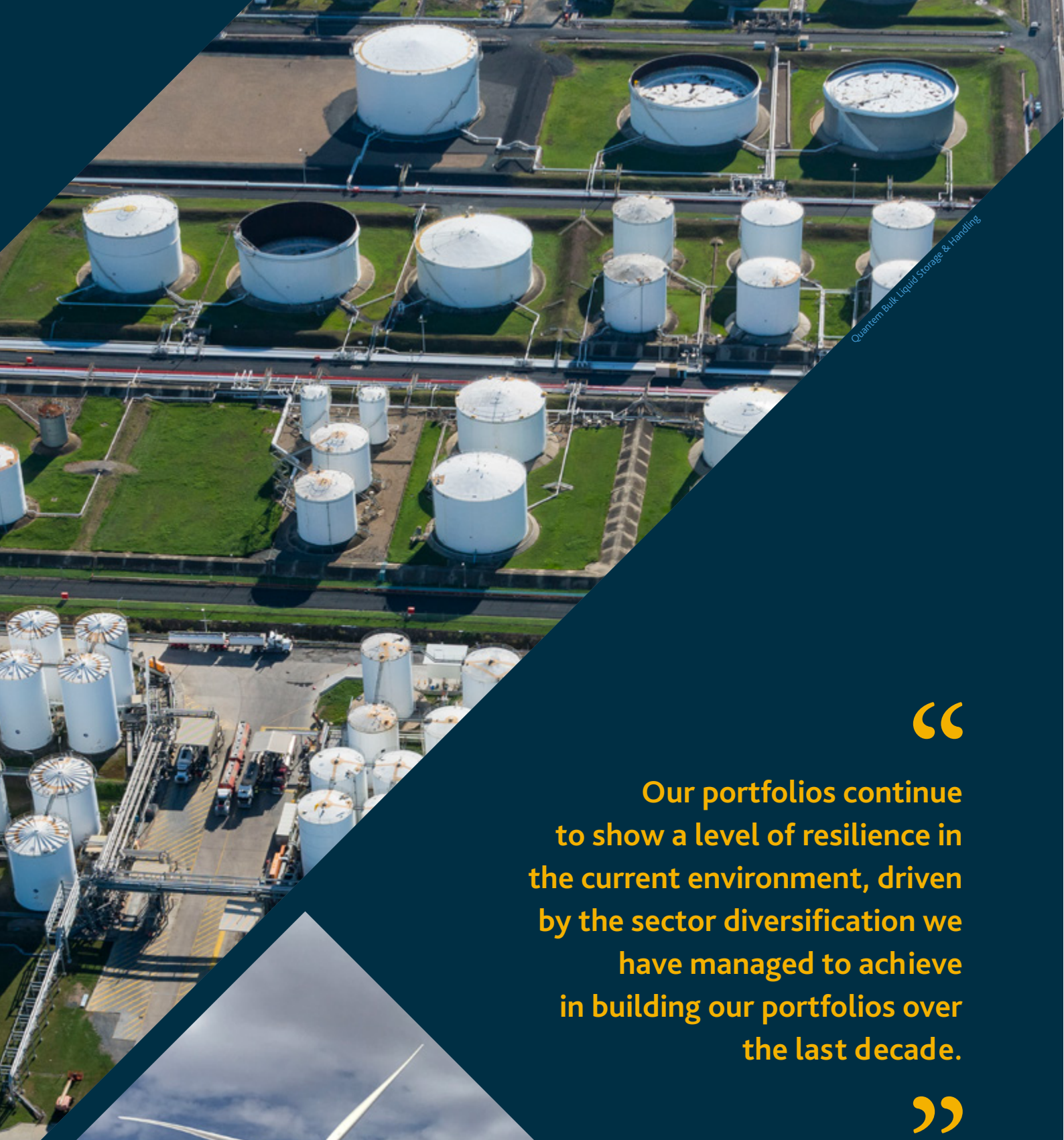
PALISADE

ANNUAL REPORT JUNE 2020

Investing in the future of Australian infrastructure



Quantem Bulk Liquid Storage & Handling

“Our portfolios continue to show a level of resilience in the current environment, driven by the sector diversification we have managed to achieve in building our portfolios over the last decade.”

Snowtown 2 Wind Farm

From the CEO

The resilience of our portfolios has been proven by the ongoing COVID-19 pandemic.

Markets across the globe have been impacted, and from an unlisted infrastructure perspective, attention turned very quickly to the impact of the pandemic on those assets which fundamentally rely on the movement of people and goods – predominantly, airports, tollroads and ports. Notwithstanding that our airport and port businesses continue to be impacted, portfolio performance as a whole continues to be robust with a gross total return of 7.7%[1] for FY20 for our flagship diversified fund, exceeding the fund's benchmark. Our focus on cash yield continues to be as important as ever, with the portfolio generating a gross yield of 8.7%[1].

The ability to build a diversified portfolio within the unlisted infrastructure asset class, which is inherently more opportunistic in nature, cannot be underestimated. Our deliberate focus on the mid-market which allows for a greater opportunity set has served us well in this regard. Importantly during this volatile time, it is our contracted businesses within the gas transmission, renewable energy and social infrastructure sectors which have provided the capital protection for the portfolio that is the underpinning of our investment philosophy.

We have continued to diversify the portfolio. In December of last year we were pleased to announce two new portfolio transactions – the acquisition of GrainCorp's Australian bulk liquid terminals business and the acquisition of the 270MW Snowtown 2 Wind Farm – both examples of leveraging our expertise within known sectors, and generating attractive risk-adjusted returns by deploying through our existing sector platforms. With respect to the latter, our 750MW renewable energy portfolio now makes Palisade one of the largest independent renewable power producers in Australia.

