

AUSTRALIAN

RESEARCH

PROPERTY INVESTMENT RESEARCH

Peet Werribee Land Syndicate

+

March 2016

A residential land sub-division syndicate in Werribee, Melbourne

Contents

1. Overview	2
2. Fund Overview	4
3. Property	10
4. Investment Analytics	13
5. Management & Corporate Governance	16
6. Past performance	19
Appendix – Ratings Process	20

IMPORTANT NOTICE

Independent Investment Research Administration Pty Limited, trading as Property Investment Research (PIR) has not been commissioned to produce this report. This means that PIR has not received a fee for reviewing and assessing this product. In compiling this report, PIR's views remain fully independent of influence or conflicts of interest. Our team of analysts undertake an objective analysis of the offer and conclusions are presented to senior officers for review.

Disclaimer & Disclosure of Interests

This publication has been prepared by Independent Investment Research Administration Pty Limited (ABN 87 169 890 831), authorised under an Australian Financial Services Licensee (AFSL no. 293655), trading as Property Investment Research (PIR). PIR has not been commissioned to prepare this independent research report (the "Report") and will not receive fees for its preparation. The company specified in the Report (the "Participant") has provided PIR with information about its activities. Whilst the information contained in this publication has been prepared with all reasonable care from sources that PIR believes are reliable, no responsibility or liability is accepted by PIR for any errors, omissions or misstatements however caused. Any opinions, forecasts or recommendations reflects the judgement and assumptions of PIR as at the date of publication and may change without notice. PIR and the Participant, their officers, agents and employees exclude all liability whatsoever, in negligence or otherwise, for any loss or damage relating to this document to the full extent permitted by law. This publication is not and should not be construed as, an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. Any opinion contained in the Report is unsolicited general information only. Neither PIR nor the Participant is aware that any recipient intends to rely on this Report or of the manner in which a recipient intends to use it. In preparing our information, it is not possible to take into consideration the investment objectives, financial situation or particular needs of any individual recipient. Investors should obtain individual financial advice from their investment advisor to determine whether opinions or recommendations (if any) contained in this publication are appropriate to their investment objectives, financial situation or particular needs before acting on such opinions or recommendations. This publication is not for public circulation or reproduction whether in whole or in part and is not to be disclosed to any person other than the intended recipient, without obtaining the prior written consent of PIR. This report is intended for the residents of Australia. It is not intended for any person(s) who is resident of any other country. PIR and/or the Participant, their officers, employees or its related bodies corporate may, from time to time hold positions in any securities included in this Report and may buy or sell such securities or engage in other transactions involving such securities. PIR and the Participant, their directors and associates declare that from time to time they may hold interests in and/or earn brokerage, fees or other benefits from the securities mentioned in this publication.

PIR, its officers, employees and its related bodies corporate have not and will not receive, whether directly or indirectly, any commission, fee, benefit or advantage, whether pecuniary or otherwise in connection with making any statements and/or recommendation (if any), contained in this Report. PIR discloses that from time to time it or its officers, employees and related bodies corporate may have an interest in the securities, directly or indirectly, which are the subject of these statements and/or recommendations (if any) and may buy or sell securities in the companies mentioned in this publication; may effect transactions which may not be consistent with the statements and/or recommendations (if any) in this publication; may have directorships in the companies mentioned in this publication; and/or may perform paid services for the companies that are the subject of such statements and/or recommendations (if any). However, under no circumstances has PIR been influenced, either directly or indirectly, in making any statements and/or recommendations (if any) contained in this Report.

The information contained in this publication must be read in conjunction with the Legal Notice that can be located at <http://www.pir.com.au/Public/Disclaimer.aspx>

For more information regarding our services please refer to our website www.pir.com.au

Peet Werribee Land Syndicate

The Peet Werribee Land Syndicate (the *Syndicate*) is a closed-ended, single-asset fund. Its Responsible Entity is Peet Funds Management Limited (PFML or the *RE*), which will manage the asset together with its associated entities. PFML is a wholly owned subsidiary of the ASX-listed Peet Limited (*Peet* or the *Peet Group*), the largest pure play listed residential land developer in Australia. Peet has a demonstrable track record of managing land syndicates – since the 1980s. More recently, completed syndicates since 2006 have averaged in excess of 23% per annum.

The sole asset of the Syndicate is a residential land sub-division project located at 383 Black Forest Road, Melbourne (*the Property*). This will be purchased from an associated entity of Peet Limited. The RE's plan is to develop the land into a residential estate and sell the resulting lots. The RE estimates the subdivision of land will yield 906 lots that will be developed in 23 stages over seven years. The Gross Realisation Value (GRV) of the project is ~\$197M (including GST).

The project has a planning permit to develop 537 lots. An application has been lodged in December 2015 for the balance 414 lots. The 905 lots sub-division plus one medium density lot excludes 46 lots which will be part of the Quarry buffer. The project is forecast to commence selling in April 2016 with the development to commence in May 2016. Refer to *Property* section for more details.

PIR expects the project to benefit from experienced management, the imminent upgrade of nearby transport infrastructure, and its location in Werribee – a growing, affordable suburb. After reviewing the consultant reports provided together with the PDS, PIR notes that the RE's assumptions are conservative, or in line with, the consultants' estimates. We detail these in the *Property* and *Investment Analytics* sections of this report.

The RE is offering up to 25M units for sale under the offer at A\$1.00 per unit. On application, the initial equity payment is \$0.70 per unit with the balance \$0.30 per unit payable in June 2017. Investors will forfeit their partly paid units if they do not pay the balance \$0.30 within the timeframes specified in the PDS.

The land acquisition price and development costs will be funded through a combination of equity and debt. As such, gearing will increase to a projected maximum of 43% during the development phase.

The RE estimates a pre-tax internal rate of return (IRR) of 15.5%, net of all fees, interest and costs. On balance, PIR considers the Syndicate's risk/return to be typical of recently rated residential land syndicates.

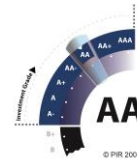
PIR notes that, by their very nature, development projects are riskier than passive 'rent-collecting' commercial property syndicates. The risks include, but are not limited to, losses due to project delays, increasing development costs, slow-downs in lot sales, and adverse market conditions.

Investor Suitability

In PIR's opinion, this product would be best suited to investors who understand the high risk/return relationship of residential development projects and seek to diversify their property portfolio.

The Syndicate is an illiquid investment and investors must be prepared to remain invested for the full term to benefit from expected returns.

Investment Rating



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

Offer Details

Offer Opens	16 March 2016
Min. Investment Period	7 years
Min. Investment	\$5,000
Liquidity ¹	Illiquid
Distributions ²	Commences Jan-18
Initial NTA ³	\$0.66

¹ Initial equity will be progressively returned once lot settlements have commenced (first return of capital expected to be Jan 2018).

