

PROPERTY UPDATE

Ascot
Capital
LIMITED

SUMMER 2019

www.ascotcapital.com.au

Note to our Investment Partners

As we head into a new year, we write to update you on our activities in 2018 and provide you our outlook for 2019. In 2018, in a market that continued to rise to record levels with further tightening of yields after reviewing a lot of opportunities, sourced both off-market and on market, the opportunity to acquire quality opportunities meeting our stringent investment requirements become more challenging and we took advantage of some strong off market offers to sell some assets. To this end, we completed four quality acquisitions that we had been working on for some time and completed three sale transactions. These are further detailed below.

As some uncertainty enters the market, we believe that purchasing well leased properties with minimal tenant risk and predictable cash flows will continue to be great long-term investments and will remain our primary focus. Ascot Capital Limited continues to carefully search for these opportunities against strong competition and the need to move quickly and leverage off deep relationships to secure them is more important than ever.

We thank our investors for advising of their commitment promptly to invest in our opportunities when offered. This remains crucial to enable us to compete in this type of market environment.

Investors in existing funds will have received their annual reports recently which demonstrated Ascot Capital Limited's continued ability to deliver excellent results in an environment of sustained low economic growth and low interest rates. These results are achieved through an approach of both proactive asset and treasury management.

In 2018, the team at Ascot Capital concluded four new investment transactions: 12-14 Faulding Street & 19 Wormald Street, Symonston, Canberra, ACT; 79-83 & 85 Cherry Lane, Laverton North, Melbourne, Victoria; 248 Fleming Road, Hemmant, Brisbane, Queensland; and Pacific Brisbane Hotel, 345 Wickham Terrace, Brisbane, Queensland. The team also completed three sales transactions: 14 Mort Street, Canberra, ACT; 1122-1136 Port Wakefield Road, Burton, Adelaide, South Australia; and 1 Havelock Street, West Perth, West Australia.

Latest Transactions

The team at Ascot Capital completed the purchase of 6 properties across 4 transactions in 2018 with brief details as follows:

12-14 Faulding Street & 19 Wormald Street, Symonston, Canberra, ACT

Ascot Capital executed contracts of sale after completing satisfactory due diligence and settled on the acquisition of a quality commercial/industrial investment property located at 12-14 Faulding Street & 19 Wormald Street, Symonston (in Canberra) with significant office warehouse/hardstand facilities across two buildings including under croft parking for 136 vehicles fully leased to two quality ASX listed tenants: Telstra Corporation Limited (89% by income) with a new 7 ½ year lease plus two 5 year options that commenced 1st May 2017 following a refurbishment to suit the tenant's requirements; and Service Point Australia P/L a subsidiary of ASX listed Citadel Group Limited (11% by income) on a 5 year lease that commenced 15th January 2015 plus a 5 year option.

Latest Transactions CONT...



The 7,360m² site has 3 prominent street frontages in the suburb of Symonston in the section known as Amtech Park, a well-established and premier “high-tech” estate approximately 8 km south-east of the CBD. The hardstand was built to allow for future expansion or further development whereby an additional 2,596m² of Gross Floor Area is permitted under the zoning.

Fixed annual rental increases of 3.5% on both leases will provide assured growth. It is anticipated and forecasted to average 9.81% ROE over 10 years and an IRR of 10.76%



79-83 & 85 Cherry Lane, Laverton North, Melbourne, Victoria

Ascot Capital executed contracts of sale after completing satisfactory due diligence and settled on the acquisition of a quality industrial investment property located at 79-83 & 85 Cherry Lane, Laverton North (in Melbourne) with a significant office/warehouse/pharmaceutical manufacturing facility refurbished to meet the Commonwealth Government’s Therapeutic Goods Administration (TGA) Standards that has a new Triple Net 20-year lease plus two 6 year options to commence from settlement to Probiotec Pharma Pty Ltd, established in 1997, guaranteed by parent company ASX Listed Probiotec Limited (ASX:PBP) and by significant long Bank Guarantees. The facility will be extended and further upgraded by the Vendor over the next 12 months.

