

# Product Assessment

Report data as at 30 Apr 2018  
 Rating issued on 05 Jul 2018

## Partners Group Global Real Estate Fund (AUD)

### VIEWPOINT

The Fund, managed by Swiss-based Partners Group Holding AG (Partners Group), provides investors with exposure to a diversified portfolio of private real estate and related investments with monthly liquidity. Notwithstanding the Fund's recent inception, Zenith's conviction in the Fund is premised on the strongly regarded investment team coupled with a well-structured and detailed investment process.

Partners Group is a global private markets investment management firm with over \$US 74 billion (as at 31 May 2018) in Funds Under Management (FUM) in private equity, private debt, private real estate and private infrastructure. As at the same date, Partners Group managed approximately \$US 12.9 billion in real estate investments. Although the underlying investment strategies of the Fund are currently operated by Partners Group, their amalgamation into a single Fund represents a new strategy. The Fund, which was launched in May 2017, was seeded with \$A 20 million from Partners Group.

Partners Group's investment team is comprised of a number of discrete groups, each responsible for a section of the investment process. The Global Investment Committee (GIC) governs the firm's overall investment approach and oversees the final investment decisions for all private market investments. Zenith has met with a number of members of the GIC on multiple occasions and rates them highly given their extensive experience and track record in private market investing.

The GIC is supported by four Specialised Investment Committees (SIC) which are responsible for investment pre-selection in their respective private market segments, and for approving investments up to a certain amount. Each SIC receives investment proposals from three respective investment teams that specialise in the various private market segments. These four respective teams are referred to as Specialist Investment Teams (SIT). As at 31 May 2018, there were over 750 investment professionals working across the three SITs. Zenith rates the Fund's investment team highly and believes it is well resourced with high calibre investment personnel across its multiple divisions.

The Fund predominantly invests in a mix of real estate primaries, secondaries and direct deals. An allocation to liquid strategies, which includes private debt, listed Real Estate Investment Trusts (REITs) and cash provides investor liquidity in the Fund. Partners Group makes investment decisions using a three-layer approach, starting with a top-down allocation strategy, followed by a bottom-up valuation investment selection process and finally a capital commitment strategy. The top-down process allocates the Fund's capital across regions, investment types, value creation strategy and property type. The bottom-up process identifies private market investments that contain sufficient quality and value to be included in the Fund's portfolio. The commitment strategy manages and controls the use of cash in the Fund and meet the requirements on the liquidity facility.

To extract maximum value from each investment, Partners Group employs an Asset Management team which actively drive value creation. The level of Partners Group's involvement is contingent on the opportunity for operational improvements and can range from appointing an interim full-time executive to developing operational improvement plans with local operators. In Zenith's opinion, the Asset Management team is a key point of differentiation in a fund of this type and creates tangible value-add for investors.

Given the Fund can invest in other funds, this may result in possible multiple layers of fees and expenses for investors. Despite the specialised nature of the Fund's strategy, Zenith believes the overall fee structure for the Fund is relatively high.

### FUND FACTS

- Provides exposure to a diversified portfolio of private global real estate and related investments
- Monthly liquidity (subject to 5% per quarter redemption limit at the Master Fund level)
- Currency is 70% hedged back to the \$A

### APIR Code

ETL0480AU

### Asset / Sub-Asset Class

Property  
 Diversified

### Investment Style

Active

### Investment Objective

To provide attractive long-term capital appreciation via a globally diversified portfolio of real estate and related investments.

### Zenith Assigned Benchmark

FTSE EPRA/NAREIT Developed \$A

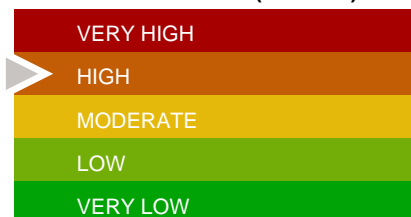
### Net Returns (% p.a.)

	1 yr	6 mth	3 mth
Fund	12.23	6.39	3.82
Benchmark	3.17	2.94	4.44

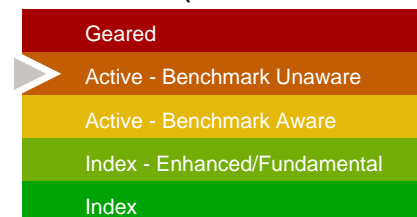
### Fees (% p.a., Incl. GST)

Management Cost: 1.75%  
 Performance Fee: Applied within the underlying exposures on a deal-by-deal basis

#### ABSOLUTE RISK (SECTOR)



#### RELATIVE RISK (FUND WITHIN SECTOR)



#### INCOME DISTRIBUTIONS PER



#### INVESTMENT TIMEFRAME



## APPLICATIONS OF INVESTMENT

### SECTOR CHARACTERISTICS

Unlisted direct real estate investments encompass a range of risk/return profiles depending on the portfolio assets and fund strategy. Typically investment into unlisted real estate exhibits lower volatility than other asset classes and weak returns correlation. This is largely driven by the low liquidity of such assets with either limited opportunities to exit for open ended funds or nil liquidity for closed ended funds. This is in contrast to listed property funds (A-REITs/G-REITs) which in Zenith's view represent a real estate proxy as returns can often be generated by sources other than rent and property values and whose liquid nature exposes them to market trading sentiment thus heightening their correlation to equities.