² Distributions will comprise a return of original capital, fully franked distributions, and franking credits to the extent available. The RE estimates a total return of \$1.94 including the \$1 of equity invested in the Syndicate.

³ Initial NTA of \$0.66 per unit against \$0.70 initial equity payment. Balance \$0.30 to be paid in June 2017.

Manager Contact Details

Graham Bridle	Graham.Bridle@peet.com.au 08 9420 1189
Peter Dumas	Peter.Dumas@peet.com.au 08 9420 1187

Risk/Return Profile

Capital Return



Income Return



Capital Return Volatility



Income Volatility



Risk to Capital



Tax Effectiveness



Note: This report is based on the Peet Werribee Land Syndicate PDS, dated 2 March 2016, together with other information provided by Peet Limited.

Key considerations

Well-regarded fund manager with a solid track record of managing property funds. Good track record on corporate governance. Peet and its associated entities are experienced land syndicators with a strong track record of returns. The average IRR across the 12 Peet syndicates completed since 2006 has been around 23% per annum.

Peet will co-invest along-side investors and will seek to hold up to 20% of units on issue. This holding will be scaled back in the event that the offer is oversubscribed.

Property is located in designated growth area. The asset is located in the Melbourne suburb of Werribee, part of the Wyndham local government area. Historically, population growth in Wyndham has been strong (6.4% per annum since 2001). Between 2016 and 2036, the population of Wyndham is expected to increase to 384,275 persons or by 83% or represent 133,000 households according to published government statistics.

Planning approval. The Wyndham City Council has issued a planning permit for the development of 537 lots. An application for developing a further 414 lots has been made by Peet in December 2015 and is yet to receive a planning permit. Of the total 951 lots plus one medium density lot, 46 lots (known as the Quarry buffer) have been excluded from the forecast yield for the Property.

Lot sales and development costs. Several assumptions have been made regarding the lot sale price, rate of sales per month, development costs, and cost escalation. Independent consultants (Urbis, Charter Keck Cramer, and Breese Pitt Dixon) confirm the assumptions made by Peet are reasonable.

Peak LVR of 43%. The Syndicate will use debt to partially fund the transaction and development costs. Peak gearing is expected to be around 43% in calendar year 2017. The RE's stated objective is to maintain gearing below the bank's maximum LVR limit of 50%. As is typical for a property development, interest payable will be capitalised and added to the loan principal during the development phase.

Distribution profile. Distributions to unitholders will be paid once lot settlements have commenced subject to the Syndicate having made taxable profits. Distributions are likely to be fully franked although subject to the extent franking credits are available. The PDS forecasts distributions to commence in January 2018 and include a return of capital.

Total return profile. The RE estimates the pre-tax equity IRR to be 15.5%pa. See *Investment Analytics* for details on assumptions and the range of returns expected across scenarios. As such, the RE anticipates a pre-tax total return of \$1.94 including \$1 of equity invested.

Market risk. By their very nature, development projects are higher risk/ higher return than 'rent collecting' commercial property syndicates. Unitholder returns will be highly sensitive to changes in lot sale prices, the rate at which lots are sold, and any increase in development costs. In this Syndicate, securing a planning permit for the balance of the property also presents a risk.

Illiquid investment. Investors must accept that by their very nature, unlisted property funds are illiquid.

Investment term: The life of the Syndicate is estimated to be seven years from issue date, resulting in the Syndicate winding up in 2023.

Fee structure: Fees paid to the RE and development manager is in line with industry peers. Fees equate to 9.3% of the GRV. A majority of the fees (over 95% of fees payable) are earned by Peet only when lot settlements occur and ownership title has passed on to the buyer.

Key Qualitative Criteria (in the context of comparable land syndicates)

Management

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

Product

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

Portfolio

Property Grade/Asset quality	★★★★☆
Property diversification	★☆☆☆☆

Investment Profile

Number of properties	1
Property location	Werribee, Melbourne
Property sector	Residential land subdivision
Peak LVR	43%
Bank covenant	50%

Source and Application of Funds

	A\$M
Equity sought	25.0
Debt	18.0
Total sources of funds	43.0

Financial Forecasts

IRR ¹ (pre-tax, %)	15.5%
Benchmark IRR ² (%)	15.0%
Performance fee hurdle (%)	12.0%
Min. investment period (years)	7
Franking credits ³	Yes
Distribution frequency	Qtrly

¹ The IRR forecast is based on forecast equity cash flows, after all fees and expenses but before taxes. The IRR is highly sensitive to its underlying assumptions, such as the sale price of lots and the number of lots sold per calendar month. For further details, please see Section 4, *Investment Analytics*.

² PIR's expected return range of 15%-20% for sector.

³ The forecast distributions assume franking credits are available over the term of the Syndicate.

2. Fund Overview

Peet Werribee Land Syndicate (the *Syndicate* or *Fund*) is an unlisted unit trust, which has been registered with ASIC as a managed investment scheme. The sole asset of the Syndicate is a residential land sub-division project located at 383 Black Forest Road, Werribee, Melbourne (the *Property*). The RE's plan is to develop the land into a residential estate and sell the resulting lots to deliver profits to the Syndicate. The RE estimates that the life of the Syndicate will be approximately seven years from issue of units to winding up.

The Fund aims to provide unitholders with a blend of fully franked distributions and returns of capital once lot settlements commence and the Syndicate achieves a taxable profit. PIR notes that distributions will vary from period to period, depending on the level of lot settlements and the need to maintain adequate working capital to progress the project.

An investment in this Fund must be considered illiquid. Investors will need to stay invested for the term of the Fund to benefit from forecast returns, although initial capital will be returned progressively from January 2018. Prospective investors must note that this is a land development syndicate and will be higher risk/higher return than a traditional income-producing commercial property syndicate.

The Offer

The Offer is for 25 million \$1.00 Units, payable \$0.70 per unit on Application with the balance \$0.30 per unit payable in June 2017. The Offer will raise \$25.0 million in equity towards the acquisition of the land. The remainder of the land payments will be funded through a debt facility.

Peet Limited intends on acquiring 20% of the Units in the Syndicate unless the Offer is oversubscribed. Settlement of the land will be in July 2016 with an initial land payment of \$18.6 million and the final land payment of \$12.5 million will be payable in June 2017.

The RE estimates that the initial NTA on formation will be \$0.66 per partly paid unit, after adjusting for the upfront costs incurred to set up the Fund.

The purchase of the Property is conditional upon the Syndicate raising \$25M of equity and obtaining a \$18M debt facility (The RE has only received an indicative terms sheet from an Australian Bank). Should this condition be not met, and if the RE determines not to proceed with the offer, then all application monies plus accrued interest will be returned to investors. PIR notes that this is typical for an unlisted property syndicate.

