

APRIL 2017

GOWINGS INVESTOR NEWSLETTER

SHAREHOLDER UPDATE



Investing Together For a Secure Future

EST  1868

GOWING BROS

FINANCIAL HIGHLIGHTS – HALF YEAR ENDED 31 JANUARY 2017

- Total shareholder return before tax on unrealised gains was 7.2% for the six month period ended 31 January 2017.
- Net assets per share before tax on unrealised gains increased to \$4.25 from \$4.02 during the six months to 31 January 2017.
- The increase in net assets per share was driven by a further appreciation in the Pacific Coast Shopping Centre portfolio and Boundary Bend Limited. The increase in value of the shopping centre portfolio was driven by the successful leasing campaign at Moonee Beach and a further compression in the capitalisation rate applied in Port Central SC valuation.
- The equity portfolio also performed strongly with an underlying return of 9.2% compared to the ASX200 Accumulation Index of 3.2% with Boundary Bend Limited being the highlight.
- Profit after tax for the half year was \$11.9 million compared to the prior corresponding period of \$18.6 million which included the capital profit of \$18.3 million on the sale of our long term investment in Blackmores Limited.
- An interim fully franked LIC capital gains tax dividend of 6 cents per share has been declared.
- During December 2016, Gowings purchased Surf Hardware International for \$16 million (\$6 million deferred settlement) and Sawtell Heights Estate residential sub-division in Lyons Road Coffs harbour for \$9 million.
- The Port Central loan facility was refinanced from \$26 million to \$34 million and the term extended from 3 to 7 years on a more competitive interest rate.



PROFIT AND LOSS STATEMENT

For the half year ended	31 Jan 2017	31 Jan 2016	Movement
	\$'000	\$'000	
Net Income from Ordinary Activities			
Interest income	351	91	286%
Investment properties	4,491	4,460	1%
Equities	716	964	-26%
Managed private equities	108	39	177%
Surf Hardware International (1 month)	(70)	-	n/a
Total Net Income from Ordinary Activities	5,596	5,554	1%
Expenses			
Administration, public company and other	1,880	2,005	-6%
Net Income from Ordinary Activities	3,716	3,549	5%
Income tax expense – ordinary activities	(956)	(1,123)	
Profit after Tax from Ordinary Activities	2,760	2,426	14%
Unrealised Gains – Investment Properties	10,400	4,615	125%
Realised Gains - Equity	3,547	18,545	-81%
Other Income	223	481	-54%
Other non-recurring expenditure	(472)	-	n/a
Unrealised impairment on listed equities	(518)	(431)	-20%
Profit Before Tax	15,940	25,636	-49%
Income tax expense – other activities	(3,996)	(6,995)	
Profit After Tax	11,944	18,641	-36%
Other Comprehensive Income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations	(97)	-	n/a
Transfer from unrealised reserves to realised gains after tax	(1,995)	(6,778)	n/a
Increase / (decrease) in fair value of investments net of tax	2,381	(765)	n/a
Total Comprehensive Income	12,233	11,098	10%

GOWINGS AT A GLANCE

	31 Jan 2017	31 Jul 2016
	\$'000	\$'000
Strategic Equity Investments		
Surf Hardware International	16,000	-
Boundary Bend Limited	13,961	10,071
Carlton Investments	5,571	5,528
Hydration Pharmaceuticals	2,643	2,659
Murray Darling Food Company	2,045	-
TPI Enterprises Limited	1,920	1,933
Event Hospitality Group	1,623	1,180
DiCE Molecules	1,299	1,349
Hexima	230	574
EFTsure	250	-
Other listed investments	9,519	24,480
Total	55,061	47,774
Private Equity Funds		
Macquarie Wholesale Co Investment Fund	1,237	1,152
OurCrowd Australia	1,177	777
Our Innovation Fund	375	-
Five V Capital	-	-
Other Private Equity Funds	250	750
Total	3,039	2,679
Pacific Coast Shopping Centre Portfolio		
Sub-regional shopping centres	155,452	147,747
Neighbourhood shopping centres	40,950	34,238
Borrowings	(47,000)	(47,000)
Total	149,402	134,985
Other Direct Properties		
Sawtell Heights Estate - residential subdivision	9,000	-
Solitary 30 - Coffs Harbour development land	3,189	-
Other Properties	16,832	16,947
Borrowings	(1,725)	(1,775)
Total	27,296	15,172
Commercial Lending		
Greenleaves Childcare Investment Facility	3,000	2,003
Working Capital		
Cash	420	20,997
Other Assets & Liabilities (Includes \$6m deferred settlement SHI)	(10,190)	(7,711)
Total	(6,770)	15,289
Net assets before tax on unrealised gains on equities and investment properties	228,028	215,899
Provision for tax on unrealised gains on equities and investment properties	(20,478)	(17,319)
Net assets after tax on unrealised gains on equities and investment properties	207,550	198,580

COMMENTARY



The Company's focus is on growing Net Income from Ordinary Activities (i.e. interest, rent and dividends received less operating expenses) as the principal source of income used to pay ordinary dividends.

