



**CLARENCE  
PROPERTY**

# Fund Update - April 2022

## Clarence Property Diversified Fund **ASIC Regulatory Guide 46**

### Manager and Responsible Entity

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## 1 Introduction

- 1.1 In March 2012, ASIC revised Regulatory Guide 46: Unlisted property schemes – improving disclosure for retail investors. The Regulatory Guide sets out six benchmarks and eight disclosure principals which responsible entities of unlisted property schemes are required to report against in order to help retail investors understand the risks, assess the rewards being offered and decide whether these investments are suitable for them.
- 1.2 From 30 June 2018, the units in Clarence Property Diversified Fund and Epiq Lennox Property Trust, collectively known as the Clarence Property Group ("Group") are stapled. The number of units in each Trust is equal and the unitholders identical. The units in each Trust cannot be traded separately.
- 1.3 This document has been prepared by Clarence Property Corporation Limited (the Manager) as the responsible entity of Clarence Property Diversified Fund and Epiq Lennox Property Trust in order to update investors on the Group's position against these benchmarks and disclosure principals.
- 1.4 The table below details the Group's position against each of the benchmarks and disclosure principals:

<b>Gearing</b>	<b>Benchmark</b>	<70%	<b>Valuation Policy</b>	<b>Benchmark</b>	Comply with Valuation Policy
	<b>Current</b>	37%		<b>Current</b>	Compliant
	<b>Benchmark met</b>	Yes		<b>Benchmark met</b>	Yes
	<b>Additional information</b>	See section 2		<b>Additional information</b>	See section 7
<b>Interest Cover</b>	<b>Benchmark</b>	>1.0	<b>Related Party Transactions</b>	<b>Benchmark</b>	Comply with conflict of interest policy
	<b>Current</b>	6.3 Times		<b>Current</b>	Compliant
	<b>Benchmark met</b>	Yes		<b>Benchmark met</b>	Yes
	<b>Additional information</b>	See section 3		<b>Additional information</b>	See section 8
<b>Interest Capitalisation</b>	<b>Benchmark</b>	N/A	<b>Distribution Practices</b>	<b>Benchmark</b>	Comply with distribution policy
	<b>Current</b>	N/A		<b>Current</b>	Compliant
	<b>Benchmark met</b>	N/A		<b>Benchmark met</b>	Yes
	<b>Additional information</b>	See section 4		<b>Additional information</b>	See section 9
<b>Scheme Borrowing</b>	<b>Disclosure Principals:</b>		<b>Withdrawal Arrangements</b>	<b>Benchmark</b>	N/A
	<b>Borrowings due in &lt; 5 years</b>	\$259,430,000		<b>Current</b>	N/A
	<b>Borrowings due in &gt; 5 years</b>	\$0		<b>Benchmark met</b>	N/A
	<b>Additional information</b>	See section 5		<b>Additional information</b>	See section 10
<b>Portfolio Diversification</b>	<b>Benchmark</b>	N/A	<b>Net Tangible Assets</b>	<b>Benchmark</b>	N/A
	<b>Current</b>	N/A		<b>Current</b>	N/A
	<b>Benchmark met</b>	N/A		<b>Benchmark met</b>	N/A
	<b>Additional information</b>	See section 6		<b>Additional information</b>	See section 11

## 2 Gearing

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### 2.1 Gearing Policy

Unlisted property schemes tend to use credit facilities (borrowings) to partly finance the purchase of properties. It is important for responsible entities to have policies in place which address the risks associated with these arrangements and to comply with these policies. It is also important for investors in these schemes to understand these policies.

The Manager maintains and complies with a written policy that governs the level of gearing at an individual credit facility level. The policy states that the gearing ratio of the Group shall not exceed 70%.

### 2.2 Gearing Ratio

The gearing ratio set out in the summary above indicates the extent to which the Group's assets are funded by interest bearing liabilities. A ratio of 0% indicates zero debt funding and a ratio of 100% indicates that an entity is entirely debt funded.

