



Direct Assets Review

RF CorVal Property Fund

ISSUE DATE: 24-04-2024

Fund financial position

TOTAL ASSETS	\$54.3M
DEBT - DIRECT / (LOOK THRU)	\$22.81M
LOOK-THRU GEARING (LVR)	42%
UNIT PRICE	\$1.05
NTA	\$1.11

Portfolio summary

NO. INVESTMENTS (PROPERTIES)	12 (26 INDIRECT)
PROPERTY TYPE	INDUSTRIAL 63%; OFFICE 15%; AGRI 15%; TOURISM 2%; CASH 5%
PROPERTY LOCATION	SA 31%; WA 14%; VIC 25%; QLD 23%; NSW 6%
WTD AVG LEASE EXPIRY	11 YRS
OCCUPANCY (BY INCOME)	99%

Other Fund details

APIR CODE	CRV9885AU
FUND INCEPTION	FEBRUARY 2022
DISTRIBUTION PAID	QUARTERLY
MINIMUM INVESTMENT	\$10,000 (THEREAFTER \$1,000 LOTS)
INVESTMENT TERM	OPEN-END
WITHDRAWAL	MONTHLY
PERIODIC LIQUIDITY EVENT	EVERY 5 YRS (FIRST JAN 2027)
RESPONSIBLE ENTITY / MANAGER	CORVAL PARTNERS LTD/ CORVAL INVESTMENT PTY LTD
MANAGER FUND HOLDING	NIL

Manager fees and expenses

ACQ'N / DISPOSAL FEES	1.0% OF GROSS PRICE
ANNUAL FEES & EXPENSES	2.01% P.A. OF NET ASSETS
PERFORMANCE FEE	20% OF EXCESS ABOVE 8% IRR
BUY / SELL SPREAD	0.0% / 0.25%

What this Rating Means

The 'Recommended' rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Strengths

- The investment team is very experienced in property investment and the management of property trusts for wholesale and non-wholesale investors. They have an excellent record of acquiring properties and adding value to achieve above average returns for wholesale investors.
- Funds established for non-wholesale investors have focused on good quality properties delivering a stable income, with the prospect to benefit from selective capital expenditure and more active leasing management.
- Commitment from the Board to grow and further diversify the Fund.
- The Fund has met its objective of providing regular income and capital growth, albeit over a relatively short timeframe.

Weaknesses

- Distributions may come under pressure if the Office sector suffers from any softening in capitalisation rates.
- Increasing interest rates have seen a deterioration in the interest cover ratio.
- While Lonsec notes that the RE board currently does not have a majority of external directors, the Investment Committee has an additional two external members and investment decisions must receive unanimous support. From a best practice governance perspective, Lonsec would prefer to see a majority of external directors on the RE board.

Lonsec Opinion of this Fund

- Lonsec has retained the Fund's 'Recommended' rating following the latest review. Lonsec has confidence in the ability of the highly experienced investment team to deliver on the Fund objectives. The CVPF portfolio currently consists of 12 CorVal wholesale property trusts and directly owned properties, providing a diversified Australian property exposure. The portfolio has 99% occupancy, offers a long WALE of 11 years and good annual rental increases. Gearing has increased since the previous review but is still at a relatively conservative level of 42% and the majority of debt is hedged over the short to medium term.

We strongly recommend that potential investors read the product disclosure statement or investment statement.
Lonsec Research Pty Ltd • ABN 11 151 658 561 • AFSL 421 445 • 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.

RF CorVal Property Fund

What is this Fund?

- The Fund has been established as an open-ended property fund giving investors the opportunity to access a range of CorVal's wholesale property trusts and stabilised direct property assets fully owned by the Fund.
- The Fund currently comprises nine CorVal trusts and three directly owned property assets, providing a diversified portfolio of industrial (63%), office (15%), agriculture (15%) and tourism (2%) property sector assets located across four Australian states. Further investments will mainly be in these sectors that CorVal has built-up expertise in, but other sectors (e.g. retail property) may also be considered should the Manager find appropriate opportunities.
- The objective is to deliver a stable income yield for investors with the prospect of capital growth over the long term, via a mix of indirect and direct property investments.
- The current portfolio of properties comprises a mix of well-located A-grade and B-grade office properties, most with high environmental ratings. The industrial properties are a mix of older established and recently built manufacturing/logistics assets.
- The Fund's weighted average lease expiry (WALE) is 11 years and has a high overall occupancy of 99%.
- Gearing is 42% (look-through LVR) with reasonable headroom to the bank covenant of 55%. Debt is hedged to a reasonable level in the underlying trusts, partially protecting investors from rising interest rates for the next few years.
- CVPF has a **Limited Monthly Withdrawal Facility** subject to available liquidity. CVPF unitholders will have the opportunity to withdraw part or all of their holdings at the **five-year Periodic Liquidity Event**. All withdrawals are subject to sufficient funds being available and are at the discretion of the RE.