The Asset

The Property, comprising 86.58 hectares, is located at 383 Black Forest Road, Werribee. It is approximately 33 kilometres west of the Melbourne CBD. The Property is located close to vital community infrastructure such as schools, shopping centre, transport, and healthcare facilities. Peet has been involved in developing other estates in the Wyndham Local Government Area and is well positioned to manage the project.

The land is located within the Western Growth Corridor of Melbourne. The Wyndham Local Government Area, in which Werribee is located, has experienced average population growth of 6.8% per annum since 2001. The estimated resident population as at 2014 was 199,715 persons.

The Syndicate is acquiring the Property from a related party. The purchase price is in line with the independent valuation of \$29.8M (ex GST) on standard market terms, and \$31.1M (ex GST) on the land payment terms offered by Peet Limited.

The Property is zoned Urban Growth Zone and forms part of the Black Forest Road South Precinct Structure Plan. Peet has completed the rezoning of the Property and the land currently has a planning permit in place for the first 537 lots. In all, the Project is expected to produce 906 lots and the RE estimates that the total life of the Syndicate from issue of units to completion of all settlements will be approximately seven years. More details in the *Property* section of this report

The RE's assumptions appear to be in line with the cost estimates and opinions expressed by external consultants. We discuss the main assumptions in the *Property* and *Investment Analytics* sections in more detail.

Leverage

The PDS forecasts that the Syndicate will use debt to partially fund the transaction and development costs. As is typical for a property development, interest payable will be capitalised and added to the loan principal during the development phase.

Figure 2 highlights the expected gearing profile of the Syndicate; peak gearing is expected to be around 43% in calendar year 2017. The RE's stated objective is to maintain gearing below the bank's maximum LVR limit of 50%.

The Interest Cover Ratio (ICR) is not relevant for a development fund as interest is capitalised to the loan amount until lot settlements commence. Capitalising interest can significantly increase the risk of loss (and the breach of bank-imposed covenants) in unfavourable market conditions. As such, investors must accept that a fund with exposure to residential land development will necessarily be riskier than a traditional core syndicate.

Under the terms of the loan, Peet needs to achieve 50% of pre-sales of lots of Stage 1 (being 50% of 58 lots) and on an ongoing-basis, achieve a minimum 50 lot sales per annum.

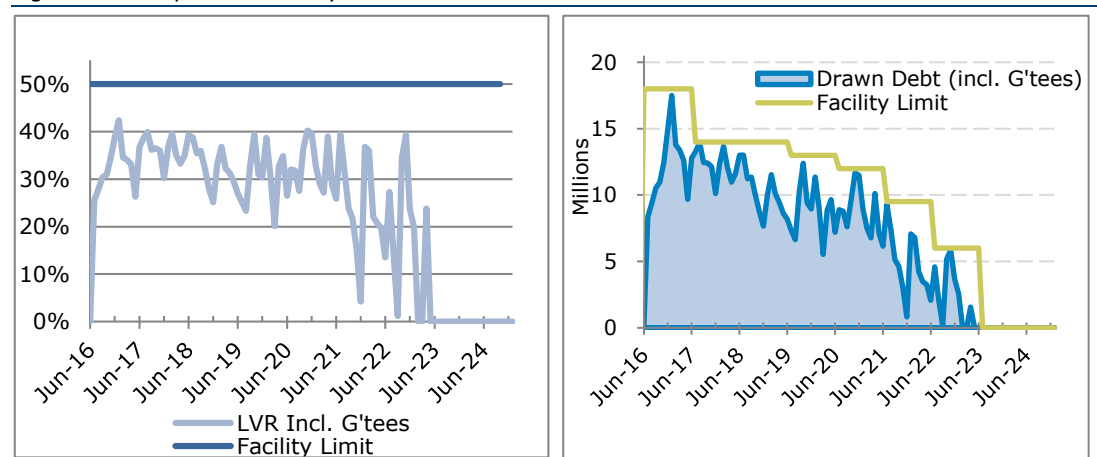
The all-in interest rate for the syndicate development is the 90-day bank bill rate plus 3.0%pa. The syndicate's debt facility will not initially be hedged, and thus, investors must be aware that future distributions may be affected by movements in interest rates.

Figure 1: Fund debt metrics

Facility limit/ term	\$18.0M/ 2 years
All-in cost of debt	90-day BBSY plus 3.0%
Maximum LVR limit*	50% (including bank guarantees)
Initial ICR/ ICR Covenant	not relevant
% hedged/ hedge expiry	not hedged

Source: Peet/ PIR

Figure 2: LVR profile over Syndicate term



Source: Peet/ PIR

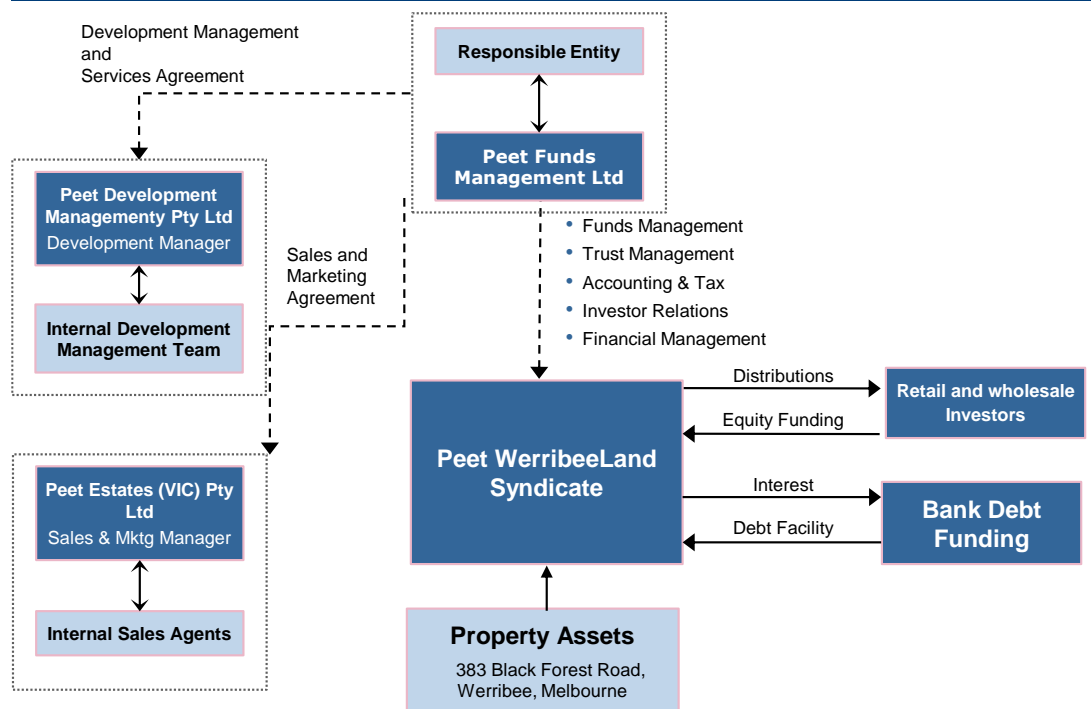
Fund Structure

The Fund is a registered Managed Investment Scheme that will be operated and managed by the Responsible Entity, Peet Funds Management Limited, a wholly owned subsidiary of the ASX-listed Peet Limited.