The significant land holding of 31,478m² across two titles is situated on the southern side of Cherry Lane extending through to provide a 224 metre frontage to the Princes Freeway in the strategic core industrial suburb of Laverton North. Laverton North is a highly sought after industrial area approximately 15km west of the Melbourne CBD, 12km from the Port of Melbourne and set to benefit from the proposed new West Gate Tunnel Project.

Fixed annual rental increases of 3.5% and reviews to the greater of CPI or 3.5% every 5 years will drive and protect growth coupled with the strong growth potential of the location of this property. It is anticipated and forecasted to average 8.16% ROE over 10 years and an IRR of 10.01%.



248 Fleming Road, Hemmant, Brisbane, Queensland

Ascot Capital executed contracts of sale after completing satisfactory due diligence and settled on the acquisition of a quality industrial investment property located at 248 Fleming Road, Hemmant (in Brisbane, Qld) with significant office warehouse/cold storage facilities across two buildings fully leased to a quality national tenant - Royal Foods Aust Pty Ltd trading as ROYALCDS on a 12 year lease plus two 5 year options expiring 30th June 2026.

The 10,190m² site has a prominent street frontage to Fleming Road in the suburb of Hemmant, a prominent suburb in the Australia Trade Coastal Precinct and is the neighbouring suburb to the Port of Brisbane. The initial building was extensively refurbished and expanded and a new building was completed in late 2013 and is a modern state of the art cold/freezer storage transport facility.

Fixed annual rental increases of 3.5% will provide assured growth. It is anticipated and forecasted to average 9.05% ROE over 10 years and an IRR of 10.02%.

Latest Transactions CONT...

A brief summary from Facilimate

345 Wickham Terrace, Brisbane, QLD

We have been operating the Pacific Hotel Brisbane since the purchase settled on 22nd August 2018, and have made many operational and staffing changes. These are starting to have a positive effect.

The refurbishment of the public spaces has started with ground floor signage, pool paving, fencing and repainting, whilst the function rooms have been refreshed. The back of house and hidden works is ongoing. A complete makeover of the foyer including a co-working space is scheduled for February 2019.

Due to Qantas moving their crew to another hotel, we have the opportunity to complete the room refurbishment in 12 months rather than the projected 2 year timeframe in our IM.

Our room refurbishment commenced in December and we anticipate the first new rooms will be available by 1st March 2019. We should then have a refurbished floor of rooms returned to the inventory monthly.

The net effect of this is that we will not be paying any distributions for FY19.

Overall, we are very pleased with this asset and are very confident in our business plan.



Properties Sold

The team at Ascot Capital concluded the sale of 3 properties in 2018 with brief details as follows:



14 Mort Street, Canberra, ACT

We completed the sale of this asset in October 2018. The sale resulted in a total IRR of 24.03%. This was an excellent transaction for our investor partners and shows the benefit of long dated secure lease opportunities, bought well relative to interest rates.



1122 - 1136 Port Wakefield Road, Burton, Adelaide, SA

We completed this sale in October 2018. The sale resulted in another excellent result for our unitholders and again underlines our strategy of buying assets for the long term & only selling as a consequence of a strong off market offer. This asset resulted in a total IRR of 25.02%.