Using this Fund

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

- Lonsec notes that the Manager has produced a Target Market Determination (TMD) which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has sighted the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- While the returns of the Trust are expected to be less volatile than equities and listed property securities investments, investors should be aware that the Fund **may experience periods of negative returns** and that there is a **risk of incurring capital loss** on the Trust.
- As such, Lonsec considers the Trust suitable for medium to high-risk profile investors with a five+ year investment time horizon. The Trust will generally sit within the **growth component of a balanced portfolio**.

Changes since the last review

Changes in the Fund's key metrics are summarised below:

	PREVIOUS REVIEW	THIS REVIEW
GROSS ASSETS	\$50.95M	\$54.3M (▲)
UNIT PRICE	\$1.05	\$1.05 (-)
NO. OF ASSETS	10	12 (▲)
WALE (INCOME) - YRS	8.5	11.0 (▲)
OCCUPANCY	99%	99% (-)
NO. OF DIRECT TENANTS	104	104 (▲)
PRE-TAX YIELD	5.21%	6.0% (▲)
CAP'N RATE (WTD AVG)	5.94%	6.47% (▲)
GEARING (LOOK-THRU)	37.8%	42% (▲)
INTEREST COVER RATIO	4.9X	3.6X (▼)

People and Resources

Corporate Overview

- RF CorVal was founded in 2009 as a specialist Australian property investor. CVPL aims to provide long-term stable returns through quality property investments. Since founding the company has grown to over 20 employees and \$2.7bn in FUM as of December 2023.
- CorVal Partners Limited ('CVPL') is the Responsible Entity for the Fund, which holds AFSL No. 326118 and has appointed CorVal Investment Pty Ltd ('CorVal' or 'the Manager') as the investment manager for the Fund. Both entities are part of the RF CorVal group

Management Team / Board & Key Personnel

- The Board of CVPL consists of one Non-Executive Chair and two Executive Directors, noting that there is not a majority of independent directors.

Name	Position	Experience firm / industry
KEVIN NEVILLE	NON-EXEC CHAIR	25/35+
ROB RAYNER	EXEC DIR. & CHIEF EXEC OFFICER	25/30+
KERR BRAY	EXEC DIR. & CHIEF OPERATING OFFICER	14/25+
SANJEEV SAHOTA	FUND MANAGER	5/16
OLIVER PICONE	HEAD OF TRANSACTIONS	12/16
GARETH DINGLE	TRANSACTIONS MANAGER	9/16
CON TSIoulos	DIRECTOR COMMERCIAL	11/25+
BEN VICIC	DIRECTOR COMMERCIAL	11/25+
NOELLA TSANG	FINANCIAL CONTROLLER	14/20+

- The CorVal property team comprises 26 staff involved in the management of the funds, property portfolios and support staff. There has been only one departure since the group formed in 2009.

RF CorVal Property Fund

ISSUE DATE: 24-04-2024

Investment Committee

Name	Position	Experience firm / Industry
CHRIS JUDD	EXTERNAL MEMBER	2/35+
JOHN DILLON	EXTERNAL MEMBER	2/25+
ANDREW ROBERTS	PRINCIPAL RF COVAL & RF GROUP	7/35+
ROB RAYNER	EXEC DIR. & CHIEF EXEC OFFICER	5/30+
KERR BRAY	EXEC DIR. & CHIEF OPERATING OFFICER	14/25+

- CorVal has built-up extensive industry contacts over many years of its executives being involved in the property investment industry. Many investment opportunities are brought to CorVal in an off-market situation given their good reputation for completing transactions, backed by access to capital.
- CorVal's asset management team has a focused and hands-on involvement in the implementation of the plans. They regularly assess and refine the strategy in the light of market conditions, including potential sale opportunities.