PIR considers the structure of the Fund as typical of a direct property development syndicate.

Peet has been syndicating land sub-divisions for over two decades and, in PIR's view, has a strong track record of generating positive returns for investors. We discuss this in more detail in the *Management and Corporate Governance* section of this report.

Figure 3: Werribee Land syndicate structure



Source: Peet/ PIR

Liquidity/ Exit strategy

The term of the Syndicate will be approximately seven years from the date units are issued, expected to be June 2016. Following the settlement of all subdivided lots within the Property, the Responsible Entity will seek to wind up the Syndicate, with any remaining profits and capital returned to investors.

At any time during the Syndicate's term, the RE may recommend the sale of the Property if it deems this to be in investors' best interests.

There is no other means of providing liquidity in the Syndicate, although units may be transferred (subject to transfer provisions under the Fund's constitution). Peet does maintain a list of interested buyers for its retail syndicates, which it provides to any syndicate investor looking to sell. It will do so for investors in this Syndicate as well.

Sources and Application of Funds

The Syndicate is structured to minimise up-front costs that would normally reduce the value of an investor's contribution. Lower up-front fees and costs, all other things being equal, improve unitholder returns over the term of the Fund and limit NAV dilution.

The PDS estimates that the initial NTA of the Syndicate will be \$0.66 per partly paid unit. As a development fund, the NTA may vary over the life of the Syndicate, depending on the revaluation of the asset, market conditions, duration of the development, and the development cost expended.

PIR notes that it is common for managers to charge an up-front fee, typically ranging from 1.0%-2.0% of the property purchase price. The capital raising facilitation fee payable to Peet is 3% of the total equity raised (or equating to 2.4% of the land purchase price), which is in line with the fees charged by recent funds rated by PIR. PIR notes that there is no deferral of any fees forecast, although the RE may defer its ongoing fees, if required.

Below, we table the sources and applications of funds for the \$25M equity offer which will be partly paid up to \$0.70 per unit at commencement of the Syndicate with the remaining \$0.30 per unit being called upon in June 2017.

Figure 4: Sources and Application of Funds

	(\$'000)	% of equity raising
Sources of funds		
Equity subscriptions	25,000	
Debt facility	18,000	
Total sources of funds	43,000	
Applications of funds		
Property purchase price	31,050	
Stamp duty and costs	2,078	
Transaction fee (paid to RE)	750	3.0%
Other setup costs	325	
Surplus funds –to be used for working capital	8,797	
Total applications of funds	43,000	
Up-front costs (including stamp duty as a % of equity)		12.6%

Source: Peet/ PIR

Costs over the Term of the Fund

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

Capital raising fee

A one-off capital raising facilitation fee is payable to the RE from the assets of the Syndicate on issue date. The fee is 3% of the targeted \$25M equity raising. PIR notes that the fee is payable as a percentage of equity raised and not gross assets (as would be the norm for traditional non-development syndicates).

Development management and sales fees

The Peet Group (including wholly owned subsidiaries) is entitled to a development management and sales fee of 9% plus GST of the gross sale price of the 906 lots. This fee is payable as and when lots are settled and ownership has transferred to the buyer. Essentially, this fee is for sales and marketing, development management, and the other services that Peet provides to manage the whole project.

Performance Fee

PIR notes that it is normal practice in the industry to charge performance fees should the total returns of the Fund exceed a benchmark return. According to the PDS, the RE is entitled to a two-tier performance fee structure:

- The Tier 1 performance fee payable to the RE equals 20% of any pre-tax profit above 12% pa return (calculated on a simple interest basis).
- The Tier 2 performance fee is payable over and above the Tier 1 performance fee. It represents an additional 20% of all pre-tax profits exceeding 20%pa of the equity raised by the Syndicate.

Based on the financial forecasts provided in the PDS, the RE expects to receive a performance fee of around \$0.7M over the life of the Syndicate. The Syndicate's pre-tax IRR, which the PDS forecasts at 15.5%, is net of all fees and costs.

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 of the cash flow generated after deducting interest costs and ongoing Fund costs, but before unitholder distributions and management fees payable to the RE.

The fees appear high when compared with past development syndicates reviewed by PIR. However, as the manager is a vertically integrated residential land developer, a number of fee streams have been apportioned to various subsidiaries. This results in a high fee structure

being attributed to the manager. Peet also engages its own sales agents and there are no sales commissions paid by the Syndicate. PIR notes that compared to passive commercial asset syndicates, there is a significantly higher cost involved in property development.

The fees are split such that around 4% of all fees are received upfront, 93% represents ongoing fees, and 3% is paid out as performance fees. PIR notes that ongoing fees are paid to the RE (or Peet) only when lot settlements occur and ownership title has passed on to the buyer. PIR notes that the structure of the ongoing fee is a positive, as the development manager will only be paid after receipt of sales proceeds by the Syndicate.

Fees payable to the RE and Peet total 9.3% of the gross realisable value (ex-GST) of the project. This is a standard measure used in development projects. In this case, fees equate to a lower proportion of GRV compared to the Peet Tarneit syndicate previously rated by PIR.

Figure 5: Fees in perspective

Pre-tax cash flow	Equity ('000)	Project cash flow ('000)	Total cash flow ('000)
Cash inflow	25,000	180,525	205,525
Project costs		-124,360	-124,360
Borrowing costs		-3,856	-3,856
Other syndicate costs		-9,586	-9,586
Net cash flow pre fees & tax		42,723	67,723
Fees payable to Peet		-19,223	-19,223
Net cash flow after fees	25,000	23,500	48,500
Fees as a % of Gross Realisable Value (GRV)			9.3%

Source: Peet/PIR

Fund Structure

Responsible Entity (RE)	Peet Funds Management Limited (PFML), a wholly owned subsidiary of ASX listed Peet Limited
Investment Term:	Minimum of seven years commencing in June 2016 with expected wind-up in 2023. The Syndicate must be viewed as an illiquid investment and investors need to stay invested for the full term to benefit from forecast returns.
Issue Size/LVR:	Equity issuance of A\$25M would result in a peak LVR of approximately 43% in January 2017. The land is being acquired for \$31.1M with 60% of the purchase price paid at settlement and the balance becoming payable in June 2017. The debt facility will mainly be used to part fund the acquisition of land and land sub-division costs.
Cost of Borrowings:	The Fund's all-in cost of borrowing will be the 90-day bank bill rate plus 3.0%p.a. The PDS notes that the Fund will be exposed to changes in interest rates.
Security:	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:	100% Melbourne, VIC
Sector Exposure:	100% Melbourne residential property market (sub-market of Werribee in the Western growth corridor).