Higher gearing levels may indicate a higher risk that the entity will become unable to adequately service its debt facilities, as a highly geared scheme has a low asset buffer to rely upon in times of financial stress.

The gearing ratio is calculated by dividing the total interest bearing liabilities of the Group by the total assets of the Group. The assets and borrowings used to calculate the gearing ratio are consistent with those included in the Group's latest auditor reviewed financial statements (31 December 2021). The gearing ratio of the Group at 31 December 2021 was 35%.

Subsequent to the latest auditor reviewed financial statements additional borrowings have been drawn. Based upon the 31 March 2022 management accounts the gearing ratio of the group was 37%.

The Manager is of the view the gearing levels of the Group are appropriate for the current credit environment.

## 3 Interest Cover

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### 3.1 Interest Cover Policy

Another key aspect relating to credit facilities used by unlisted property schemes to finance the purchase of property is interest cover. It is important for responsible entities to have policies in place that address the risks associated with these arrangements and to comply with these policies. It is also important for investors in these schemes to understand these policies.

The Manager maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level. The policy states the interest cover ratio of the Group shall at all times exceed 1.00.

### 3.2 Interest Cover Ratio

Interest cover gives an indication of the Group's ability to meet interest repayments from earnings. The Interest Cover Ratio (ICR) is calculated using the following formula:

$$\text{Interest cover} = \frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{interest expense}}$$

EBITDA (earnings before interest, tax, depreciation and amortisation) and interest expense used in the calculation are consistent with those included in the Group's latest auditor reviewed financial statements (31 December 2021).

Interest cover measures the ability of the Group to service interest on debt from its earnings. It is therefore a critical indication of the Group's financial health and key to analysing the sustainability and risks associated with the Group's level of borrowing. The higher the ratio, the easier it is for the entity to service its debt. The lower the ratio, the higher the risk the entity may be unable to adequately service its debt.

### 3 Interest Cover (continued)

A ratio of greater than 1.00 indicates the scheme is earning enough to cover interest payments and may be in a position to pay investors a distribution. The higher the ratio is above 1.00, the higher the possibility a distribution can be made. The interest cover ratio for the period ended 31 December 2021 was 6.3.

### 4 Interest Capitalisation

When a scheme capitalises its interest expense, it is important for investors to understand how the scheme will meet its interest obligations when deciding whether to invest in the scheme.

The interest expense of the Group is not capitalised and is paid from earnings prior to any investor distributions.

### 5 Scheme Borrowings

#### 5.1 Debt Facilities

The Group has the following debt facilities as at March 2022:

	Common Terms Facility	ING	Epiq Child-care Facility	BOQ Epiq Market-place Facility	Development Facility	Total
<b>Maturity Date(s)</b>	Sep-23 May-24 Aug-24 Sep-24 Jun-25 Sep-25	Feb-23	Aug-24	Sep-23	Aug-24	
<b>Facility Limit</b>	\$232.6m	\$24.8m	\$2.3m	\$19.8m	\$45.0m	<b>\$324.5m</b>
<b>Amount Drawn</b>	\$192.6m	\$24.8m	\$2.3m	\$19.8m	\$20.0m	<b>\$259.5m</b>
<b>Amount Undrawn</b>	\$40.0m	\$0.0m	\$0.0m	\$0.0m	\$25.0m	<b>\$65.0m</b>
<b>Interest Rate</b>	2.11%	1.63%	2.32%	2.01%	2.56%	<b>2.12%</b>
<b>Hedged</b>	57%	N/A	N/A	N/A	N/A	<b>42%</b>

### 5 Scheme Borrowings (continued)

#### 5.2 Debt Facility Terms

The Group's borrowings are secured against its assets. This means that repayment of the borrowings ranks ahead of unitholders' interests in the Group. As a result, the borrowing maturity and finance facility expiry profiles of the Group are important factors to consider. For example, finance facilities which are due to expire within a relatively short timeframe can be a significant risk factor, especially in periods when finance is more difficult and expensive to obtain. A failure to renew finance facilities can adversely affect a scheme's viability. All finance facilities are non-recourse to unitholders.

