

PORTFOLIO

PROPERTY INVESTMENT MANAGEMENT

ATCHISON AUDIT REPORT 2016

ANNUAL PERFORMANCE AUDIT 2016

Welcome to the 2016 annual audit of properties acquired and managed by Portfolio Management Services. We can once again confirm that PMS properties outperformed all main residential property and investment benchmarks during the financial year to June 2016. Strong capital gains and steady income streams have combined to produce another year of outstanding results for our clients.

EXPERIENCE COUNTS

According to the audit by financial markets analyst and independent research company Aitchison Consultants, PMS properties have achieved average total returns of 12.6 per cent every year for the past 44 years, since we first began our business.

The result is 1.1 per cent more than the Real Estate Institute of Australia residential property index, which had total annual returns of 11.5 per cent during the same period.

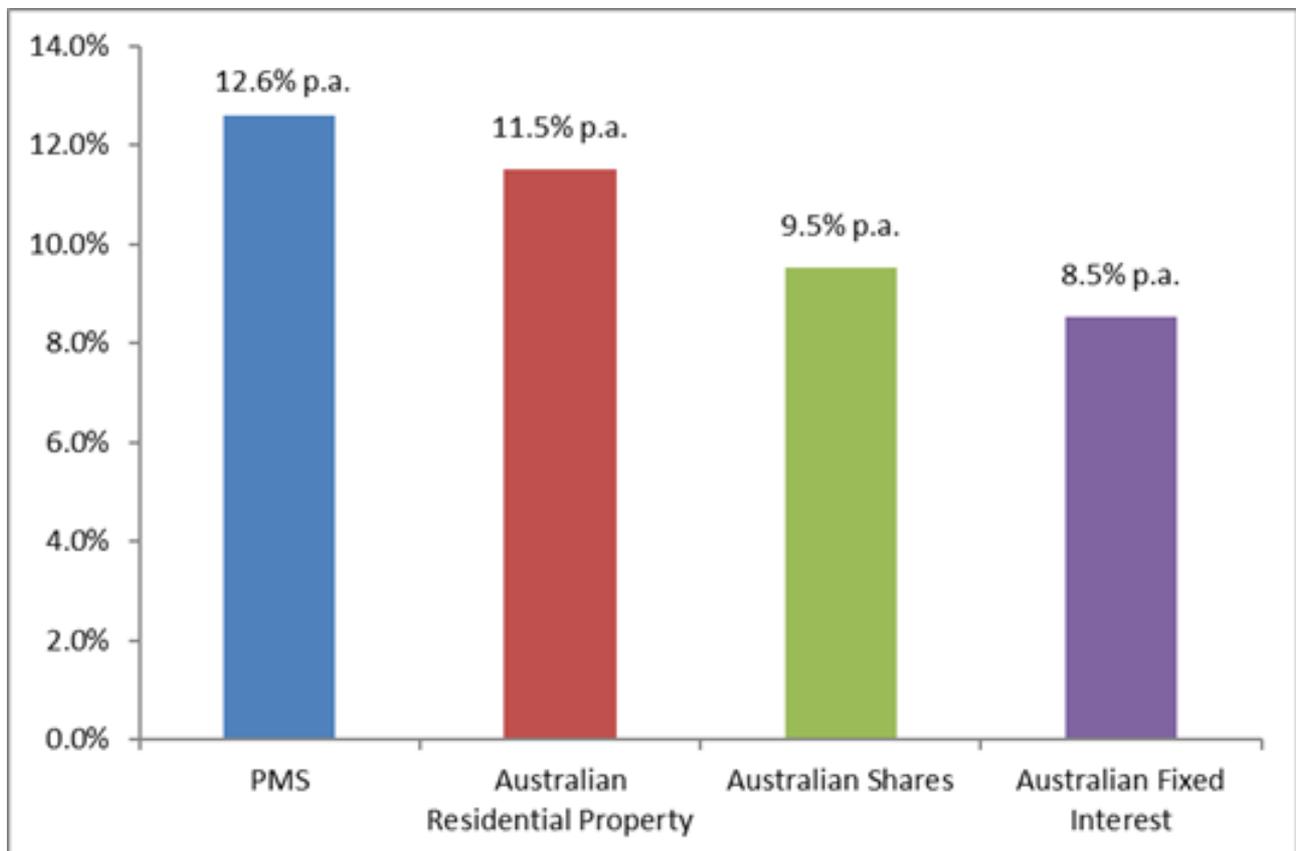


Figure 1 Comparative returns over 44 years to June 2016 (Source: Aitchison)