Despite many countries continuing to battle COVID-19, there is a focus on the ensuing economic impacts and recovery initiatives. Many have discussed an "infrastructure-led recovery", which is, in essence, spending (and building) our way out of recession. Palisade has been a strong proponent of greenfield infrastructure, particularly as part of an established brownfield portfolio, since its establishment over a decade ago. Just this year we have overseen a number of major construction projects across its portfolio including expansion of the Casey Hospital and the new 2.45km runway at Sunshine Coast Airport. The boost from infrastructure spending to the economy and regional communities is evident, but from an investment standpoint, the opportunity to earn a premium return over operating investments is available for those that are experienced and able to manage construction risk effectively. In November, Palisade successfully realised this premium as part of the sale of our managed interests in the newly constructed Sydney Metro Northwest, generating an outstanding return for our investors.

Looking ahead, despite the current challenges, we are confident that our portfolio remains very well positioned to continue to deliver the stable returns that investors typically associate with unlisted infrastructure. Equally important is ensuring that our portfolios deliver inflation-linked returns, an issue which will become paramount in a world expected to be flush with fiscal stimulus. We continue to work on a large pipeline of transactions, and remain particularly excited about the role that infrastructure, and more specifically Palisade and our investors, can play in contributing to the recovery of our economy whilst generating sustainable commercial returns.

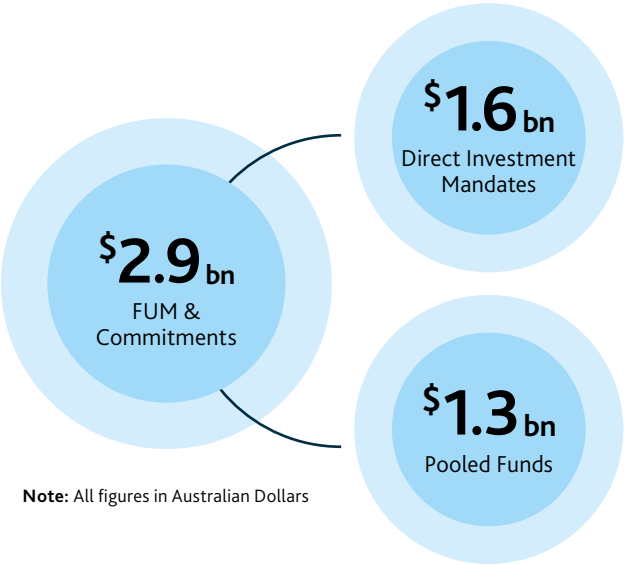
We would again like to thank all our investors for your unwavering support and wish you a safe and healthy year ahead.

Roger Lloyd
Managing Director & CEO

"The boost from infrastructure spending to the economy and regional communities is evident, but from an investment standpoint, the opportunity to earn a premium return over operating investments is available for those that are experienced and able to manage construction risk effectively."

[1] Gross returns are calculated before allowing for fees paid to the manager, but are after transaction and other costs. Past performance is not indicative of future performance

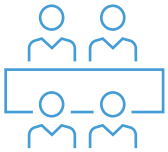
Business overview



Note: All figures in Australian Dollars

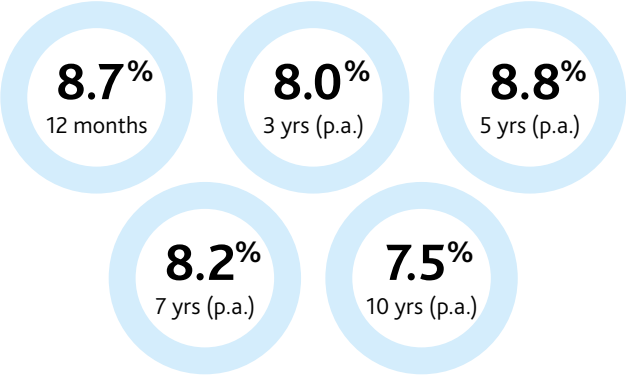
3
Pooled Funds

7
Direct Investment Mandates



21
Investment Executives

PDIF Gross Yield to 30 June 2020



17
Specialist Operational Management Personnel

24
Assets

In excess of
$1,000,000
to community initiatives

Palisade manages retirement savings for over
3,000,000
individuals

7
Scholarships awarded with a further
5
committed for FY21

Renewable Energy Portfolio

Powers over
350,000
homes

Abates over
1,000,000
tonnes of CO_2 per year

FY20 Transaction activity

Sunshine Coast Airport

Sector: Airports

Description: Construction completion reached on new 2.45km runway

Palisade equity: $307 million

Key highlights:

- Fastest growing airport in Australia for FY19, servicing the rapidly growing Sunshine Coast region
- The new runway will remove operational constraints on the existing runway, improve safety and facilitate potential long haul routes within Australia and internationally
- Transaction structured such that fixed payment of $307 million made to Sunshine Coast Council in June 2022

Snowtown 2 Wind Farm

Sector: Renewable Energy

Description: Acquisition of a 66.7% interest in the 270MW Snowtown 2 Wind Farm, located 130km north of Adelaide

Palisade equity: $194 million

Key highlights:

- Power Purchase Agreement for 100% of the output to 2035 with Origin Energy (ASX listed gentailer with BBB (S&P) credit rating)
- 5 year operational history with well-known wind resource (P50 to P90 ratio of 5%)
- Potential value enhancement through battery and solar development (not assumed in Base Case)

Quantem Bulk Liquid Storage & Handling

Sector: Bulk Liquid Storage

Description: Additional investment in ANZ Terminals (now Quantem Bulk Liquid Storage & Handling) to fund the acquisition of GrainCorp's bulk liquid terminals business

