



LIC Review

URB Investments Limited

ISSUE DATE: 6-03-2017

About this Company

LIC REVIEWED	URB INVESTMENTS LIMITED
ASX CODE	URB
COMPANY OBJECTIVE	CAPTURE LONG TERM VALUE BY INVESTING IN A DIVERSIFIED PORTFOLIO OF EQUITY ASSETS AND DIRECT PROPERTY ASSETS WITH EXPOSURE TO URBAN RENEWAL REGENERATION
EXPECTED COMPANY SIZE (POST IPO)	\$75 TO \$300M
BOARD OF DIRECTORS - NUMBER	4
CHAIRMAN	WARWICK NEGUS
INDEPENDENT DIRECTORS	VICTORIA WEEKES, TONY MCDONALD, BRUCE DUNGEY
IPO PRICE	\$1.10
PRO-FORMA NET ASSET VALUE	\$1.065 - \$1.069
STRUCTURE	FREE LISTED OPTION ON A 1-FOR-1 BASIS (EXERCISE PRICE \$1.10, EXPIRY 7 APRIL 2018)
MANAGEMENT FEE	0.50% P.A. OF TOTAL ASSETS.
PERFORMANCE FEE	15% OF THE OUTPERFORMANCE ABOVE A 12 MONTH PRE-TAX NET TANGIBLE ASSET PER SHARE RETURN OF 8.0% IS PAYABLE TO CONTACT.

About the Investment Manager

INVESTMENT MANAGER	CONTACT ASSET MANAGEMENT PTY LIMITED (CONTACT)
OWNERSHIP	PRIVATELY OWNED
ASSETS MANAGED IN THIS SECTOR	\$1 BILLION
YEARS MANAGING THIS ASSET CLASS	9

Investment team

PORTFOLIO MANAGER	TOM MILLNER / WILL CULBERT
INVESTMENT TEAM SIZE	2
INVESTMENT TEAM TURNOVER	-
STRUCTURE / LOCATION	GENERALIST / SYDNEY

Investment process

STYLE	THEMATIC / QUALITY AT A REASONABLE PRICE
BENCHMARK	BENCHMARK UNAWARE
TYPICAL NO. OF STOCKS	20 - 30
TYPICAL NO. OF PROPERTIES	INITIALLY 3, WILL LOOK TO INCREASE TO 7-10+ OVER TIME
SECTOR CONSTRAINT	NO HARD CONSTRAINTS

Fund rating history

MARCH 2017	INVESTMENT GRADE
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What this Rating Means

The 'Investment Grade' rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.

Scope of this Rating

- Lonsec has used its Managed Funds research process in forming a 'point-in-time' opinion on this Listed Investment Company's (LIC) ability to meet its investment objectives as outlined in the Prospectus. This research process, however, does not include any assessment of the Company's ability to minimise any divergence between the share price and the Net Asset Value (NAV) per share beyond acknowledging that the Company is committed to doing so via capital management measures. Lonsec considers an investment in the LIC sector to be suitable for investors with a long-term (5+ years) investment horizon.
- The Lonsec rating will expire upon the listing of the Company (URB) on the Australian Stock Exchange (ASX).

Strengths

- Co-investment in the direct property assets with Soul Pattinson.
- The investment philosophy and process draws heavily on strategies that have been successful over a long period of time.
- Experienced Board of Directors and the investment team has a track record of managing another LIC.
- Strong alignment with investors. Portfolio Managers and Board Members are shareholders and performance fees are only payable after high hurdle rates are achieved.
- Provides a good way for retail investors to access the development potential associated with properties most would not normally have the financial means or expertise to participate in.

Weaknesses

- Investment team lightly resourced compared to peers.
- The urban renewal theme provides exposure to a reasonably concentrated portfolio of interest rate sensitive equities.
- LICs may trade at a premium or discount to NAV. This may be exaggerated by the unlisted nature of the property assets which are subject to periodic revaluation.

We strongly recommend that potential investors read the product disclosure statement or investment statement.

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- Dilution of potential property investment gains via two separate performance fees. Performance fees are considered generous when compared to direct property managers researched by Lonsec.

Company risk characteristics

	LOW	MODERATE	HIGH
CORPORATE RISK			●
CAPITAL VOLATILITY			●
RELATED PARTY RISK			●
SECURITY CONCENTRATION RISK		●	
SECURITY LIQUIDITY RISK			●
LEVERAGE RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the product's asset class and the risks relative to other products in the relevant Lonsec sector universe.

Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
		●	●	●	●

BIometrics

Aggregate Risk Measure

	1	2	3	4	5	6	7
STANDARD RISK MEASURE						●	

A Standard Risk Measure score of 6 equates to a Risk Label of 'High' and an estimated number of negative annual returns over any 20 year period of 4 to less than 6. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with AFSA/FSC guidelines.

Features and Benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG AWARENESS	●		

Fee Profile

	LOW	MODERATE	HIGH
FEES - VS LONSEC UNIVERSE			●
FEES - VS ASSET CLASS			●

What is this Company?

- URB Investments Company Limited ('URB' or 'the Company') provides investors with the opportunity to invest in an actively managed portfolio of ASX listed equities and direct property assets via an Australian listed company vehicle (ASX: URB). The Company has appointed Contact Asset Management Pty Limited ('Contact' or 'the Manager') as the Investment Manager of the Company's assets. The appointment is governed by an Investment Management Agreement with an initial term of 10 years, subject to ASX approval.
- The Company is offering shares for subscription to raise a minimum of \$75 million and up to \$300 million. Subscribers to the IPO will also be issued with an option on a 1-for-1 basis that will be separately listed (ASX: URBO). These options will be exercisable at \$1.10 on or before 7 April 2018.
- The **investment objective** of the Company is to capture long term value by investing in a diversified portfolio of equity assets and direct property assets

with exposure to urban renewal regeneration. URB will seek to maximise shareholder returns through a combination of capital and income growth, with the aim of allowing fully franked dividends to be paid to shareholders.

- Contact is an Australian based fund manager specialising in ASX listed equities. It was established in late 2016 by Tom Millner and Will Culbert. Contact is also responsible for managing BKI Investment Company Limited (ASX: BKI), which had assets of approximately \$1 billion as at 31 January 2017. The Company leverages the same investment process and investment team as BKI, though URB will focus on investment opportunities deemed most likely to benefit from the urban renewal theme. Contact, URB, Washington H Soul Pattinson and Company Limited (Soul Pattinson), and Pitt Street Real Estate Partners Pty Limited (PSRE) have entered a co-investment agreement under which URB will have the right to invest on an equal basis with Soul Pattinson in direct property assets.
- Soul Pattinson (ASX: SOL) is one of Australia's oldest investment houses whose principal activities include its traditional field of pharmacy as well as retail, building materials, natural resources, equity investments, agriculture, telecommunications and corporate advisory. PSRE was established 7 years ago as the real estate division of Soul Pattinson (ownership 75% Soul Pattinson and 25% Managing Director, Hugh Williams). PSRE originates the direct property opportunities for URB and receives fees for providing these services. There are many common directorships between these companies and the influence of Soul Pattinson's investment strategies on URB should not be underestimated.
- Capital management decisions will be made at the Board's discretion. This includes, for example, any share buybacks and/or dividend payments. The intention is to pay dividends, fully franked, annually if sufficient profit and reserves and franking credits are available and any payment is considered prudent business practice. A dividend reinvestment plan will be offered to investors by the Company and this may be at a discount to the share price.
- The Company will charge a management fee of 0.50% p.a. of the NAV of the Company's portfolio. A performance fee of 15% of the outperformance above a pre-tax net tangible asset (NTA) per share return of 8.0% is also payable. The NTA will also reflect property management fees and any performance fees paid on the direct property assets. Ordinary dividends to shareholders will be paid prior to any performance fees being paid.
- The fee structure for the direct property assets is considered generous when compared to direct property funds rated by Lonsec.

Using this LIC

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

- Lonsec believes the Company may be suitable for higher risk profile investors with an ability and willingness to invest in a sophisticated non-

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traditional equities product. The Company should be used within the 'growth' component of an investor's balanced portfolio and with at least a five-year investment horizon.

- The Company invests in ASX listed equities and direct property assets and is subject to movements (both positive and negative), at times sharp, in the prices of the underlying shares and properties in the portfolio. Investors should therefore be aware that the Company may experience periods of negative returns and that there is a risk of potential capital loss being incurred on their investment. The Company's performance is expected to vary from traditional equities benchmarks (such as the S&P/ASX 200 Index) throughout a business cycle.