1 Havelock Street, West Perth, WA

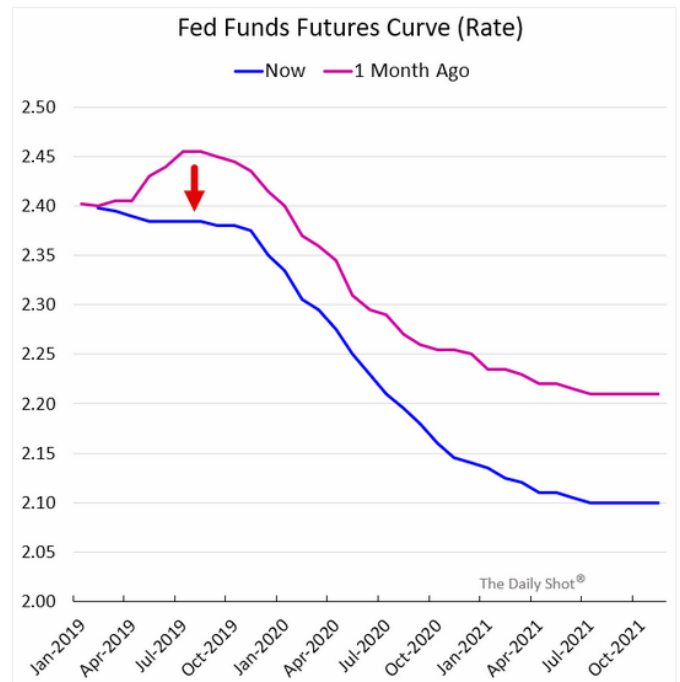
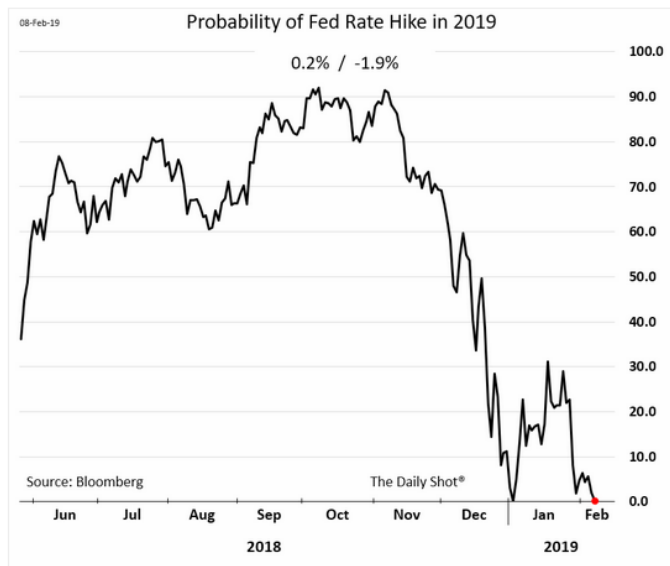
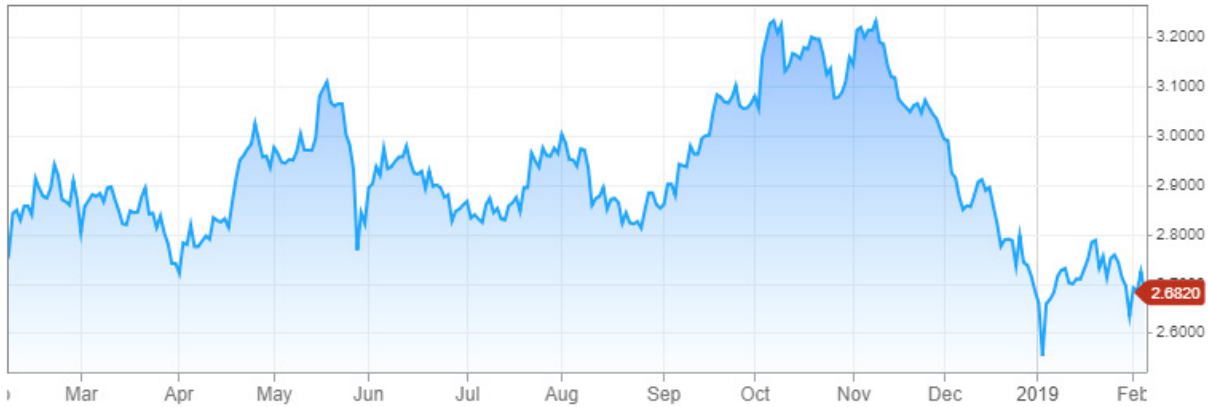
In a weak WA market this was a good result for the trust. Although there is potential upside in the asset, the significant re-leasing risk in the asset, on balance, led us to agree to a sale. This asset resulted in a total IRR of 8.22%.

