

Atchison Audit Report 2015

ANNUAL PERFORMANCE AUDIT 2015

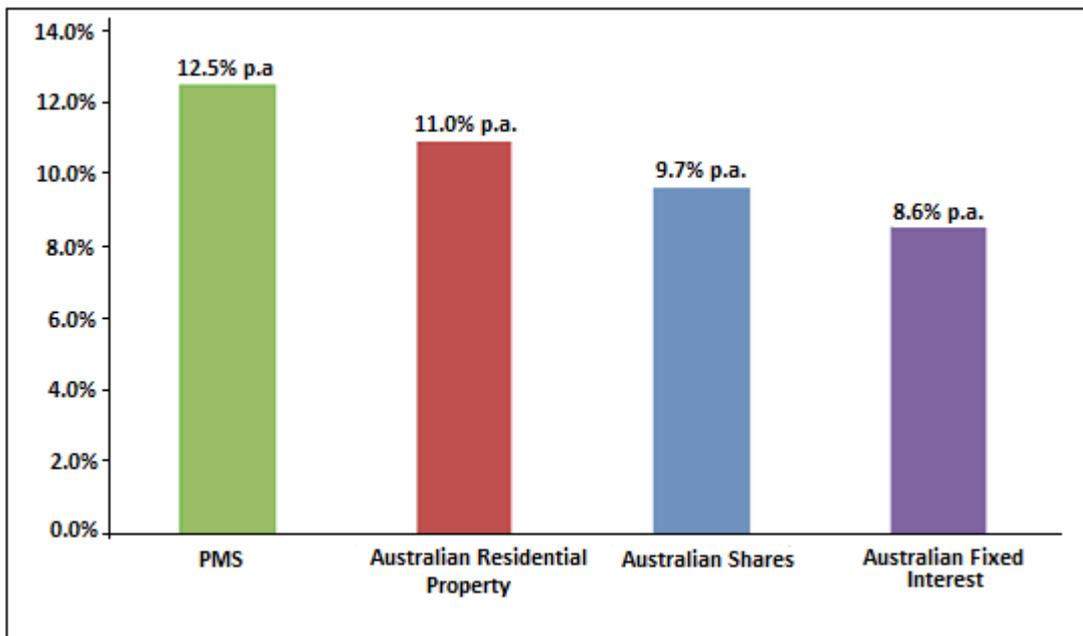
Welcome to the annual audit of properties acquired and managed by Portfolio Management Services. We are delighted to confirm once again that PMS properties outperformed all main residential property and investment benchmarks in 2015. Significant capital gains and strong and steady income streams have produced another year of outstanding results for clients.

FOUR+ DECADES OF EXPERIENCE

According to the annual performance audit by financial markets analyst and independent research company Aitchison Consultants, PMS properties achieved average total investment returns of 12.5 per cent every year for the past 43 years of operation.

The outstanding result is 1.5 per cent more than the Real Estate Institute of Australia benchmark index, which had total annual returns of 11 per cent during the same period.

