

AUSTRALIAN

# RESEARCH

PROPERTY INVESTMENT RESEARCH

## MPG Retail Brands Property Trust

May 2017

An open ended trust with regional and neighbourhood shopping centres, targeting 7.25%+ distributions

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## MPG Retail Brands Property Trust

### Overview

The MPG Retail Brands Property Trust ("the Trust") is a diverse open ended Fund that invests in retail properties and investments. Its Responsible Entity is MPG Funds Management Limited ("the RE") which is part of McMullin Property Group, founded by the late Ian McMullin (founder of Spotless Group). The Trust has a seven-year term with the *current term* due to expire in five years (on 30 June 2022). At the end of the current term, investors will be offered an opportunity to extend the Trust for a further seven years or elect to exit via a withdrawal option.

The Trust is seeking to raise \$10.0M through the issue of 10.0M Ordinary units at \$1.00 per unit (the "Offer"). Funds raised under the Offer will be used, in conjunction with a bank loan, to acquire the Beaudesert Central Shopping Centre in Beaudesert, QLD. Following the acquisition, the Trust will have a portfolio of seven direct retail properties (88.5% of the portfolio), three unlisted property trusts managed by the RE (9%) and cash (2.5%). The portfolio occupancy will be 99%, a WALE of 6.2 years and a weighted portfolio capitalisation rate of 6.6%. Major brand tenants Coles, Woolworths, Bunnings and Target account for 50% of income. Around 36% of the leases will fall due within the remaining five-year term of the Trust.

The Trust will have an LVR of 62.4% against a bank covenant of 65%. PIR considers the Trust to be highly leveraged although the RE has confirmed, that it intends to reduce the LVR to under 55% in the next three months by paying down \$6.7M in debt.

This will be funded from \$1.7M in working capital from the Offer, plus an additional \$5.0M raised through the issuance of 5.0M Liquidity Units to McMullin Group/MPG at \$1.00 per unit.

Effectively, McMullin/MPG will own a total 25.0M Liquidity Units on which it will accept a lower distribution of 6.72% p.a. and has agreed that it will not redeem any units, if the LVR rises above 55% for the current term of the Trust.

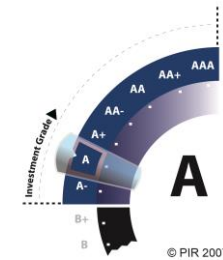
PIR considers the issuance as representing strong support by the McMullin Group in willing to accept a lower return to reduce the leverage risk in the Trust, and PIR's rating is based on this support being provided. At an LVR of 55%, the properties can withstand a 15% fall in valuation before the LVR covenant is at risk. The initial ICR of 2.6x is above the bank covenant of 1.75x and the RE intends to hedge 100% of the interest on debt for the next three years of the Trust.

The current withdrawal price of the Trust is \$0.86 per unit and takes into account acquisition and disposal costs of properties, in order to allocate costs evenly across all existing and new investors. The RE has forecast a distribution for FY18 of 7.25 cents per unit and 7.35 cents per unit for FY19. PIR forecasts an internal rate of return (IRR) ranging between 7.1% - 10.0% over the remaining five years of the Trust. As an open-ended structure, the Trust's investments may change over the remaining term.

### Investor Suitability

In PIR's opinion, this product would be best suited to investors who are seeking a high-income yield in the current environment and be willing to accept the risks of a higher leveraged structure, supported by rental income from regional retail properties as well as a commitment by the McMullin Group to reduce gearing levels. The Fund is illiquid, and, other than a Limited Withdrawal Facility that the RE intends to offer from July 2020 (equal to 2% of the assets in the Trust) investors should be prepared to remain invested for the remainder of the current term.

### Investment Rating



See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable core property funds and not across all products.

### Offer Details

Offer Open	12 April 2017
Offer Close <sup>1</sup>	30 June 2017
Est. Investment Period	5 years to 30 June 2022
Min. Investment	\$10,000, multiples of \$5,000 thereafter
Liquidity	Nil <sup>2</sup>
Distributions	Quarterly, in arrears
Initial NTA	\$0.86
Forecast Distribution FY18 <sup>3</sup>	7.25 cents per unit

<sup>1</sup> Indicative only. The RE has reserved the right to close the Offer early or extend the Offer.

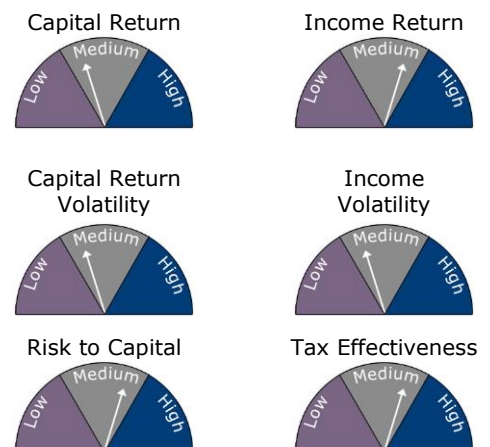
<sup>2</sup> The RE intends to offer a Limited Withdrawal Facility from July 2020, equivalent to 2.0% of the net asset value of the Trust.

<sup>3</sup> Based on the RE's forecasts for FY18.

### Manager Contact Details

Brett [bgorman@mpqfm.com.au](mailto:bgorman@mpqfm.com.au)  
Gorman 03 9831 8920

### Risk/Return Profile



Note: This report is based on the PDS dated 12 April 2017. Apart from the proposed acquisition of the Beaudesert property, this report does not take into account any further changes that may occur to the portfolio.

## Key considerations

**Management:** The Trust is managed by MPG Funds Management, which was established in 2002 and currently have over \$400M in funds under management. MPG Funds Management is part of the McMullin Property Group (founded by Ian McMullin, founder of Spotless Group) which has been involved in over \$1.5B of property development over the past 40 years.

**Open Ended Trust:** The Trust is open ended with the ability to issue and redeem units to manage its assets and liquidity. The current term of the Trust is due to expire on 30 June 2022.

**Capital Structure:** The Offer is expected to increase the Ordinary Units in the Trust to 31.4M. The Trust currently has 20.0M Liquidity Units (owned by McMullin Property Group and the RE) which are issued on the same terms as the Ordinary Units, except that they can be redeemed at any time by the RE. The RE has also advised that McMullin Property Group is willing to subscribe for a further 5.0M in Liquidity Units which will be used in conjunction with working capital from the Offer, to reduce the LVR to under 55%. McMullin will accept a lower return of 6.72% on their entire holding of Liquidity Units, and will undertake not to redeem any of these units until the end of the current term if the LVR goes above 55%.

**Retail Portfolio:** The Trust expects to own seven direct properties valued at \$89.9M, with an additional \$9.1M of investments in related MPG unlisted trusts. Average occupancy across the portfolio is estimated at 99% with a WALE of 6.2 years at June 2017. Around 36% of tenant leases are due prior to the end of the current Trust term in 2022.

**Unit Pricing:** The entry price under the Offer is \$1.00 per unit. The current Withdrawal Price of \$0.86 is calculated by taking the net asset value of the Trust, less the estimated selling costs, and dividing this by the number of units on issue. The net asset value takes into account the amortization of selling costs as well as property revaluations. PIR considers this approach to be an appropriate method for unit pricing for an open-ended trust.

**Leverage:** Following the acquisition and the issue of new Liquidity Units to pay down debt, the Trust is expected to have an LVR of 54.9% against a bank covenant of 65.0%. At this level, PIR estimates the valuation of the properties can fall 15% before a breach of the LVR covenant will occur. The ICR is expected to remain above 2.6x for the remaining term of the Trust, against a covenant of 1.75x. The Trust intends to hedge 100% hedge of its debt for the next three years, with forecast all-in interest rate of 4.1% p.a.

**Fee structure:** Ongoing Management Fees are estimated at 0.75% of the Gross Asset Value of the Trust, and at the low end of fees currently seen in the market.

**Returns:** The RE is forecasting Ordinary Units will receive a distribution of 7.25 cents per unit in FY18 and 7.35 cents per unit in FY19. PIR estimates an IRR of between 7.1% to 10.0% over the remaining five-year term of the Fund.