TOTAL RETURNS

This strong total return is made up from a combination of capital gain and rental income. During the past 44 years PMS properties have achieved an average 8 per cent annual capital gain, well above the REIA capital gain benchmark of 6.9 per cent. This is after deductions for entry and exist costs and maintenance during the holding periods. While rental income of 4.6 per cent per year was the same for PMS properties and the REIA benchmark.

2002 - 2016

Using a more recent time frame, during the past 14 years, since we introduced more uniform and comprehensive data collection for all our properties, PMS has averaged total annual returns of 10.4 per cent. This result puts PMS properties ahead of the REIA residential benchmark by 1.9 per cent every year. The REIA residential property index was 8.5 per cent per annum during the same period.

The returns from our properties were also better than every other main investment benchmark including Australian shares, Australian listed property and direct commercial property (10.1 per cent.)

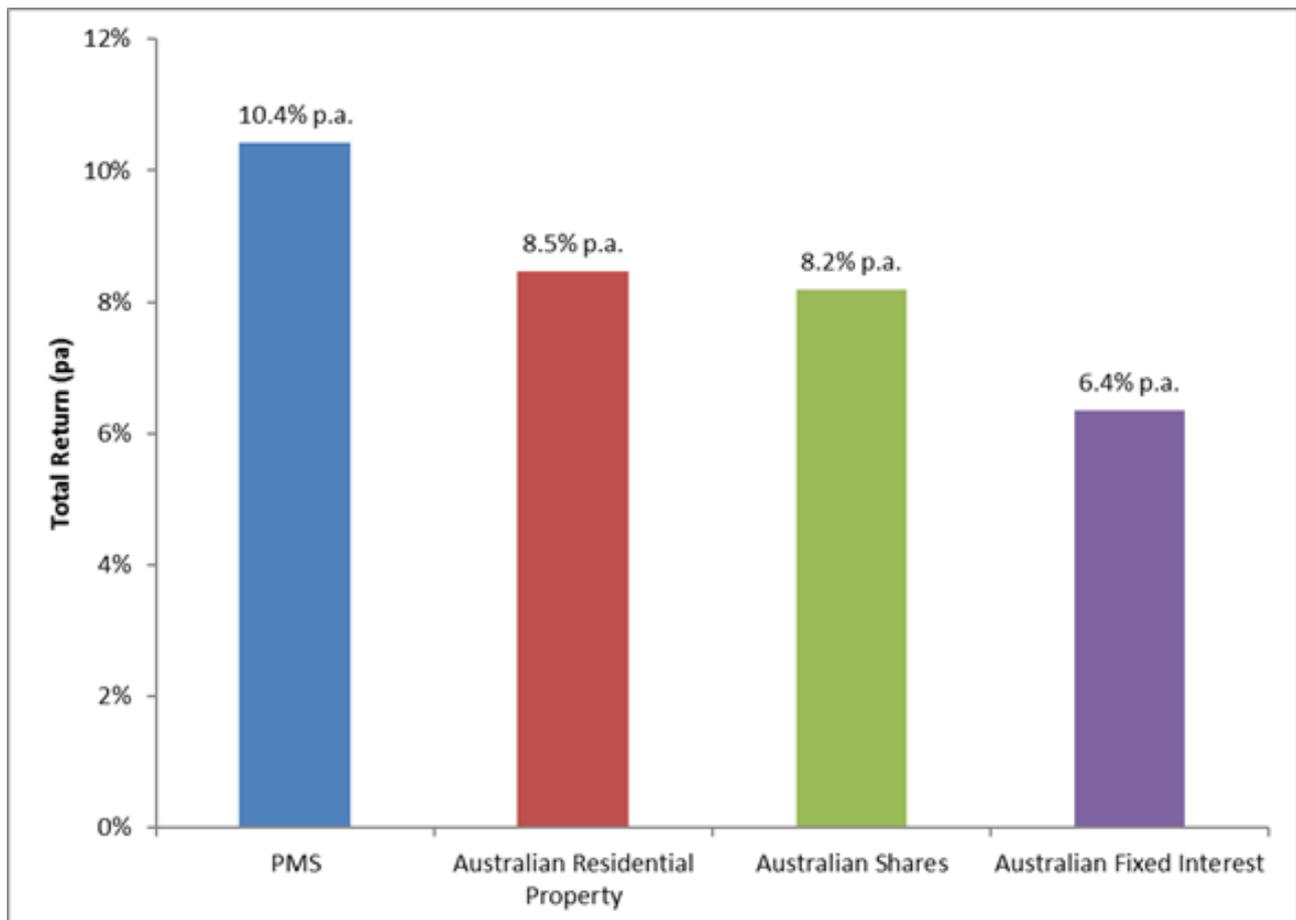


Figure 2 Comparative annual returns June 2002 - June 2016 (Source: Atchison)

HOW YOUR MONEY HAS GROWN

To demonstrate, in dollar terms, the long term benefits from owning a PMS property we asked Atchison to calculate the cumulative total returns from property purchased and managed by PMS. The result provides further evidence of the success of our careful property selection and management practices.

\$100 invested in 2002 is now worth:

PMS property	\$389.42
Direct Commercial Property	\$378.18
REIA Sydney residential property	\$317.68
REIA Melb residential property	\$310.92
Australian Shares	\$303.48
Australian Listed Property	\$247.98
Australian Bonds	\$237.73

Source: Atchison

OUR TOTAL PORTFOLIO

The PMS residential portfolio currently includes 662 residential properties valued at approximately \$538 million. The properties are primarily located in Melbourne, Geelong, Sydney and Brisbane. This compares with 562 properties last year, valued at \$425 million.

The majority of our portfolio is in Melbourne, with 454 properties, followed by Sydney with 172 and Brisbane at 36.

During our 44 year history we have purchased and managed more than 1100 properties. As the table below illustrates about 35 per cent are held for ten years or more, about 30 percent are held for between five and ten years, with a quarter held between two and five years.