Lonsec Opinion of this Company

Board of Directors

- The Company's Board of Directors consists of four members. Importantly, there is a majority of independent directors. Lonsec believes that maintaining a majority of independent directors is good practice and consistent with ASX Recommendations.
- The Board's composition is considered reasonably sized. The Board's primary responsibility lies with the corporate governance of the Company. While day-to-day management of the portfolio has been delegated, the Board is more actively involved in idea generation than other LICs reviewed by Lonsec. In Lonsec's opinion it is not usual for Board members to be active participants in the investment process, particularly the independent members.
- Overall, Lonsec believes the Board has sufficient experience in overseeing LICs, and considers it to be comprised of a mix of individuals with the requisite experience and skills to allow the Company to meet its investment objectives.
- Being ASX-listed, the Company will also need to comply with the stringent listing rules of the ASX.

People and resources

- Contact was formed in late 2016 by Tom Millner and Will Culbert, who each own 40% and Soul Pattinson which owns the remaining 20%. While there is no direct reliance on Soul Pattinson, URB enjoys the full support of the Group which provides back-office and operational support. Lonsec views the relationship between the Investment Manager and Soul Pattinson as a positive one and similarities in the investment philosophies are strong.
- Millner has over 15 years investment experience. Prior to establishing Contact, Millner was CEO of BKI from 2008 and prior to this was an investment analyst and portfolio manager with Souls Funds Management. Culbert has 17 years of funds management experience in Australia and the UK. Culbert has been portfolio manager for BKI for 3 years and spent 11 years at Invesco Asset Management as an equity analyst and portfolio manager. The investment team is considered small, particularly when the management responsibilities of BKI are taken into account. Peers tend to operate a portfolio manager / analyst model, though it should

be noted the resources of the Soul Pattinson group of companies are available to the investment team. Overall, Lonsec views both portfolio managers to have solid investment credentials and are well qualified to meet the Company's objective.

- Key person risk in Millner and Culbert is considered high, however given the equity in the business in the early stage of its life-cycle, the probability of either departing the firm is considered low.
- The team's alignment with investor outcomes is considered strong, particularly given the Manager is in its start-up phase where fund flow tends to be dependent on positive performance outcomes.
- The total fee load is considered relatively high, particularly in relation to the direct property assets. The base fee of 0.50% p.a. of total assets compares favourably to Australian equity managers, however the total fee load is considered less compelling.

Research approach and portfolio construction

- Lonsec believes the investment philosophy and research draws heavily on the successful investment strategies adopted by investment house, Soul Pattinson, over many years. One of the key attractions of the Company is the portfolio managers are exposed to the best ideas across the Soul Pattinson group of companies. The investment style could be described as 'Growth at Reasonable Price'.
- Once the urban renewal equities universe has been determined, currently 89 stocks in the All Ordinaries Index, a detailed qualitative analysis is conducted. This takes the form of a Q&A checklist. Reasonably standard valuation metrics supplement the qualitative analysis.
- The urban renewal equities portfolio excludes banking and resource stocks and contains sectors that could be described as interest rate sensitive - Retail, Diversified & Industrial REITs, Construction Materials, Construction & Engineering, Building Products, Home Furnishing Retail. Less interest rate sensitive sectors are Utilities, Highways & Railtracks and Airport Services.
- The direct property assets are classified as either Passive or Development Assets and attract different fees payable to PSRE. PSRE has been Soul Pattinson's in-house real estate advisory firm for seven years. During this period, PSRE has brought many deals to the Soul Pattinson Board ranging from office, development, retail, commercial and industrial. The performance of PSRE has never been measured independently like a REIT or an external property management business as PSRE has always been the manager of assets that have been 100% owned by Soul Pattinson. The main form of risk management when selecting properties is to ensure the properties are capable of multiple uses. Lonsec believes PSRE has a good record of identifying and managing assets like the three seed properties for the benefit of investors.
- It should be noted investors assume the development risk associated with properties classified as Development Assets. These include risks such as the inability to secure tenants or development approvals, permits or finance.

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- The portfolio construction framework involves sizing positions based on their assessed risk-adjusted return, and how each stock fits within the total portfolio. Lonsec considers the portfolio to be high conviction and representative of the Manager's best ideas, which is viewed positively. That said, there is currently a lack of clarity on some aspects of how the research effort is linked to portfolio construction.