**Related Party Transactions** comply with RG46 requirements with respect to the transactions with the McMullin Property Group.

**Illiquid investment:** Investors should consider an investment in the Trust to be illiquid. The RE has indicated that it intends to offer a Limited Withdrawal Facility annually from July 2020. Investors will be offered an opportunity to exit the Trust at the expiry of the current term in June 2022.

### Key Qualitative Criteria

#### Management

Track record	★★★★☆☆
Investment process and philosophy	★★★★☆☆
Corporate Governance	★★★★☆☆

#### Product

Structure	★★★★☆☆
Fees	★★★★☆☆
Liquidity	★☆☆☆☆
Leverage/Capital structure	★☆☆☆☆

#### Portfolio

Property Grade/Asset quality	★★★★☆☆
Property diversification	★★★★☆☆
Tenancy profile	★★★★☆☆
Tenant lease term	★★★★☆☆

### Investment Profile

Target number of direct properties (30 June 2017)	7
Property locations	Vic, Qld, NSW, SA
Property sector	Retail
Target LVR / Bank covenant	54.9% / 65%
ICR / Bank covenant	2.61x / 1.75x

### Source and Application of Funds

	A\$M
Equity raised	10.0
Debt financing	10.1
<b>Total Source of funds</b>	<b>20.1</b>
Acquisition of Property	16.9
Acquisition Costs	1.5
Working capital	1.7
<b>Total Application of funds</b>	<b>20.1</b>

### Financial Forecasts

IRR <sup>1</sup> (pre-tax, %)	7.1%-10.0%
Portfolio average capitalisation rate (%) <sup>2</sup>	6.6%
Performance fee hurdle (%)	NA
Est. Investment period (yrs)	5
Tax advantage <sup>3</sup>	67%/ 64%
Distribution frequency	Quarterly

<sup>1</sup>IRR estimate is pre-tax but post all applicable fees.

<sup>2</sup>Forecast position at 30 June 2017.

<sup>3</sup>The Responsible Entity anticipates that the Fund's distributions for the Forecast Period will be 67% tax deferred in FY18 and 64% tax deferred in FY19.

## 2.Trust Overview

The Trust is an open-ended diversified property syndicate that invests in a portfolio of retail properties and securities. The key objective of the Trust is to provide investors with a regular tax advantaged income with the potential for capital growth on a portfolio of quality retail properties tenanted by some of Australia’s best known retailers.

The Trust’s Responsible Entity is MPG Funds Management Ltd (“RE” or “MPG”) which is owned by interests associated by the McMullin Property Group, which has over 40 years’ experience in property development and was founded by the late Ian McMullin (founder of Spotless Group). McMullin Property Group is also an investor in the Trust.

The Trust was established in 2006 and has a current investment term that expires in 5 years on 30 June 2022 (*Initial Term*). The Trust is illiquid and unitholders will need to stay invested throughout the Initial Term, however the RE anticipates to offer a Limited Withdrawal Facility from July 2020 onwards. At the end of the Initial Term, unitholders will be offered an opportunity to remain in the Trust for a further seven years or exit the Trust through a Withdrawal Offer.

### The Offer

The Fund is seeking to raise \$10.0M (the *Total Offer Amount*) from investors by issuing 10.0M units at \$1.00 per unit. The Offer opens on 12 April 2017 and closes on 30 June 2017. The proceeds from the capital raising is excepted to be used, in conjunction with bank debt, to purchase the Beaudesert Central Shopping Centre, Beaudesert Queensland for \$16.85M.

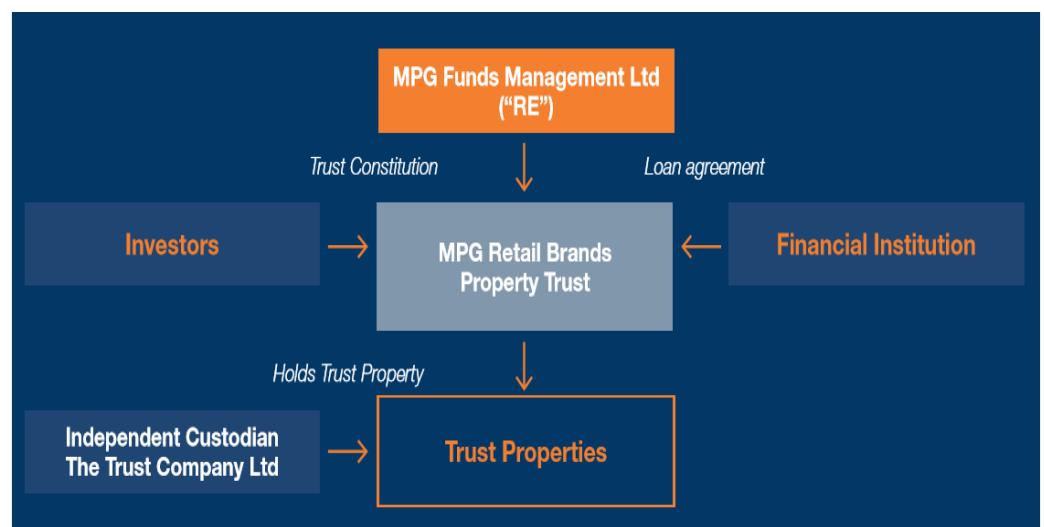
The RE may accept oversubscriptions at its discretion. The Offer does not have a minimum subscription and if less than \$10.0M is raised by the Closing Date, the RE may elect to proceed with the lower amount raised, or return application monies within 21 days after the Closing Date.

The RE may close the Offer early or extend the Offer beyond the Closing Date if it chooses. In the event of any shortfall, MPG and McMullin Property have indicated an intention to subscribe for any balance of units under the Offer to ensure that the acquisition of Beaudesert Central proceeds and has waived any entitlement to an underwriting fee in this instance.

The minimum investment for investors is \$10,000, increasing in multiples of \$5,000 thereafter.

Following the acquisition of Beaudesert, the RE is forecasting the Trust to deliver an FY18 distribution yield of 7.25%, increasing to 7.35% in FY19, based on the \$1.00 issue price.

Figure 1: Structure of the Trust



Source: MPG

### Additional Liquidity Units

Separate to the Offer, the RE has also announced its intention to issue an additional \$5.0M in Liquidity Units to McMullin Property/MPG ("Additional Liquidity Units"). The terms of the Additional Liquidity Units are:

- 5.0M Liquidity Units issue issued at \$1.00 per unit, within three months of the acquisition of the Beaudesert property;
- Total McMullin/MPG holding of Liquidity Units will increase to 25.0M units;
- McMullin/MPG will accept an initial lower distribution of 6.72% p.a. on their 25.0M holding of total Liquidity Units, compared to forecast distributions of 7.25% for Ordinary Unitholders. The distribution for Liquidity Units will only increase if the forecast distributions for Ordinary Unitholders are exceeded;
- The Additional Liquidity Units will be used, in conjunction with \$1.7M in working capital from the Offer, to repay \$6.7M in bank debt in order to reduce to the LVR to around 54.9%.
- McMullin/MPG will not redeem any Liquidity Units at any time during the remaining five years of the current remaining term of the Trust if, by doing so the LVR of the Trust would increase above 55.0%.

PIR considers the Additional Liquidity Units to be beneficial to Ordinary Unitholders by reducing the high leverage of the Trust, whilst also demonstrating the commitment of McMullin Property Group by its decision to accept a lower distribution on its holdings, and support for the Trust over the remainder of its current term.

### Background to the Trust

The Trust was established as a registered management scheme on 6 November 2006 as the "MPG Enterprise Property Trust". In October 2007, the Trust launched a capital raising to fund an initial investment portfolio of \$62.8M which included two retail properties (HomeCentral Warrnambool and the Village Lakeside East Shopping Centre which are still in the Trust), three industrial properties (which have been sold) as well as a holding in the MPG Bulky Goods Retail Trust, which owned three properties.

During 2011, at the height of the GFC, the Trust was adversely impacted when a major tenant at the HomeCentral Warrnambool property, Clive Peeters Ltd was placed into voluntary administration. The Trust was impacted by additional capital works required to reconfigure the tenant's lease into smaller tenancies. The Trust suffered a decline in valuation as a result of lower rents at the property, as well as lower valuations across the portfolio from the GFC, resulting in a decline in the NTA to \$0.57 per unit by June 2014.