A breach of a borrowing covenant may result in the banks charging default interest, requiring immediate repayment of the facilities or imposing a freeze on any further draw-down on the facilities. The banks also have a right to invoke an event of default in the situation unitholders exercise their right to change the responsible entity. The Group continues to meet its key obligations under the facility agreements.

#### Key Terms of Common Terms Financing Arrangement

Secured bilateral loan facilities are held with multiple banks by the Group. All banks are contracted under a Common Terms Deed and are secured pari passu by first registered mortgages over a select pool of investment properties held by the Group. All principal amounts outstanding are due at the expiry of each facility. The banks currently providing finance under the Common Terms financing arrangement are the Commonwealth Bank, Westpac and ANZ.

	Facility Terms	Required	Current
<b>Common Terms Deed CBA, WBC, ANZ</b>	First Ranking Mortgage	Y <sup>1</sup>	Registered
	Interest Cover Ratio	>2x <sup>2</sup>	6.17x
	Headroom to Covenant (ICR)		68% <sup>3</sup>
	Loan to Value Ratio	<55%	48%
	Headroom to Covenant (LVR)		13% <sup>4</sup>
	Group Loan to Value Ratio	<60%	51%
	Headroom to Covenant (Group LVR)		15% <sup>5</sup>
<b>ING Logan &amp; Ormeau Facility</b>	First Ranking Mortgage	Y <sup>6</sup>	Registered
	Interest Cover Ratio	>1.25x <sup>7</sup>	1.68x
	Headroom to Covenant (ICR)		25% <sup>3</sup>
	Loan to Value Ratio	<60%	55%
	Headroom to Covenant (LVR)		8% <sup>4</sup>
<b>BOQ Epiq Marketplace Facility</b>	First Ranking Mortgage	Y <sup>8</sup>	Registered
	Interest Cover Ratio	>2.0x	4.10x
	Headroom to Covenant (ICR)		51% <sup>3</sup>
	Loan to Value Ratio	<60%	60%
	Headroom to Covenant (LVR)		0%
<b>BOQ Epiq Chilcare Facility</b>	First Ranking Mortgage	Y <sup>9</sup>	Registered
	Interest Cover Ratio	N/A	N/A
	Headroom to Covenant (ICR)	N/A	N/A
	Loan to Value Ratio	<62%	57%
	Headroom to Covenant (LVR)		7% <sup>4</sup>
<b>BOQ Development Facility</b>	First Ranking Mortgage	Y <sup>10</sup>	Registered
	Interest Cover Ratio	>1.75x	2.70x
	Headroom to Covenant (ICR)		35%
	Loan to Value Ratio	<45%	20%
	Headroom to Covenant (LVR)		56% <sup>4</sup>

## 5 Scheme Borrowings (continued)

### Notes to the Key Terms of Scheme Borrowings

<sup>1</sup> First ranking security over a specific pool of investment properties owned by the Group.

<sup>2</sup> Monitored half yearly.

<sup>3</sup> The operating cashflow of the secured properties would need to decrease by this percentage for the Group to be in breach of this covenant.

<sup>4</sup> The value of the secured property would need to decrease by this percentage for the Group to be in breach of this covenant.

<sup>5</sup> The value of the Group's assets would need to decrease by this percentage for the Group to be in breach of this covenant.

<sup>6</sup> First ranking mortgage over the properties known as 'Ormeau Marketplace' & 'Logan Village Marketplace'.

<sup>7</sup> The interest cover ratio is calculated by taking the net rental income of the property and dividing that by interest commitment. The interest commitment is the loan amount multiplied by either the current interest rate plus 1.50% or by a 6% floor rate, whichever is higher.