Potential conflict of interest / related party issues

- The RE may from time-to-time, engage related parties to provide property services to the Fund.
- However, the Manager has a clearly defined Conflicts of Interest Policy and guidelines for related-party transactions.
- The Compliance Committee will review and approve, approve with conditions, or reject a proposed related party transaction.
- The CorVal Partners Ltd Board has the ultimate responsibility for ensuring related-party transactions or conflict of interest issues are resolved in accordance with the relevant policies and guidelines.
- At the time of review, CorVal or its staff do not retain an interest in any of the underlying funds / CVPF.

Product

- The Fund is an open-ended unlisted unit trust investing in both direct and indirect property (via investing in units in Property Trusts). Where the Fund acquires a property directly it may acquire the property through a sub-trust, which may be wholly or jointly owned.
- However, there is a clear delineation between assets suitable for the wholesale funds (more opportunistic) and the CVPF which will target assets that are stabilised. CorVal's balance sheet financial strength can, if necessary, be utilised to assist the Fund to make acquisitions, while external equity is raised.

Withdrawals and Liquidity

- CVPF unit-holders will have limited opportunities to withdraw from the Fund.
- The RE intends to provide a **Limited Monthly Withdrawal Facility**. The amount available for withdrawal will be determined on the last business day of the relevant month and is subject to available liquidity and predominantly funded through new

investments into the Fund. The RE may use its discretion to increase this amount in any given quarter. If liquidity is insufficient, the RE may reduce, scale-back or suspend withdrawals.

- The RE also intends to offer a **Periodic Liquidity Events** on or around each five year anniversary of the commencement of the Fund. The first is expected to occur around January 2027 and this and future offers may be funded by:
 - the sale of assets;
 - raising new equity for the Fund
 - via debt (increasing the gearing ratio)
- The RE will attempt to satisfy redemption requests within a twelve month period from the close of the offer or may be paid in instalments.

Valuation Policy

- The properties in the underlying trusts will be independently valued on an annual basis, or as required under each trust's loan facility. This is in accordance with most funds covered by Lonsec and strikes a reasonable balance between the costs incurred for valuation services and maintaining a portfolio which is reflective of fair value.
- Valuations are usually completed on a staggered basis across the CorVal portfolio using different external valuers.
- Valuations may occur more frequently than annually if it is believed there has been a material change.

Fees

- **Acquisition fee** of 1.0% of the gross purchase price of any Direct Property asset (including indirect Property Investments) acquired by the Fund. No acquisition fee will be charged by the RE in relation to the initial portfolio.
- **Disposal** fee of 1.0% of the gross purchase price of any Direct Property asset (including indirect Property Investments) disposed of by the Fund.
- In both of the above cases, if these fees are paid at the underlying trust level, then they won't be charged at the CVPF level (i.e. the Fund pays its share of fees at the underlying trust level).
- These costs are built into the unit price via Buy (0%) and Sell (0.25%) spreads applying to enter and exit the Fund. These amounts are retained in the Fund to cover these costs and to ensure fairness to exiting and continuing investors.
- **Annual management cost** comprises management fee of 0.60% p.a. of **gross assets** levied at the underlying trust level. There is no additional management fee at the CVPF level. Expenses and Indirect Costs at the CVPF level are 0.34% p.a. and 0.53% p.a. of gross assets respectively.
- **Transaction Costs:** estimated at 0.54% p.a. of the Gross Asset Value.

RF CorVal Property Fund

ISSUE DATE: 24-04-2024

- **Performance Fee:** The RE/Manager is entitled to a 20% share of excess total return (Internal Rate of Return) above 8.0% p.a. The fee is capped and calculated periodically and reflected in the Unit Price and payable at the end of each five-year period of the Fund. Lonsec's analysis shows that the 20% share is at the higher end of the peer group, and the 8% p.a. hurdle is less difficult to attain compared to some other funds (8%-10% p.a.).
- The RE may reduce the performance IRR hurdle to a minimum of 6% p.a. or raise it to a maximum of 10% prior to the next five-year calculation period. However, it is not the intention of the RE to do so.

% Net Assets ¹	CVPF
M'MENT FEES & COSTS	1.47%
TRANSACTION COSTS	0.54%
	2.01%
PERF FEE ²	-
TOTAL ANNUAL	2.01%

1: On average net assets in a 12-month period assuming gearing of 36%.
 2: Fund's estimated performance fees including performance fees accrued in the underlying property trusts.