Total Income from Ordinary Activities of \$5.6 million was 1% higher than in the prior corresponding period due to increased interest income and distributions from managed private equities.

Total Administration Expenses of \$1.9 million was 6% lower than the prior corresponding period largely due to a lower bad debts expense in the current half year.

Net Income from Ordinary Activities of \$3.7 million before tax was 5% higher than the prior corresponding period last year primarily due to maintaining revenues, the overall management of operating expenses and lower borrowing costs.

Unrealised Gains – Investment Properties of \$10.4 million was 125% higher than the prior corresponding period largely due to a compression in the capitalisation rates used to value the Pacific Coast Shopping Centre Portfolio.

Realised Gains - Equities of \$3.5 million was 81% lower than the prior corresponding period. The major reason for the decrease was because the prior period included the successful sale of our long term shareholding in Blackmores Limited which alone was a capital profit of \$18.3 million.

Other Income of \$0.2 million, was lower than \$0.5 million in the prior corresponding period due to foreign currency exchange losses in the current period compared to gains in the prior period.

Other non-recurring expenditure of \$0.5 million relates to one-off expenses incurred with the acquisition of the Surf Hardware International subsidiary. Profit After Tax was \$11.9 million, down 36% on the prior corresponding period for reasons discussed in realised gains on equities above.

Total Comprehensive Income of \$12.2 million was 10% higher than the prior corresponding period.

SHAREHOLDER RETURNS

For the half year ended	Before tax on unrealised capital gains
Opening net assets per share as at 31 July 2016*	\$4.02
Closing net assets per share as at 31 January 2017	\$4.25
Increase in net assets per share	23c
Plus ordinary dividend paid	6c
Total Return for the six month period (c)	29c
Total Return for the six month period (%)	7.2%