Comparative returns over 43 years to June 2015



Source: Atchison

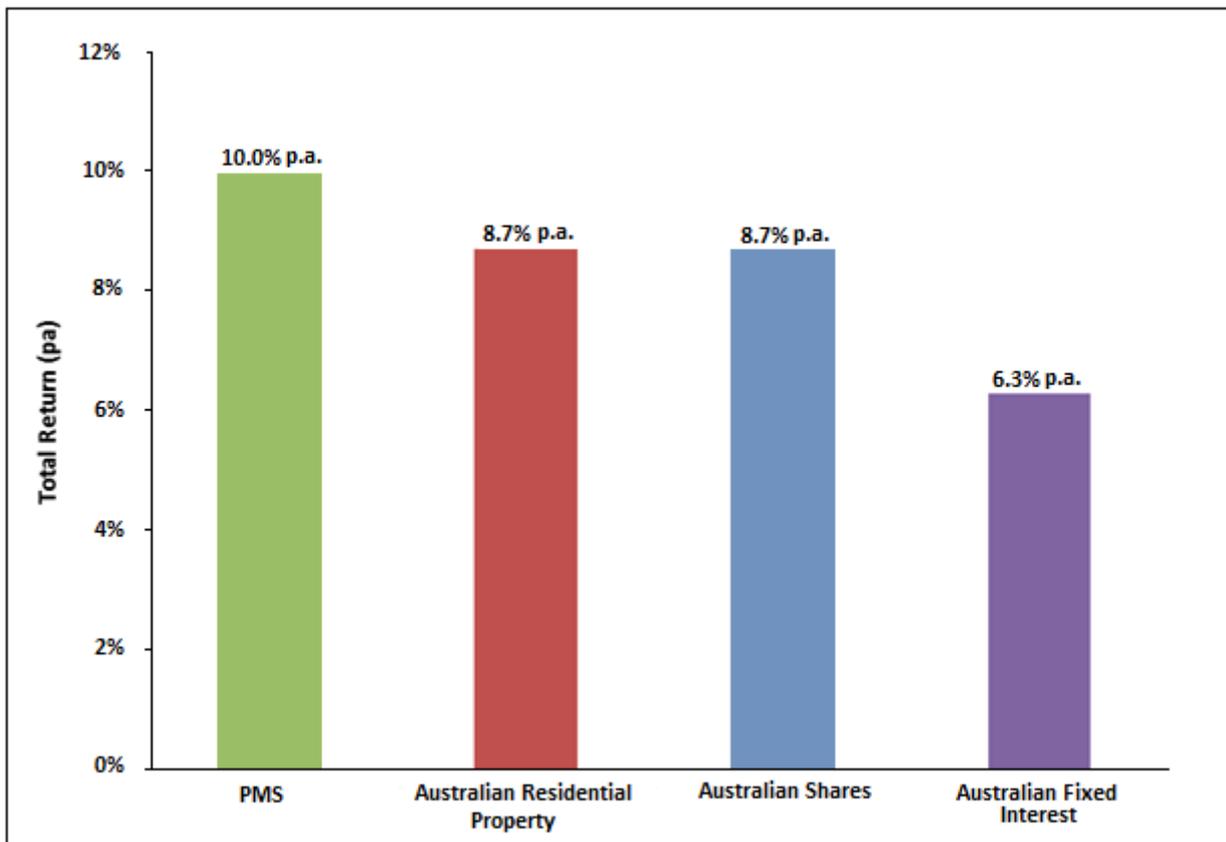
During the 43 year performance history, PMS properties have achieved an average 8 per cent annual capital gain, significantly outperforming the REIA benchmark of 6.5 per cent, and 4.5 per cent rental return.

2002 - 2015

During the past 13 years, since we introduced more comprehensive data collection for all our properties, PMS has averaged total annual returns of 10.1 per cent, which also outperforms the REIA residential benchmark by 1.4 per cent a year.

Our properties have also outperformed all but one of the main investment benchmarks including Australian shares and Australian listed property during the past 13 years.

Comparative returns over 13 years, June 2002 - June 2015



Source: Atchison

WHAT YOUR DOLLAR'S WORTH

This year we asked Atchison to calculate the cumulative total returns from property purchased and managed through PMS. This demonstrates the long term benefits from our superior annual performances. The results are further evidence of outperformance from careful selection and strong management, compared with other property and investment classes.

\$100 invested in 2002 is now worth:

PMS property asset	\$334.13
REIA Sydney residential property	\$280.02
REIA Melb residential property	\$286.55
Australian Shares	\$297.51
Australian Listed Property	\$199.07
Australian Fixed Interest	\$222.15

