment strategy is relatively unconstrained when it comes to portfolio construction, Lonsec believes the Manager intends to have strong focus on risk management at stock and portfolio level, which should assist in achieving the Company's goals.
- Lonsec notes that URB does not have access to risk management systems that are typically used by managers in Lonsec's universe to provide reporting on potential risks within equity portfolios. Lonsec considers that the Company's portfolio may have periods where significant interest rate risk builds up. Given this, Lonsec highlights some concern with the lack of risk management systems given the susceptibility to unintended macro bets.

### Funds under management

- URB raised \$77.3 million from its IPO share issuance. As at 30 June 2018, the Company had \$77.7 million FUM. Lonsec does not believe that URB exhibits any significant capacity constraints at this level of FUM. Moreover, Lonsec believes there is significant headroom for growth.
- Lonsec notes that by virtue of its closed-end structure, future growth in the portfolio size will mostly be driven by performance rather than future inflows. The active DRP and capital management programs in place will also be an incremental driver of portfolio growth over time.

### Performance

- URB has been listed since April 2017 and has a very limited track record to make meaningful performance commentary.
- That said, Lonsec notes that equity component of URB's portfolio is managed by Contact via a well-established investment process and philosophy which has generated a good track record at BKI. However, the track record of BKI is not portable to URB due to its thematic style, with a focus on urban renewal and regeneration themes, and substantial allocation to direct property.
- Additionally, while Lonsec acknowledges the track record of PSRE in identifying good direct property assets such as three seed assets for URB, Lonsec would be seeking completion of those seed asset developments and potential income stream/capital gain for investors to assess the full impact

of the property component of portfolio on the total shareholder returns.

- Lonsec is pleased to highlight that the Company has been profitable in its first full financial year (net profit of \$2.16m in FY18) and distributed a total dividend of 1.50 cents per share to its shareholders.

### Overall

- Lonsec has maintained an 'Investment Grade' rating for URB. The rating is supported by Lonsec's conviction in the well-established investment process at Contact supported by experienced Portfolio Managers and co-investment agreement for the direct property assets with Soul Pattinson. Lonsec also highlights strong alignment of interest with shareholders and believes the Company to be a good avenue for retail investors to access the development potential associated with properties most would not normally have the financial means or expertise to participate in.
- The positives are counterbalanced by the Company's limited track record, opaque performance fees structure and fewer competitive advantages existing in the equities portfolio. Lonsec also highlights the high related-party risk and enhanced potential for LIC to trade at a discount to NAV due to the valuation policy around the unlisted property assets.

## People and Resources

### Corporate overview

Contact is an investment management firm founded by Tom Millner and Will Culbert with 80% share, while Washington H Soul Pattinson ('WHSP') holds the remaining 20%. Lonsec notes that Contact is a related-party entity to URB as the Non-executive chairman, Warwick Negus, is a director of WHSP as well.

URB was established in October 2016 and listed in April 2017. The company raised \$77m from its IPO share issuance and is expected to grow further through its capital management initiatives such as Dividend Reinvestment Plan.

### Key events

FOUNDED	OCT 2016
INITIAL PUBLIC OFFERING	APRIL 2017
DIVIDEND REINVESTMENT PLAN	SEPT 2018

### Size and experience - Board of directors

NAME	POSITION	YEAR JOINED
WARWICK NEGUS	NON-EXECUTIVE CHAIRMAN	2016
BRUCE DUNGEY	NON-EXECUTIVE INDEPENDENT DIRECTOR	2016
VICTORIA WEEKES	NON-EXECUTIVE INDEPENDENT DIRECTOR	2016
TONY MCDONALD	NON-EXECUTIVE INDEPENDENT DIRECTOR	2016

## URB Investments Limited

The Company has established its own Board of Directors ('the Board') consisting of four members, with majority of its members being independent except the chairman who is director of WHSP as well.

The Board has the responsibility for ensuring that the Company is properly managed so as to protect shareholder interests in a manner that is consistent with the Company's obligation to all stakeholders. This includes meeting its investment objectives. The Board has appointed two sub-committees, audit and investment, to manage the risk for URB's investment portfolio.