Funds under management

- URB is seeking to raise between \$75 million and \$300 million initially. Lonsec does not believe that URB exhibits any significant capacity constraints at this level of FUM. Moreover, Lonsec believes there is significant headroom for growth.
- Lonsec notes the Company will be a close-ended product; hence the maximum that can be raised into the Company will be \$300 million during the IPO, with the potential for an additional \$300 million if all options are exercised.

Risk management

- The Company's Board of Directors is responsible for the overall governance of the Company, including corporate governance policies, internal controls and risk management procedures which it believes are appropriate for the Company's business. The Board has established a separate Audit and Risk Committee to monitor the Company's risk framework and consists of the Board members with Bruce Dungey as Chair. Lonsec notes that not all LICs have setup additional committees and Lonsec holds a positive opinion of this industry best practice.
- Lonsec notes that the equity portfolio operates with wide constraints, having only soft limits on stock positioning and no sector limits. Investors should be aware the portfolio will exhibit a different return and risk profile to the S&P/ASX 200 Index.
- While the Company's investment strategy is relatively unconstrained when it comes to portfolio construction, Lonsec believes the Manager intends to have strong focus on risk management at stock and portfolio level, which should assist in achieving the Company's goals.

Performance

- As the Company is yet to list, there is no performance data available.

Overall

- Lonsec has assigned an 'Investment Grade' rating to the Company's IPO. The Company has a number of strengths including co-investment in the direct property assets with Soul Pattinson and an experienced Board of Directors. Lonsec also believes an investment in the Company provides a good way for retail investors to access the development potential associated with properties most would not normally have the financial means or expertise to participate in. Detracting from the rating are the Company's lack of track record and fewer competitive advantages existing in the equities portfolio. Lonsec also highlights the enhanced potential to trade at a discount to NAV due to the valuation policy around the unlisted property assets.

People and Resources

Board of Directors

Name	Position / status
WARWICK NEGUS	CHAIRMAN
VICTORIA WEEKES	INDEPENDENT DIRECTOR
TONY MCDONALD	INDEPENDENT DIRECTOR
BRUCE DUNGEY	INDEPENDENT DIRECTOR

The Company has established its own Board of Directors ('the Board') consisting of four members. The majority of its members are independent, however, the Chairman is not considered independent given he is a director of Soul Pattinson which owns 20% of the Investment Manager and is co-owner of the Direct Property seed assets.

The Board has the responsibility for ensuring that the Company is properly managed so as to protect shareholder interests in a manner that is consistent with the Company's obligation to all stakeholders. This includes meeting its Prospectus investment objectives. The Board has elected to establish a separate Audit & Risk Committee comprised of the same members with Bruce Dungey acting as Chair.

Warwick Negus

Mr Negus has more than 30 years of finance industry experience in Asia, Europe and Australia. His most recent executive roles include Chief Executive Officer of 452 Capital, Chief Executive Officer of Colonial First State Global Asset Management and a Goldman Sachs Managing Director in Australia, London and Singapore. He was also a Vice President of Bankers Trust Australia. Negus is a Director of Washington H Soul Pattinson and Company, Bank of Queensland Ltd, Terrace Tower Group, Virgin Australia Holdings and FINSIA.

Victoria Weekes

Ms Weekes is a professional non-executive director and independent business advisor. Victoria has over 30 years of experience in the investment and financial services industries in senior management and advisory roles working with major listed companies. Weekes is currently Chairman of OnePath Funds Management Limited and OnePath Custodians Limited, Non-Executive Director of ANZ Share Investing Limited, Sydney Local Health District, FINSIA and is the Chairman of the Audit and Risk Committee of the Urban Growth NSW Development Corporation.

Tony McDonald

Mr McDonald is a professional, non-executive director and an executive with extensive business experience, across a range of disciplines and industries. McDonald co-founded and led the Snowball Group (now part of Shadforth within IOOF Ltd) from a start-up to a fully integrated business listed on the ASX. McDonald is also an Independent Non-Executive Director of 8IP Emerging Companies Limited and Hub24 Limited. He is also Chairman of a not-for-profit organisation.

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Robert (Bruce) Dungey

Mr Dungey is a Chartered Accountant with over 40 years of experience providing assurance, taxation and business advisory services to a broad range of enterprises in a variety of industries, notably entrepreneurial growth companies, international private companies and High Net Worth Family offices. Dungey also held a number of leadership roles with two 'Top 4' global accounting firms, namely, Deloitte and Ernst & Young.