Real estate strategies can range from stabilised assets to opportunistic real estate development. Stabilised portfolios have existing, tenanted assets and tend to produce low volatility income streams with small to moderate capital growth. Value-add and opportunistic strategies are higher risk, often involving real estate development or assets with delayed or impaired cash flows. It should be appreciated that even within stabilised strategies a wide range of risk/reward scenarios can be manifested. When taking into account portfolio construction issues and asset class classification, unlisted direct property funds are generally considered by Zenith to share the characteristics of direct property ownership while being open to different levels of risk. The asset class is considered to pose moderate to high risk characteristics. Investors should also be aware of the consequences of an allocation to what is an inherently illiquid asset class in their investment portfolio.

### PORTFOLIO APPLICATIONS

Zenith believes private real estate investments provide investors with a differentiated avenue of generating returns compared to listed REITs. Private real estate investing typically generates a return stream that offers diversification for an investment portfolio, given the low level of volatility inherent in private real estate returns, which historically have also been lowly correlated to the returns from listed REITs investments.

Traditionally, private real estate investing has only been accessible to high-net-worth individuals and institutional investors because such investments typically have high minimum investment requirements and are offered in a structure which is highly illiquid. Conversely, the Fund provides retail investors with the ability to access private real estate investments, which requires lower initial investment amounts within a structure that provide potentially greater liquidity. The latter is improved via the Fund's monthly liquidity facility, which Zenith believes is a key competitive advantage relative to traditional private real estate investments, which tend to be managed under more illiquid fixed term structures. However, Zenith notes that the monthly liquidity facility is subject to gating provisions which restrict redemptions to no more than 5% of the Master Fund's shares on issue at the end of the previous calendar quarter.

Zenith believes that the Fund may be used to complement and diversify real estate exposures within an investor portfolio. Given the nature of investing in private real estate, Zenith views the Fund as a growth investment, thus it should be used

within the growth component of an investor portfolio. Investors should consider this Fund with a minimum five-year investment timeframe.

The Fund utilises a feeder fund structure, where the Australian unit trust invests in the offshore Master Trust. Generally, realised gains (losses) and income (expenses) will be realised at the Master Trust level and likely retained within the Australian unit trust in the form of a unit price increase (decrease). The Fund is expected to only realise the capital movement in the unit price of the Master Trust; therefore, investors should anticipate that the Fund will not distribute a significant portion of returns in the form of income. Zenith recommends investors seeking advice regarding the tax implications of a feeder fund structure should see their tax specialist.

## RISKS OF THE INVESTMENT

### SECTOR RISKS

Funds within the "Property - Diversified" sector are exposed to the following broad risks:

**VACANCY RISK:** The risk of a tenant vacating a property, failing to meet their rental obligations or failing to renew a lease can have a detrimental impact on rental returns.

**VALUE RISK:** Property values are influenced by location, supply & demand, rental agreements, occupancy levels, obsolescence, tenant covenants, environmental issues and government or planning regulations. Changes to these drivers may affect the end value of property.

**LEVERAGE RISK:** Investors should be aware that the effects of gearing can magnify gains as well as losses. In a loss scenario this may result in potential impairment of values and forced disposal at a time when markets may not be ideally placed to recoup the equity position.

**STRATEGY RISK:** Real estate strategies can vary from stabilised 'core' strategies which are generally low risk to opportunistic plays on development or distressed assets which can have complex and severe risks associated with them. Potential investors should have a clear understanding of the individual strategies posed by real estate investments.

**MANAGEMENT RISK:** Management risks can encompass a wide range of factors relating to personnel (key man risk), counterparty risk (risk of management not being able to fulfill their duties due to insolvency etc) and skillset (ability to effectively and efficiently carry out strategies).

**MARKET & ECONOMIC RISK:** As is the case with all domestic and global funds, the biggest risk to performance is a sustained downturn in their respective share markets. This risk can be significantly reduced by investors adhering to the Fund's prescribed investment timeframe.

**LIQUIDITY RISK:** This is the risk that a security or asset cannot be traded quickly enough in the market to prevent a loss (or make the necessary profit). When trading volumes are low, sellers can significantly impact the price of a security when attempting to quickly exit a material position.

**SECTOR RISK:** There are a number of factors which may affect the real estate sector, which include the cyclical nature of

real estate values, over-building and increased competition, increases in property taxes and operating expenses, demographic trends and variations in rental income, changes in the appeal of properties to tenants, increases in interest rates, the level of gearing in the property market, and other real estate capital market influence.

**SPECIFIC SECURITY RISK:** This is the risk associated with an individual security. The price of shares in a company may be affected by unexpected changes in that company's operations.

**COUNTRY RISK:** Refers to potential adverse political, economic or social developments affecting the return on an investment in that country. Examples are political instability, recession and war. Any investment in emerging market countries is likely to carry a higher country risk than developed countries.

**CURRENCY RISK:** The risk that fluctuations in exchange rates between the Australian dollar and foreign currencies may cause the value of the fund's investments to decline significantly. In the event the fund is hedged to the AUD, the exposure to currency risk will be significantly reduced.

## FUND RISKS

Zenith has identified the following key risks of the Fund. Although Zenith believes the risks noted are all significant, we have listed them in order of importance. In addition, we have not intended to highlight all possible risks.

**PRIVATE INVESTMENTS RISK:** Private investments may be in entities that are: new, have limited trading track record, whose products are new or are facing significant restructuring. Any forecasts of growth in value of underlying investments have a higher degree of uncertainty than for investments in public markets. There is also the lack of transparent pricing of the underlying assets – these valuations can be based on internal estimates or on historical costs – increasing pricing uncertainties with flow on effects to the Net Asset Value (NAV) of the Fund. Private investments involve establishing exit strategies that depend on a number of events and hurdles being met, some of these are outside the control of private funds.