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:	The PDS states: "Over the life of the Project, unitholders in the Syndicate can expect to receive a capital return of \$0.97 for every \$1.00 invested. For unitholders who hold the investment on capital account a return of capital generally does not give rise to any income tax liability apart from reducing the tax cost base. \$0.03 per unit can be claimed as a capital loss when the units in the Syndicate are ultimately cancelled (upon wind-up). Unitholders may deduct this capital loss against any other Capital Gains Tax event."
Distributions:	The PDS states: "Distributions paid by the Syndicate will be eligible to be franked to the extent of the Syndicate's available franking credits and when received by Australian residents will normally be taxable as income. Individual Unitholders who are residents of Australia should be entitled to an imputation credit in respect of franked distributions received from the Syndicate."

Legal Structure

Wrapper:	Unlisted Unit Trust
Custodian	Peet Funds Management Limited
Offer Document:	The Product Disclosure Statement, dated 16 March 2016.

Returns	The RE's forecast pre-tax IRR is 15.5% per annum net of all fees over the term of the Syndicate
Capital vs. Income:	Based on the forecasts provided in the PDS, for every \$1.00 investors put in, they should receive a \$0.97 return of their principal and \$0.97 in income. In other words, investors would receive \$1.94 for \$1 invested over the term of the syndicate based on assumptions outlined in the report.
Distribution Frequency:	Distributions will be made up of income and returns of capital. The PDS estimates that the first capital return will be in January 2018 and the first distribution will be in January 2019.

Risks	For a more detailed list of the key risks, refer to the <i>Risks</i> section (Section 9) of the PDS.
Property/Market Risk:	Capital at risk depends on a single residential development property located in Werribee, Melbourne. Coupled with a maximum LVR of 50% exacerbates the risks associated with the lack of diversification.
Interest Rate Movements:	Any changes in the Syndicate's all-in cost of borrowings could affect distributable income.
Property specific risks	As the Syndicate is a residential land development project, lower sale price per lot, lower rate of lot sales, cost escalations, and prevailing market conditions could reduce the GRV of the project and therefore reduce unitholder returns.

Fees/Expenses

Capital raising facilitation fee:	Once the Syndicate is operational, a capital raising facilitation fee of 3.0% of the equity raised will be payable to the RE.
Establishment fee:	NIL
Development and sales management fee:	The Peet Group is entitled to 9% of the GST-inclusive gross sale price of each lot sold, payable on settlement of each lot sold.
Performance fee:	The RE is entitled to 20% of the portion of outperformance over a benchmark return on equity of 12% (calculated on a simple interest basis). If a second hurdle (pre-tax profits above a 20% simple interest return on funds raised) is met, an additional 20% of the outperformance will be payable.

3.The Property

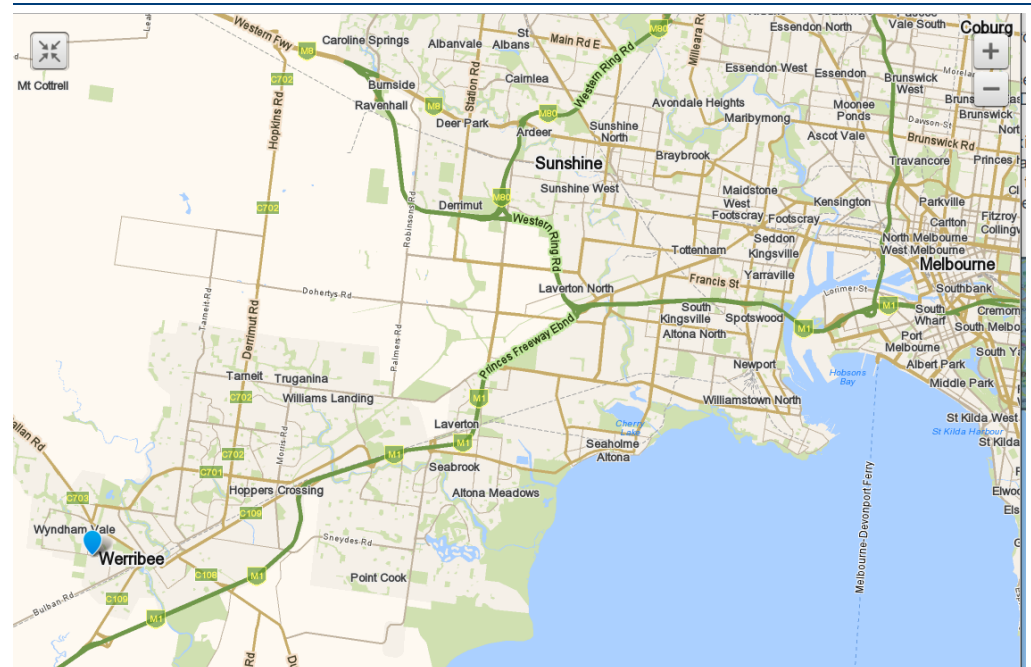
Property location

The Property is a large residential land parcel measuring 86.5 hectares at 383 Black Forest Road, Werribee, Melbourne.

Situated 33km west of Melbourne, the suburb of Werribee forms part of the city's Western Growth Corridor. The Wyndham Local Government Area, in which Werribee is located, has experienced average population growth of 6.4% per annum since 2001.

The Property is well serviced with community infrastructure such as schools, shopping centre, transport infrastructure and healthcare facilities. Peet has been involved in developing other estates in the Wyndham Local Government Area and has the requisite local knowledge to manage the project.

Figure 6: Location map



Source: Whereis.com/ PIR

We summarise a few observations based on the statistics from the Wyndham Council:

- Population of 209,750 residents (as at end 2015). Between 2016 and 2036, the population of Wyndham is expected to increase to 384,275 persons or by 83%.
- There are currently 71,137 households in the City of Wyndham. By 2036, this is expected to increase to around 133,000 households.
- Dwelling vacancy rate currently stands at 5.0%, compared to 4.8% for the greater Melbourne region.
- In 2011 the dominant household type was couples with families, making up 41% of households. Between 2011 and 2036 the age structure forecast indicates a 133% increase in population of retirement age.
- In 2011 the top three industries for employment were employed in manufacturing, retail trade, and Healthcare and Social assistance, representing 33.5% of the labour force compared to 32.5% for the greater Melbourne region.
- Unemployment was recorded as 6.3% in comparison to 5.5% for the greater Melbourne region.
- Based on the 2011 Census estimates, mortgage stress in the City of Wyndham was estimated at 13.1% of all households which is higher than the 11.7% estimate for the greater Melbourne region.