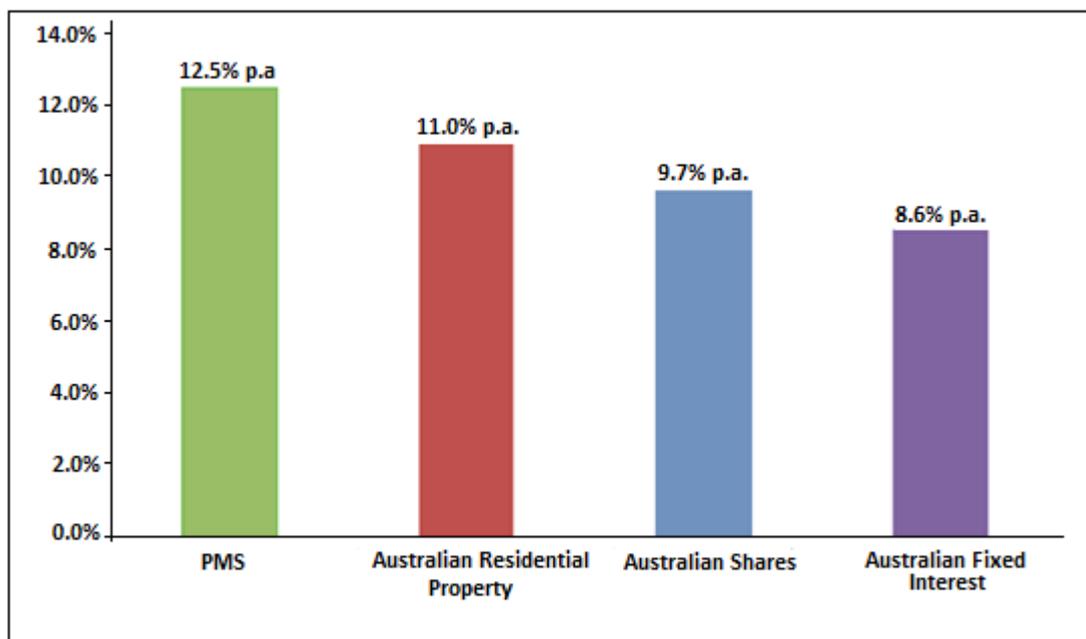
Source: Atchison

OUR PORTFOLIO

The current PMS portfolio includes 562 residential properties valued at approximately \$425 million. This current value compares with the total purchase cost of \$220 million. The properties are primarily located in Melbourne, Geelong, Sydney and Brisbane.

During our 43 year history we have purchased more than 1000 properties. As the table below illustrates almost 40 per cent are held for ten years or more, about 35 per cent are held for between five and 10 years with the balance owned between two and five years.

Holding period 43 years to June 2015



Source: Atchison

SELECTION CRITERIA

The latest audit by Atchison Consultants again demonstrates the value of our strong selection criteria. Purchasing the right properties is key to our consistent outperformance.

Of course, experienced, professional management is also critical for strong and steady rental income. Consistent tenant demand is also a flow on affect from well positioned and desirable property.

CAPITAL GAIN v RENTAL RETURN

This year's audit found that 57 per cent of the total returns from PMS properties was from capital gains, after deductions for entry and exit costs and maintenance during holding periods. The balance of 43 per cent came from net rental income.

This is quite a change to last year's result when capital gains accounted for 64 per cent of the total return and income was just 36 per cent. The difference this year demonstrates a market returning to a more steady performance after a period of rapid capital gains.

However, as you will see from the table, below, there is wide variation in capital gains versus rental income, depending on location. This knowledge is important for us to meet the different needs of our investors. For individual reasons, including tax planning, some investors prefer a property with low cash flow but high capital gains, while others prefer the reverse and place a greater value on a high cash flow.

BEST PERFORMING SUBURBS

The table below shows “time-weighted” total returns for PMS properties during the past 13 years since 2002. Time-weighted is the preferred measurement for investors and analysts, as it makes adjustments for shorter and longer holding periods. This evens-out the ups and downs of short term ownership periods which can often distort the statistics. The raw, or unweighted results are included in the full report which is available on our website.

As you can see in the next table, there is significant variation in returns between the two major cities of Melbourne and Sydney but also within suburban locations within those cities.

Melbourne’s eastern suburbs was again a stand out performer with a total return at 13.9 per cent, per annum since 2002, followed by Melbourne’s north and south east both with 12 per cent, per annum. At the other end of the scale Geelong had the lowest total returns of just 5.5 per cent.