**VALUATION RISK:** Standards regarding accounting, auditing, reporting and legal conditions may be less stringent in countries where certain investments are acquired. This means that the reported value of such investments may deviate from that which would be reported in countries with more stringent standards.

**COMMITMENT STRATEGY RISK:** The Fund aims to invest substantially all of its available funds as soon as practical which can lead the Fund into over-committing its cash on hand. The level of over-commitment will be determined in light of anticipated cash outflows of the portfolio (drawdowns, withdrawals) and anticipated cash inflows (distributions, applications). Zenith views Partners Group's commitment strategy to be a relatively fair process for the Fund and is comfortable that Partners Group has built a robust system to ensure they manage this risk appropriately.

**LIMITED REDEMPTION RISK:** The Responsible Entity can suspend withdrawals and the payment of withdrawal proceeds during periods where such an action is impossible or would

impact existing unit holders. In addition, the Responsible Entity will restrict redemptions and applications when the calculation of NAV has been suspended by the Master Fund. Net redemptions from the Fund may also create a situation whereby Partners Group is forced to sell underlying investments resulting in the Fund becoming more illiquid for remaining investors.

**LEVERAGE RISK:** The Fund may establish credit lines to borrow up to 25% of its NAV, however, such borrowing is only permitted for the purpose of satisfying withdrawal requests. The increased investment exposure resulting from borrowing may increase the volatility of the Fund's unit price by potentially magnifying gains and losses. Underlying investments may also be highly leveraged. In a loss scenario, this may result in potential impairment of values and forced disposal at a time when markets may not be ideally placed to recoup the equity position.

**DILUTION RISK:** The Fund invests in underlying unlisted investments of differing vintages through time. As the Fund receives new investor flow, the exposure of existing investors to previous vintages will be progressively diluted, whilst the new monies are invested into newer or other vintages. This aspect of the Fund's process may either be to the benefit or cost of Fund performance depending on the performance of the respective vintages.

**TRACK RECORD RISK:** With an inception date of May 2017, the Fund has a limited track record, particularly around the operational aspects of managing a monthly liquidity profile and the implementation of listed private market investments. However, Zenith draws confidence from Partners Group's strong track record in managing the underlying strategies and other funds with similar liquidity structures.

## QUALITATIVE DUE DILIGENCE

### ORGANISATION

Partners Group Holding AG (Partners Group) was founded in 1996 in Switzerland and is headquartered in Zug. It was founded by ex-Goldman Sachs bankers Alfred Gantner, Marcel Erni, and Urs Wietlisbach. The firm was floated on the Swiss stock exchange in 2006 (PGHN:SIX).

Partners Group is a global private markets investment management firm with investment programs across private equity, private debt, private real estate and private infrastructure. The firm manages a broad range of limited partnerships and customised portfolios for institutional and high net worth investors.

In addition to its headquarters in Zug, Switzerland, Partners Group has offices in most of the major regional centres.

As at 31 May 2018, the firm employs over 1055 people. Partners Group's employees are the largest shareholder and effectively control the firm. Partners Group's third-party shareholders are predominantly large institutions.

As at 31 May 2018, Partners Group managed over \$US 74 billion in firmwide FUM and \$US 12.9 billion in private real estate strategies.

### INVESTMENT PERSONNEL

Name	Title	Tenure
Rene Biner	Chair - Global Investment Committee	19 Yr(s)
Alfred Gantner	Partner	22 Yr(s)
Dr. Marcel Erni	Executive Vice Chairman & Chief Investment Officer	22 Yr(s)
Claude Angeloz	Chairman of Private Real Estate	18 Yr(s)
Mike Bryant	Co-Head Private Real Estate	2 Yr(s)
Marc Weiss	Co-Head Private Real Estate	11 Yr(s)
Ron Lamontagne	Managing Director - Direct Real Estate	2 Yr(s)
Reto Munz	Head of Liquid Private Markets	13 Yr(s)

With respect to the management of the Fund, there are four broad groups, each responsible for a different part of the investment process. These groups are as follows:

- Global Investment Committee
- Private Real Estate Team
- Listed Private Market Team
- Portfolio and Risk Management Team

#### Global Investment Committee

The Global Investment Committee (GIC) governs the overall investment approach and is informed of all investment opportunities from an early stage and oversees the final investment decisions for all private markets investments. The GIC comprises 10 of Partners Group's most senior investment personnel and is chaired by Alfred Gantner, who is a co-founder of the business. Zenith has met with a number of members of the GIC on multiple occasions and rates them highly given their extensive experience and track record in private market investing.

#### Private Real Estate Teams

The GIC is supported by three Specialised Investment Committees (SIC). The SICs are responsible for investment pre-selection and deal development within their respective private real estate segments (directs, primaries and secondaries) and for approving investments, subject to the type and size of the deal. Each SIC is comprised of the most senior investment professionals within each respective private real estate segment.

The GIC, as well as the SICs, meet on a weekly basis and are responsible for the Fund's compliance with Partners Group's top-down asset allocation and ensuring that the investment strategy, team composition, track record, relative market positioning, terms and conditions of potential investments have been checked and meet Partners Group standards.

Each SIC receives investment proposals from the three respective investment teams that specialise in the various private real estate segments. These teams are referred to as Specialist Investment Teams (SIT). As at 31 May 2018, there were over 55 investment professionals working across the three SITs. Partners Group intends to continue expanding the

resourcing of the SITs, broadly in line with the growth in their level of FUM and in particular, are looking to build up their capability in direct investments.