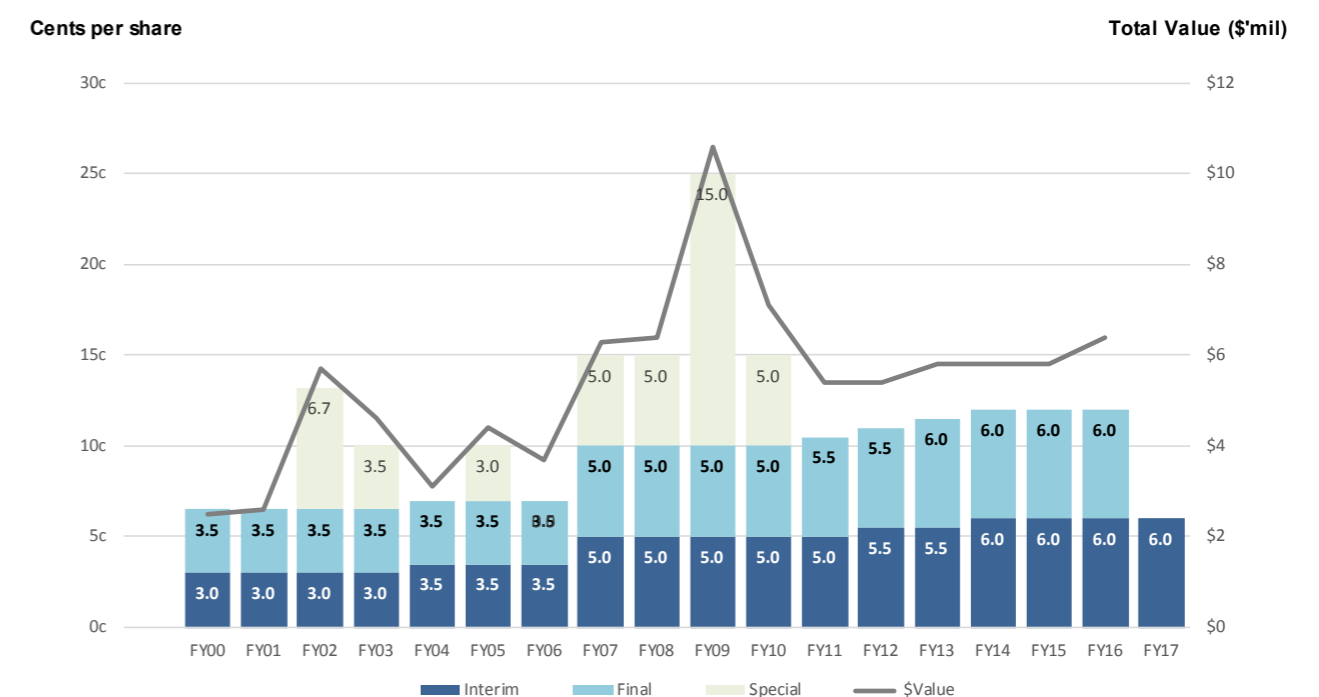
KEY METRICS

	31 Jan. 2017 (6 months)	31 July 2016 (12 months)	31 July 2015 (12 months)	31 July 2014 (12 months)	31 July 2013 (12 months)
Net Assets*	\$228.0m	\$215.9m	\$203.3m	\$180.0m	\$161.4m
Net Assets per Share**	\$4.25	\$4.02	\$3.77	\$3.34	\$2.99
Total Comprehensive Income	\$12.2m	\$18.5m	\$22.5m	\$18.9m	\$12.4m
Earnings per Share**	22.2c	40.9c	35.5c	26.1c	13.5c
Dividends per Share**	6.0c	12.0c	12.0c	12.0c	11.5c
Total Shareholder Return	7.2%	9.8%	16.30%	15.20%	9.50%

* Net Assets before tax on unrealised gains on equities and investment properties.

** Net Assets per share and Earnings per Share as at 31 July 2015 and previous years have been restated for comparative purposes to reflect the 1 for 10 bonus issue during FY16. Dividends per share have not been adjusted. Also the Net Asset per share listed above is before tax on unrealised gains on equities and investment properties.

DIVIDENDS PAID



PACIFIC COAST SHOPPING CENTRE PORTFOLIO

The Pacific Coast Shopping Centre portfolio reported a \$10 million uplift in valuation to \$196 million during the period, generated by Port Central and Moonee Marketplace. Market valuations for sub-regional and neighbourhood centres continue to remain very buoyant driven by both a shortage of quality centres and an increased demand from local and offshore investors.

Over the past 2 years the Company has undertaken a variety of strategic initiatives to improve the long term quality of these assets and to create value through unlocking various opportunities including developments, public-to-private partnerships, government grants and town centre master planning.

During the period, a large number of these initiatives came to fruition with further opportunities continuing to be progressed as described below.

Gowings is a long term patient investor and applies this philosophy along with its background in investment management, property and retail to the centres. Interestingly, we are seeing many of the other shopping centre owners starting to mimic the entrepreneurial approach that we have taken in the last five years regarding initiatives in leasing, marketing and development. We genuinely see our tenants as our retail partners and do everything possible to ensure their success, which in turn will generate returns for our shareholders over the longer term.

Coffs Central



Coffs Central has received three development approvals during the period including the Level 1 mall reconfiguration and upgrade of the DDS, the expansion of the centre east including some 4,000m² of new retail and office space and a basement carpark. These works are collectively referred to as Stage 2 and the total project cost is approximately \$32 million to be funded from a mix of existing cash reserves and borrowings. We are also pleased to announce that we have successfully secured a new major anchor tenant in Kmart whom we consider to be one of Australia's best retailers. Kmart will greatly improve the retail mix and depth of offer in the centre and assist the leasing campaign of some twenty new specialty shops.

During the half, we completed the \$3 million intersection and drainage works which will strategically allow Coffs Central to trade directly to the street and facilitate a new entrance to Gordon Street. The intersection works were undertaken and funded through a Voluntary Planning Agreement partnering with Coffs Harbour City Council. The Basement carpark works are drawing to completion under an early works package for Stage 2. It is expected that Stage 2 development will be

completed over the coming 18 months subject to our leasing success.

As a long term investor, we prepared a masterplan for Coffs Central including further stages of future development. One such potential opportunity is to erect a hotel tower over the new expansion for which we have submitted a development application and are optimistic for its approval by the Joint Regional Planning Panel given initial positive feedback received from the community generally. As part of the basement carpark works, we have made additional allowance for foundations that would allow such future development.

We are also an active member of the City's Masterplan Committee and are assisting to implement a major upgrade of the Town Square to activate and stimulate a vibrant city centre. These works are scheduled to be completed late this year.