Investment Philosophy -

Insights to current investment environment

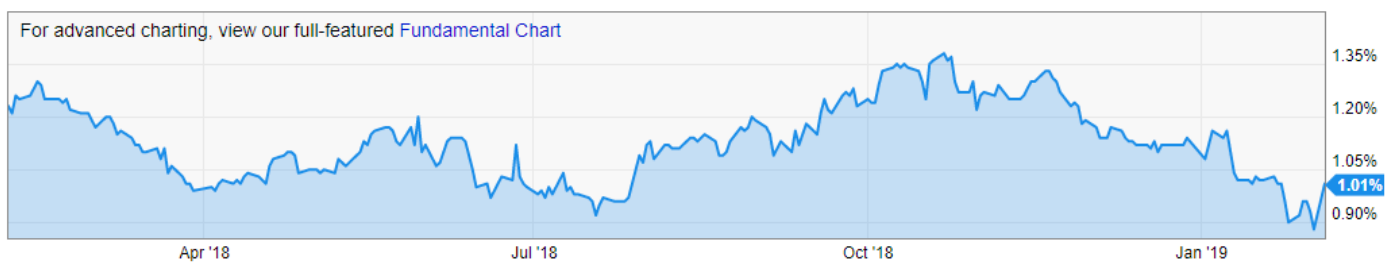
The RBA has become more dovish in its interest rate outlook. This is reflected by an international environment where rate increases in the USA have paused and anticipated rate increases in Europe have not eventuated. In fact the yield curve in both Europe and the USA has fallen dramatically.