### Warwick Negus

Mr Negus is BOD's chairman and member of the investment committee. 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. Negus is a Director of Washington H Soul Pattinson and Company, Bank of Queensland Ltd, Terrace Tower Group, Virgin Australia Holdings and Pengana Capital Group Ltd.

### Victoria Weekes

Ms Weekes is a professional non-executive director and independent business advisor. Victoria has over 30 years of experience in the investment and financial services industries in senior management and advisory roles working with major listed companies. Weekes is currently Chairman of OnePath Custodians Limited, Non-Executive Director of Sydney Local Health District and FINSIA, and is the Chairman of the Audit and Risk Committee of the Urban Growth Development Corporation. Weekes is also member of the URB's investment and audit committee.

### Tony McDonald

Mr McDonald is a professional, non-executive director and an executive with extensive business experience, across a range of disciplines and industries. McDonald 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. McDonald is also an Independent Non-Executive Director of 8IP Emerging Companies Limited and Hub24 Limited. He is also Chairman of a not-for-profit organisation. McDonald is a member of the URB's investment and audit committee along with Weekes and Dungey.

### Robert (Bruce) Dungey

Mr Dungey is a Chartered Accountant with over 40 years of 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. Dungey also held a number of leadership roles with two 'Top 4' global accounting firms, namely, Deloitte and Ernst & Young. Dungey is chair of audit committee and member of investment committee.

### Board remuneration

NED (including the Chair) remuneration in aggregate must not exceed a limit that has been approved by shareholders via a formal vote. This maximum aggregate limit is \$300,000 p.a. and it can only be increased via an ordinary share-holder resolution. In terms of how this is allocated to individual directors, in 2018 Negus as Chair received 60k, Weekes and McDonald each received \$40k, and Dungey received \$45k. In aggregate, the four NEDs received \$185k which is well below the \$300k ceiling.

### Investment manager

Contact is majority owned by the Portfolio Managers, Millner and Culbert (40% each) with Soul Pattinson owing the remaining 20%. Both Millner and Culbert are experienced and have proven expertise in managing the assets of ASX listed BKI Investment Company Limited (ASX: BKI). The portfolio managers have a history of investing alongside shareholders and focus on developing and managing products to create long term prosperity.

### Size and experience - Investment team

NAME	POSITION	EXPERIENCE
		INDUSTRY / FIRM
ROBERT MILLNER	CHAIR	34 / 2
TOM MILLNER	PORTFOLIO MANAGER	17 / 2
WILL CULBERT	PORTFOLIO MANAGER	20 / 2
RAHUL TAMILARASAN	INVESTMENT ANALYST	3 / 1
JOVANA GAGIC	INVESTMENT ANALYST	4 / 1
JAMIE PINTO	COMPANY SECRETARY	22 / 2

- Contact has appointed Tom Millner and Will Culbert as the co-Portfolio Managers of URB. Both Portfolio Managers have over sixteen years of relevant portfolio management and investment industry experience. Prior to Contact, Tom Millner was BKI's CEO for nine years and Culbert was the Portfolio Manager for BKI for three years before Contact's inception. Prior to BKI, Culbert held senior investment roles at Invesco for eleven years.
- Contact's team is rounded out by two recent hires. The two investment analysts, Rahul Tamarasan and Jovana Gagic, have been with Contact since 2017. Tamarasan has joined from E&Y, where he was placed in the financial services assurance division for two years. Gagic spent three years at Pitcher Partners as an accountant and senior auditor prior to joining Contact.

### Investment team remuneration

- Contact receives a fixed investment management fee of 0.5% of total assets.
- Remuneration of Contact's investment analysts comprises of Base salary (inclusive of superannuation) and Long Term Incentive Scheme (LTI). LTI is calculated on 20% of the base salary and vested in the analyst at the end of the first year of employment, and each subsequent year. BKI and URB ordinary shares (50/50), bought on market by Contact, forms the paid component for LTI.