Palisade equity: $72 million

Key highlights:

- Provides significantly greater product diversification for the existing terminals business with exposure to fats and edible oils
- Broader geographic footprint with entry into the Queensland, Western Australian and Tasmanian markets, as well as additional capacity in Victoria and South Australia
- Long-term storage agreement signed with GrainCorp as part of the transaction

Sydney Metro Northwest

Sector: Rail (Public Private Partnership

Description: Divestment of interest in Sydney Metro Northwest

Key highlights:

- Successfully managed 5 year construction of Australia's first fully-automated metro system, including 8 new stations, interchange facilities and train systems over a new 23km rail link from Epping to Rouse Hill, and an upgrade to the existing 13km Epping to Chatswood link in Sydney
- Divestment following commencement of operations at an attractive return commensurate with the de-risking of the project following construction completion

Sector commentary

Airports

Mike Reynolds
Investment Director

The aviation sector is currently facing a tumultuous period in light of the global pandemic and consequent measures imposed by governments such as social distancing and border controls. The unprecedented scale of restriction in Australia has ceased almost all air travel, and only limited intrastate and essential travel remains. Qantas and Virgin Australia (**VA**) have reduced capacity by over 90% in response.

The duration of travel restrictions, and the path to recovery, will largely depend on the control of COVID-19, and whether a vaccination is proven on a commercial scale. While these factors are difficult to predict, there have been positive movements with the opening of some state borders and the potential of a Tasman travel bubble between Australia and New Zealand (which accounts for almost a quarter of international travel between the two nations), albeit both remain uncertain given the risks of a second wave as is being experienced in Victoria.

Even with the reopening of borders it is likely consumer behaviour will continue to be impacted with lower confidence and less disposable income, and therefore the "domestic business" and "visiting friends and family" segments are likely to recover before leisure travel. The international market will take even longer to recover as international borders are unlikely to reopen before late 2020 / early 2021. Accordingly, we believe domestically focused airports such as Sunshine Coast Airport will experience a quicker recovery than larger capital city airports which have a greater reliance on international travel. Many airports do not expect passenger volume to recover to pre-COVID-19 levels for several years. This trend is reflected in China's flight volumes in recent weeks where the number of domestic flights has tripled compared to lows experienced in February (to roughly two-thirds of pre-COVID-19 levels), but international flights have not improved.

The pandemic has also heavily impacted the airline industry, with VA in voluntary administration and Qantas announcing significant job losses and long-term grounding of planes. While VA is expected to survive, the extent of its route network under new ownership is uncertain. Similarly, the delivery of new narrow-body aircraft to VA and Qantas may be delayed, therefore impacting the growth in domestic capacity.

The airport industry has been severely impacted, and we have seen a corresponding decline in valuations, which may result in attractive investment opportunities despite the short-term volatilities.

Renewable Energy

Karen Gould and James Hann
Investment Directors

The past year has seen continued growth in Australia's renewable energy sector. Over $4 billion in investment in large-scale projects has been completed, increasing Australia's renewable energy capacity by 2.2 gigawatts. Renewable energy is now responsible for over 24% of Australia's total electricity generation. The energy storage sector is also accelerating with several utility-scale batteries under construction.

Amidst a much heightened emphasis on climate change, a significant milestone is the achievement of Australia's large-scale renewable energy target more than a year ahead of its 2020 deadline. We expect continued build-out of renewable energy to be underpinned by state and territory

government policies, as well as corporate energy users opting to source their generation directly from renewable generators via long-term offtake contracts. We also expect to see increased activity in the secondary market for operational and recently commissioned projects.

To date we have seen limited impact from COVID-19 on renewable energy assets, particularly those with long-term offtake agreements with investment grade counterparties. The renewables sector is also well-placed to help lead Australia's economic recovery from COVID-19 given the cost-competitiveness of renewable energy technology and the sector's contributions to job creation (including in regional communities).

Looking forward, reviews and reforms continue to be undertaken by the Australian Energy Market Operator and the Energy Security Board to strengthen the electricity grid and market, which should underpin continued investment in renewable energy over the long-term. In relation to this, a key focus for investors will be gaining greater certainty over connection of new renewable generators to the grid, and the impacts to Marginal Loss Factors as Australia moves from a centralised to a decentralised energy supply market with a larger proportion of intermittent (renewable) generation. Renewable energy will also provide the key ingredient in Australia's strategy to become a large-scale exporter of green hydrogen over the next decade, with the first step over the short-term to develop a domestic hydrogen industry which will no doubt provide increased investment opportunities for private capital.

Ports & Bulk Liquid Terminals

Alastair Pollock
Investment Director

Import and export trade volumes through Australian ports have been materially affected by COVID-19. Between February and April 2020, relative to 2019 volumes, container volumes were down 10% and vehicle imports were down 15%. Unsurprisingly, this initial trade volume impact at Australian ports related entirely to Chinese import delays and cancellation of orders for exports of Australian goods. This was most pronounced in February, with most Australian port volumes demonstrating some recovery in the months since. Whilst there has been a relatively uniform impact across major capital city containerised ports, the extent to which bulk commodity ports have been affected, such as Port of Portland, has been very trade specific.

In the bulk liquid storage sector we have seen import and export volumes remain broadly stable. The market is characterised by long term contracts making it more resilient to COVID-19 and more general market disruptions. Fuel imports have however suffered a decline in demand from March 2020. Conversely some commodities such as ethanol (hand sanitiser input) are experiencing an increase in volumes. The demand outlook for other key bulk liquid commodities remains robust, with growth opportunities likely in sulphuric acid (lithium demand), edible oils (food production), liquid fertiliser and bitumen. A continuation of weak economic conditions however is likely to impact the bulk liquids storage industry, through lower utilisation levels and more challenging price negotiations as existing contracts progressively come up for renewal. The bulk liquid storage industry may however benefit from a number of trends catalysed by COVID-19, including increased Government support for domestic manufacturing and the Federal Government's plans to increase Australia's strategic fuel reserves.