US \$10 Year Government Bond



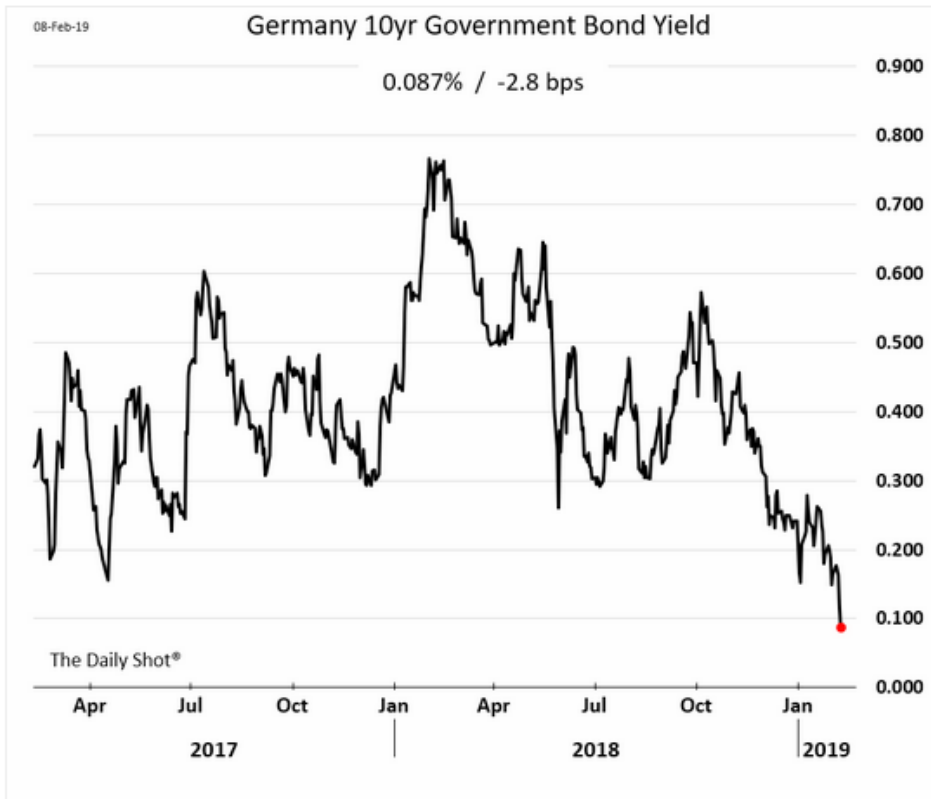
The Eurozone

10-Year Eurozone Central Government Bond Par Yield Curve Chart

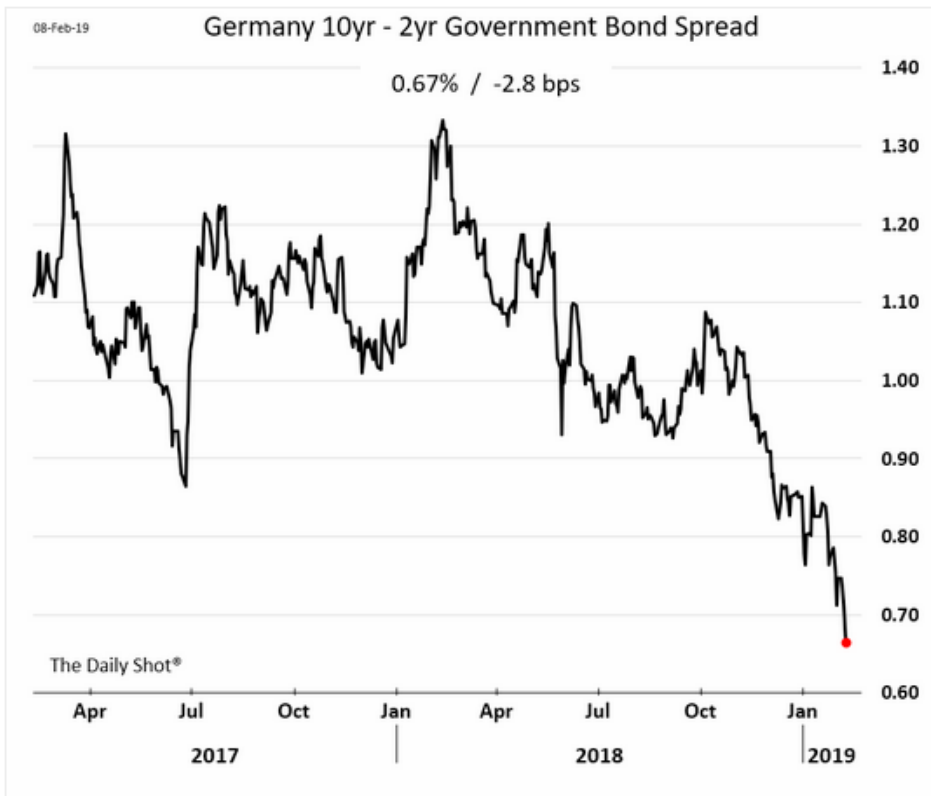


Investment Philosophy CONT...

The 10-year Bund yield dipped below ten basis points.