# URB Investments Limited

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## Research Approach

### Overview

RESEARCH PHILOSOPHY	THEMATIC/QUALITY AT A REASONABLE PRICE
TARGET COMPANY	STOCKS WITH EXPOSURE TO URBAN RENEWAL AND REGENERATION EXCLUDING BANKS AND RESOURCES
NO. STOCKS IN UNIVERSE	80-90
RESEARCH INPUTS	QUALITATIVE COMPANY REPORTS, MANAGEMENT MEETINGS, INDUSTRY RESEARCH, BROKER RESEARCH
BROKER RESEARCH	MARKET CONSENSUS ESTIMATES
VALUATION OVERVIEW	DCF

### Universe filtering

The investment universe is described as the All Ordinaries Index, which contains the 500 largest ASX listed companies by way of market capitalisation.

The equity portfolio comprises of quality companies that seek to capitalise on exposure to urban renewal and regeneration. URB is looking to complement more mainstream equity portfolios as the portfolio does not contain banking or resource stocks. Currently, there are 97 companies that qualify for inclusion in the final portfolio.

### Research process

All stocks in the urban renewal universe have financial models and are an important part of the research process. This research effort is supplemented by qualitative research focused on income / dividends, financial measures including leverage, industry and company specific details, customers and company management.

### Valuation

A standard discounted cash flow model is used to estimate the intrinsic value of each company. Other metrics considered are PE multiples, EV to EBITDA, EV to Free Cash Flow, Price to Book and EV to Sales.

### Direct Property Assets

URB targets direct property 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. Targeted properties are undervalued assets which:

- Require a short term repositioning for income; or
- Require capital for restructuring; or
- Have an underlying opportunity for capital revaluation through changes in use.

Investment is made alongside WHSP on an equal basis. Separate trusts are established for each property and geared to a maximum LVR of 40%. The typical holding period for the direct property assets is two to three years. Investments are classified as Passive or Development and subject to different fees payable to PSRE.

Fees are payable at the underlying trust level and include asset management fees and performance fees. Passive assets – 20% of the outperformance over pre-tax annual hurdle of 8%. Development assets – 30% of the outperformance over a pre-tax annual hurdle of 8% and 50% over 14%.

The portfolio comprised of three seed properties initially, one is classified as a Passive asset and two as Development Assets. An additional property asset in Artarmon Sydney, accessed via an unlisted property trust, has been added in FY18. URB holds 5% of the

trust. Details of the properties are outlined in the annual report of the Company.

## Portfolio Construction

### Overview

COMPANY BENCHMARK	TOTAL RETURN OF 8.0% P.A
RETURN OBJECTIVE (INTERNAL)	CAPTURE LONG TERM VALUE BY INVESTING IN A DIVERSIFIED PORTFOLIO OF EQUITY AND DIRECT PROPERTY ASSETS
PORTFOLIO APPROACH	BENCHMARK UNAWARE
INVESTMENT STYLE	THEMATIC / QUALITY AT A REASONABLE PRICE
STOCK SELECTION	THEMATIC/BOTTOM-UP
TYPICAL NUMBER OF HOLDINGS FOR EQUITIES PORTFOLIO	20 - 40
TYPICAL NUMBER OF PROPERTY HOLDINGS	3-5
TYPICAL HOLDING PERIOD FOR DIRECT PROPERTY	2-3 YEARS
MARKET CAPITALISATION BIAS	MID TO LARGE-CAP
EXPECTED EQUITIES PORTFOLIO TURNOVER	LOW, APPROX 10-15% P.A

### Decision making

The portfolio managers are responsible for Company performance and ultimately accountable for all portfolio decisions.

#### – Equities Portfolio

The portfolio is constructed in a benchmark unaware and high conviction manner. The portfolio is considered relatively concentrated with 20 – 40 names. Weighting is dependent on the assessed risk / return profile and diversification considerations. Typical initial position sizes are expected to be 0.5-8.0%, although up to 15% is permitted for a single position. Liquidity considerations are taken into account when sizing positions.

