PROPERTY UPDATE

Ascot Capital LIMITED

SUMMER 2017

www.ascotcapital.com.au

Note to our Investment Partners

Happy New Year! We reviewed a lot of opportunities, sourced both off-market and on market, during 2016 but stuck true to our philosophy of striving to deliver only quality opportunities that meet our stringent investment requirements. To this end, we completed two quality acquisitions in the last quarter that we had been working on for some time. These are detailed below.

Leases with minimal tenant risk and predictable cash flows are great long term investments. Ascot Capital Limited continues to search for these opportunities. Competition for these is fierce and we need to work on quick innovative bid structures and deep relationships to conclude them.

We thank our investors for advising of their commitment promptly to invest in our opportunities when offered. This is crucial to enable us to compete against competitors who transact on a nimble basis.

Investors in existing funds will have received their annual reports which demonstrate Ascot Capital Limited's ability to deliver excellent results in an environment of slower economic growth and low interest rates. The balance of appropriate risk versus return has never been more crucial. These results have been achieved through proactive asset and treasury management. We continue to review each investment's debt / return profile to implement risk mitigation strategies and reduce our debt risk where appropriate. We continue to look to hedge portions of our interest rate exposure.

Latest Transactions

The team at Ascot Capital has just concluded two new investment transactions - 7-9 Park Terrace, Salisbury SA and 62 Northbourne Avenue, Canberra ACT have both settled.

7-9 Park Terrace, Salisbury, SA

Ascot Capital executed contracts of sale after completing a satisfactory due diligence process to acquire this near new, state-of-the-art, two level quality medical consulting and office building leased to the South Australian Government.

Purpose built in 2012, and 100% leased to the Minister for Mental Health & Substance Abuse on a long term 15 year lease, it is located on one of the main commercial strips in the suburb of Salisbury which is a major regional centre in Adelaide. It is close to amenities and public transport. The area itself is undergoing significant change with the upgrading of the nearby shopping centre. It is anticipated and forecasted to provide an internal rate of return of 11% and average ROE of 9.42% over a 10 year term.

Latest Transactions CONT...

62 Northbourne Avenue, Canberra, ACT

Ascot Capital executed contracts of sale after completing a satisfactory due diligence process to acquire this A-Grade Office Building with a new 10 year lease to the Commonwealth of Australia in a prime location in the heart of the Canberra CBD.

The 10 storey building with 5 star NABERS Energy Rating, was extensively refurbished in 2008 and is 100% leased to the Department of Infrastructure and Regional Development on a new 10 year lease expiring in 2026. Canberra is a market that is starting to witness an increase in leasing activity which will place downward pressure on the current high vacancy and incentive levels making this an attractive long term investment. It is anticipated and forecasted to provide an internal rate of return of 11.12% and average ROE of 10% over a 10 year term.

Burton Update

Investors of this existing fund are set to benefit from the listing of Inghams on the ASX. This will further enhance the value of this property which has already enjoyed significant capital growth since it was acquired in 2014. In light of the growth and taking cognisance of the long WALE and predictable cash flow, we will be, subject to final banking approvals, refinancing this asset. This is expected to be completed by the end of February and should result in a return to each investor of approximately 26% of their invested equity. We entered into a 6 year interest rate swap on the asset in December which will further dampen return volatility in the years ahead.

Investment Philosophy -

Insights to current investment environment

The views of the world's leading economists are best described as schizophrenic, some continue to remain cautious expecting a continued low inflation/ low interest rate environment and some forecasting higher rates and a better global economy. Our overriding investment focus is on finding properties with strong underlying fundamentals in place with a long weighted average lease expiry (WALE) to quality tenants. If these transactions allow a reasonable debt structure to be negotiated, they should continue to form the core of investors' return orientated portfolios.

Long term returns are closely linked to the underlying fundamentals of a property so certain key attributes are always crucial. Location is very important, the building design must be good with broad tenant appeal, rents at or below market with attractive rent review structures, the quality of the tenant is essential, the sector it sits in and the long term future potential of the land for alternative or improved uses all form part of the decision making process. Being able to balance the appropriate risk/ return relationship has never been more important and drives our philosophy of seeking properties that not only offer a secure and reliable income

Investment Philosophy CONT...

stream but have real potential for significant long term capital growth. It is also important to make sure that we have access to market reviews in the event we see inflation (and therefore interest rates) move higher.

CBD office markets are exhibiting unusual dynamics with some performing strongly at present, such as Sydney and Melbourne, and others at different stages of their cycles with high vacancy rates and lower growth prospects in the short term. This shows the importance of looking through these cycles to the assets core fundamentals. The Industrial sector is seeing a growth in demand from logistics with the advent of online retailing. This sector has been re-rated in the past 12 – 18 months and is expected to remain robust with rents considered close to the bottom of the cycle and the potential for continued yield compression. With an ageing population and increasing demand for health services, the health sector is unearthing some interesting investment opportunities that weren't as prevalent previously. These have become well bid for and this augurs well for our recent investment in Adelaide. These sector specific thematics are also increasingly on our radar. The hospitality JV with Facilimate continues to perform strongly, we anticipate adding to our hotel portfolio this year. We believe the tourism thematic has a long way to run. Where we have other opportunities to partner with sector expertise on backing a thematic, we will take advantage of our relationships to do so.

Thank you again for your support and we look forward to discussing a few more interesting opportunities with you over the course of the next six months.

IT Upgrade

We are currently in the process of implementing a syndicate administration system which will manage the records for all of our syndicates. This system will capture all data and relevant information in a central database. There will be an interface available which will allow investors to access their personal information including distribution statements, investment reports, copies of unit certificates etc. We are planning for this to be in place by the end of the year.

Contact the Ascot Capital Team

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

(L-R) Gregory King, Wendy Wilson, Kasey Butcher, Peter Agostino, Fiona Slade, David Van der Walt

Ascot Capital Limited

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AFSL No. 345050

+61 8 6389 3900

37 Stirling Highway
Nedlands WA 6009

www.ascotcapital.com.au

greg@ascotcapital.com.au
david@ascotcapital.com.au
peter@ascotcapital.com.au
wendy@ascotcapital.com.au
fiona@ascotcapital.com.au
kasey@ascotcapital.com.au