Other fees and costs

- **Removal/Retirement Fee:** There is no fee payable if the RE is removed by a unit-holder vote or retires.

Research & Portfolio Construction

Investment management process

- CorVal has built-up extensive industry contacts over many years of its executives being involved in the property investment industry. Many investment opportunities are brought to CorVal in an off-market situation given their good reputation for completing transactions, backed by access to capital.
- The transaction process starts at the formal weekly meeting where the team discuss and assess opportunities. At this stage, financials information (rents, tenants) are examined to map out the asset cash flows using CorVals own assumptions.
- Prospective opportunities are presented via a Discussion Paper to the Investment Committee (IC), with CIO Oliver Picone attending. There must be unanimous support at the IC to proceed on proposed investments or divestments.
- Detailed due diligence is then undertaken utilising external consultants and lining up debt facilities. The proposal then goes back to the IC for approval to proceed to formal exchange.
- Required returns depend upon the asset and the level of work required to bring the asset up to standard. This Fund has a target geared equity IRR of 8%-9%p.a., including an income yield of 5%-6% p.a.
- CorVal's underlying philosophy is to preserve and grow client's investments over the long term. The Manager has a focus on capital preservation, without sacrificing investment performance.

On-going property management

- Active management through asset and tenant management initiatives can add value to properties and fund performance. While the CVPF targets exposure to more stabilised assets, CorVal will

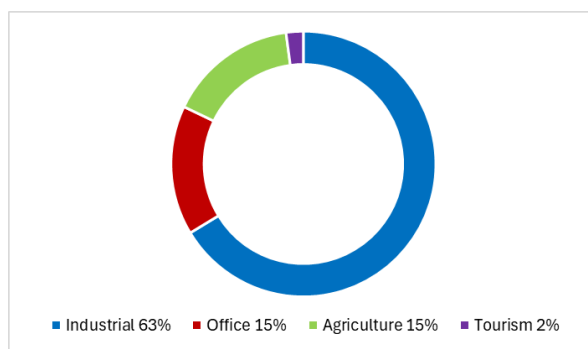
develop a detailed asset management plan for each property that is acquired either in the underlying funds or the CVPF itself.

- Asset management plans include a strategy and budget for each property, incorporating leasing, maintenance, capital expenditure, and potential exit strategies.
- CorVal's asset management team has a focussed and hands-on involvement in the implementation of the plans. They regularly assess and refine the strategy in the light of market conditions, including potential sale opportunities.
- The team can draw upon the internal RF Group, which includes a construction team.

Portfolio overview

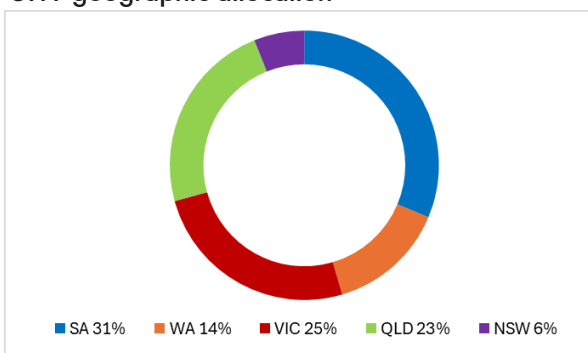
- As at the time of review, the Fund comprised:
 - 12 investments valued at \$65.84m in nine RF CorVal wholesale property funds and three direct property assets.
 - Cash (\$4.62m) and other assets (\$0.7m).
- The following table and charts provide a summary of the Fund's current sector and geographic allocations.

CVPF sector allocation*



Note*: By income

CVPF geographic allocation*



Note*: By income

- The Fund's current portfolio gives investors exposure to a diversified portfolio of 29 underlying properties, with the allocation currently mainly to industrial/logistics, agriculture and office assets, with one tourism/retail asset (the Sky Deck/restaurant and

RF CorVal Property Fund

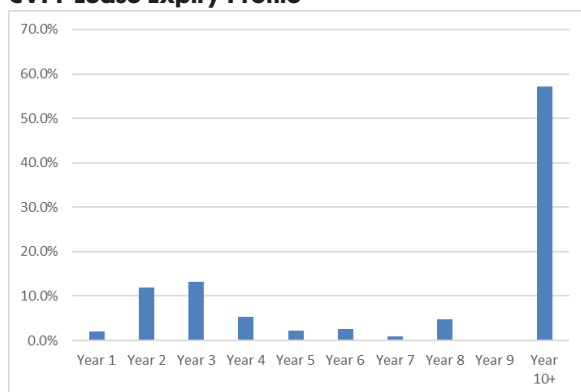
ground floor shop/office at Eureka Tower Melbourne).