Communications Infrastructure

Mike Reynolds
Investment Director

Transaction activity in the communications infrastructure sector, certainly for the first half of FY20, remained strong with data centre and fibre transactions continuing to dominate the investment landscape globally. The pandemic has also led to a surge in data usage with the NBN reporting an increase of up to 71% in its data traffic caused by increases in video conferencing and streaming as workers and students work and study from home. This trend is expected to flow on to communications infrastructure businesses, including Hawaiki Submarine Cable, as demand for data and capacity grows in the short-term.

Whilst at this stage it remains unclear to what extent these behavioural and lifestyle changes will last when the pandemic ends and life returns to a new "normal", we expect, at least for the short to medium term, that this new reliance on technology will contribute to the already fast growing sector, underpinned by the emergence of cloud computing, online gaming and content players. Palisade will continue to selectively consider opportunities in communications infrastructure to take advantage of the sector tailwinds.

Social Infrastructure

James Ward and Karen Gould
Investment Directors

Public Private Partnerships (**PPPs**) have been relatively unaffected as a result of COVID-19 given their contracted revenue structure, typically with Federal or state governments as counterparties. Traditionally PPPs have been viewed as inflexible, however have proved themselves during the pandemic as investors, facilities managers, asset managers, and government agencies have all worked incredibly well together to continue to deliver the essential services in a challenging environment.

During the year Infrastructure Partnerships Australia commissioned a report into whether PPPs represent value for money for governments, and whether private operators were meeting service delivery outcomes expected by service providers and contract managers. The report was in response to the UK Government's cancellation of the existing PPP model in 2018 for the procurement of social infrastructure. Following an investigation into the experiences of service providers and users of social infrastructure, the report found overwhelming support for continued use of PPPs in Australia as a procurement model on the basis of strong project and service delivery, as well as ongoing value for money for governments throughout the life of the project.

Looking forward, the scale of government assistance provided over the last few months to support the economy will undoubtedly have an impact on the ability of governments to fund the infrastructure build that many have called for to stimulate a post COVID-19 economy and future infrastructure projects more generally. Palisade believes that this could lead to a stronger pipeline of PPPs over the short to medium term as the demand for private capital increases.

Gas Markets / Pipelines

James Ward
Investment Director

As Australia continues its transition to a decarbonised economy, regulators and policy makers continue to grapple with the challenge of developing an energy framework that not only delivers a more stable system with lower energy prices, but also achieves a lower level of emissions. Every state has now signed up to 'net zero' emissions by 2050, whilst the horror summer of fires has only added to the impetus for further action.

There is little doubt that gas pipelines will be essential to the transformation to a lower emissions economy. As large low cost coal generators continue to close (3,500MW in the next decade) the reliance on gas generation to provide system stability will increase. For this to occur further investment will be required into the infrastructure supplying gas generators together with a relaxation by some state governments of their moratoriums on onshore gas drilling. Pressure is already building on state governments to relax their moratoriums with additional pressure coming from the National COVID-19 Coordination Commissions, promoting cheaper energy through the use of gas as the key to kick-starting the economy and manufacturing. Some progress is being made, with the Victorian Parliament recently passing legislation permitting onshore conventional gas exploration from 1 July 2021.

With respect to broader COVID-19 impacts, Palisade's gas pipelines assets have been unaffected due to the take-or-pay nature of their Gas Transportation Agreements.

Debt Markets

Simon Parbery
Investment Director

Following a relatively stable first half of FY20, the arrival of COVID-19 in the second half saw a material and widespread deterioration in global credit markets, primarily driven by the economic impact and ongoing uncertainty associated with the pandemic. This deterioration manifested in a material increase in both bank margins and public capital market credit spreads, as overall wholesale funding costs widened and lenders and investors sought to reprice risk.

During this initial period we observed lending banks operating in the Australian market behaving in an increasingly conservative manner, particularly in respect to hold periods for pricing, shorter debt tenors and requiring lower leverage levels for loans. However, unlike during the Global Financial Crisis, liquidity remains available (albeit it at a higher price point).

In respect to the near-term outlook, the initial shock from COVID-19 has subsided and credit markets are beginning to stabilise. The post COVID-19 credit environment will likely see continued volatility and remain at a higher price point for some time. In relation to all-in cost of funding, this higher price point is expected be offset by historically low base interest rates, driven by the market's expectation for sustained low economic growth.

For new loans and existing loans reaching their maturity, lenders are expected to more critically assess the capacity of borrowers to service these loans, whilst relationships and borrower names are expected to be the primary drivers of appetite for banks to deploy capital. Palisade remains a highly regarded borrower name in the Australian bank market and in accordance with its broader treasury risk management framework prior to the pandemic took advantage of favourable borrower conditions by executing several opportunistic long-dated refinancings across its portfolio. As a result of this refinancing activity and its broader approach to treasury risk management, Palisade's portfolio has limited exposure to any near-term credit market volatility.

Sustainable investing

Palisade believes that active management of Environmental, Social and Governance (**ESG**) issues plays an important role in generating sustainable long-term value for our investors.