Mortgage Stress is defined as per the NATSEM (National Centre for Social and Economic Modelling) model as households in the lowest 40% of incomes who

are paying more than 30% of their usual gross weekly income on home loan repayments.

PIR reminds prospective investors that these forecasts are based on assumptions as to events that are yet to occur. As such, readers should exercise caution. PIR has adopted the views of the consultants cited in the PDS, but has not independently tested or verified the above forecasts.

Concept design and lot sales activity

Figure 7 shows the concept plan for the proposed subdivision of the land, which may vary slightly as the project commences. The key points to note are:

The concept plan provides for a yield of 906 lots with an average residential lot size of 415 square metres. The yield for the Property is summarised below:

- Planning Permit 1 Area 537 lots. Planning permit has been obtained.
- Planning Permit 2 Area 414 lots. Planning permit submitted for approval.
- Medium Density Site 1 lot
- Less: Quarry Buffer lots excluded (46 lots)

The lots impacted by the quarry buffer have been excluded from the forecast yield for the Property. Development of the area of the Property impacted by the quarry buffer will be dependent on the removal or amendment of the existing 480 metre quarry buffer.

It should be noted that the financial forecasts outlined in section 7 have assumed the area of the Property impacted by the quarry buffer is sold as an englobo lot at the end of the Project.

Figure 7: Concept plan for Peet Werribee Land Syndicate



Source: Peet/ PIR

Key project assumptions

Figure 8 summarises the staged development of lots, expected average price and cost per lot. These assumptions have been adopted in the financial model and have been reviewed by:

- Urbis as the Consulting Economist and town planner;
- Breese Pitt Dixon as the Consulting Engineer; and
- Charter Keck Kramer as the Independent valuer.

Figure 8: Key assumptions underpinning the financial estimates

Assumptions	Adopted in financial model	Comment
No. of lots approved for sub-division	906 excluding quarry buffer lots	Considered reasonable by consulting town planner
Average sale price per lot in today's dollars pre escalation	\$192,350	Sale price is considered to be in line with independent valuer's assumption
Lots sold per calendar month	9-13 lots per month	Adopted rate of sale is more conservative than the independent valuer's assumption
Annual sale price escalation	~3.0% per annum	Considered reasonable by Consulting Economist
Average development cost per lot pre cost escalation	\$89,842	Considered reasonable by consulting engineer. Costs are assumed to escalate by around 2.5% per annum
Construction and pre-sale activity	Commences in May 2016	Considered reasonable by Consulting Engineer and the RE.
Leverage	Maximum LVR limit of 50%. Peak LVR through the project is estimated at 43% in Jan 2017. Peak debt is estimated at \$17.6M.	

Source: Peet/ PIR

4. Investment Analytics

We summarise below the forecasts provided in the PDS. The key points to note are;

- Forecast profit is based on the assumptions previously detailed in the report. PIR considers the assumptions to be either slightly conservative relative to, or in line, with the views expressed in the consultant reports provided together with the PDS;

Forecast returns of capital and distributions are sourced from the RE forecasts shown in the PDS and the RE's financial model.

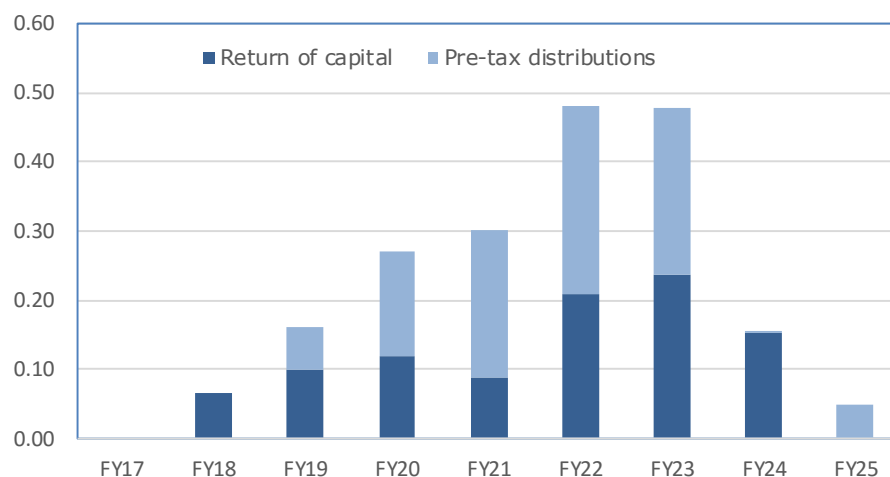
Figure 9: Forecast Income and Distribution Statement

Forecast Income	Forecast for the project (\$'000)
Sales (net of GST)	180,434
Interest income	45
Total income	180,479
Project costs (net of GST)	
Development costs, including landscaping costs, project management, and sales, marketing and company management fee	(109,566)
Property purchase, acquisition costs	(32,969)
Advertising and promotional expenses	(4,695)
Interest expense, borrowing costs	(3,820)
Holding, contingency, administration costs and general expenses	(3,509)
Development manager's performance fee	(672)
Settlement costs on lot sales	(548)
Total expenditure	(155,779)
Forecast profit before tax	24,700
Tax expense	(7,087)
Forecast profit after tax	17,613

Source: Peet/ PIR

Based on the profit forecast for the project, the RE estimates that unitholders will receive \$1.94 for every \$1 of equity invested. Figure 10 shows the forecast break-up of the fully franked dividends, franking credits, and return of capital components.

Figure 10: Estimated pre-tax distributions and return of capital over the Syndicate term



Source: Peet/ PIR

NTA Analysis

The starting NTA is an important consideration. It should be assessed in the context of statutory costs and fees paid to the fund manager, which dilute investors' return over the term of a fund. In this case, NTA is \$0.66, with most of the dilution coming from stamp duty.

Figure 11: NTA breakdown (per partly paid unit basis)

	\$'000
Property – land value ¹	35,288
Fixed assets	165
Total assets	35,453
Borrowings	6,608
Payables – balance of land acquisition (30%) to paid in 2017	12,420
Total liabilities	19,028
Net assets	16,425
Partly paid equity issued at \$0.70	17,500
Less: fund set up costs (including capital raising fee paid to Peet)	1,075
Paid-up equity (first instalment)	16,425
Number of units on issue	25,000
Net tangible assets per partly paid unit of equity (\$)	0.66

¹ includes purchase price of \$31.1M plus capitalised finance costs to date, stamp duty and development costs to date.

Source: Peet/PIR

Expected Future Performance (IRR Sensitivity)

Based on the forecast return of capital and pre-tax unitholder distributions, the RE estimates an Internal Rate of Return (IRR) of 15.5%pa over the term of the Syndicate. PIR believes this level of return is consistent with past syndicates completed by the Peet Group, and generally in line with peers.