- The Manager has developed its expertise mainly in office and industrial properties, but has the ability to evaluate and invest in other property sub-sectors as opportunities arise.

Major Tenants / Leases

- The expiry of lease agreements is well spaced, with a small spike in 2 to 3 years and over 57% of expiries over 10 years away. Major tenants include ASX-listed companies, WA state government and international corporations. There is a spread of smaller tenants, mainly in two of the office buildings.

CVPF Lease Expiry Profile



(Source: CorVal)

Tenant	% Income	Lease Expiry
INGHAMS	22%	NOV 2043
PACT GROUP	18%	JUNE 2034/2036
WA GOV'T	13%	APR 2031
JOURNEY BEYOND GROUP	5%	JULY 2041

Risk Assessment

- Lonsec rates the key risk factors associated with the CVPF in the following table, which are assessed in the overall context of both competing unlisted property funds and relative to other asset classes.
- Diversification risk** is assessed as low given the portfolio allocation to a number of property sub-sectors; geographic spread across four states and the diversity of tenants.
- Leasing risk** is assessed as low with the Fund having exposure to a wide range of tenants across the properties (overall 99% occupancy).
- Capital gain vs. income risk** is deemed medium given that property funds have a higher element of capital risk than some other asset classes (e.g. cash or bonds).
- Gearing risk** is deemed medium in comparison to other investment classes (including listed property trusts), where the underlying gearing of the CorVal funds in CVPF's portfolio will be in the range 35%-45%.
- Interest rate risk** is assessed as medium/low risk, given 75% of debt is hedged.

- Liquidity risk** - due to the Fund's significant exposure to illiquid assets (property funds and direct property) plus that the monthly withdrawal facility is limited and at the discretion of the RE, the Fund's liquidity risk is deemed as high.
- Overall, Lonsec considers the **risk assessment** for CVPF to be **low/medium**

	LOW	MED	HIGH
OPERATIONAL EARNINGS			
BUSINESS RISK	●		
LEASING RISK	●		
CAPITAL GAIN VS. INCOME RISK		●	
DIVERSIFICATION RISK	●		
MARKET VOLATILITY RISK	●		
FINANCIAL			
LEVERAGE (GEARING) RISK		●	
REFINANCING RISK	●		
INTEREST COST / HEDGING RISK		●	
CURRENCY RISK	●		
COUNTERPARTY RISK	●		
DISTRIBUTION SUPPORT LEVEL	●		
MANAGEMENT & OTHERS			
KEY PERSON/EXPERIENCE RISK	●		
INDEPENDENCE RISK		●	
RELATED PARTY TRANSACTION RISK		●	
LIQUIDITY 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.

RF CorVal Property Fund

ISSUE DATE: 24-04-2024

Performance

- CorVal has a good track record in managing unlisted property trusts in the Australian market since 2009.
- The Fund had a total return (after fees) of 7.42% p.a. over the two-year period to March 2024 and an income return of 4.62% p.a. over the same period. Over the twelve-month period to March 2024, the Fund has a total return (after fees) of 4.33% and an income return of 3.85%. Lonsec notes the Fund has achieved its investment objective of providing a stable quarterly distribution, and further notes that the decrease in capital return growth rate is common across the sector at this time.

Quantitative Performance Analysis Annualised After-Fee Returns as at (31-03-2024)

Performance metrics

	3-Month	6-Month	1-Year	2-Year
INCOME RETURN	0.00	1.27	3.85	4.62
GROWTH RETURN	0.80	0.50	0.49	2.81
TOTAL RETURN	0.80	1.76	4.33	7.42

RF CorVal Property Fund

ISSUE DATE: 24-04-2024

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Lonsec believes that professional financial advisers need informed opinions on the best investment strategies and financial products to provide real value for their clients. To meet this need, Lonsec has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of managed fund products.

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Date prepared

April 2024

Analyst

Michael Elsworth

Release authorised by

Peter Green

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