For a long time, we have focused on ESG in practice – making sure that strong ESG values are understood and reflected in the day-to-day actions of the teams employed in the businesses we manage. We have done this through adopting simple, meaningful ESG charters, utilising detailed risk frameworks and regular audits and through providing education and support to employees. However, best practice in ESG continues to evolve, as do the expectations of investors in respect of transparency and reporting and as such we continue to revisit our approach to ESG. As part of our review, we have been working with ERM, a leading global specialist ESG consultant, and have commenced a refresh of our existing ESG framework and the processes that are embedded in our investment and asset management functions.

We have identified a number of *Priority Goals* which, are not only appropriate in the context of the portfolio we manage, but equally, have been selected by the wider Palisade team as initiatives that are important to us as a business and individuals. Our Priority Goals are aligned with the United Nation's Sustainable Development Goals (**SDGs**) and will provide the focus for new ESG initiatives.

With the support of ERM's expertise, over the coming months Palisade will develop our Priority Goal areas and improve our ESG tools and processes. This will include enhancing the quality of data which we capture and report on relating to our portfolio's ESG performance, as well as improving our assessment of climate risk identification and mitigation across the portfolio.

We have also continued our focus on promoting gender diversity, with the key initiative this year being our undergraduate scholarship program. The program involves certain assets in the Palisade portfolio awarding scholarships to university undergraduates, with a focus on those who are financially disadvantaged and are required to relocate from a regional area to undertake studies. The program also focuses on fostering diversity, with an aim to promote pathways for women to study and be employed in traditionally male-dominated careers, such as engineering and agriculture. To date seven scholarships have been awarded with a further five targeted for FY21.

Vicki Rigg
Executive Director

In excess of
$290,000
committed to scholarships over the **next 3 yrs**

7 Scholarships
in progress across
6 universities

A further
5 scholarships
committed to
in FY21

James Cook University – North Queensland Gas Pipeline

Bachelor of Engineering (Honours) / Bachelor of Science

“Being a mechanical engineer will allow me to solve some of the biggest global challenges facing humanity. The main challenges being climate change, food and clean water and energy.

This scholarship will allow me to follow my dreams and assist me in inspiring other females to undertake engineering roles to remove the stigma around male and female positions.”

NQGP scholarship recipient

University of the Sunshine Coast – Sunshine Coast Airport

Bachelor of Civil Engineering (Honours) / Bachelor of Environmental Science

“My goal is to become an environmental engineer. I hope to one day assist in the mitigation of our damaged ecosystems by designing structures to either prevent or withstand the effects of global warming.”

SCA scholarship recipient

Griffith University – SurePark

Bachelor of Nursing

“SurePark nursing has given me such a great opportunity to focus on the rest of this year without the added worry of my financial responsibilities. I am forever in debt to them and will repay their goodwill and generosity by finishing my degree strong, going out into the communities striving to help and treat people, and pay forward the kindness that they have shown to me.”

SurePark scholarship recipient

University of Adelaide – Waterloo Wind Farm – Hallett Wind Farm

WWF - Bachelor of Engineering (Honours) – Electrical
HWF - Bachelor of Engineering (Honours)

“I hope to be able to go on as a leader and encourage more girls to apply for leadership positions within the Science, Technology, Engineering & Math (STEM) community.”

HWF scholarship recipient

University of New England – Regional Livestock Exchange

Bachelor of Agriculture / Bachelor of Business

Deakin University – Port of Portland

Bachelor of Civil Engineering (Honours)

“After finishing my degree my goal is to work in many fields such as infrastructure, construction, and water ways, and to find where it is that I fit best in the broad scope of engineering.”

POPL scholarship recipient

Palisade Priority Goals


Tasmanian Gas Pipeline proudly sponsors the NTJSA

United Nations Sustainable Development Goal alignment

Good governance

Palisade believes that good governance is key to the management of risks and opportunities at both the corporate and asset level. This includes securing appropriate governance rights for new investments, providing oversight and strategic leadership to the assets we manage and ensuring that the appropriate level of information is captured about each asset and its supply chains. It requires the management of ESG risks and opportunities throughout the life cycle of assets to be undertaken with transparency and rigour.

Climate action

Climate change has the ability to impact the performance of infrastructure assets. Understanding climate risks is integral to the assessment and mitigation of those risks, and the identification of potential opportunities, to maximise their resilience.

Palisade believes it has a shared responsibility to help reduce society's carbon footprint. Recognising that infrastructure assets can contribute to that footprint, Palisade is committed to encouraging investment into lower carbon assets, such as renewable energy, and to seeking opportunities for the reduction of its existing footprint.

Supporting communities

Palisade recognises the impact that our investments can have on the communities in which we operate. It is important to support and give back to these communities including by providing employment opportunities where possible, supporting the local and wider communities that the assets we manage serve, and taking part in initiatives to further the industries in which we invest.

Ross River Solar Farm

Environmental sustainability

United Nations Sustainable Development Goal alignment

Infrastructure assets have an impact on the physical environments in which they are located. As a custodian of infrastructure assets, Palisade believes it has an obligation to minimise the negative impact of the assets on their surrounding environments and believes that it should strive to contribute positively to environmental outcomes.