During 2013, the Trust undertook to sell its industrial assets and changed its name to the MPG Retail Brands Property Trust in October 2015. The Trust has steadily built its NTA back to up \$0.86 per unit through asset sales and active property management. The RE is aiming to return the NTA price to over \$1.00 per unit through further active property management and identifying appropriate property purchases and sales.

The initial Trust term was for seven years to 30 June 2015 and the Trust is currently extended for a further seven years to 30 June 2022.

### Distribution Reinvestment Plan

The Trust currently operates a distribution reinvestment plan that allows unitholders to reinvest all or part of their distributions in the Trust through the issue of new units. The new units are issued at the prevailing Withdrawal Price on the payment date and is subject to a \$1.00 minimum issue price.

## Capital Structure

Following the successful completion of the Offer, as well as the issue of Additional Liquidity Units the Trust will have a total of 56.4M units, issued at \$1.00 per unit, consisting of:

- **Ordinary Units (31.4M);** and
- **Liquidity Units (25.0M).** The Liquidity Units were issued between 2006 and 2011 and are issued on the same terms as Ordinary Units, except that they may be redeemed at any time by the RE at the prevailing Withdrawal Price. The purpose of the Liquidity units is to provide additional capital when required to purchase new properties, or to assist in the funding of withdrawals.

Ordinary unitholders should be aware that their units do not have the same redemption feature as the Liquidity Units. Whilst the Liquidity Units have the additional redemption feature, PIR considers the RE to have utilised the Liquidity Units in a manner that has been fair and equitable to all unitholders to date. This is based on a review of the Annual Reports of the Trust from 2008 to 2016 which indicates:

- All Liquidity Units were issued during the FY07 – FY11 periods in order to assist in the acquisition of properties;
- The RE did not redeem any Liquidity Units between FY07 and FY16. In addition, during the GFC the McMullin Group supported the Trust via an increase in unsecured debt, which peaked at \$4.8M in FY12; and
- The Trust has only recently redeemed \$0.5M of Liquidity Units in March 2017. The RE advises that this was undertaken in order to reduce the cash in the Trust and maintain a sufficient return for all unitholders.

Following the completion of the Offer and issue of Additional Liquidity Units, McMullin Group/MPG will reduce their ownership to 50.1% of total units on issue, from their current share of 56.1%. A summary of units on issue is shown in Figure 2 below.

Figure 2: Units on issue

	Prior to Offer	%	The Offer <sup>2</sup>	After the Offer	%
<b>McMullin/MPG Shareholding</b>					
Ordinary Units	3.2	7.9%		3.2	5.8%
Liquidity Units	20.01	48.3%	5.0	25.0	44.3%
<b>Total Units</b>	<b>23.2</b>	<b>56.1%</b>	<b>5.0</b>	<b>28.2</b>	<b>50.1%</b>
<b>Other Shareholders</b>					
Ordinary Units	18.1	43.9%	10.0	28.1	49.9%
<b>Total Units</b>	<b>41.4</b>	<b>100.0%</b>	<b>15.0</b>	<b>56.4</b>	<b>100.0%</b>

<sup>1</sup>MPG Funds Management (the RE) owns 1.2M Liquidity units, out of the 20.0M currently on issue.

<sup>2</sup>Assumes the Offer for 10.0M units at \$1.00 per unit is fully subscribed. Also assumes Additional Liquidity Units are issued to McMullin/MPG with 5.0M Liquidity Units issued at \$1.00 per unit.

Source: MPG as at April 2017.

The Trust currently has \$46.0M of debt in place with National Australia Bank ("NAB") and anticipates this to increase to \$56.1M by 30 June 2017 as a result of the acquisition of the Beaudesert property (\$10.1M additional debt with NAB). The current \$46.0M debt facility is due to expire in April 2018 and is 77.3% hedged. Following the acquisition of the Beaudesert property in June 2017, the RE intends to fully hedge the entire debt facility at an all-in cost of debt of 4.1%.

The Trust's LVR, following the acquisition of the Beaudesert property, the new debt facility and the undertaking to pay down debt, will be 54.9% against the Bank LVR covenant of 65%. PIR calculates the valuation of the properties can withstand a 15.5% fall before the LVR covenant is breached. The Manager expects the Interest Coverage Ratio (ICR) will remain above 2.6x over the forecast period, which is above the ICR covenant of 1.75x specified in the Debt Facility. PIR calculates the Trust can withstand a 43% decline in income before it breaches the ICR covenant.

**Figure 3: Fund debt metrics**

	<b>31 March 2017</b>	<b>Capital Raising + Beaudesert acquisition</b>	<b>Proposed 30 June 2017 position<sup>1</sup></b>
Total Assets (\$M)	82.9	16.9	99.8
Total Direct Properties	71.3	18.6	89.9
Debt facility Limit (\$M)	56.5	10.1	66.6
Initial borrowing (\$M)	46.0	10.1	49.4
Target borrowing (\$M)	46.0	10.1	49.5
Loan Expiry	March 2018	April 2018 + 2 year option	March + April 2018
LVR	63.0%	60.0%	54.9%
Target LVR	65.0%	60.0%	55.0%
Loan covenant	65.0%	65.0%	65.0%
Gearing (debt/total assets)	55.5%	54.25	49.5%
Target gearing	65.0%	65.05	65.0%
Headroom to LVR covenant	3.1%	7.7%	15.5%
Interest rate hedge on debt	77.3% hedged for until March 2018	100% hedged on interest rate for 3 years	100% hedged on interest rate for 3 years
All-in interest rate	3.8%	4.15%	4.1%
Year 1 ICR (EBITDA/finance costs)	2.65x	2.55x	2.61x
ICR covenant	1.75x	1.75x	1.75x
Security	First registered mortgage on direct properties, limited recourse	First registered mortgage on direct properties + registered general security agreement over all assets in the Trust	First registered mortgage on direct properties + registered general security agreement over all assets in the Trust

Note 1: Assumes the acquisition costs of Beaudesert property are capitalised, and the issue of Additional Liquidity Units occur before 30 June 2017.  
Source: MPG / PIR

### Liquidity

The initial term of the Trust has five years remaining and is due to end on 30 June 2022. The RE has advised that it intends to make a Limited Withdrawal Facility as well as offer unitholders an opportunity to exit the Trust at the end of the current term.

### Limited Withdrawal Facility

The RE intends to make a Limited Withdrawal Offer on an annual basis from 1 July 2020, which is anticipated to be 2.0% of the net asset value of the trust calculated at the time of the Offer. The Offer will be made to all unitholders. If there are requests for more than the amount being offered, each unitholder will be offered a pro rata entitlement to redeem their units. The RE expects to fund the Withdrawal Facilities through the issue of new units, liquid investments such as cash, fixed interest or listed securities, or through an increase in bank debt or selling assets.

### At the end of the current term

Approximately 6 months prior to the end of the current term, the RE will provide a Term Extension Proposal Letter, offering investors an opportunity to remain in the trust for a further seven years, or to sell their Units at a price determined by the RE in accordance with the Trust Constitution. The RE's determined price per Unit will be based on Net Asset Value of the trust from an independent valuation, less estimated selling costs determined by the RE.

- If all investors wish to exit the Trust, the Trust will be wound up, its assets realised and the net proceeds will be distributed to Unitholders.
- If all investors wish to remain in the Trust, then the Trust will continue for the extended period Investors who do not respond to the Term Extension Proposal will



be deemed to have elected to remain in the investment for the extended period.