TOTAL RETURNS BY LOCATION - time weighted, 2002-2015

	Average total return p.a.	Capital	Income
Sydney East	10.4%	6.4%	4.0%
Sydney Inner East	10.1%	6.7%	3.4%
Sydney Inner South	8.2%	5.6%	2.6%
Sydney Inner West	10.8%	4.4%	6.4%
Sydney North	10.9%	6.9%	4.0%
Melb Central	11.1%	6.1%	5.0%
Melb East	13.9%	7.8%	6.1%
Melb Inner East	9.8%	5.5%	4.3%
Melb Inner North	10.1%	5.8%	4.3%
Melb Inner South	10.5%	6.4%	4.1%
Melb Inner West	10.1%	5.8%	4.3%
Melb North	12.0%	7.3%	4.7%
Melb South	8.2%	5.0%	3.2%
Melb South East	12.0%	6.4%	5.6%
Geelong	5.5%	2.7%	2.8%

Source: Atchison

HOUSES V UNITS

PMS has long been an advocate of detached housing, however, well positioned apartments can also offer very good returns. Again, the Aitchison audit found our properties, both houses and units, outperformed the Australia-wide benchmarks.

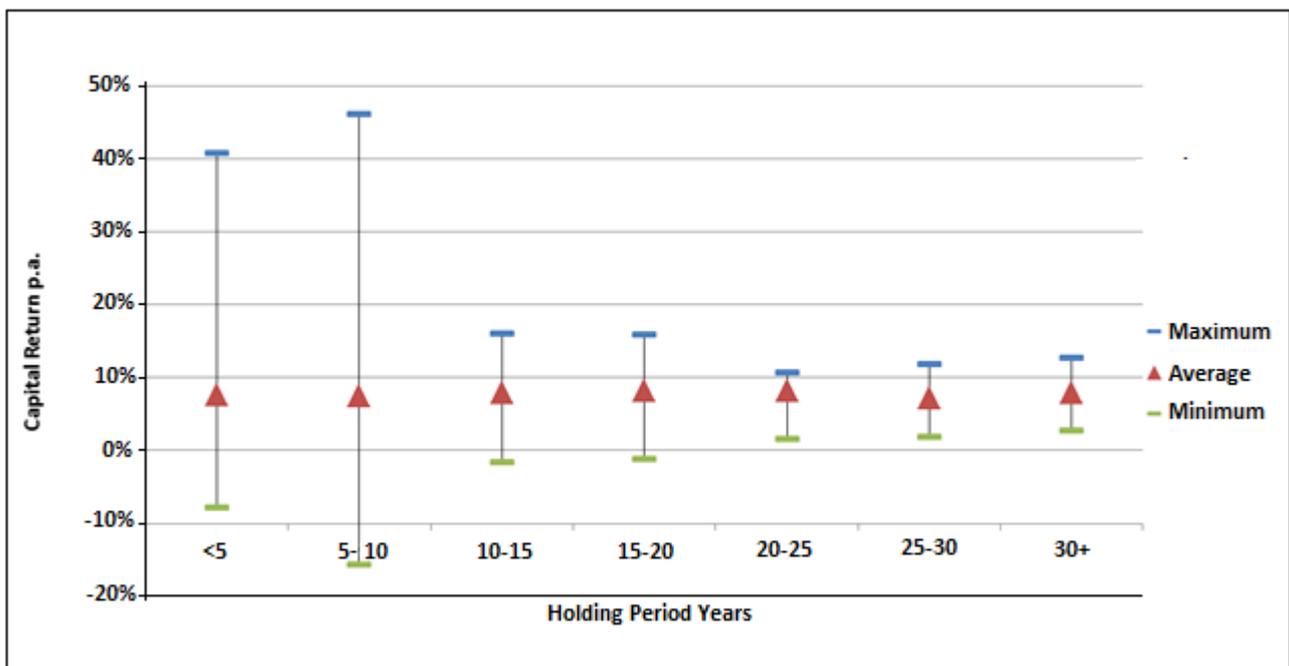
During the past 13 years, since our more comprehensive data collection has been underway, PMS houses have produced total returns of 9.9 per cent per annum, compared with 8.7 per cent for the REIA house benchmark index.

In contrast, PMS units have produced average total returns of 10.4 per cent, compared with 8.9 per cent for the REIA unit benchmark index.

RETURNS AND HOLDING PERIODS

As will all investment markets, property moves in cycles. However, good property stands the test of time, regardless of these cyclical ups and downs. According to the latest audit, strong capital gains can be achieved in relatively short holding periods, although this is always reliant on careful initial selection. Generally, the longer the holding period, the higher average capital gain.