Zenith notes that there has been some movement at the higher management levels within the Private Real Estate team. After a three year planning process, in January 2018, Claude Angeloz transitioned from Co-Head Private Real Estate to Chairman while Marc Weiss went from Head of Private Real Estate Secondaries and Primaries to Co-Head Private Real Estate.

Zenith has observed that committee based management structures in large organisations are often subject to cycling amongst members as a way to broaden skill sets and engagement by rotating business leadership roles and responsibilities. Zenith believes that these movements do not represent a loss to Partners Group given that Angeloz will still have oversight responsibilities. Roles are reviewed firmwide on an annual basis to ensure optimisation, however, time spent in roles is usually five-plus years before any move is undertaken. Zenith believes the way in which Partners Group attempts to seek a balance between multi-skilling and team integrity is treated with a high level of discipline.

#### Listed Private Market Team

The listed private market team consists of six investment professionals. This team is responsible for conducting due diligence and idea generation within three key areas:

- Listed Private Real Estate
- Listed Private Equity
- Listed Private Infrastructure

All investments must be approved by Partners Group's listed private markets investment committee, comprised of senior members drawn from other key positions within the firm, which typically convene on a weekly basis for detailed discussions and decision making. The investment committee is involved in transactions from the early stages of the investment process and takes an independent approach when considering proposals. The investment committee members are required to vote at two different stages in the overall investment process and make all material decisions in connection with an investment. The investment committee also seeks to ensure the alignment of decisions with that of Partners Group's overall strategy and market view as determined by the GPIC.

Zenith notes that the listed private market team has built a strong track record within listed private equity and listed private infrastructure investments. However, the team has had less experience with regards to its listed private real estate investments to date. Zenith has become more comfortable with the capability of the listed team, however, we still retain concern over coverage given the size of the team relative to the size of the investment universe, which comprises over 300 stocks.

#### Portfolio and Risk Management Team

The portfolio and risk management team, which comprises 25 quantitative specialists and risk managers, is responsible for the implementation of approved investments independently from the other teams. The team is also responsible for the risk management process of the Fund and its adherence to its defined investment mandate.

Zenith notes that Partners Group has in place a strong



succession planning framework. This is demonstrated through widely dispersed management responsibilities (mitigating key person risk), long-term equity participation initiatives (designed to align the interests of the investment team and the investors) and a dedicated recruitment and staff retention program. All investment staff have significant lock-in through vesting equity participation which is tied into the success of Partners Group. This also provides for an alignment of interests between the investment staff and investors.

Zenith rates the Fund's investment team highly and believes it is well resourced to fully implement and manage its various investment programs. However, Zenith will seek to continue to build conviction with regards to the listed private market team over time.

## INVESTMENT OBJECTIVE, PHILOSOPHY AND PROCESS

The Fund's investment objective is to obtain returns and capital growth over the medium and long-term by investing in various forms of private real estate markets. More specifically, Partners Group expects the Fund to generate net returns of between 7% to 12% p.a. with low volatility and low correlation to listed markets across the different types of private real estate market investments.

The Fund aims to be broadly diversified across the various private real estate market segments comprising primary, secondary and direct investments. To aid in liquidity, the Fund also allocates to liquid strategies, comprising listed REITs, Commercial Real Estate (CRE) debt and cash.

The Fund seeks to generate returns from investing across these broad segments whilst meeting the liquidity requirements for the Fund's monthly liquidity facility. Zenith considers the liquidity facility to be a key competitive advantage of the Fund relative to traditional private real estate investments, which are often managed under more illiquid fixed term structures.

Partners Group makes investment decisions using a three-layer approach, which starts with a top-down allocation strategy, then a bottom-up valuation investment selection process and finally a capital commitment strategy. The top-down process provides a mechanism for allocating the Fund's capital across geographic regions, industry sectors, private market investments and liquid strategies. The bottom-up process aims to identify private real estate investments within each segment that have sufficient quality and value to be included in the Fund's portfolio.

The commitment strategy is a mechanism used to manage and control the use of cash and timing of making investments in the Fund. Partners Group considers commitments and the timings of potential investments and the effect they have on the cash levels of the Fund in conjunction with meeting the liquidity requirements of the Fund.

## SECURITY SELECTION

The investment process commences with the GIC defining investment priorities based on the global economic outlook, the status of financial markets and a qualitative assessment of the current private market landscape. This process is undertaken on a semi-annual basis and assists in identifying the opportunity set for the firm's various private market segments.

The relative attractiveness of primary, secondary, direct investments and private debt is analysed based on criteria such as availability, pricing and the potential of the opportunities within each segment. The GIC also discusses the attractiveness of different geographic regions and investment types. The output of the relative value analysis is then implemented through Partners Group's investment selection and due diligence process.

## Core Private Markets

The investment selection and due diligence process is undertaken collectively by Partners Group's SICs and SITs. The three SICs and SITs that provide investment opportunities to the GIC are noted below:

- Private real estate primaries;
- Private real estate directs;
- Private real estate secondaries; and
- Private listed REITs and CRE debt.

Each SIC and SIT follows a structured investment selection process across the globe which consists of five steps, some of which may occur concurrently. The process starts with proactive deal generation and pre-selection, continues with a thorough two-step due diligence process, and concludes with the execution and subsequent monitoring of an investment.