- If some investors wish to remain and some investors wish to exit the Trust, then the following process will be undertaken:
  - Investors who wish to withdraw will have their units offered to other existing unitholders in proportion to their existing unit holdings. Existing unitholders will have 60 days to respond to the offer.
  - If the units are not fully subscribed for by the existing unitholders, the remaining units will be offered as a Secondary offer to existing unitholders on a "first come, first served" basis. Unitholders will have 60 days to accept the offer.
  - If the Secondary Offer is not fully subscribed, the RE may invite applications from other parties. As a result of this process, it may take up to 12 months from the date of the term Extension Proposal Letter to exit the Trust (or longer if the Trust must be wound up as described below).
  - If any units remain unpurchased after six months from the date of the Secondary Offer, the RE will resolve to wind up the Trust and distribute proceeds to unitholders. The RE has two years to realise the assets (or longer if reasonably necessary). As such, it may take up to three years (or longer if necessary) from the date of the Withdrawal Offer contained in the Term Extension Proposal to the realisation of the assets.

There is no other means of providing liquidity in the Fund and investors must treat the Fund as an illiquid investment.

## Sources and Application of Funds

It is common for managers to charge an up-front fee. For funds rated by PIR, this typically ranges from 1.5%-2% of the property value. PIR believes lower upfront fees reduce NTA dilution and also align managers with the interests of investors. In the case of the Fund, the upfront transaction fee is 2.0% of the property value and is in line with recent funds rated by PIR.

Figure 4: Source and Uses of Funds

	\$M	% of purchase price	% of total funds
<b>Sources of funds</b>			
Equity subscriptions	10.0	59.3%	49.7%
Bank debt	10.1	60.0%	50.3%
<b>Total sources of funds</b>	<b>20.1</b>	<b>119.3%</b>	<b>100.0%</b>
<b>Application of funds</b>			
Purchase price	16.9	100.0%	83.8%
Stamp Duty	1.0	6.0%	5.0%
Acquisition fee	0.3	2.0%	1.7%
Working Capital / Cash / Other	1.7	10.2%	8.6%
All other Fund establishment costs	0.2	1.2%	1.0%
<b>Total application of funds</b>	<b>20.1</b>	<b>119.3%</b>	<b>100.0%</b>

Source: MPG / PIR

## Fees and costs of the Fund

The components of fees and cost recovery charged by the RE to investors over the term of the Fund are as follows:

### **Entry / Withdrawal / Exit Fees**

The Trust does not charge an Entry for new investors. Investors who wish to sell a portion of their units or exit the Trust are not charged any Withdrawal or Exit Fees.

### **Contribution Fee (Upfront Costs)**

The RE estimates that new investors in the Trust will incur a Contribution Fee. This Fee is deducted from amounts contributed to the Trust and represents the estimated impact of the Establishment Fee (acquisition costs) and Debt Arrangement Fee payable in respect of the proposed acquisition of the Beaudesert property.

- **Establishment Fee (Acquisition Fee)** - The RE intends to charge an Establishment Fee equal to 2.0% of the purchase price for new assets, including the Beaudesert property. However, under the Trust Constitution, the RE is entitled to charge up to 5% of the initial purchase price of any asset.
- **Debt Arrangement Fee** - Under the Trust Constitution the RE is entitled to charge a fee of 1.00% of any new debt arranged for the Trust. PIR notes the RE has charged a lesser amount, 0.50%, for the Beaudesert debt, and has advised that it typically charges 0.25% on the rollover of loan facilities. This amount is calculated on the facility limit, including interest and fees, and is payable out of the assets of the Trust to the RE.

PIR estimates the Contribution Fee on the Beaudesert property to be approximately 2.25% of the Gross Asset Value (GAV) of the property (being 2.0% of GAV for the Acquisition Fee and 0.25% of GAV for the debt). This amount translates to 3.55% of the unit price, which PIR considers to be appropriate when compared to other transactions that PIR has seen in the market.

### **Ongoing Management Fee**

The RE calculates the Management Fee to be around 0.75% of the GAV (or 1.73% of the Net Asset Value (NAV)) of the Trust, consisting of:

Base management fee: 0.55% p.a. of the Gross Asset Value (GAV) of the Trust.

Indirect Costs associated with investment in property trusts managed by MPG.

Other Costs and Expenses: estimated at 0.20% p.a of the GAV of the Trust. This includes costs for accounting, valuation, audit, administration, reporting, printing, compliance and other costs.

Overall, PIR considers the Management Fee of 0.75% of GAV to be at the low end of the typical range seen by PIR (0.7%-1.1%).

It should be noted that approximately 10% of the GAV of the Trust consists of holdings in other related MPG trusts, which it does not charge a management fee as it already collects a management fee from the other related MPG trust.

### **Replacement Fee**

In the event that the RE is replaced, it is entitled to charge a fee of 2.00% of the GAV of the Trust. The RE may be replaced if a resolution is approved by unitholders entitled to vote and together hold more than 75% of all units on issue of the Trust.

### **End Fee (Disposal Fee)**

The RE is entitled to a fee of 2.00% (plus GST) of the net sale proceeds upon the sale or disposal of any asset from the Trust. PIR calculates that, based on a 60% LVR, the fee is equivalent to 0.8% of the value of the asset, after any repayment of debt. This fee is only payable in the event that the net sales proceeds exceed the purchase price on the sale of each individual asset sold, and payable out of the assets of the Trust.

### Performance Fee

The Manager does not charge a performance fee.

PIR notes that it is normal practice in the industry to charge a performance fee, should the total returns of the Trust exceed a benchmark return (typically 10-15%). Whilst the absence of the fee reduces the costs for investors, PIR typically prefers Trusts to have a Performance Fee to reward a manager for outperformance.

### All-in fee analysis

#### As a percentage of total Fund cash flow

PIR has analysed the fees that accrue to the RE over the term of the Fund as a percentage of all cash flow generated after deducting interest costs but before management fees. This analysis is specific to new investors in the Trust investing to fund the Beaudesert acquisition and is based on the assumptions relating to the sale of the whole portfolio as provided by the RE.

As such, PIR estimates that MPG is entitled to 7.2% of the total cash flow. PIR considers the fees paid to the Manager to be at the low end compared to similar products, which are typically around 7% - 9%. PIR stresses that these are estimates of how much investors will receive and not guaranteed amounts. For further details, please refer to the Investment Analytics section.

In terms of the fees paid to the Manager, PIR estimates that 32% of the estimated fee is paid upfront and the remainder relates to ongoing management fees.

Figure 5: Fees in Perspective

PIR estimates that for every \$1.00 of equity invested, the Fund can return:	
Principal repayment to investors (a):	\$1.00
Income and capital gains to investors (b):	\$0.43
<b>Total cash to investors (after fees and expenses) (c) = (a+b)</b>	<b>\$1.43</b>
Acquisition fee (d)	\$0.04
Base management fee (e):	\$0.05
Disposal fee (f):	\$0.02
Performance fee (g):	\$0.00
<b>Total cash generated by Fund (h) = (c+d+e+f+g)</b>	<b>\$1.54</b>
Fees = % of total cash generated (before fees) <i>Calculated as (h-c)/h</i>	7.2%

Source: PIR / MPG

## Fund Structure

Responsible Entity:	MPG Funds Management Ltd ABN 81 102 843 809, AFSL 227114
Investment Term:	The current investment term expires on 30 June 2022. Approximately six months prior to the end of the term, all investors will be given the option to remain in the trust for a further seven years, or offering to sell their units at a price determined by the RE based on the Net Asset Value from an independent valuation less estimated selling costs determined by the RE (which may include agent's commission, advertising etc.). Units from investors who wish to withdraw will be offered to existing unitholders on a proportionate basis, and then to all unitholders under a secondary offer, before the RE will offer the units to other parties. If the units remain unpurchased for 6 months after the secondary offer, the RE will resolve to wind the trust up and distribute proceeds to unitholders. The Trust has a limited life under its Constitution and must terminate no later than 2087.
Issue Size/LVR:	The Fund seeks to raise \$10.0M, through the issue of 10.0M Ordinary units at \$1.00 per unit. Combined with the Issue of Additional Liquidity Units to McMullin Property Group and the repayment of \$6.7M in debt, the issue is estimated to result in an LVR of 54.9% and ICR of 2.6x. The bank-imposed LVR covenant is 65% and the ICR covenant is 1.75x.
Cost of Borrowings:	The current debt facility limit expires in March 2018 and the RE has advised that the debt is currently fixed at an estimated all-in cost of debt of 3.8%. (The PDS states 4.79%, however the RE has advised this is incorrect and should be 3.79%)
Security:	The RE has advised that it intends to fix the interest rate for 3 years at an all-in rate of 4.1%. The bank loan is to be secured by a first mortgage and a fixed and floating charge over the Fund's assets, with no recourse to unitholders.