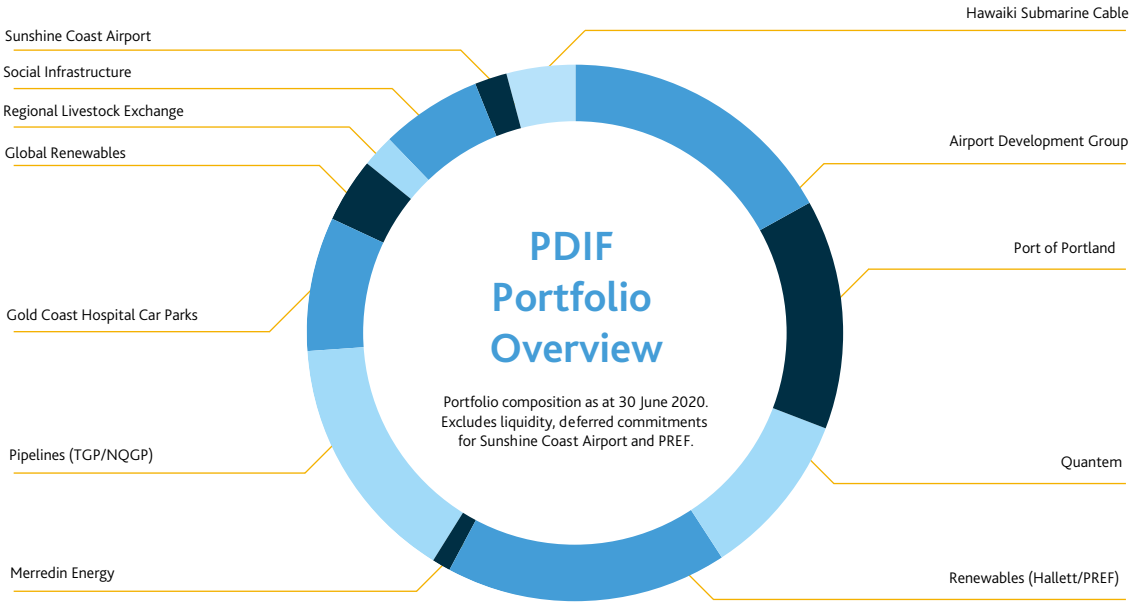
Fostering diversity

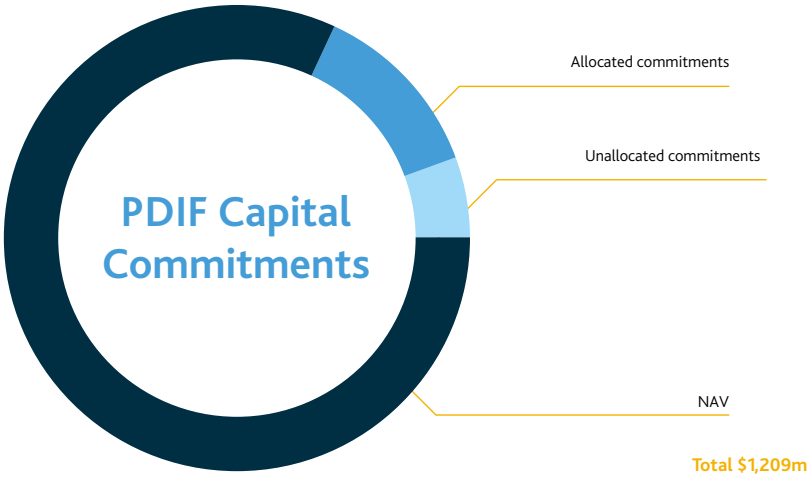
Palisade recognises that diversity drives better performance. As such, Palisade believes that achieving a diverse workplace is a priority for its own business and the businesses in which it invests. Palisade has a responsibility to improve the diversity of our industry in the long term, including through providing educational opportunities and promoting diversity in recruitment.

Fund overview

Palisade's Diversified Infrastructure Fund (PDIF)

PDIF provides investors with an opportunity to invest in a diversified portfolio of infrastructure assets and aims to provide investors with long-term capital growth and stable cash distributions.

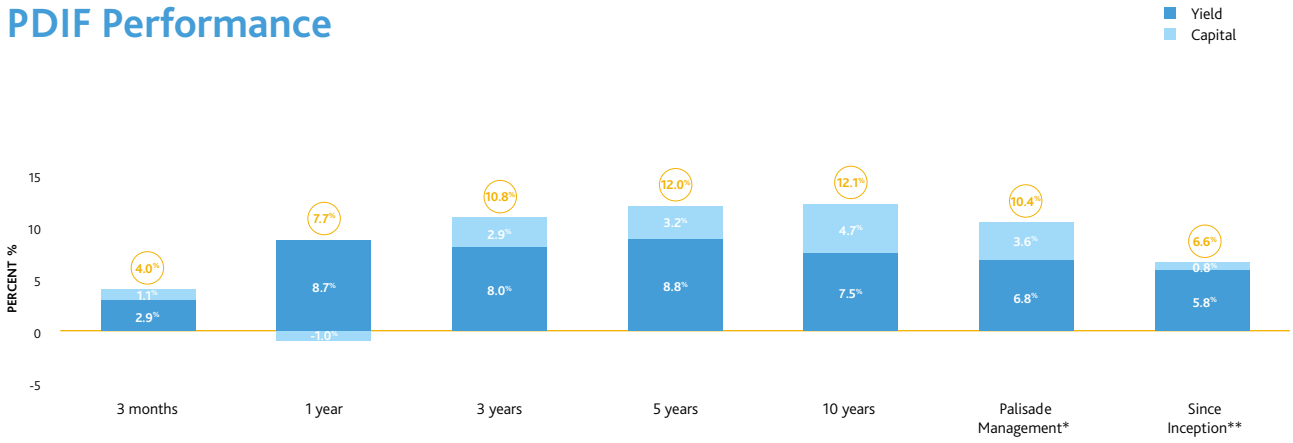




PDIF FY20 Key Highlights

- Sunshine Coast Airport's (**SCA**) new 2.45km runway was officially opened in June 2020. The new runway is capable of servicing Code E aircraft such as the A330 and Boeing 777 and 787, and will underpin SCA's growth over the long-term
- In December 2019, ANZ Terminals reached financial close on the acquisition of GrainCorp's Australian bulk liquid terminals business, providing further diversification to the business from a geographic and product standpoint
- PDIF continued its strong track record of generating attractive yields for investors, with a FY20 gross total yield of 8.7%