The centre continues to trade well in terms of increased specialty sales and vacancies have slightly reduced during the period.

Moonee Marketplace



Moonee is continuing its successful leasing incubation program having secured new bulky goods and specialty tenancies during the period. Of highlight, a national childcare operator opened a 92-place modern facility which is not only the highest standard in Coffs Harbour, but in our opinion, quite possibly sets a new benchmark in Australia. We also opened a best practice swim school which is the largest operator in Coffs Harbour. Both of these offers were the outcome of operators partnering with Gowings to undertake concept definition, detailed design and construction. Most pleasingly, both operators have made a strong start with initial enrolments above expectations. Strategically these two new additions will draw on the wider Coffs Harbour catchment to the benefit of the centre's fellow retailers.

We have now leased approximately half of the long

term vacancies over the past 12 months. We are also undertaking a capital upgrade program to reposition the centre as a destination and complement its new leasing mix. The leasing results to date have seen an increase in income above budget which in turn increased the valuation of the centre by \$5 million during the period. The centre is now valued in line with market averages for neighbourhood centres. The timing of our campaign will also benefit from the strong demographic growth in the immediate area with all surrounding subdivisions being nearly sold out.

With the initial success of our leasing campaign and Coles returning to turnover rent, we believe there is further upside in this asset, which should trade at a premium to market if we are successful in the execution of the remaining leasing campaign.

Port Central



Our largest shopping centre asset Port Central appreciated during the period in line with continued strengthening in demand for quality sub-regional shopping centres.

During the period we negotiated a new 7 year \$34 million finance facility with \$20 million of the facility hedged at 3.22% per annum.

The Company has exercised an option over an adjoining parcel of land for the purpose of undertaking a development feasibility to expand the centre.

Port Central also enjoyed increased foot traffic and specialty sales during the period with no change in vacancies.

Kempsey Central



Gowings has formed a tri-party agreement with Kempsey Shire Council and a local cinema operator to construct a new cinema on top of the shopping centre. In addition to the \$2 million committed by Kempsey Shire Council, the partnership was successful in obtaining Commonwealth Government Grant in excess of \$2 million for the cinema, under the regional economic development scheme. During the period, the Company

received approval of its development application and is now negotiating commercial agreements. Subject to final negotiations and board approval, the cinema development could commence in the second half of this year.

The centre's total sales continue to grow on the back of a resurgent Coles supermarket with no change to the centre's occupancy levels.

STRATEGIC EQUITY INVESTMENTS

Last year's first half was always going to be a difficult half to follow, due to the significant capital profit made on the realisation of our long term investment in Blackmores Limited. This half saw the Company sell a number of poorly performing listed investments and generally lighten our exposure to listed equity markets to raise capital reserves for anticipated new investments in equities and property opportunities. It was an interesting market period, with the market behaving counterintuitively to the unexpected election of the Trump Administration in the US. Surf Hardware International, Boundary Bend Limited and Carlton Investments Limited are now our largest investments, quite a change from a few years ago.

Surf Hardware International (\$16 million)



During the half, the Company made a new investment in Surf Hardware International (SHI), a manufacturer and global supplier of surf-related hardware products under four highly recognised brands including FCS, Gorilla, Softech and Hydro.

SHI was acquired for a total net consideration of \$16 million with \$10 million paid from existing cash reserves and a deferred consideration amount of \$6 million payable on 30 June 2017. SHI is a profitable business and will be earnings accretive for Gowings.

The FCS brand began in the early 1990's with the invention of the detachable surfboard fin system, an innovation which would revolutionise the way surfboards were manufactured and ridden forever. FCS is a global leader in water board sports accessories and commands a market leadership position in fin systems and fins.

Other brands within the SHI portfolio include Gorilla, which was established in 1988 following the introduction of the revolutionary 'Rocket Block' providing surfers with an alternative to wax and paving the way for surfboard grip, and the Softech Softboard and Hydro Bodyboard brands which were acquired by SHI in 2010.

SHI has a global distribution network with a direct presence in each of the key markets of the USA, Australia, Europe and Japan along with a network of distributors covering some 40 countries worldwide.

SHI has experienced considerable growth over the past three years following the launch of the new FCS II fin system, a patent pending innovation which delivers the company a significant competitive advantage in its core product categories of fin systems and fins. Looking ahead, SHI has a number of key innovation projects within its brand portfolio in order to further develop the business.