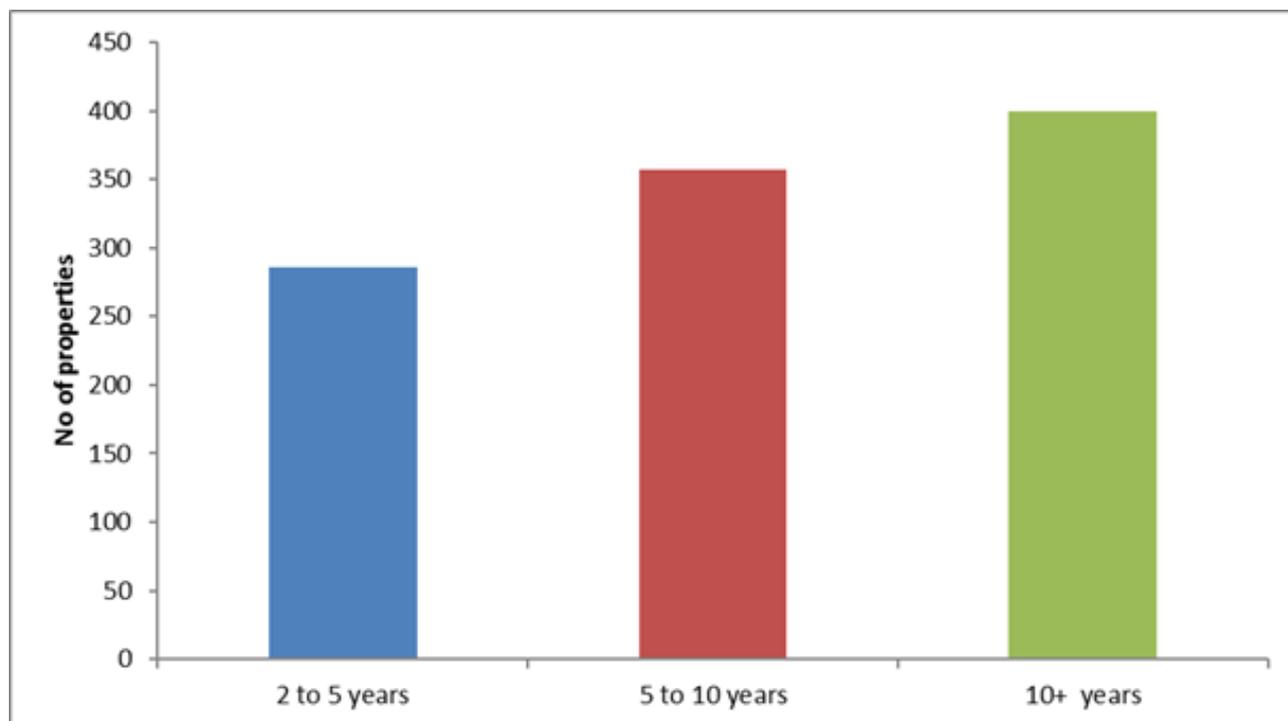


Figure 3 Holding period 44 years to June 2016 (Source: Atchison)

SELECTION CRITERIA

The Atchison audit for 2016 again demonstrates the value of our strong selection criteria. Purchasing the right property in the right location is the major key to our long term outperformance on behalf of our clients.

Experienced, professional management and consistent tenant supply is also critical for strong and steady rental income. Low vacancy rates within PMS properties is a direct factor of our initial tough property selection criteria, with location and property type vital ingredients to maximise tenant demand and rental incomes, as well as capital gains.

CAPITAL GAIN v RENTAL RETURN

During 2016, this year's audit found that 56 per cent of the total return for PMS properties was from capital gains. The balance of 44 per cent came from net rental income. This was similar to last year's averages of 57 per cent capital gain and 43 per cent income return.

However, the gap between capital gains and rental income varies significantly depending on location. This knowledge is important to know so we can continue to meet the different needs of our investors. For various reasons, including tax planning and lifestyle issues, some investors prefer a property with low cash flow but high capital gains, while others place a greater emphasis on a high cash flow.

BEST PERFORMING SUBURBS

We have calculated "time-weighted" total returns for PMS properties for the 14 years since we started collecting a full suite of data on all our properties. Time-weighted is the preferred and more accurate measure for investors and analysts, as it adjusts for shorter and longer holding periods. It evens-out the ups and downs of short term ownership periods which can often distort statistics.