## Fund Profile

Geographic Exposure:	Victoria, Queensland, New South Wales, South Australia and Tasmania.
Sector Exposure:	Retail.

## Tax

Disclaimer:	Tax consequences depend on individual circumstances. The following comments cannot be considered tax advice and investors should seek their own taxation advice.
Capital gains:	Capital gains tax (CGT) is likely to apply upon the winding up of the Trust as capital is returned to investors. As the investment term is in excess of 12 months, investors will likely be eligible for the 50% CGT discount upon sale/delivery of proceeds as per the current CGT ruling (or variations during the life of the Fund). This is subject to an investor's tax position.
Distributions:	Distributions will be treated as income in the year they are received. Distributions may contain a tax deferred amount, which decreases the cost base and will give rise to a capital gain should the investment be sold at a value in excess of the reduced book or carrying value. Distributions may be reinvested at the prevailing Withdrawal Price on the distribution payment date.

## Legal Structure

Wrapper:	Unlisted Unit Trust
Custodian:	The Trust Company Limited (ACN 004 027 749)
Offer Document:	The Product Disclosure Statement (PDS) dated 12 April 2017.

## Returns

Capital vs. Income:	The final breakdown of the total return is largely unknown; however, it is generally a function of a fund's distributions and any capital gain achieved on its assets. In turn, this will be affected by its return on equity, terminal yield, and term. PIR forecasts that circa 90% of the Fund's total return will be made up of income.
Distribution Frequency:	Quarterly, in arrears.

## Risks

	For a more detailed list of the key risks, refer to the <i>Investment Considerations and Risks</i> section of the PDS.
Property/Market Risk:	Returns will depend on both the revenue growth profile of the tenants, and the Manager's ability to sell the property at maturity. Coupled with the use of gearing, this exacerbates the risks associated with a diversification constraint.

## Fees/Expenses

All fees excluding GST. Refer to pages 8 and 9 of this report. The Fund's MER is estimated at 0.75% per annum on the Gross Asset Value of the Fund, or 1.73% of the Net Asset Value of the Fund.

### 3.The Portfolio

#### Overview

The Fund intends to hold a diversified portfolio of seven direct properties and four unlisted property trusts at 30 June 2017. The direct properties will consist of 88.5% of the Fund, with the unlisted trusts contributing a 9% weighting, with 2.5% in Cash and other liquid investments (including listed property securities).

The portfolio weighting is in line with the Fund's target allocation of 90%- 100% Property and unlisted trusts, and 5%- 10% in Cash or Listed A-REITs.

The direct properties consist of seven retail assets with a net lettable area of 42,935sqm over 80 tenancies with a WALE of 6.7 years and an average occupancy of 99%. The properties consist of a mix of retail branded shopping centres, freestanding stores and a warehouse facility. Around 36% of the leases will fall due prior to the end of the initial Fund term in June 2022. A summary of the portfolio is provided below.

Figure 6: Portfolio Summary – anticipated position at 30 June 2017

Property	NLA - sqm	Owner ship %	Investm ent Valn \$M	Portfolio weight %	Occup ancy %	Cap rate %	WALE (years)
<b>Direct Properties</b>							
Home Central - Warrnambool, Vic	13,355	100%	\$17.2	16.9%	100%	7.0%	5.76
Village Lakeside East Shopping Centre – Pakenham, Vic	3,651	100%	\$17.0	16.7%	100%	6.0%	3.95
Edlyn Foods – Epping, Vic	11,213	100%	\$14.0	13.8%	100%	7.0%	7.8
Beaudesert Central Shopping Centre – Beaudesert, Qld	4,453	100%	\$16.9	16.6%	99%	6.6%	7.67
Rocks Shopping Fair – South West Rocks, NSW	4,457	100%	\$9.6	9.5%	100%	7.3%	3.97
Coles – Moss Vale, NSW	2,500	100%	\$9.5	9.3%	100%	6.2%	7.99
Target – Kardina, SA	3,306	100%	\$5.8	5.7%	100%	8.5%	6.51
<b>Investments</b>							
<b>MPG Bulky Goods Retail Trust</b>							
Chirnside Homemaker – Chirnside Park, Vic	13,752	21%	\$2.8	2.8%	100%	7.0%	3.44
Mildura Homemaker Centre, Mildura Vic	17,343	21%	\$1.8	1.7%	82%	8.0%	4.27
<b>MPG Seaford Meadows Property Trust</b>							
Seaford Meadows Shopping Centre - Seaford Meadows, SA	5,305	24%	\$2.5	2.5%	95%	7.3%	11.28
<b>MPG Hardware Trust</b>							
Bunnings – Kingston, TAS	9,512	24%	\$2.0	2.0%	100%	6.0%	11.3
<b>Proposed Cash/Listing Property/Other</b>			\$2.6	2.5%			
<b>Total Portfolio</b>			<b>\$101.5</b>	<b>100.0%</b>	<b>99%</b>	<b>6.6%</b>	<b>6.2</b>

Source: MPG

## Direct Properties

The portfolio is anticipated to consist of 7 direct properties. The Trust has a policy to undertake an independent valuation of its properties every three years. A brief description of the expected four largest properties are as follows:

### **HomeCentral Warrnambool, Corner Horne Road and Raglan Parade, Warrnambool, Victoria**

HomeCentral is a bulky goods retail centre located on the Princes Highway in Warrnambool, which is 260kms west of Melbourne, Victoria. The 40,000sqm site is 100% leased with a WALE of 5.8 years, anchored by Bunnings Warehouse (57% of gross income, lease expiry December 2021 with 3x5 year renewal options). Four other tenants are located at the site, including A Mart All Sports (16% of gross income, lease expiry December 2021, with 5+5 year options), Forty Winks (14% of gross income, lease expiry April 2022, with 5 year renewal options), Lincraft (5% of gross income, lease expiry July 2022, with 7 year option) and Petstock (8% of gross income, lease expiry April 2020, with 5+5 year renewal options).

### **Village Lakeside East Shopping Centre, Lakeside Boulevard, Pakenham, Victoria**

The Village Lakeside East Shopping Centre is a neighbourhood shopping centre in Pakenham, approximately 55kms south east of Melbourne, Victoria. The property is located in the Delfin masterplanned community covering 222ha with 2,300 lots. Sitting on a 11,200sqm site, with 100% occupancy and a WALE of 4.0 years, the centre is anchored by a Coles supermarket (47% of gross income, lease expiry October 2020, with 10+10 year renewal options) with 11 specialty tenants including a pharmacy, homewares, liquor and fresh food retailers.

### **Edlyn Foods, 13 Ricky Way & 10 Jersey Drive, Epping, Victoria**

The Edlyn Foods property consists of a 5,173sqm warehouse/office facility and an adjoining 6,040sqm warehouse facility located in the Northpoint Enterprise Industrial Estate in Epping, approximately 20kms north of Melbourne, Victoria. The site is 100% occupied by Edlyn Foods, a wholesale supplier to the food service industry with products including toppings, syrups, fruit juices, cordials, vinegar and bakery pre-mixes. The property has a WALE of 7.8 year with lease expiries in September 2023 (13 Ricky Way, with 2+5 year options) and January 2026 (10 Jersey Drive, with 5+5 year options)

### **Beaudesert Central Shopping Centre, 125 Brisbane Street, Beaudesert, Queensland**

The Trust intends to use the proceeds of the funds raised under the Offer to acquire the Beaudesert Central Shopping Centre for \$16.85M plus costs. The Beaudesert Central Shopping Centre is a modern single level shopping centre located in the main street of Beaudesert, which is 70km south of Brisbane and 65 km west of the Gold Coast, Queensland. The Shopping Centre is on a 14,230sqm site with NLA of 4,452sqm with parking for 185 cars and is anchored by a Woolworths supermarket and 11 specialty retailers including Subway, Specsavers, Soul Pattinson Chemist and QML Pathology. Beaudesert has a current population of 13,735 people and the Woolworths supermarket is the dominant supermarket, supporting a catchment of surrounding areas.