#### – Direct Property Portfolio

The construction of the URB direct property portfolio is based on identifying under-valued, under-developed and under-utilised property assets exposed to the urban renewal and regeneration thematic and acquiring them at attractive prices. The portfolio is relatively diversified by geography, income mix and asset class. Property assets with identifiable drivers of future revaluations coupled with sustainable income are added to the portfolio and actively managed to generate superior returns for stakeholders by value uplift (e.g. re-zoning). The portfolio will typically hold four to five direct property assets with average holding period of two to three years. The portfolio currently holds four assets (three seed assets and one new unlisted trust investment). Two of those seed assets are developmental, whereas the third one is passive. The newly added asset in FY18 is accessed via an unlisted trust.

### Buy / sell drivers

Candidates for inclusion in the portfolio must meet the Manager's criteria for inclusion in the urban renewal theme, and be assessed as trading with sufficient margin of safety in valuation.

Stocks will be sold from the portfolio if it is assessed that the investment thesis no longer holds, or where there are better risk-adjusted returns available.

Direct property assets will be sold after two to three years after realising its value either by generating sustainable income or higher revaluation.

ANALYST: AMBER SUNIL | APPROVED BY: PETER GREEN

# URB Investments Limited

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## Risk Management

### Risk limits

SEPARATE RISK MONITORING	NO
EQUITIES	15% MAX SINGLE NAME. AT LEAST 50% OF THE INVESTMENT PORTFOLIO WILL BE INVESTED IN EQUITIES
SECTOR	NONE
DIRECT PROPERTY	30% - 49.9% OF THE INVESTMENT PORTFOLIO WILL BE INVESTED IN DIRECT PROPERTY ASSETS
CASH	VARIABLE. 5-10% MAINTAINED FOR OPPORTUNITIES
DERIVATIVES	NO

The Company is managed without hard limits (either relative to an Index or absolute), instead viewing risk as the prospect of losing money. There are no risk limits for individual positions or sector positioning in portfolio construction, however a soft stock limit of 15% is in place.

### Risk monitoring

The two portfolio managers are ultimately accountable for motoring portfolio risk. In conjunction with the Company's corporate governance policies, the Company has adopted a Risk Management Policy, which is designed to identify, evaluate, monitor and manage risks affecting the Company. This is reviewed by the Board.

## Risks

An investment in the Company carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the Prospectus and should be read in full and understood by investors. Lonsec considers major risks to be:

### Equity market risk

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

### Leverage risk

The separate trusts holding the direct property assets can be geared to a maximum LVR of 40%. Leverage has the effect of magnifying gains and losses on the direct property assets.

### Listed company risk

The market price of the Company's securities may not correlate exactly to the underlying value of the portfolio as reflected in its monthly NTA backing per share. The securities may trade on the ASX at a discount or a premium to the Company's monthly NTA backing per share.

### Development risk

Investors are exposed to property development risks such as the inability to secure tenants or development approvals, permits or finance.

### Investment manager risk

The Company's success and profitability will largely depend on the Investment Manager's continued ability to manage the portfolio. Should the Investment Manager become unable to perform investment management

services for the Company or should there be significant key personnel changes at the Investment Manager, the Company's investment activities may be disrupted and its performance negatively impacted.

### Unlisted investment risk

The Fund is permitted to invest up to 49.9% of total assets in unlisted direct property assets. Listed investments are traditionally considered to offer greater liquidity than unlisted investments.

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## Quantitative Performance Analysis - annualised after-fee % returns (at 30-9-2018)

### Performance metrics

	3 MTH	6 MTH	9 MTH	12 MTH
TOTAL RETURN (% PA)	11.11	4.71	-3.83	-2.43
STANDARD DEVIATION (% PA) *	-	-	-	14.62
EXCESS RETURN (% PA)	-	-	-	-
WORST DRAWDOWN (%)	0.00	-7.22	-13.44	-15.47
TIME TO RECOVERY (MTHS)	-	2	NR	NR
TRACKING ERROR (% PA) *	-	-	-	-