Zenith believes that the sourcing of opportunities within private markets is a competitive advantage. We believe that Partners Group has a strong record of sourcing deals and due to its high profile within the industry, whereby they are often approached at early stages of a deal marketing program.

In its role as an investor and advisor to investments across the private market spectrum, Partners Group is well placed to gather and combine information from each of these sources. Through the benefits of vertical integration, Partners Group has access to proprietary property assets information, which would not generally be available in the public domain. The private debt and bank markets are another source of information for a number of the underlying strategies. This information is stored in Partners Group's proprietary database where more than 3,000 properties globally are monitored. Partners Group proactively creates transaction ideas based on the information stored in the database.

The two-step due diligence process involves a combination of qualitative and quantitative analysis and will generally be based on the following:

- Reports from third parties such as consultants, accountants, lawyers, and investment partners
- Meetings with the management team
- Onsite visits
- Reference calls with parties related and unrelated to the investment target (such as independent industry experts)
- Tax and legal analysis by internal and external experts

Proposed investments are presented to the GIC by each respective SIC and these are selected on the basis of relative value against other opportunities, projected cash flow and requirements. The execution of approved investments is conducted independently by the portfolio and risk management team.

Post investment, each SIC and SIT continues to monitor the

investment via a combination of update calls, visits, advisory board participation and benchmarking performance. Partners Group seeks to maximise value through analysis of both underlying fund managers and assets.

Value creation plans relate to management's focus on the determination of sources of anticipated future gains. These value creation plans are also compared to historical performance in order to verify feasibility or outline major changes in strategy.

Partners Group also assesses the value creation potential by analysing the underlying portfolio assets. The key is to determine to what extent the fund manager has executed its strategic investment plan and how this impacts the timing and feasibility of exits and the additional gain associated with such exits.

### Listed Private Markets

The investment selection process for liquid private markets is broadly similar to that for core private markets. The listed private markets investment committee initially votes on whether potential investments proceed to the detailed due diligence stage of the process. The due diligence stage involves detailed modelling of each security utilising standardised templates within each respective asset class, promoting consistency of process.

Post the completion of detailed due diligence by the listed private markets team, the investment committee determines whether an investment is approved or declined for inclusion in the portfolio. Portfolio investments continue to be monitored on a regular basis by both the team and investment committee.

Zenith notes however that whilst the Listed Private Markets team shares insights and information with the Core Private Markets team from a top-down perspective, information exchange is prohibited at a bottom-up level due to regulatory requirements.

Zenith believes Partners Group's security selection process is well structured and detailed, taking full advantage of the deep resourcing of its investment team.

### PORTFOLIO CONSTRUCTION

The Fund is managed in accordance with a Strategic Asset Allocation (SAA) which is determined by the Relative Value Committee (RVC), with input from the firm's investment professionals. In addition, Partners Group's macroeconomic research team regularly analyses long-term macroeconomic trends and correlations between different markets and their potential effects on the Fund.

The long-term target allocation weights for the Fund are:

- Investment Types: 20% in primaries, 25% in secondaries, 35% in directs and 20% in liquid strategies.
- Geographic Regions: 40% in Europe, 30% in North America and 30% in Asia and Rest of the World.

While these are the long-term target allocations, Partners Group uses relative value analysis to identify areas (investment types, financing stages and geographic regions) with the greatest investment potential. As such, it is expected at any given point in time, the Fund's actual allocations may deviate from the long-term target.

Once the most attractive private market segments have been determined by the relative value analysis, Partners Group can then allocate capital to particular investment opportunities within the established allocation ranges that are defined as per the Fund's SAA.

"Investment level steering" is a term that Partners Group uses to describe the continuous process of adjusting the commitment level (i.e. capital that the Fund is committed to deploying, either existing or in the future, for particular private market investments) of the Fund, with the view to maximising private markets exposure over time subject to liquidity considerations.

The portfolio and risk management team uses a sophisticated, proprietary model to forecast the cash flows associated with the firm's private markets investments. Based on this analysis, Partners Group estimates the expected risks of a private market investment and makes the necessary changes to manage the levels of those risks. In particular, the cash flow forecasting is used on a rolling 12-month basis to determine the number of commitments and investments that are determined to be required to achieve the desired level of invested capital or "investment level."

This cash flow management strategy may involve a degree of over-commitment, which is typically necessary to build and maintain a full investment level. Over time, should there be any liquidity issues arising from an over-commitment strategy, these may be addressed through temporary credit facilities or a reduction of portfolio investments.

The Fund is 70% hedged in A\$, with the hedge rolled on a quarterly basis by the portfolio and risk management team. Zenith notes that the hedge ratio of 70% is arbitrarily set and we would prefer to see greater robustness in the setting of the hedge ratio.

Overall, Zenith believes Partners Group's portfolio construction approach follows a consistent and transparent process. We also note that the Fund's cash flow management strategy should provide it with a distinct competitive advantage relative to traditional private real estate investments.

### RISK MANAGEMENT

Portfolio Constraints	Description
Private Real Estate Primaries	0% to 40%
Private Real Estate Secondaries	5% to 45%
Private Real Estate Direct	15% to 55%
Region - North America	10% to 50%
Region - Europe	20% to 60%
Region - Asia Pacific/Rest of World	10% to 50%
Liquid Strategies	0% to 30%

Risk management is an integral part of the Fund's investment process and is addressed in a number of ways.