Boundary Bend Limited (\$14 million)

Boundary Bend Limited, an unlisted public company is Australia's largest vertically integrated olive-oil producer, wholesaler and consumer marketer. Boundary Bend owns the well-known brands Cobram Estate and Red Island. It is now the Company's 2nd largest equity investment, having more than doubled in value during the year.



For the 2016 financial year Boundary Bend reported an operating cashflow surplus of \$12.4 million (up from a surplus of \$6.0 million in FY15). The company also commenced two major growth initiatives: launch of the Cobram Estate brand in the USA, including construction of a substantial processing facility in America's olive heartland, California; and the launch of a new olive-products business, including supplements and other products derived from olives and olive leaves.

In Australia, Aldi supermarkets announced in January this year that it will commence stocking all three Cobram Estate styles (Light, Classic, and Robust) in 500ml bottles. Significantly, Aldi's policy is to stock almost exclusively "home brand" products in its stores, with third-party brands carried only when the company believes customers will defect to other supermarkets if Aldi doesn't include them. The list of brands in Australia that meet this criterion is a Who's Who of household names including Arnotts, Milo and Vegemite.

Carlton Investments (\$5.6 million) and Event Hospitality Group (\$1.6 million)

Carlton Investments and Event Hospitality are essentially related investments. Gowings has been a very long term investor in Carlton Investments whom prior to the sale of the Gowings Building on the corner of Market and George Streets through their significant holding in Amalgamated Holdings Ltd, (now Event Hospitality Group Ltd) were our next door neighbours. Gowings had in fact sold the State Theatre site to the forerunner of Amalgamated in the late 1920s. These companies are very well run, with significant strategic property holdings in Sydney CBD, as well as significant exposure to the Australian, New Zealand and German tourism and Cinema markets.

Hydration Pharmaceuticals (\$2.6 million)

The Hydration Pharmaceuticals Trust owns the global rights to the Hydralyte brand, Australia's leading oral rehydration product. The company's current focus is establishing its brand in North America. It has formed a major distribution partnership in the US with The Emerson Group, now a foundation investor in the business.

Hydration Pharmaceuticals successfully launched its range of products in the US earlier this year. The Hydralyte product, which is well known in Australia, has been well received in the US, however it is still very early days. The brand has also launched in Canada, and in 2016 achieved year-on-year growth of more than 35%.



Murray Darling Food Company (\$2 million)



Over the past 12 months, we formed a partnership with agricultural operators to undertake an investment feasibility into establishing a vertically integrated organic lamb business.

As long term shareholders would know, Gowings has a view that agriculture will be a long term beneficiary of our world's growing population and rising living standards. Having said that, agriculture is a difficult and volatile investment class often met with loss. Gowings was an early investor in both Tassal and Boundary Bend which generated significant returns over the years and we see many potential similarities to the present opportunity.

Following a favourable feasibility, we jointly formed Murray Darling Food Company (MDFC) with like-minded investors who are presently strategic operators in the industry.

We believe that organic and grass fed lamb market has the potential to provide for superior returns with a lower degree of risk compared to many other agricultural assets. Over the long term, the risk will be further mitigated and returns enhanced through establishing a vertically integrated business including branded meat sales. The central investment thesis to this is a relatively new breed of sheep which is more productive and resilient compared to traditional Merino wool and sheep meat. In this respect we have partnered with one of Australia's leading Dorper studs to establish MDFC. MDFC raised \$12 million dollars during the period

including an initial \$2 million cornerstone investment from Gowings. MDFC acquired its first asset being Burrawang West Station a Dorper lamb stud based in Condobolin, western NSW. In January it commenced operations with sale of 100 Rams with an average price of \$2,900 per ram. Currently there are 750 stud and 2000 commercial ewes lambing, and planting of oats on 2500 acres which will eventually be harvested for sheep feed. There has also been investment into DNA and IT equipment to efficiently manage the stud operations and optimise the breeding process. At the date of this report MDFC purchased another 6,000 acres mixed grazing and cropping property in Condobolin which will complement the current operations at Burrawang West Station.

DiCE Molecules (\$1.3 million)

DiCE Molecules is a US biotech company with unique technology to identify cures for currently incurable diseases. In 2016, the company announced a successful agreement with Sanofi, the largest French Pharmaceutical company, to utilise DiCE's technology. The Sanofi agreement not only validated DiCE's frontier technology, but provided substantial financial support to meet its working capital and operational requirements for the next five years.

In 2017, the company is likely to announce another substantial partnership with a global pharmaceutical company, and will continue to pursue its own candidate drug molecules.