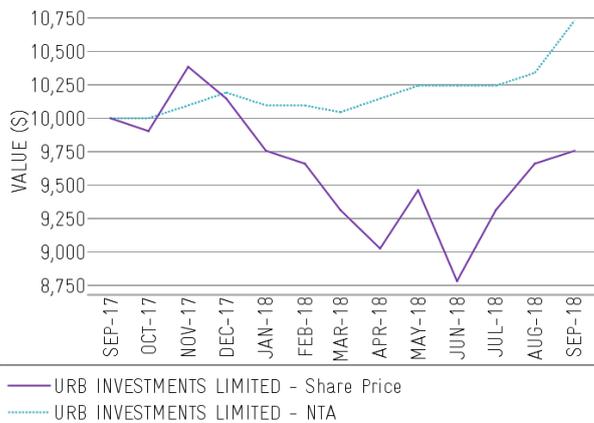
FUND: URB INVESTMENTS LIMITED

BENCHMARK USED:

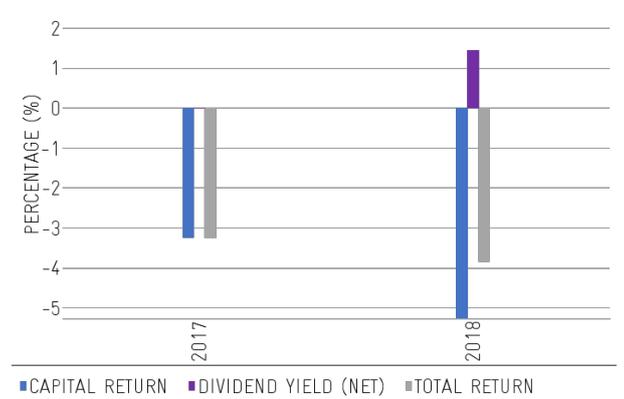
\* PERIODS LESS THAN 12 MONTHS ARE NOT CALCULATED

TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

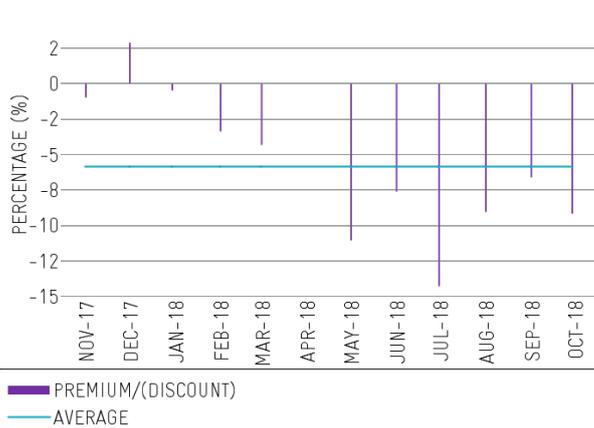
### Growth of \$10,000 over one year



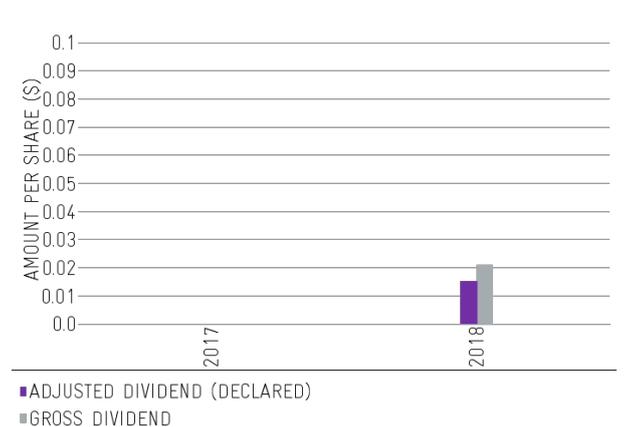
### Calendar Year Returns over two years



### Share Price Premium/Discount to NTA over one year



### Dividend Record over two years



ANALYST: AMBER SUNIL | APPROVED BY: PETER GREEN

## URB Investments Limited

### Glossary

[Click here for the glossary of terms.](#)

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