Forecast returns are heavily dependent on a number of key estimates. In particular, PIR notes:

- A change in the all-in cost of debt has only a minor effect on the forecast return. As an example, a 2% increase to the average all-in cost of debt results in an expected IRR of 14.8% (or only a 0.7% decline to the base case forecast return). As such, a change in the cost of debt is not expected to be a major issue.
- Small changes to the assumed lot sale prices, development costs per lot, and lot sales per calendar month have a material effect on forecast returns. The tables below highlight the expected return by changing the base case assumptions.

For example, Figure 12 shows that if lot prices were to fall by 5% below the base case at the same time that development costs increased by 5%, unitholders' IRR would be only 7.9%. Therefore, prospective investors must be aware, first, of the higher risks involved in property development, and second, that adverse market conditions could materially reduce expected returns.

Figure 12: Pre-tax, 5-year IRR (after fees) sensitivity analysis – terminal yield

Change to base case cost increase per annum	Change to base case sale price escalations		
	-2.0%	0%	+2.0%
+2.0%	5.9%	12.5%	17.6%
0%	9.8%	15.5%	19.9%
-2.0%	13.2%	17.9%	21.7%

Source: PIR

Figure 13: IRR sensitivity to base case changes on lot sale price and development cost

Change in base case lot sale price			
Change to base case lot development cost	-5.0%	0%	+5%
5.0%	7.9%	13.0%	17.2%
0%	10.8%	15.5%	19.6%
-5.0%	13.7%	17.9%	21.8%

Source: Peet/ PIR

Figure 14: IRR sensitivity to change in lot price sale and lot sales per month

Change in base case lot sale price			
Change to base case lot sales per month	-5.0%	0%	+5%
-2	8.5%	12.4%	15.6%
0	10.8%	15.5%	19.6%
+2	13.0%	17.9%	22.4%

Source: Peet/ PIR

5. Management & Corporate Governance

Background of RE

Peet Funds Management Limited (PFML) is the Responsible Entity (RE). It is a wholly owned subsidiary of the ASX-listed Peet Limited (Peet). Companies associated with Peet or wholly owned subsidiaries will provide development and project management services to the Syndicate, for which they will earn fees.

Peet is a leading national property group that has been operating in Australia for more than 120 years. After several decades of successfully undertaking land sub-division activity in Western Australia, Peet expanded into Victoria more than a decade ago and later into Queensland and New South Wales. Following the acquisition of a controlling interest in CIC Australia Limited in 2013 (100% of the company in 2015), Peet now operates in every mainland state and territory. Peet listed on the ASX in 2004.

Peet has the third largest residential land bank of any ASX-listed company with the potential to develop approximately 47,900 lots over time. If these lots were to be sold at current prices, the estimated on-completion value would be around \$11.7 billion.

Peet has pioneered the concept of land syndications and has successfully launched, managed, and operated land syndicates since the mid-1980s. The average IRR across the 12 Peet syndicates completed since 2006 has been ~23% per annum.

A key feature of Peet over this time has been its ability to create a sound distribution model with approximately 4,500 direct and active investors. Peet has also expanded this model to include institutional investors, wholesale fund managers and financial planning groups.

As at December 2015, Peet's funds management division controlled 28,700 lots across its 24 retail and wholesale syndicates and, based on current prices, the on-completion value of approximately \$7.0 billion.

Investment Committee

The board of PFML acts as the investment committee. PIR notes that it is not unusual for organisations to have the board act as the investment committee. In the case of PFML, the board has a good deal of experience and depth, and a majority of non-executive members, making it suitable to act as the investment committee.

Compliance Plan and Committee

PFML has two external directors and as such the compliance plan does not require that a compliance committee be established. However, a compliance committee may be formed in the event the composition of PFML's board requires it. PIR believes the compliance framework and procedures are consistent with good corporate governance.

Ernst and Young has been appointed as the AFSL and compliance auditor of the RE adding further emphasis on governance and management of the Fund.

ASIC Retail disclosure principles

Under ASIC's Regulatory Guide 46: "Unlisted property schemes: Improving disclosure for retail investors (RG46)", all unlisted property fund managers are required to address disclosures made in the PDS against six benchmarks and eight disclosure principles. PIR advises investors to read Section 1.4 of the Peet Werribee Land Syndicate, which addresses the Fund's disclosures against each of the benchmarks.

While the Fund does not comply with three of the six benchmarks noted below, PIR notes the following:

- To a large extent, the ASIC benchmarks address the issues pertaining to core-style property syndicates, rather than syndicates involved in developing residential land that do not produce income until they sell lots or start collecting rent;
- Interest is capitalised to the loan principal during the development stage of a property until the property is able to generate cash flow to reduce debt; and

- Cash flow can be lumpy in the case of residential development, which may lead to a mismatch between pre-determined payments to unitholders and cash flow generated in a given period. Therefore, the use of debt to pay distributions during such periods will necessarily mean that a Syndicate may not comply with the relevant ASIC benchmarks.

Capitalising interest or making distributions using debt over extended periods can significantly increase the risk of loss (and the breach of bank-imposed covenants) in unfavourable market conditions. As such, investors must accept that a Syndicate with exposure to residential land development will necessarily be more risky than a traditional core syndicate.

Figure 15: Summary of ASIC retail disclosure benchmarks

ASIC benchmark	Compliant (Y/N)	Comments
1. Gearing policy	Y	The RE will primarily use debt to fund the development of the Property. The terms of the debt facility limit the extent of gearing to no more than 50%.
2. Interest cover	N	PIR believes this is not a relevant ratio for development funds and the debt facility does not have an interest cover covenant.
3. Interest capitalisation	N	Interest payable on debt will be capitalised and added to the loan principal during the development stage. Subsequently, debt will be reduced as sales occur. This is typical for property development activity, albeit it carries a risk if sufficient funds are unavailable to repay debt.
4. Valuation policy	Y	The property will be independently valued every year or when the RE believes there has been a material change to the property value.
5. Related party transactions	Y	The RE has a written policy. All transactions will be undertaken on an arms-length basis or better and in compliance with the Corporations Act.
6. Distribution practices	N	Fully franked distributions are made when profits and funds are available subject to the availability of franking credits and working capital requirements. However, debt may be used to make these distributions due to the timing of cash flows. This will be subsequently repaid from available working capital and subject to maintaining debt covenants.

Source: Peet/ PIR

Board of the Responsible Entity

PIR has reviewed the composition of the RE board and senior executive team and believes that they have the relevant skills and experience to operate the Fund successfully. Each board member and senior executive has demonstrable property and investment management skills. These extend to an appropriate blend of direct property, funds management and compliance.