Capital gain by holding periods

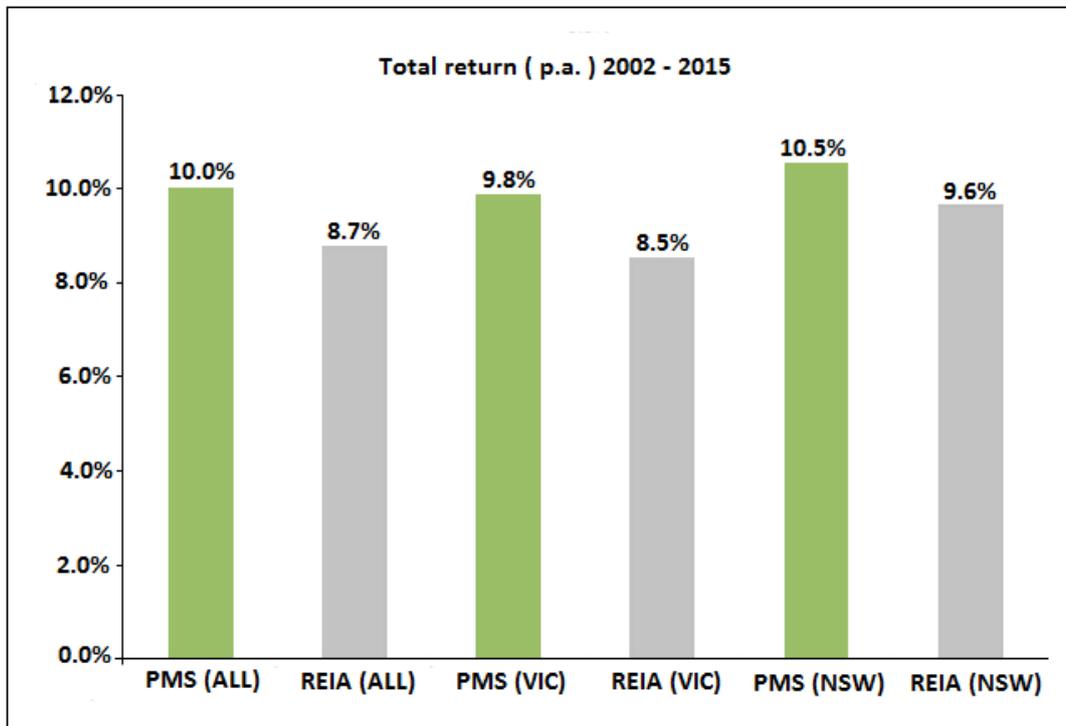


Source: Aitchison

AHEAD OF THE PACK

When PMS properties are measured against the REIA benchmark, the results don't only show they perform above the national average but also above the state-based averages.

The chart below demonstrates the latest performance and comparisons for Victoria and NSW properties.



Source: Atchison

Although we do not yet have enough data to offer a comparison with our Brisbane properties, in coming years we will also publish these statistics. Anecdotally, to date our performance during the past 24 to 36 months in the Brisbane market indicates that returns are well above the industry average.

HOW WE PERFORM FOR YOU

PMS has 43 years in the business of selecting, buying and managing investment property, so after more than four decades of first-hand experience we know what works and what doesn't.

We use a rigorous selection process before we finally recommend a property. We believe it is this diligence to procedure and the strict criteria we use that is the foundation of our strong performance. However, the second part of the equation is also vital — ongoing management. Our experience from managing hundreds of properties maximises returns for our clients.

Without giving away too many secrets, our formula includes:

- Properties must be within close proximity to major infrastructure including public hospitals, transport, employment, retail and education centres.
- Properties must be purchased at or below replacement cost.
- Properties must be capable of providing above-average capital gain and rental returns.
- Properties are typically held for the medium to long term.
- Capital works and improvements are restricted to our proven value-adding formula.
- Tenants are carefully selection and properties are actively managed.

If you would like more information, please visit our website at www.portfolioms.com.au where you can also find our online newsletters and latest updates.