TPI Enterprises Limited (\$1.9 million)



TPI Enterprises (TPI), manufactures pharmaceutical grade morphine and successfully moved its manufacturing facility from Tasmania to Victoria. TPI was originally a private equity investment of Gowings prior to its listing last year. While still in start-up phase TPI managed to increase its sales in FY16 by over 183% to \$10.6m. Recently TPI announced two key licence and permit milestones which are central to TPI's expansion into the UK, Europe and other open markets. Subsequent to year end TPI announced a placement and entitlement offer to raise approximately \$44.2 million in capital in which Gowings has committed \$0.6 million.

Hexima (\$0.2 million)

Hexima is an Australian biotechnology company focused on the research, development and commercialisation of technology of plant-derived proteins and peptides for applications as human therapeutics and for the genetic modification of crops. The company's first significant commercial product-development project is a breakthrough treatment for onychomycosis (fungal nail infections), a US\$3.2 billion global market. Preclinical data indicate that the company's lead molecule, HXP124, enjoys multiple potential advantages over current onychomycosis therapies, in particular the ability to penetrate nails



rapidly when applied topically along with the ability to kill cells faster and at lower concentrations than current drugs.

The company is proceeding to clinical trials for this product in 2017. It is in advanced discussions with possible global partners to bring the potential drug to market. Hexima will fund these trials by raising approximately \$3.9 million (exclusive of costs of the offer) from a fully underwritten non-renounceable pro-rata rights issue to subscribe for 6 new shares for every 10 shares held.

EFTsure (\$0.3 million)

EFTsure is an Australian owned IT company incorporated to deliver electronic payment authentication services to its customers. EFTsure provides an innovative, cost-effective and specialised service and software solution to businesses validating the integrity of their payment data and ensuring prior to making an EFT payment that the name of the Payee matches the BSB and Account number. Gowings holds a small holding in the company and Our Innovation Fund made a subsequent commitment at the same valuation metrics as Gowings. We firmly believe in the EFTsure product and are currently in the process of implementing this technology for our own use and security.



PRIVATE EQUITY FUNDS

Macquarie Wholesale Co Investment Fund (\$1.2 million)



Macquarie Wholesale Co Investment Fund was established as a specialist investment vehicle formed for the purpose of making co-investments in Australian and New Zealand unlisted companies and assets across a range of industries, and making secondary investments, primarily in Australia where available. The fund closed its capital raising in 2005 at its maximum size of \$80 million.

The fund's current major investments are in Hirepool New Zealand's largest equipment rental provider and SMABBBQ a merger of Super A-Mart (SAM), a leading furniture and bedding retailer with BBQ's Galore (BBQ), a barbeques and outdoor furniture retailer. Currently Gowings has a \$1.2m investment in the fund.

OurCrowd Australia (\$1.2 million)



OurCrowd is the leading global equity crowdfunding platform for accredited investors. Managed by a team of seasoned investment professionals, OurCrowd vets and selects opportunities, invests its own capital, and brings companies to its accredited membership of global investors. OurCrowd provides post-investment support to its portfolio companies, assigns industry experts as mentors, and takes board seats. The OurCrowd community of almost 17,000 investors from over 110 countries has invested over \$400M into 110 portfolio companies and funds. Gowings has made a \$US0.9 million investment into OurCrowd of which \$US0.6 million has been deployed across 20 projects of our choice and the remaining \$US0.3 million remains available to deploy.

Our Innovation Fund (\$0.4 million)

Our Innovation Fund is a newly established incorporated limited partnership which will invest in early stage businesses with innovative, high growth or disruptive technologies, processes, systems or intellectual properties which have significant market potential. The Fund will seek to make investments throughout various stages of company development (from seed through to early expansion), with particular attention given to the experience and mindset of the founders of potential investee companies, potential for the long term success of business models and the potential investment returns for Limited Partners in the Fund.



During the 2016 financial year period Gowings made a \$1.5 million commitment to Our Innovation Fund. The fund has so far made 3 investments including a \$1 million commitment of the fund total of \$50 million in EFTsure as discussed above. Gowings draw down for these investments was \$0.4 million. Being in such early stages it is too soon to comment on performance. This fund is structured to take advantage of the Innovation Package tax breaks. The fund is being run by the team behind OurCrowd Australia, with whom we are comfortable and have a strong relationship.