PDIF Performance



Gross performance as at 30 June 2020

Returns for periods greater than 12 months have been annualised

* Palisade management inception August 2008

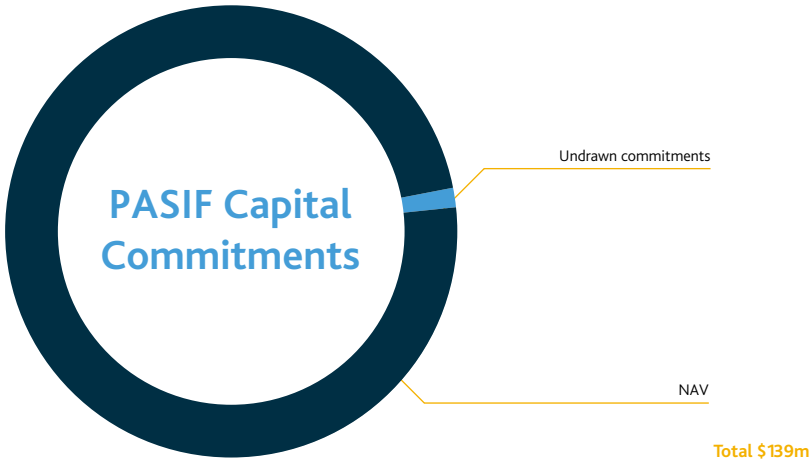
** Inception date December 2004 and includes the period of Perpetual management to July 2008

Note: Gross returns are calculated before allowing for fees paid to the manager, but are after transaction and other costs. Past performance is not indicative of future performance.

Fund overview

Palisade's Australian Social Infrastructure Fund (PASIF)

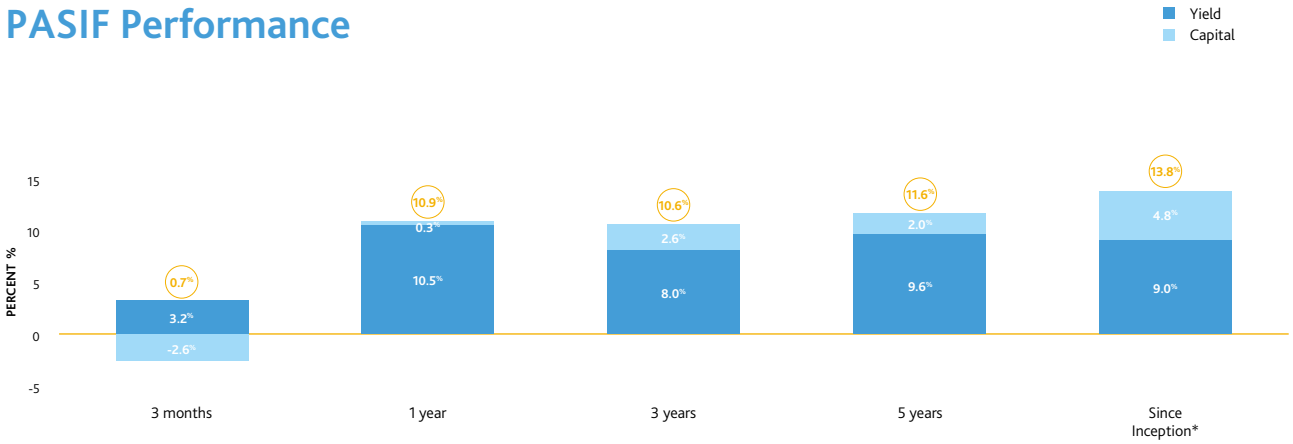
PASIF provides investors with an opportunity to invest in a portfolio of social infrastructure assets procured under the public private partnership delivery model with government bodies and aims to provide investors with low volatility and inflation-linked government revenue streams.



PASIF FY20 Key Highlights

- In November 2019, Palisade reached financial close on the sale of PASIF's stake in Sydney Metro Northwest, generating an outstanding return for our investors
- Final Acceptance of the Casey Hospital Expansion Project was reached on 28 February 2020, providing the State with 152 additional beds
- During FY20, the process for the Stage 3 extension of the Gold Coast Light Rail commenced. The project includes an extension of the dual track light rail by 6.7km from Broadbeach to Burleigh Heads, as well as delivering 8 new stations, 5 new light rail vehicles and a light rail-bus interchange at Burleigh Heads