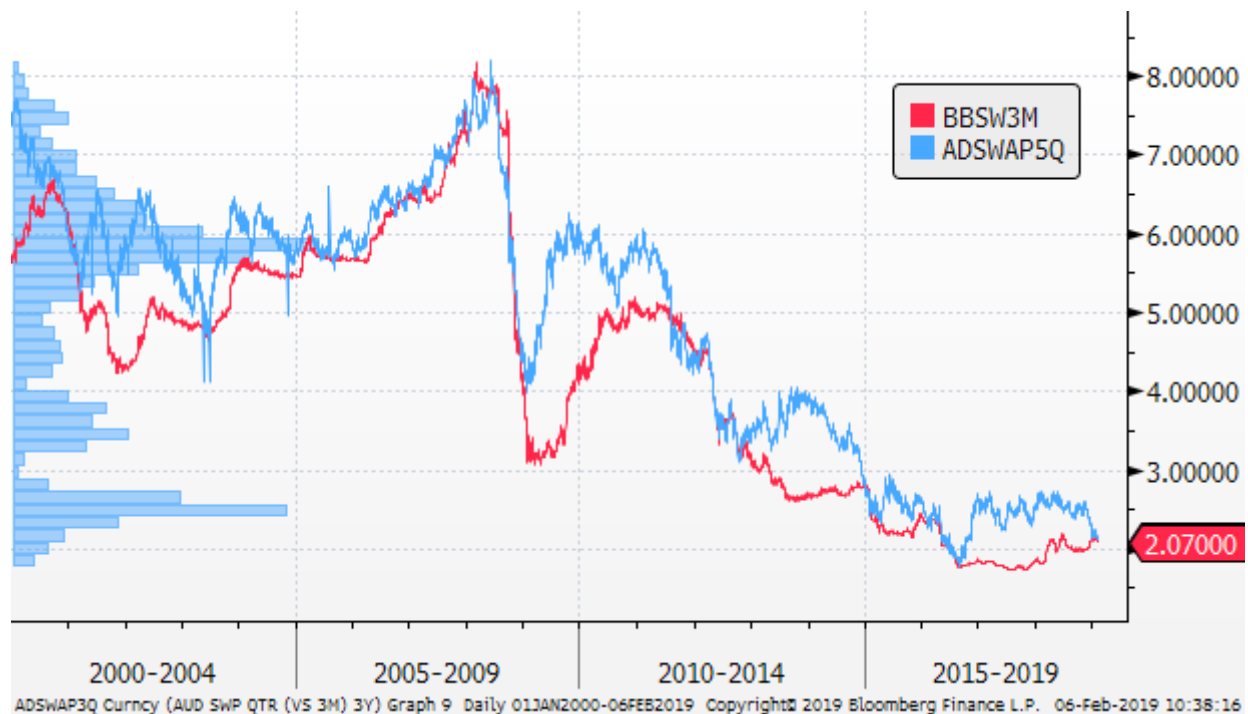


And Germany's yield curve continues to flatten.



Investment Philosophy CONT...

Below, courtesy of National Australia Bank and Bloomberg are the A\$ 5 year 'swaps' over the last 5 years and going back to 2000. As can be seen we have lower rate anticipation than even during the Global Financial Crisis.



Investment Philosophy CONT...

Also shown below is the 'Yield Curve' 12 months ago, 3 months ago & today.

Curve 12 Months ago	
1 Year	2.00%
2 Years	2.19%
3 Years	2.38%
4 Years	2.54%
5 Years	2.67%
7 Years	2.89%
10 Years	3.15%

Curve 3 Months ago	
1 Year	2.11%
2 Years	2.22%
3 Years	2.35%
4 Years	2.48%
5 Years	2.59%
7 Years	2.79%
10 Years	3.05%

Curve Today	
1 Year	1.95%
2 Years	1.86%
3 Years	1.86%
4 Years	1.93%
5 Years	1.99%
7 Years	2.18%
10 Years	2.42%

As can be seen there is practically no material change in interest rates anticipated for the next decade. The back end of the 'curve', the 10 year, has fallen approximately at 23% in the last 12 months.

This tells us what market expectations are for the next decade and it is for moderate inflation and moderate rate rises.

From this interest rate analysis, we can see that the 'anchor' for valuation of future cash flows of assets has fallen and therefore the value of these cash flows has increased, relative to anticipated rates.

We believe, therefore, that well acquired long term leased assets with secure tenancies will continue to represent good accretive value for our investors.

Contact the Ascot Capital Team

For more details on any current investments and upcoming investment opportunities, contact any of the Ascot Capital team.



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