The property has a WALE of 7.7 years and is 100% occupied (including rental guarantee), with the Woolworths supermarket accounting for 53.5% of the gross rental income, with its lease expiring in 2026 (with options to extend for 10+10+5+5 years). Approximately 39% of the gross income from leases will fall due by 2022. The property is being sold with an 18 month rental guarantee by the Vendor for a vacant shop (63sqm) with estimated gross rent of \$40,950 p.a. The shop has been reportedly vacant for an extended period of time and accounts for 2.8% of the gross rental income at the site. The RE has advised that it expects the shop to be leased by the end of the rental guarantee and is currently in discussions with potential tenants.

Figure 7: Key Properties – 4 largest properties (by value) – as at June 2017



### Tenant and lease details

The Manager has advised that, assuming the Fund acquires the Beaudesert property, it expects the Fund position at 30 June 2017 to have a WALE of 6.7 years with a weighted occupancy (based on NLA) of 99%.

Figure 8: Tenants (rentals based on FY17)

Property	Key Tenant	Expiry	Current Lease (years)	Option Period (years)	Key Tenant % of Gross Income
Home Central Warrnambool	Bunnings	Dec-21	15	3x5	56.9%
Village Lakeside East Shopping Centre	Coles	Oct-20	15	10+10	46.8%
Edlyn Foods	Edlyn Foods (Ricky Way, Jersey)	Sep-23, Jan-26	15,10	2+5, 5+5	100.0%
Beaudesert Shopping Centre	Woolworths	Jun-26	19	10+10+5+5	53.5%
Rocks Shopping Fair	Coles	Nov-23	13	8+5	33.3%
Coles Moss Vale	Coles	Mar-25	23	5+5	100.0%
Target Kardina	Target	Oct-23	15	5+5	100.0%

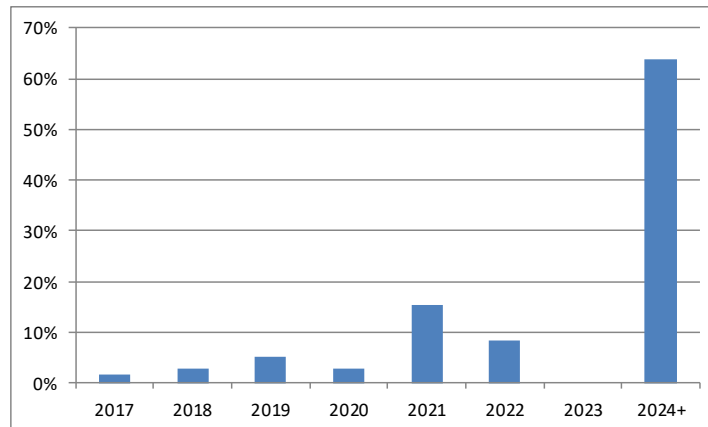
Source: MPG

### Lease Profile

Based on the RE’s forecasts and current tenancies in place, PIR estimates the average rent increase on the portfolio to be around 1.9% p.a. over the remaining five-year term of the Trust.

Approximately 49.8% of the rental income in the portfolio is from anchor tenants Coles, Woolworths, Bunnings and Target. The lease expiry chart below highlights the portfolio tenancy expiry profile with approximately 36% of gross rental income due for expiry by 2022, the Fund’s current end date.

Figure 9: Lease Expiry Profile (by income)



Source: MPG

## Capital Expenditure (capex)

The RE has included approximately \$65,000 p.a. for repairs and maintenance in its forecast for expenses and has advised that it anticipates there will be no major capital expenditure required during the forecast period.

As a condition of purchasing Beaudesert, the vendor has agreed to repainting the centre and carpark linemarking as well as an upgrade of the toilet facilities, at no cost to the Trust.

While PIR has adopted management's guidance on capital expenditure, it should be noted that under adverse market conditions, there may be a need to undertake additional capex to maintain and improve the value of the properties. In the event of any unforeseen capex requirements, the RE has advised that it may consider the possibility of funding this by waiving part of its management fee, or the possibility of providing a new loan into the Trust.

## Transaction evidence – Beaudesert

The table below highlights the proposed transaction metrics for the acquisition of Beaudesert Central Shopping Centre as well as recent comparable transactions as provided by the independent valuation. PIR notes that proposed acquisition price for Beaudesert appears to be reasonably priced based on the sales transactions provided in the valuation report.

Figure 10: Comparable transaction evidence for Beaudesert Central Shopping Centre

Property	State	Sale date	GLA (sqm)	Sale Price (\$M)	Price/sqm	Initial Yield
Jimboomba Junction, Jimboomba	Qld	Jun 16	5,932	\$27.5	\$4,633	6.85%
Monier Village, Darra	Qld	Jul 16	5,595	\$23.9	\$4,254	6.12%
Woolworths Chinchilla	Qld	Aug 16	3,878	\$20.1	\$5,171	6.24%
Banyo Retail Centre, Banyo	Qld	Sep 16	5,135	\$34.5	\$6,719	5.96%
Lillybrook Shopping, Kallangur	Qld	Oct 16	6,995	\$25.6	\$3,653	5.93%
The Station Oxley, Oxley	Qld	Jan 17	7,093	\$43.5	\$6,133	6.44%
<b>Beaudesert Central</b>	<b>Qld</b>	<b>Jun 17</b>	<b>4,452</b>	<b>\$16.85</b>	<b>\$3,784</b>	<b>6.59%</b>

Source: MPG, CBRE Valuations, PIR



## 4. Investment Analytics

We summarise below the PDS forecasts in a simplified manner and excludes non-cash items that are not included when estimating forecast distributions. The key points are:

- The net property income forecast includes drawing on the Rental Guarantee for \$169,400 for income purposes. The full value of the Rental Guarantee is \$245,732;
- Straight line rental income represents the impact of bringing fixed rent review increases to account evenly over the life of the leases. This is a non-cash item included in the adjusted net profit (loss) and is not available for distribution;
- Lease incentives granted and leasing costs are considered a part of rental revenue and are recognised as a reduction in rental income over the non-cancellable term of the lease agreement on a straight-line basis. The amortisation of lease incentives and leasing costs are non-cash items and not available for distribution;
- All-in borrowing cost of 4.1% has been assumed for the next four years (until June 2020 and stepped up by 0.5% thereon until the end of the Fund's initial term).
- The Fund is forecast to deliver an annualised distribution yield for FY18 of 7.25% and 7.35% for FY19, steadily increasing thereon to 8.2% in FY22. Distribution will be made from free cash flow; and
- The RE estimates distributions will have a tax deferred component of about 67% in FY18, reducing to around 46% in FY23.
- It should be noted the forecast is based on the PDS forecasts and has been adjusted for the issue of Additional Liquidity Units and the repayment of debt. Finance costs are assumed to reduce by \$0.3M assuming the repayment of \$6.7M debt through the issue of Additional Liquidity Units.

Figure 11: Forecast Income and Distribution Statement

Forecast Income and Distribution Statement (A\$M)	FY18	FY19
Net Property Income (including rent guarantee)	6.0	6.1
Distributions from investments in other MPG Trusts	0.8	0.8
<b>Total Revenue</b>	<b>6.8</b>	<b>6.9</b>
Fund Operating Expenses	-0.2	-0.2
Base management fees @ 0.6% of GAV	-0.6	-0.6
Finance Costs	-2.0	-2.0
<b>Funds from operations</b>	<b>4.0</b>	<b>4.0</b>
<b>Forecast cash distribution</b>	<b>4.0</b>	<b>4.0</b>
<b>Distribution per Ordinary unit (cents)</b>	<b>7.25</b>	<b>7.35</b>
<b>Distribution yield on \$1.00 of Ordinary unit invested</b>	<b>7.25%</b>	<b>7.35%</b>
<b>Distribution per Liquidity unit (cents)</b>	<b>6.72</b>	<b>6.72</b>
<b>Distribution yield on \$1.00 of Liquidity unit invested</b>	<b>6.72%</b>	<b>6.72%</b>
% Tax Advantaged (estimated) – Ordinary Units	67%	64%

Source: MPG / PIR

### Balance sheet Analysis

PIR summarises the balance sheet of the fund below. The proforma balance sheet is as at 30 June 2017, on successful capital raising for the Beaudesert asset, and \$6.7M of debt is repaid via the issue of Additional Liquidity Units. Of note is that the retained earnings and issue costs are aggregated and evenly distributed across all ordinary equity holders. This is to ensure that all costs are borne equally by investors in the Fund.