PASIF Performance



Gross Performance as at 30 June 2020

Returns for periods greater than 12 months have been annualised

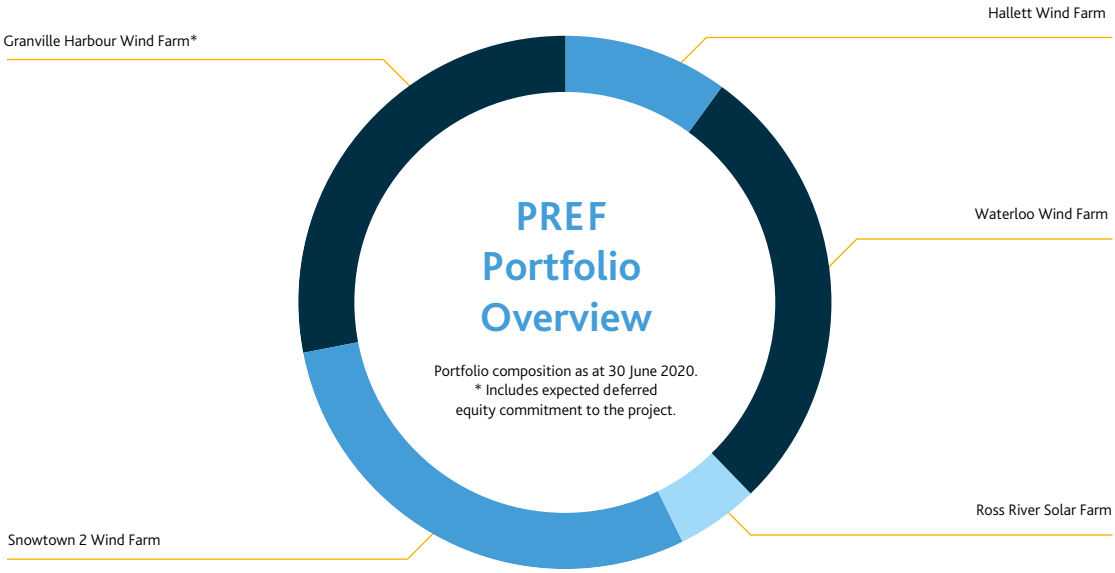
* Inception date May 2011

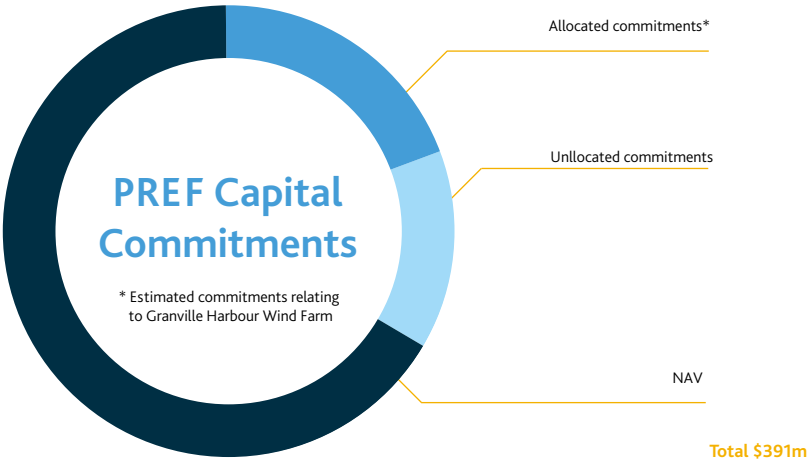
Note: Gross returns are calculated before allowing for fees paid to the manager, but are after transaction and other costs. Past performance is not indicative of future performance.

Fund overview

Palisade's Renewable Energy Fund (PREF)

PREF provides investors with an opportunity to invest in a portfolio of renewable energy assets including utility scale wind and solar farms in Australia and New Zealand and aims to provide investors with long-term capital growth and stable cash distributions.

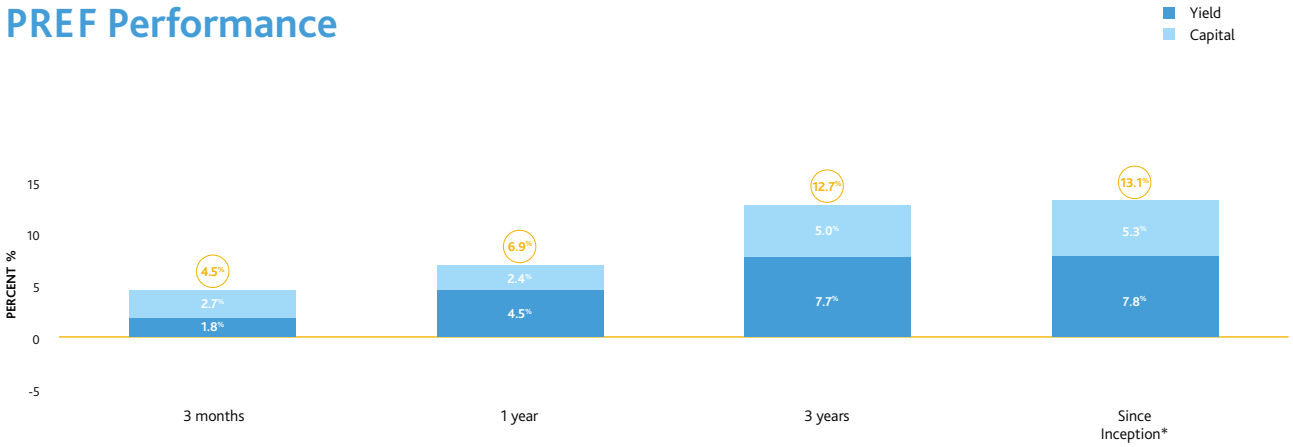




PREF FY20 Key Highlights

- In December 2019, Palisade successfully reached financial close on the acquisition of the 270MW Snowtown 2 Wind Farm in South Australia. The project is underpinned by a Power Purchase Agreement with Origin Energy to 2035
- The Granville Harbour Wind Farm construction project has achieved over 90% of expected output, and consequently, the Power Purchase Agreement with Hydro Tasmania has been triggered. The forecast date of Commercial Operations is expected to be in August 2020
- A new 30 year Warranty Operations and Maintenance agreement was agreed with Vestas for Waterloo Wind Farm with guaranteed availability for the next 20 years

PREF Performance



Gross performance as at 30 June 2020

Returns for periods greater than 12 months have been annualised

* Inception date September 2016

Note: Gross returns are calculated before allowing for fees paid to the manager, but are after transaction and other costs. Past performance is not indicative of future performance.

PALISADE

FOR MORE INFORMATION CONTACT US

Level 35 / 60 Margaret Street, Sydney NSW 2000
PO Box R1313, Royal Exchange, NSW 1225 Australia
Phone 02 8970 7800
palisadepartners.com.au

Palisade Investment Partners Limited | ABN 32 124 326 361