Board remuneration

The Chairman will receive \$60,000 per annum. Two of the independent Directors will each receive \$40,000 per annum, while the other will receive \$45,000 p.a. Lonsec notes that this is somewhat higher than other LICs recently reviewed.

Investment Manager

Contact is majority owned by the Portfolio Managers, Millner and Culbert (40% each) with Soul Pattinson owing the remaining 20%. Both Millner and Culbert are experienced and have proven expertise in managing the assets of ASX listed BKI Investment Company Limited (ASX: BKI). Millner joined BKI in December 2008 from Souls Funds Management. Culbert joined BKI in November 2013 and has 17 years' financial services experience, having previously worked Invesco Asset Management. The portfolio managers have a history of investing alongside shareholders and focus on developing and managing products to create long term prosperity.

Investment team

Name	Position	Years industry / firm
TOM MILLNER	DIRECTOR / PORTFOLIO MANAGER	15 / 1
WILL CULBERT	DIRECTOR / PORTFOLIO MANAGER	17 / 1

Contact has a small investment team comprising two portfolio managers. However, it is Contact's intention to add more personnel in the near future. Lonsec notes discussions have commenced with an Analyst and Junior Analyst. It should also be noted the team benefits from access to the resources and infrastructure of the Soul Pattinson group and also an active Board of Directors in respect of idea generation.

Remuneration

Contact is entitled to a Base Fee of 0.50% p.a. of the total assets of URB, to be paid at the end of the preceding month.

A performance fee is also payable and equal to 15% of the outperformance above a 12-month pre-tax net tangible asset per share return of 8.0%.

PSRE are also entitled to earn performance fees in addition to asset / project management fees, structuring, debt advisory and leasing fees.

Research Approach

Overview

RESEARCH PHILOSOPHY	THEMATIC / QUALITY AT A REASONABLE PRICE
TARGET COMPANY	STOCKS WITH EXPOSURE TO URBAN RENEWAL AND REGENERATION. NO BANKS OR RESOURCES.
MINIMUM MARKET CAPITALISATION	MICRO CAP
NO. STOCKS IN UNIVERSE	80-90
RESEARCH INPUTS	QUALITATIVE COMPANY REPORTS, MANAGEMENT MEETINGS, INDUSTRY RESEARCH, BROKER RESEARCH
BROKER RESEARCH INPUTS	MARKET CONSENSUS ESTIMATES
VALUATION OVERVIEW	DCF

Universe filtering

The investment universe is described as the All Ordinaries Index. which contains the 500 largest ASX listed companies by way of market capitalisation.

The equity portfolio will comprise quality companies that seek to capitalise on exposure to urban renewal and regeneration. URB will seek to complement more mainstream equity portfolios as the portfolio will not contain banking or resource stocks. Currently there are 89 companies that qualify for inclusion in the final portfolio.

Research process

All stocks in the urban renewal universe have financial models and are an important part of the research process. This research effort is supplemented by qualitative research focused on income / dividends, financial measures including leverage, industry and company specific details, customers and company management.

Valuation

A standard discounted cash flow model is used to estimate the intrinsic value of each company. Other metrics considered are PE multiples, EV to EBITDA, EV to Free Cash Flow, Price to Book and EV to Sales.

Direct Property Assets

URB will target direct property assets that are set to benefit from changes in use, such as rezoning, gentrification and the maximisation of available floor space in order to enhance returns. Targeted properties will be undervalued assets which:

- Require a short term repositioning for income; or
- Require capital for restructuring; or
- Have an underlying opportunity for capital revaluation through changes in use.

Investment will be made alongside Soul Pattinson on an equal basis. Separate trusts will be established for each property and geared to a maximum LVR of 40%. The typical holding period for the direct property assets will be 2 – 3 years. Investments are classified as Passive or Development and subject to different fees payable to PSRE.

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Fees are payable at the underlying trust level and include asset management fees and performance fees. Passive assets – 20% of the outperformance over pre-tax annual hurdle of 8%. Development assets – 30% of the outperformance over a pre-tax annual hurdle of 8% and 50% over 14%.

Initially there will be three seed properties, two are classified as Passive and one as a Development Asset. Details of the properties are outlined in the Prospectus.