Figure 12: Pro-forma balance sheet – as at 30 June 2017- assuming \$6.7M is repaid

Pro forma balance sheet – as at 30 June 2017		A\$M
<b>Assets</b>		
Cash		0.6
Other Assets		0.3
Investment Properties		89.9
Other Investments – including other MPG trusts		9.0
<b>Total assets</b>		<b>99.8</b>
Borrowings		49.4
Derivatives at Fair Value		0.4
Trade Creditors and Accruals		1.0
<b>Total liabilities</b>		<b>50.8</b>
<b>Net assets</b>		
Units on issue (M)		56.4
<b>NTA per unit</b>		<b>\$0.86</b>
Gearing (gross debt/assets)		49.5%

Source: MPG/ PIR

### NTA Analysis – for new investors under the Offer

PIR has reviewed the NTA per unit for investors under the Offer. This analysis is based on only the Beaudesert property and the impact of its costs on the NTA per unit, as distinct from the balance sheet and NTA for the entire Trust as provided above. The NTA is an important consideration, as upfront costs can dilute investor returns over the term of the fund. It is also important to assess the NTA dilution in the context of statutory costs and fees paid to the fund manager.

As *Figure 16* shows, the costs associated with the acquisition of the Beaudesert asset are calculated to dilute the initial \$1.00 investment to an NTA of \$0.85. This is largely due to the high stamp duty costs as well as other acquisition costs. PIR considers the dilutionary impact of to be appropriate as it ensures an equitable allocation of costs to new investors, whilst prior investors have already been allocated the costs from prior acquisitions. It should be noted the forecast Withdrawal Price of \$0.86 at 30 June 2017 is in line with the Trust's NTA per unit.

Figure 13: NTA breakdown - as at 30 June 2017 - impact of Beaudesert property only

Dollars per unit	
<b>Issue price (cps)</b>	<b>\$1.00</b>
<b>Less:</b>	
Stamp duty	-\$0.10
Acquisition Costs	-\$0.03
All other costs	-\$0.02
<b>NTA per unit (cps)</b>	<b>\$0.85</b>

Source: MPG / PIR

## Sensitivity analysis

In this section, we analyse the capital structure of the Fund and its effect on investor returns. The key assumptions made are:

- The initial debt facility will be maintained with no additional borrowings sought over the term of the Fund;
- The asset value increases in line with annual rent escalations; and
- Capitalisation rates remain flat during the forecast period.
- The Trust issues 5.0M in Additional Liquidity Units to McMullin Property Group/MPG at \$1.00 per unit, and this is used in conjunction with \$1.7M in working capital from the Offer, to pay down \$6.7M in debt by 30 June 2017.

Based on the above assumptions, PIR has calculated the sensitivities of the portfolio in its first year as follows:

**ICR against covenant** – The Trust can withstand a 43% decline in income before it breaches its ICR covenant. PIR believes such an event occurring would be an extreme scenario as only 36% of the lease income falls due during the remaining term of the Trust. PIR notes the RE's forecast over the remaining term of the Trust has an ICR of at least 2.6x, against the ICR covenant of 1.75x.

**LVR against covenant** – The Trust can withstand a 15.5% decline in the valuation of its direct properties before it breaches its LVR covenant.

The RE has advised that in the event of a potential breach of the LVR or ICR, that it will also consider the following actions to support remaining within the bank covenants:

- The RE will consider utilising its liquid assets to further reduce its debt;
- MPG would consider the repurchase of up to \$3M in units in its MPG Bulky Good Retail Trust at the NTA price, and use this to reduce its debt; and
- The RE would consider additional unsecured loans from within the McMullin Group. PIR notes that this occurred in FY12 when the McMullin Group increased its unsecured loans to the Trust to \$4.8M (from \$4.0M) in order to support the capital works required to reconfigure the Clive Peeters tenancy at Warrnambool.

It should be noted that, as an open-ended Trust, these options may change over time and may not always be available in the Trust.

## Expected internal rates of return (IRR)

The three main performance drivers for return on equity in a property syndicate are:

1. The property income profile (lease structure);
2. The terminal value upon the sale of the property (asset quality + market conditions); and
3. The cost of debt (depending on leverage).

PIR has undertaken sensitivities using both the terminal cap rate and the all-in cost of borrowings as variables. Critical assumptions are as follows:

- Cashflows adopted are as per the RE's forecast distributable income, including rent increases on an annual basis;
- Capitalisation rates remain flat over the forecast period;
- An asset disposal fee of 2.0% at the end of the five-year term;
- No capital expenditure as per the RE's forecasts;
- Cost of borrowing is assumed to be 4.1% per annum over the remaining five-year term of the Trust. This is slightly higher than the current 3.79% amount (incorrectly stated as 4.79% in the PDS); and
- All fees are included.

Using the assumptions highlighted above, PIR expects a base-case five-year IRR in the range of approximately 7.1% to 10.0%.

Figure 14 summarises our expected IRRs based on varying assumptions.

Figure 14: Pre-tax IRR (after fees) Sensitivity Analysis

Terminal	Cost of debt		
Cap rate	3.60%	4.10%	4.60%
6.10%	11.3%	11.1%	10.8%
6.35%	10.0%	9.8%	9.6%
<b>6.60% (base case)</b>	8.8%	<b>8.6%</b>	8.3%
6.85%	7.6%	7.4%	7.1%
7.10%	6.5%	6.2%	5.9%

Source: PIR

## 5. Management & Corporate Governance

### McMullin Property Group

McMullin Property Group was founded by the late Ian McMullin (founder of Spotless Group) and is a property developer, funds manager, property manager and investor. The Group has been responsible for over \$1.5B of property development over the past 40 years. In December 2002, the McMullin Group established MPG Funds Management Ltd ("MPG") as a specialist property funds manager. McMullin Group owns approximately 20.0M Liquidity units in the Trust (or approximately 39% of the total units, assuming the full \$10.0M issue is filled), through an associated entity, McMullin Nominees Pty Ltd. McMullin Group has advised that it intends to hold a minimum 5.0% interest in the equity of the Trust.

### Background of the RE

MPG Funds Management Ltd ("MPG") is the Responsible Entity ("RE") of the Fund. Its main responsibility is to operate and manage the Fund in accordance with the constitution and the Corporations Act. The RE was established in December 2002 and has an Australian Financial Services License (AFSL 227114) to act as an RE for managed investment schemes. As the RE, MPG is responsible for the application and redemption of units, valuation and management of Trust assets, administration and payment of income distributions from the Trust. MPG is owned by interests associated with McMullin Property Group and is currently the RE for 13 other direct property funds.

### Board of the Responsible Entity

PIR has reviewed the composition of the RE board and believes that it has the relevant skills and experience to operate the Fund successfully. Each Director has demonstrable property and investment management skills. We summarise the background of the directors and key managers, as provided in the PDS.

Figure 15: Board of the RE

Name	Experience
<b>Trevor Gorman</b> Chairman	Trevor has over 30 years commercial experience, including 19 years' as a partner at Deloitte Touche Tohmatsu. During this time he was Managing Partner of the Victorian Growth Solutions Division. Trevor is currently the Chief Executive Officer of the McMullin Property Group and manages net assets of over \$250M. Trevor is a Fellow of the Institute of Chartered Accountants.
<b>Eddie Paulsen</b> Non-Executive Director	Eddie has held senior positions in the financial services and funds management industries for over 30 years. Much of this has been with National Mutual Group (now AXA, and part of the AMP Group) where he has held a number of CEO and Executive Director positions. This has included a funds management company, which included the listed National Mutual Property Trust as well as other unlisted property and equity trusts, a Public Trustee company and Financial Planning Group.
<b>Brett Gorman</b> Director / Secretary	Brett is a Chartered Accountant and Licensed Real Estate Agent. And has significant experience in establishing and operating managed investment schemes. Prior to MPG, Brett held positions with Deloitte Touche Tohmatsu in Corporate Finance, Audit and Growth Solutions divisions. He has a Graduate Diploma in Applied Finance and Investment, as well as a Bachelor of Commerce degree. Brett is a Fellow of the Financial Services Institute of Australia, Registered Tax Agent and is a holder of a Public Practice Certificate.