Five V Capital

Five V Capital Fund 2 has been set up and managed by Adrian McKenzie, an experienced Australian venture capital manager with whom Gowings have enjoyed a long business relationship. Gowings have committed \$1 million to this fund which also gives us co-investment rights in fund investments should there be additional capacity. The Fund 2 investors receive a complimentary carry of 20% of the performance fee due to the manager from fund 1, ensuring an alignment of interests. The Principals of Five V Capital have committed \$10 million of their own capital to Fund 2, also driving an alignment of the commercial interests between the managers and investors.

No investments were made prior to the end of the half year, however subsequently the fund has made its first investment in Unified Health Group (UHG), an IT company that provides Australia's leading B2B healthcare platform helping large corporates such as insurers, law firms and corporates search, book, pay and securely manage health information and services from healthcare providers. Gowings share of this investment is \$0.2 million and additionally made a further co investment of \$0.1 million.



OTHER DIRECT PROPERTIES

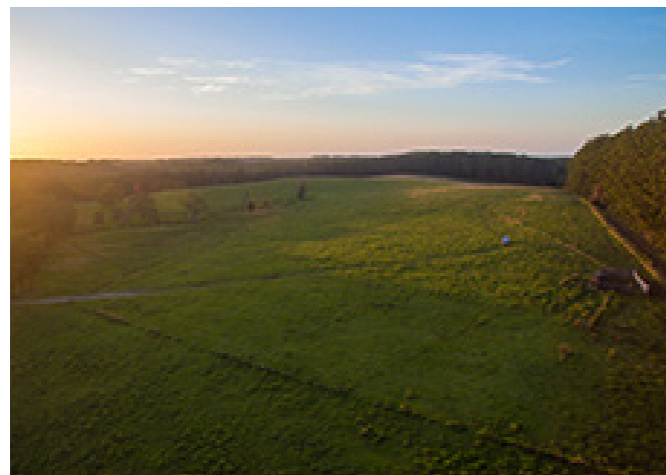
Solitary 30 – Development Site



The Company purchased a 3,000m² development site for \$3 million at the prominent Jetty Village in Coffs Harbour. The site boasts 270 degree water views and is surrounded by cafes and restaurants and is considered to be one of the best development sites in Coffs Harbour.

The site has some potential heritage issues that are to be addressed as part of the upcoming development planning phase. The best development use is still being evaluated with current zoning permitting any combination of residential apartments, hotel and mixed retail.

Sawtell Heights Estate – Residential Subdivision



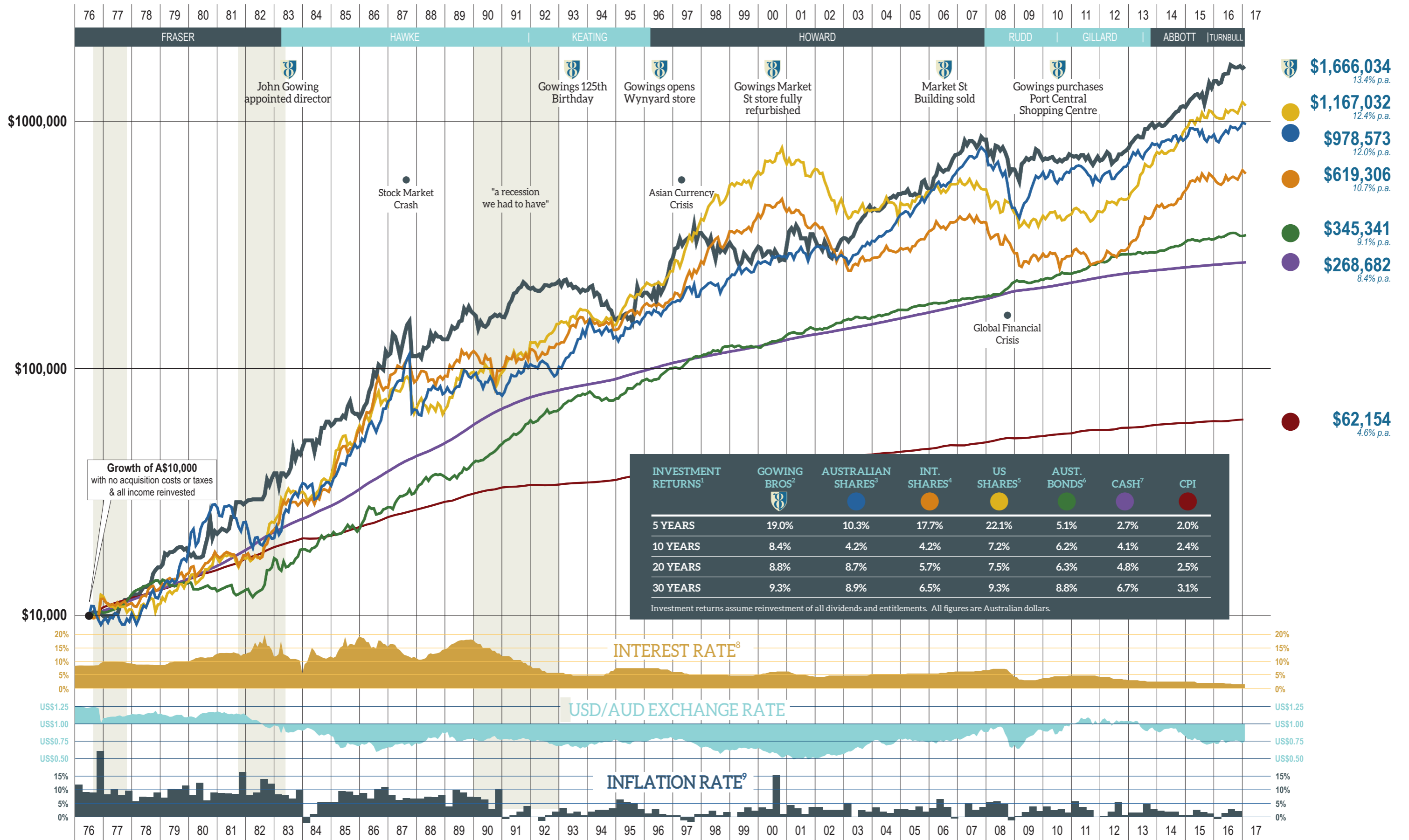
The Company acquired a 165 lot residential subdivision for \$9 million called Sawtell Heights Estate located approximately 10 minutes south of Coffs Harbour. The site is DA approved and we are currently working on detailed design, staging, and tenders and will be commencing works during the second half of the year, with the aim to bring the first release to market in late 2017. The purchase was funded by existing cash reserves and the Company will look to use a mix of cash and debt to fund the development over an expected 3 to 4 year period.