As the following table demonstrates, there is substantial variation in returns between the two major cities of Melbourne and Sydney and also within each suburban cluster of those cities.

Melbourne's eastern suburbs was again a stand out performer with a total return at 13.6 per cent per annum since 2002, followed by Melbourne's south east with 12.8 per cent and Sydney's northern suburbs with a total return of 12.5 per cent.

We are now also starting to build usable data from our Brisbane properties, albeit still early days (an average of less than three years ownership) and on low property numbers. However, Brisbane north east had a strong 8 per cent total return and Brisbane's inner north averaged 5.9 per cent - albeit on very low volume.

HOW THE SUBURBS PERFORMED - INCOME AND CAPITAL GAIN

	Average total return p.a.	Capital	Income
Sydney East	11.1%	8.0%	3.1%
Sydney Inner East	10.8%	7.6%	3.2%
Sydney Inner South	9.3%	6.0%	3.3%
Sydney Inner West	11.3%	8.4%	2.9%
Sydney North	12.5%	7.4%	5.1%
Melb Central	11.6%	5.5%	6.1%
Melb East	13.6%	10.2%	3.4%
Melb Inner East	10.2%	9.0%	1.2%
Melb Inner North	10.5%	8.3%	2.2%
Melb Inner South	10.7%	8.2%	2.5%
Melb Inner West	10.5%	7.1%	3.4%
Melb North	12.3%	7.2%	5.1%
Melb South	9.1%	4.9%	4.2%
Melb South East	12.8%	4.6%	8.2%
Geelong	6.9%	2.9%	4.0%
Bris North East	8.0%	4.3%	3.7%
Bris Inner North	5.9%	2.0%	3.9%
Bris North West	5.4%	0.9%	4.5%
Bris Inner North West	5.7%	1.9%	3.8%
Bris Inner South West	5.2%	1.0%	4.2%
Bris Inner South East	4.6%	1.3%	3.3%
Bris Inner East	5.8%	1.7%	4.1%
Bris East	5.8%	1.9%	3.9%

Figure 4 Total returns by location, 2002-2016 (Source: Aitchison)

HOUSES V UNITS

We have long been an advocate of detached housing, however, our well positioned apartments are also coming to the fore with some very good returns. Again, the Aitchison audit found our properties, both houses and units, outperformed the Australia-wide benchmarks.