Source: MPG

## Compliance and Governance

The RE has a Compliance Plan which has been lodged with ASIC, as required by the Corporations Act. The Compliance Plan outlines the policies and procedures for the RE to administer the Trust’s assets, engagement of external service providers, valuation practices, borrowings and reporting to unitholders. The Compliance Committee consists of three members, including two external members, and meets half yearly.

The Fund complies with all the disclosures and benchmarks prescribed under the ASIC Regulatory Guide 46 ‘Unlisted property schemes: Improving disclosure for retail investors’

## Related Party Transactions

The Trust has in place a Related Party Transaction and Conflicts of Interest Policy which is required to comply with RG46 requirements. A summary of the related party transactions from FY16 Annual Report is presented below:

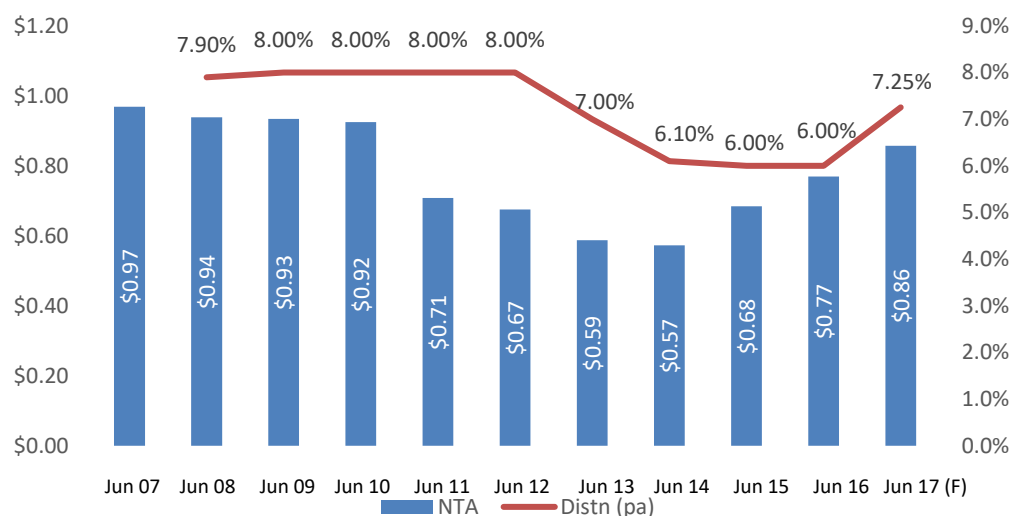
- Unit ownership – As at 30 June 2016, approximately 65.8% of units in the Trust are owned or controlled by entities associated with the McMullin Group and the directors of the RE;
- Interest on Loans – The Trust paid \$86,758 in interest to the Responsible Entity during FY16 as interest on a loan. The Trust also undertook a \$0.5M loan for the purchase of units in the MPG Seaford Meadows Property Trust. All loans were undertaken at an average interest rate of 5.45%;
- Property Management Services – The trust engaged MPG Property Management (an entity associated with Brett Gorman who is a Director of the RE) to undertake property management at a rate of between 2.25% and 3.31% of gross rental income. The fee was considered by the Directors to be on normal terms and conditions.

In addition, the RE also received fees payable and compensation as required for the management of the Trust under its Constitution (see section on Fees).

## 6.Past Performance

MPG Funds Management was established in December 2002 and has managed over \$400M in unlisted property funds. The following chart shows the historical NTA and distributions as provided by the Trust’s Annual Reports.

Figure 16: MPG retail brands Property Trust – NTA and Distribution yield history



Source: MPG Annual Reports.

Note: Distributions are based on ex-distribution date, not the payment date.

MPG has also provided a summary of returns on 11 of its syndicates (including the Trust and 2 syndicates which have been wound up), and is summarised in the table below.

Investors should note that that past performance is not a reliable indicator of future performance as each fund, and its respective underlying property, has its own specific risks and attributes.

Figure 17: Selected performance of MPG managed investments

Name	Period to June 2016	Total Distributions	NTA at end Period	Total Return pa (straight line)
MPG Hardware Trust 2	1 year	\$0.0446	\$0.94	-1.5%
MPG KM Trust	1 year	\$0.0800	\$0.92	0.0%
MPG Seaford Meadows Property Trust	2 years	\$0.1550	\$0.92	3.8%
Village Travel Centre	2 years	\$0.1681	\$0.93	4.9%
<b>MPG Retail Brands Property Trust</b>	10 years	<b>\$0.7375</b>	<b>\$0.86</b>	<b>6.0%</b>
MPG Bulky Goods Retail Trust	12 years	\$0.9335	\$0.98	7.6%
MPG Motor Vehicle Dealership Trust (sold)	9 years <sup>1</sup>	\$0.7635	\$1.35	12.4%
MPG BW Trust 2	2 years	\$0.1127	\$1.22	16.6%
Epping Trade Centre Project (sold)	3 years <sup>2</sup>	\$0.2147	\$1.29	16.8%
MPG BW Trust	2 years	\$0.1338	\$1.21	17.2%
MPG Hardware Trust	4 years	\$0.3050	\$1.67	24.4%
<b>Unweighted Average</b>				<b>9.8%</b>

Note: Averages are calculated on a simple average basis.

1. The MPG Motor Vehicle Dealership Trust was wound up in 2014. Returns are for the 9 years from inception to wind up of the Trust.

2. The Epping Trade Centre Project was wound up in 2015. Returns are for the 3 years from inception to wind up of the Trust.

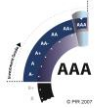
Source: MPG, PIR

## Appendix – Ratings Process

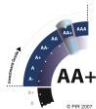
PIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction;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

### The Ratings

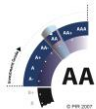
Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.



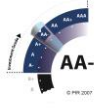
**AAA:** This is the highest rating provided by PIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories. The product provides a highly attractive risk/return trade-off. The Fund is likely to effectively manage endogenous and, to the extent that it can, exogenous risk factors with industry best practice.



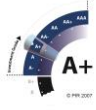
**AA+:** Indicates that PIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories.



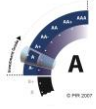
**AA:** Indicates that PIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives. The Fund should be in a position to effectively manage endogenous and, to the extent that it can, exogenous risk factors. This should result in returns being reflective of the expected level of up-side and down-side risk.



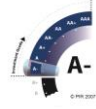
**AA-:** Indicates that PIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted returns in line with stated investment objectives.



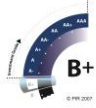
**A+:** PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and should generate risk adjusted returns in line with stated investment objectives.



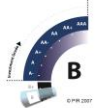
**A:** PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria but may not stand apart from its peers. There are certain assumptions, the outcome of which is sometime in the future and, therefore, less predictable. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.



**A-:** PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. There are certain assumptions, the outcome of which is sometime in the future and, therefore, uncertain. However, it has an acceptable risk/return trade-off. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in-line with stated investment objectives.



**B+:** PIR believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While PIR does not rule out investing in this product, investors should be very aware of, and be comfortable with, the specific risks. The product may provide unique diversification opportunities. However, concerns over one or more features mean that it may not be suitable for most investors.



**B:** PIR believes that despite the product's merits and attributes, it has failed to meet the minimum aggregate requirements of our review process across a number of key evaluation parameters. While this is a product below the minimum rating to be considered Investment Grade, this does not mean the product is without merit. Funds in this category are considered to contain high risks which are not reflected by the projected return. Performance volatility, particularly on the down-side, is likely.

This report has been commissioned, and, as such, PIR has received a fee for its publication. Under no circumstances has PIR been influenced, either directly or indirectly, in making statements and / or recommendations contained in this report.