At the investment selection stage, the detailed level of research and due diligence undertaken by the SICs and SITs prior to investment serves to manage investment-specific risk. The multi-committee decision making process also ensures that a

wide range of issues is addressed and debated prior to any investment decision. Post-execution, each investment is closely and regularly monitored.

The portfolio and risk management team is responsible for quantitative measurement and management of portfolio risks of the Fund to ensure adherence to investment guidelines. Partners Group's investment risk control activities are based on proprietary quantitative models and stringent control processes.

There are regular risk reports generated that are designed to monitor and evaluate risks associated with the underlying investments and the portfolio in general. Such reports include; views on regional allocations and concentration limit breaches.

Zenith views Partners Group's risk management practices as thorough and that it has appropriate systems in place to monitor exposures at both the portfolio and underlying investment level. We also hold a favourable view on the independence of the portfolio and risk management team and their integration within the overall investment process.

### **ADMINISTRATION AND OPERATIONS**

The Master Fund may charge a redemption fee of 5%, which will be charged by the Fund's Responsible Entity via a 5% sell spread in exceptional circumstances.

The Master Fund provides a monthly liquidity facility subject to gating that restricts redemptions to no more than 5% of the Master Fund's shares on issue at the end of the previous calendar quarter.

The Responsible Entity may suspend withdrawals from the Fund should the Fund's assets become illiquid.

#### **Operations**

Partners Group has a capable team and written operational procedures with guidelines and control systems that ensures that trades/deals are correctly booked and accounted for.

The control system is monitored by the Partners Group's internal audit team.

#### **Service Providers**

The service providers to the Fund are:

##### *Administrator*

Link Fund Solutions

##### *Custodian*

JPMorgan Chase Bank, N.A. (Sydney Branch)

##### *Responsible Entity*

Equity Trustees Limited

Service Providers (Master Fund)

The service providers to the Master Fund are:

##### *Investment Adviser*

Partners Group AG

##### *Custodian*

MM Warburg

#### *Auditor*

PricewaterhouseCoopers

#### *Legal Advisors*

Elvinger, Hoss & Prussen

Zenith prefers simple structures, where the investment manager acts with the same fiduciary responsibility as a trustee. We recognise that this is not always practical but highlight that there are a number of parties involved in the operation of the investment objectives. There may be times when the interests of all those involved are not aligned.

#### **Pricing**

For the Master Fund, the value of each share is determined by the Administrator as of the close of the last business day of each calendar month and is usually available on the 25th calendar day of the next month. Different securities are valued according to the availability of pricing information. Cash and cash equivalents are brought into the books at the full amount. For listed securities, the closing mid-price is used.

For more illiquid investments Partners Group has developed methods to perform valuations.

The Master Fund's holdings of direct investments are initially brought onto the books of the Master Fund at cost. Thereafter, valuations attributed to these assets are ascribed by Partners Group, in accordance with the valuation process mentioned below.

For self-valuations, Partners Group has established (and documented) a monitoring and valuation process based on fair valuation principles in accordance with International Financial Reporting Standards (IFRS) and United States Generally Accepted Accounting Principles (US GAAP), which is annually discussed and approved by the auditors of products managed by Partners Group. With regards to Partners Group external audit process, the external auditor for the Master Fund, PricewaterhouseCoopers S.à r.l, is responsible for performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation.

Zenith highlights the potential conflict of interests in a manager generating self-valuations. This is a blanket caution, but we consider the process at Partners Group to be sufficiently rigorous given its extensive track record, wide client base and the independent scrutiny from external auditors.

In the risk section, we highlight the issue with valuations of real estate assets and entities based in countries using different accounting standards. While the Fund and the Master Fund prepares accounts using IFRS and US GAAP, the inputs may not be to the same standard.

#### **Transparency**

Partners Group provided Zenith with the documentation that we have requested. This has included amongst other things the provision of a completed due diligence questionnaire, offering documents and previous audited accounts. Zenith has

also interviewed the Fund's senior management as part of this Fund review.

**Personal trading**

Partners Group has strong rules regarding allowing personal account transactions alongside client orders. Personal account trades must be approved by Compliance prior to execution to ensure that there is no conflict of interest with any Partners Group fund or client account.

**Compliance**

Partners Group has a compliance team to oversee and ensure compliance with the laws, regulations, and obligations applicable to Partners Group in various jurisdictions. Each Partners Group office has an appointed regional compliance officer who is responsible for compliance in the relevant regions. Partners Group's Head of Group Compliance is Tracy Diamond, senior legal counsel and senior vice president of the firm. She is responsible for overseeing general compliance matters. She leads a team of 12 regional compliance officers and reports her findings on compliance related matters directly to the firm's general counsel.

EQT has lodged a compliance plan with ASIC for the Fund, which describes the procedures used by EQT to comply with the Corporations Act and the Constitution of the Fund. Each year the compliance plan for the Fund is audited and the audit report is lodged with ASIC.

**INVESTMENT FEES**

The Fund has a management cost of 1.75% p.a. of Net Asset Value (NAV). The management cost of the Master Fund is rebated to the Fund, so that investors are not paying Partners Group twice for managing their assets.

There are no performance fees payable by the Fund; however, there are performance fees payable by the Master Fund as follows:

- Direct investments: 20% where the Internal Rate of Return (IRR) is >8%
- Secondary investments: 15% where the IRR is >8%
- Direct debt: 10% where the IRR is >4%

As the Master Fund can invest in a range of other unlisted private real estate funds, this may result in a possible double or, in some instances, triple layer of fees and expenses for investors. Investors in the Fund will indirectly bear the management and advisory fees charged by the investment managers of the various private real estate and fund of private real estate funds in which the Master Fund invests.