During the past 14 years, since our more comprehensive data collection has been available, PMS houses have outperformed the REIA house average by 1.5 per cent every year. PMS houses produced total returns of 10.3 per cent per annum, compared with 8.8 per cent by the REIA index for detached houses.

PMS units and apartments outperformed the REIA average by 1.7 percent every year. PMS units and apartments produced total returns of 10.9 per cent per annum, compared with just 8.8 per cent per annum by the REIA index for units and apartments.

RETURNS AND HOLDING PERIODS

Property moves in cycles, along with most financial and investment assets. However, good property stands the test of time, regardless of cyclical ups and downs. The audit found 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.

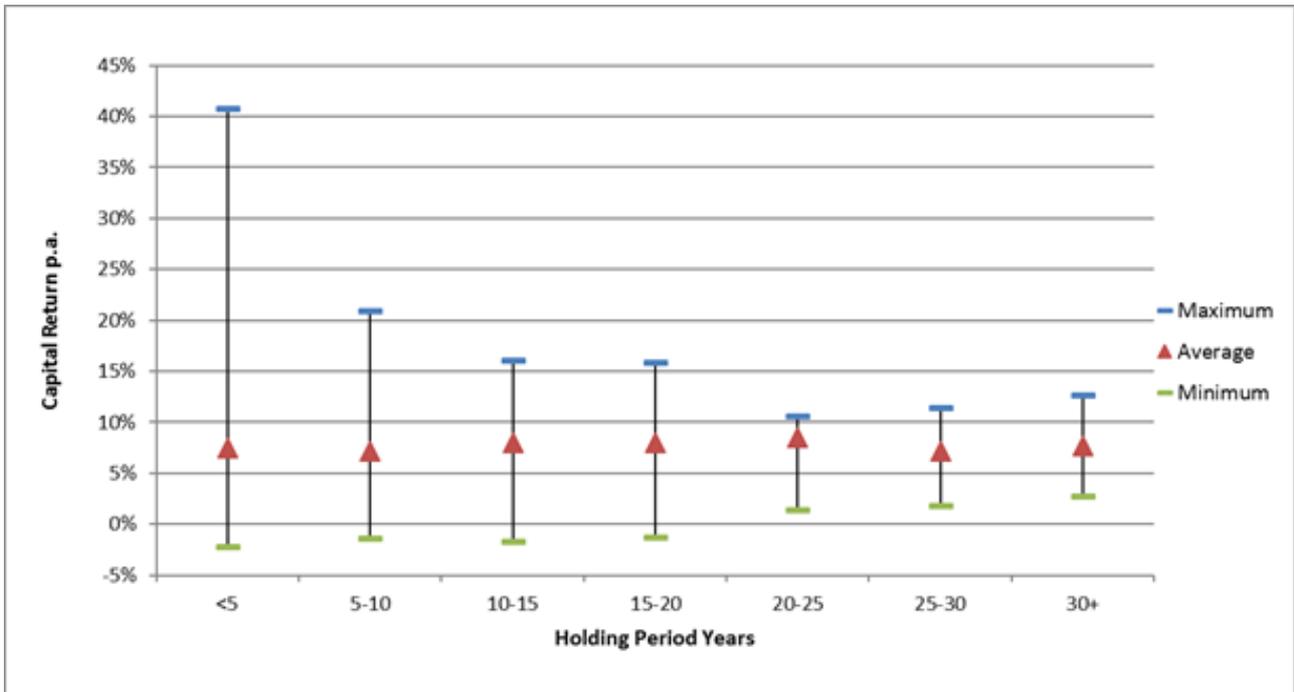


Figure 5 Capital gain by holding periods (Source: Atchison)

KEEPING YOU AHEAD OF THE PACK

When Atchison assessed PMS properties against the REIA benchmark index, the results revealed our properties perform above the national average and also above the state-based averages.

The following chart demonstrates the latest performance and comparisons for Victoria, NSW and initial early data for Brisbane properties.