PIR has summarised the board composition below and notes that the majority of the directors are non-executives. A detailed background of each board member and senior executive is provided in the PDS; we recommend investors take the time to read through Section 10 of the PDS.

Figure 16: The Board of the RE

Name	Role	Experience
Anthony Lennon	Chairman Peet Funds Management Ltd Peet Limited	Over 24 years with the Peet Group with responsibilities for project management, broadacre acquisitions, marketing, and financing. Six years as Chairman of one of WA's largest conveyancing businesses. Previous role with John Laing Plc (UK) in the graduate management training scheme.
Brendan Gore	Exec. Director Peet Funds Management Ltd CEO & MD Peet Limited	Over 20 years of senior corporate, commercial and operational roles. CEO of the Peet Group since 2007. Responsible for developing integrated operational strategy and performance of the Group. Prior roles as CFO of Peet, CFO and Company Secretary of Mermaid Marine Australia Ltd.
Trevor Allen	Independent Non-Executive Director Peet Funds Management Ltd Peet Limited	Over 30 years of experience in corporate advisory through senior positions in SBC Warburg (now UBS), Baring Brothers, and KPMG. On the board of Peet since 2012. Prior role as partner of KPMG and the National Head of KPMG's M&A business. Non-executive Director of Juvenile Diabetes Research foundation.
Vicki Krause	Independent Non-Executive Director Peet Funds Management Ltd Peet Limited	Vicki Krause joined Peet in April 2014. An experienced commercial lawyer, Ms Krause had a 25 year career as a senior corporate executive with the Wesfarmers Group, including seven years as its Chief Legal Counsel.
Dom Scafetta	Company Secretary Peet Funds Management Ltd Peet Limited	Over 20 years of experience in accounting and property sectors. 17 years in the Peet Group in various roles including CFO (prior to ASX listing). Previous role with PricewaterhouseCoopers in accounting, taxation, and general business advisory.

Source: Peet/ PIR

6. Past Performance

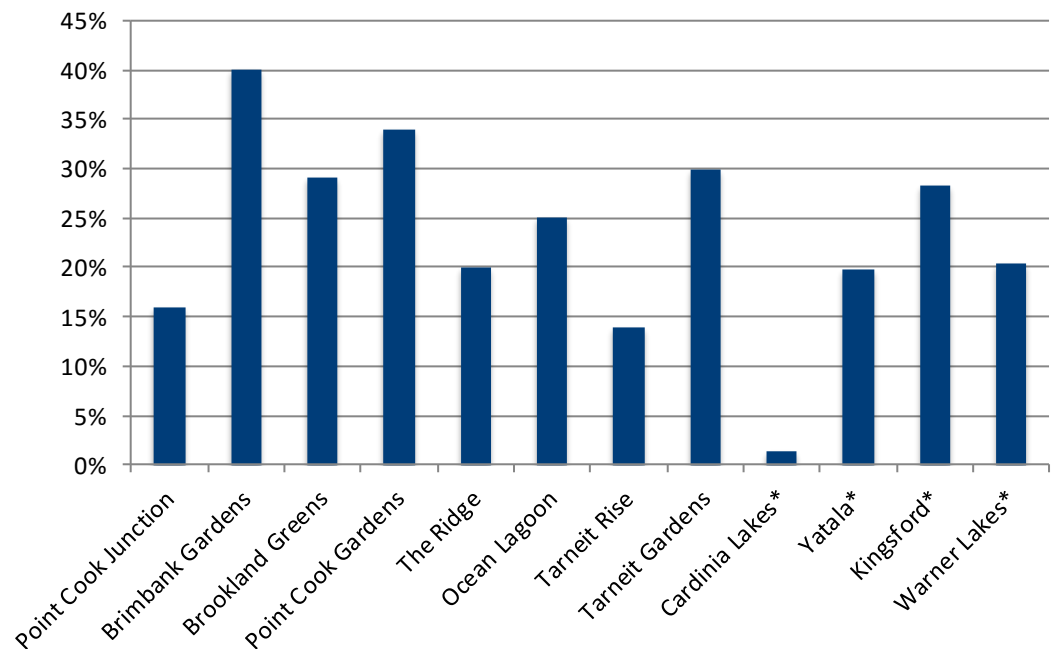
Peet Syndicate Performance

Peet has created and managed land syndicates since the mid-1980s and has pioneered the concept of land syndicates over three decades. As at the date of the PDS, Peet manages 19 syndicates. If sold at current prices, its syndicates would have an on-completion value of over \$2.1B.

As Figure 16 below highlights, the average IRR across the 12 syndicates completed since 2006 has been 23% per annum. While the returns from past syndicates have been consistently good, PIR notes that certain projects can underperform expectations for several reasons ranging from delayed approvals, use of excessive leverage, project specific risks, or even environmental issues that impact the property.

As such, readers should note that past performance is not a reliable indicator of future performance as each syndicate – and its respective underlying asset – has its own specific risks and attributes.

Figure 17. Peet completed syndicates IRR



* Projects completed and in the process of being wound up. As such, IRRs presented in the chart excludes final distributions anticipated during wind-up.

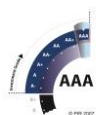
Source: Peet/ PIR

Appendix – Ratings Process

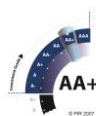
PIR has developed a framework for rating investment product offerings in Australia. Our review process gives consideration to a broad number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product management and underlying portfolio construction;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

The Ratings

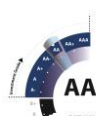
Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.



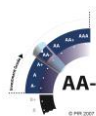
AAA: This is the highest rating provided by PIR, indicating this is a best of breed product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories. The product provides a highly attractive risk/return trade-off.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



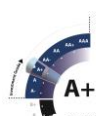
AA+: Indicates that PIR believes this is a superior grade product that has exceeded the requirements of our review process across a number of key evaluation parameters and scored exceptionally in a number of categories.



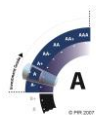
AA: Indicates that PIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. In addition, the product rates highly on one or two attributes in our key criteria. It has an above-average risk/return 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.



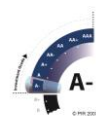
AA-: Indicates that PIR believes this is an above-average grade product that has exceeded the minimum requirements of our review process across a number of key evaluation parameters. It has an above-average risk/return trade-off and should be able to consistently generate above-average risk adjusted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



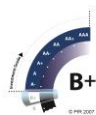
A+: PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria. The product provides some unique diversification opportunities, but may not stand apart from its peers. It has an acceptable risk/return trade-off and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



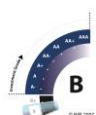
A: PIR believes this is a suitable product that has met the aggregate requirements of our review process across a number of key evaluation criteria but may not stand apart from its peers. There are certain assumptions, the outcome of which is sometime in the future and, therefore, less predictable. The 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 not been commissioned, and, as such, PIR has not directly 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.