The Master Fund may charge a redemption fee of 5%, which will be charged by the Fund's RE via a 5% sell spread in exceptional circumstances. There is no buy spread applicable to the Fund.

Zenith notes that the fees charged are on an invested funds basis as opposed to committed funds for traditional private market investments. Zenith favours this model and views it as best practice. We are also strongly in favour of the management cost structure being based on net asset value rather than total assets as this can lead to the temptation of seeking higher geared funds to generate higher fees.

Despite the unique nature of the Fund's strategy and a reduction in management fees from 1.90% of NAV in November 2017, Zenith believes the overall fee structure for the Fund is high. However, we note that the level of costs charged are more reflective of those global direct property strategies we have observed in the past.

Fees Type	Fund	Sector Average (Wholesale Funds)
Management Cost	1.75% p.a.	1.03% p.a.
Description		
Performance Fee	Applied within the underlying exposures on a deal-by-deal basis	



**PERFORMANCE ANALYSIS**

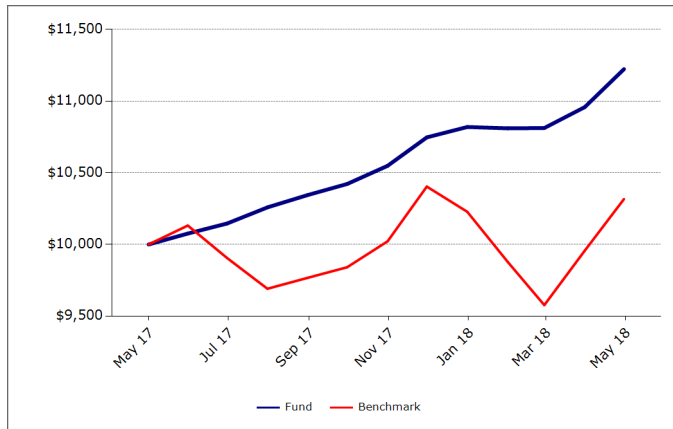
Report data: 30 Apr 2018, product inception: May 2017

**Monthly Performance History (% , net of fees)**

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC	FUND YTD	BENCHMARK YTD
2018	-0.08	0.02	1.35	2.42									3.73	0.87
2017					0.76	0.69	1.11	0.84	0.74	1.22	1.88	0.67	8.19	2.28

Benchmark: FTSE EPRA/NAREIT Developed \$A

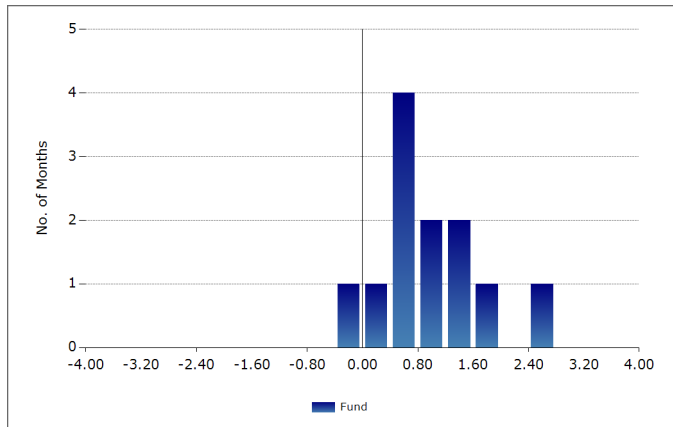
**Growth of \$10,000**



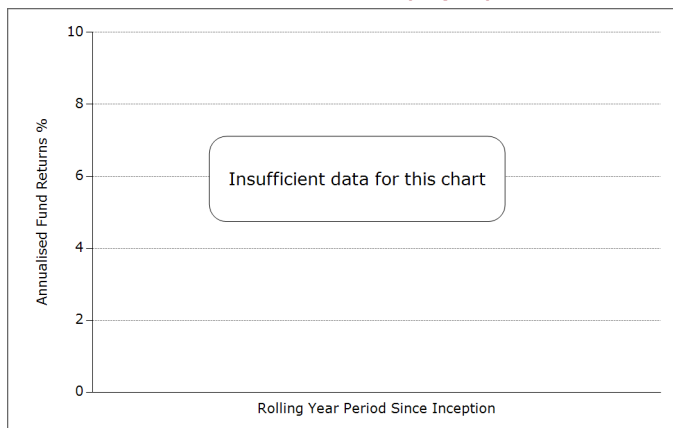
**ABSOLUTE PERFORMANCE ANALYSIS**

Return	Incpt.	1 yr	6 mth	3 mth
Fund (% p.a.)	12.23	12.23	6.39	3.82
Benchmark (% p.a.)	3.17	3.17	2.94	4.44
Ranking within Sector	Incpt.	1 yr	6 mth	3 mth
Fund Ranking	1 / 2	1 / 7	1 / 7	1 / 7
Quartile	1st	1st	1st	1st
Standard Deviation	Incpt.	1 yr	6 mth	3 mth
Fund (% p.a.)	2.33	2.33	3.20	3.40
Benchmark (% p.a.)	9.06	9.06	11.44	11.18
Downside Deviation	Incpt.	1 yr	6 mth	3 mth
Fund (% p.a.)	0.08	0.08	0.11	0.00
Benchmark (% p.a.)	4.52	4.52	5.05	4.98
Risk/Return	Incpt.	1 yr	6 mth	3 mth
Sharpe Ratio - Fund	4.50	4.50	1.72	1.00
Sortino Ratio - Fund	130.72	130.72	51.08	

**Monthly Histogram**



**Minimum and Maximum Returns (% p.a.)**



Investors should note that for consistency purposes Zenith benchmarks all global diversified property funds against the FTSE EPRA/NAREIT Developed \$A Index. All performance, consistency and Risk/Return data is referenced to the Zenith assigned benchmark.