OUTLOOK

Global asset prices remain buoyant and indeed at near all time highs in this ongoing low interest rate environment. We remain cautiously optimistic with reference to the low levels of unemployment, stable economic growth and healthy corporate balance sheets. Following the election of the Trump administration, the world's largest economy is showing strong signs of growth across many leading indicators.

Our key areas of concern include rising interest rates and political risk. The US has commenced an interest rate tightening cycle, which typically puts downward pressure on asset prices. Given the slow rate at which rates have been rising in the US it would appear that rates will rise at a measured pace and there aren't any signs of over heating or asset price bubbles. With regards to political risk, this is apparent in almost every country for a variety of domestic and global reasons. Of note, we are witnessing a new era of populist governments, Brexit, currency wars, trade tariffs and military brinkmanship.

Possibly as a sign of the times, we are seeing increasing opportunities across all asset classes. We are conscious of our high weighting to shopping centres and of the capital requirements needed to take advantage of present development opportunities. We have provided more detail about our strategic investments in an attempt to shed some light on our current investment philosophy and outlook for these investments.



Sources: Australian Bureau of Statistics, ASX Limited, Bloomberg Finance L.P., Commonwealth Bank of Australia, Melbourne Institute of Applied Economic and Social Research, MSCI Inc., Reserve Bank of Australia, Standard & Poors, Thomson Reuters.
 Notes: 1. One year returns are total returns from 31 January 2016, to 31 January 2017. Five, Ten, Twenty, Thirty and Forty-year returns are per annum returns to 31 January 2017. 2. Gowings Brothers Total Return data calculated by Bloomberg. 3. Index prior to January 1980 is the MSCI Australia Gross Total Return Index. From January 1980 the index is the Standard & Poors ASX All Ordinaries Accumulation Index. 4. MSCI World ex-Australia Gross Total Return Index. 5. S&P500 Total Return Index in AUD. 6. Data used in the construction of the index prior to January 1977 provided by the Reserve Bank of Australia. From January 1977 the index is the Commonwealth Bank All Series Greater than 10 Years Bond Accumulation Index. 7. Data used in the construction of the index prior to March 1987 provided by the Reserve Bank of Australia. From March 1987 the index is the Bloomberg AusBond Bank Bill Index. 8. Interest Rate prior to July 1981 is a short-term Government Bond rate. From July 1981 the interest rate is the Reserve Bank of Australia's Official Cash Rate. 9. Annualised rate of inflation.

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