Portfolio Construction

Overview

COMPANY BENCHMARK	TOTAL RETURN 8.0% P.A. +
INTERNAL RETURN OBJECTIVE	CAPTURE LONG TERM VALUE BY INVESTING IN A DIVERSIFIED PORTFOLIO OF EQUITY AND DIRECT PROPERTY ASSETS
PORTFOLIO INVESTMENT APPROACH	BENCHMARK UNAWARE
INVESTMENT STYLE	THEMATIC / QUALITY AT A REASONABLE PRICE
INVESTMENT SELECTION	THEMATIC / BOTTOM-UP
TYPICAL NO. OF STOCKS	20 - 40
MARKET CAPITALISATION BIAS	MID TO LARGE-CAP
EXPECTED EQUITIES PORTFOLIO TURNOVER	LOW, APPROX 10-15% P.A.
TYPICAL HOLDING PERIOD FOR DIRECT PROPERTY	2 - 3 YEARS

Decision making

The portfolio managers are responsible for Company performance and ultimately accountable for all portfolio decisions.

The portfolio is constructed in a benchmark unaware and high conviction manner. The portfolio is considered relatively concentrated with 20 – 40 names. Weighting is dependent on the assessed risk / return profile and diversification considerations. Typical initial position sizes are expected to be 0.5-8.0%, although up to 15% is permitted for a single position. Liquidity considerations are taken into account when sizing positions.

Buy / sell drivers

Candidates for inclusion in the portfolio must meet the Manager's criteria for inclusion in the urban renewal theme, and be assessed as trading with sufficient margin of safety in valuation.

Stocks will be sold from the portfolio if it is assessed that the investment thesis no longer holds, or where there are better risk-adjusted returns available.

Risk Management

Risk limits

SEPARATE RISK MONITORING	NO
EQUITIES	15% MAX SINGLE NAME. AT LEAST 50% OF THE INVESTMENT PORTFOLIO WILL BE INVESTED IN EQUITIES
SECTOR	NONE
DIRECT PROPERTY	30% - 49.9% OF THE INVESTMENT PORTFOLIO WILL BE INVESTED IN DIRECT PROPERTY ASSETS
CASH	VARIABLE. 5-10% MAINTAINED FOR OPPORTUNITIES
DERIVATIVES	NO

The Company is managed without hard limits (either relative to an Index or absolute), instead viewing risk of the prospect of losing money. There are no risk limits for individual positions or sector positioning in portfolio construction, however a soft stock limit of 15% is in place.

Risk monitoring

The two portfolio managers are ultimately accountable for motoring portfolio risk. In conjunction with the Company's corporate governance policies, the Company has adopted a Risk Management Policy, which is designed to identify, evaluate, monitor and manage risks affecting the Company. This is reviewed by the Board.

Important Risks

An investment in the Company carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the Prospectus and should be read in full and understood by investors. Lonsec considers major risks to be:

Equity market risk

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

Leverage risk

The separate trusts holding the direct property assets can be geared to a maximum LVR of 40%. Leverage has the effect of magnifying gains and losses on the direct property assets.

Listed company risk

The market price of the Company's securities may not correlate exactly to the underlying value of the portfolio as reflected in its monthly NTA backing per share. The securities may trade on the ASX at a discount or a premium to the Company's monthly NTA backing per share.

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Development risk

Investors are exposed to property development risks such as the inability to secure tenants or development approvals, permits or finance.

Investment manager risk

The Company's success and profitability will largely depend on the Investment Manager's continued ability to manage the portfolio. Should the Investment Manager become unable to perform investment management services for the Company or should there be significant key personnel changes at the Investment Manager, the Company's investment activities may be disrupted and its performance negatively impacted.

Unlisted investment risk

The Fund is permitted to invest up to 49.9% of total assets in unlisted direct property assets. Listed investments are traditionally considered to offer greater liquidity than unlisted investments.

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Glossary

Absolute Return 'Top line' actual return, after fees

Excess Return Return in excess of the benchmark return (Alpha)

Standard Deviation Volatility of monthly Absolute Returns

Tracking Error Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)

Sharpe Ratio Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)

Information Ratio Relative reward for relative risk taken (Excess Returns / Tracking Error)

Worst Drawdown The worst cumulative loss ('peak to trough') experienced over the period assessed

Time to Recovery The number of months taken to recover the Worst Drawdown

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

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Date released

March 2017

Analyst

Michael Elsworth

Release authorised by

Peter Green

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