All commentary below is as at 31 May 2018.

The Fund targets absolute returns of 7% p.a. to 12% p.a. on a net of fees basis, with low volatility and low correlation to listed markets across the different types of private real estate market investments.

Given the recent inception date of the Fund, the history of performance is too short to make any definitive conclusions. However, we note that returns to date have exceeded the target objective.

## RELATIVE PERFORMANCE ANALYSIS

Alpha Statistics	Incpt.	1 yr	6 mth	3 mth
Excess Return (% p.a.)	9.06	9.06	3.45	-0.62
% Monthly Excess (All Mkts)	50.00	50.00	50.00	33.33
% Monthly Excess (Up Mkts)	14.29	14.29	0.00	0.00
% Monthly Excess (Down Mkts)	100.00	100.00	100.00	100.00
Beta Statistics	Incpt.	1 yr	6 mth	3 mth
Beta	0.21	0.21	0.26	0.27
R-Squared	0.68	0.68	0.86	0.77
Tracking Error (% p.a.)	7.26	7.26	8.56	8.37
Correlation	0.82	0.82	0.93	0.88
Risk/Return	Incpt.	1 yr	6 mth	3 mth
Information Ratio	1.25	1.25	0.40	-0.07

All commentary below is as at 31 May 2018.

Zenith seeks to identify funds that can outperform in over 50% of months in all market conditions, as we believe this represents consistency of manager skill.

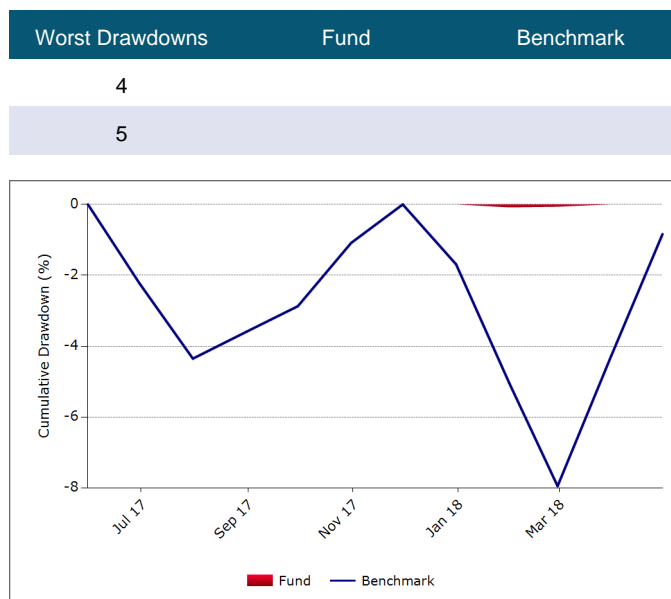
Given the recent inception date of the Fund, the history of performance is too short to make any definitive conclusions. However, given the nature of the Fund's investments, Zenith would expect the Fund to generate the majority of outperformance versus public markets in down markets. This will be primarily due to the presence of valuation lag inherent between private and public markets.

## DRAWDOWN ANALYSIS

Drawdown analysis assesses the relative riskiness of a Fund versus the benchmark, in reference to capital preservation. The maximum Drawdown is recorded as the percentage decline in the value of a portfolio from peak to trough (before a new peak is achieved). All Drawdown analysis is calculated commencing from the inception date of the Fund in question, and Drawdown analysis for the Fund and benchmark(s) are calculated independently. That is, the largest drawdown for the Fund and benchmark(s) will not always refer to the same time period.

Drawdown Analysis	Fund	Benchmark
Max Drawdown (%)	-0.08	-7.95
Months in Max Drawdown	1	3
Months to Recover	2	-

Worst Drawdowns	Fund	Benchmark
1	-0.08	-7.95
2		-4.35
3		



All commentary below is as at 31 May 2017.

Given the recent inception date of the Fund, the history of performance is too short to make any definitive conclusions.

Zenith expects that the Fund will exhibit materially lower drawdowns in comparison to our listed sector market benchmark as a consequence of the private market exposure.

## INCOME/GROWTH ANALYSIS

Investors should be aware the Fund does not target a specific level of income returns. The Fund typically distributes income annually (June).

Due to the generally illiquid nature of the Fund's underlying investments and long investment horizons associated with private real estate investing, Zenith expects the Fund's portfolio turnover to be low. As such, Zenith anticipates the Fund will generally have a larger proportion of long-term capital gains (more tax effective) versus short-term capital gains, an attribute which would particularly suit individuals on higher marginal tax rates.

## REPORT CERTIFICATION

Date of issue: 5 Jul 2018

Role	Analyst	Title
Author	Dugald Higgins	Head of Property & Listed Strategies
Sector Lead	Dugald Higgins	Head of Property & Listed Strategies
Authoriser	Bronwen Moncrieff	Head of Research

## RATING HISTORY

As At	Rating
5 Jul 2018	Recommended
28 Jul 2017	Recommended
6 Jul 2017	Not Rated - Screened Out

As At	Rating
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Last 5 years only displayed. Longer histories available on request.

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