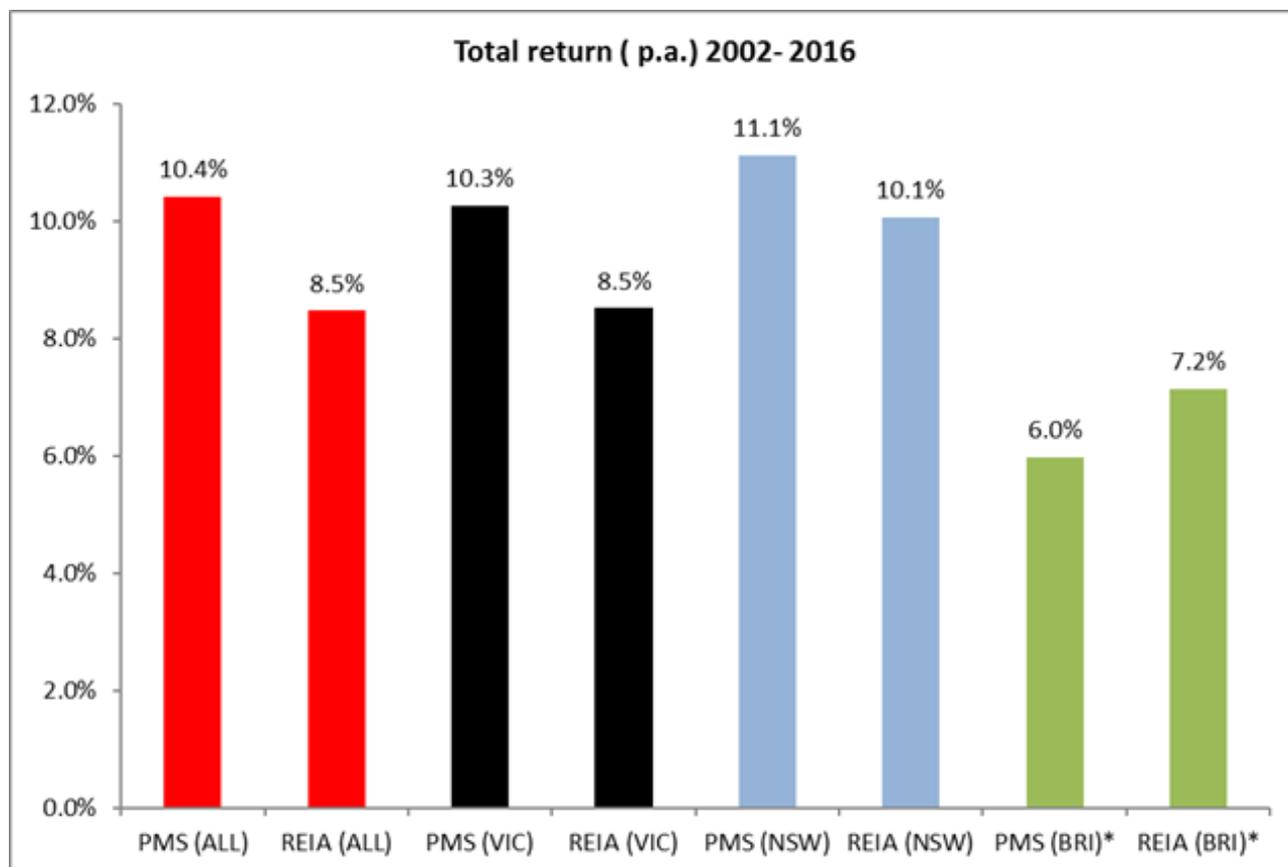


Figure 6 Total Return 2002 to 2016 by state (Source: Atchison)

Although we do not yet have enough data to offer a comprehensive analysis of our Brisbane properties, in coming years we will be able to provide a more worthwhile comparison. To date, however, our performance during the past 36 months in the Queensland market indicates that PMS returns are strong.

The total return for PMS Brisbane properties is an average 6 per cent per year. (This is based on an average ownership period of just 2.6 year, compared with the REIA benchmark performance for the full 14 year time frame).

HOW WE PERFORM FOR YOU

PMS has 44 years in the business of selecting, buying and managing investment property, so after almost 4.5 decades of first-hand experience, we know what works and what doesn't.

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

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 selected and properties are actively managed.

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www.portfolioms.com.au