<sup>8</sup> First ranking mortgage over the property known as 'Epiq Marketplace'.

<sup>9</sup> First ranking mortgage over the property known as 'Epiq Childcare Centre'.

<sup>10</sup> First ranking mortgage over the Groups development properties at Lennox Head, Yamba, Brunswick Heads and Bilambil Heights.

## 6 Portfolio Diversification

### 6.1 Portfolio Composition

Below is a summary of the Group's property portfolio at March 2022. Specific information in relation to each of the properties can be found on our website [www.clarenceproperty.com.au](http://www.clarenceproperty.com.au).

#### Geographic Diversification (by Value)

Location	No. of Properties	Valuation
Northern Rivers New South Wales	16	\$ 257,730,000
Central New South Wales	2	\$ 25,200,000
Gold Coast	3	\$ 112,650,000
North Queensland	1	\$ 23,250,000
Brisbane	21	\$ 279,259,072
<b>Total Direct Portfolio</b>	<b>43</b>	<b>\$ 698,089,072</b>

#### Sector Diversification (by Value)

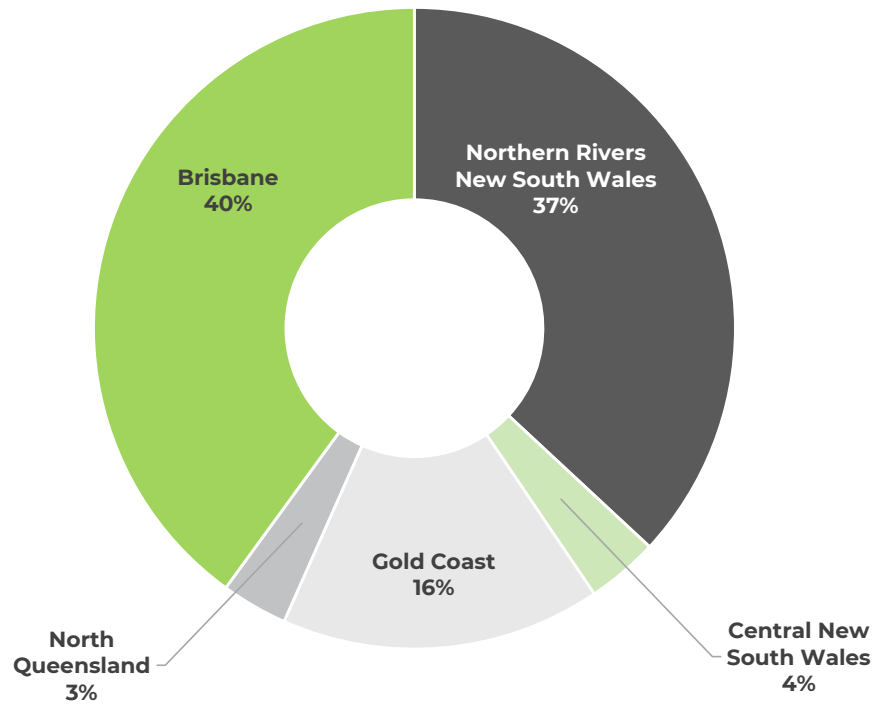
Property Sector	No. of Properties	Valuation
Commercial Office	8	\$ 168,000,000
Commercial Other	1	\$ 5,650,000
Convenience Retail	8	\$ 173,905,000
Large Format Retail	1	\$ 33,000,000
Logistics/Distribution/Other	10	\$ 105,336,888
Medical	2	\$ 23,300,000
Childcare	6	\$ 38,897,184
Development	7	\$ 150,000,000
<b>Sub-Total Direct Portfolio</b>	<b>43</b>	<b>\$ 698,089,072</b>
Property Securities		\$ 57,000
<b>Total Portfolio</b>	<b>43</b>	<b>\$ 698,146,072</b>



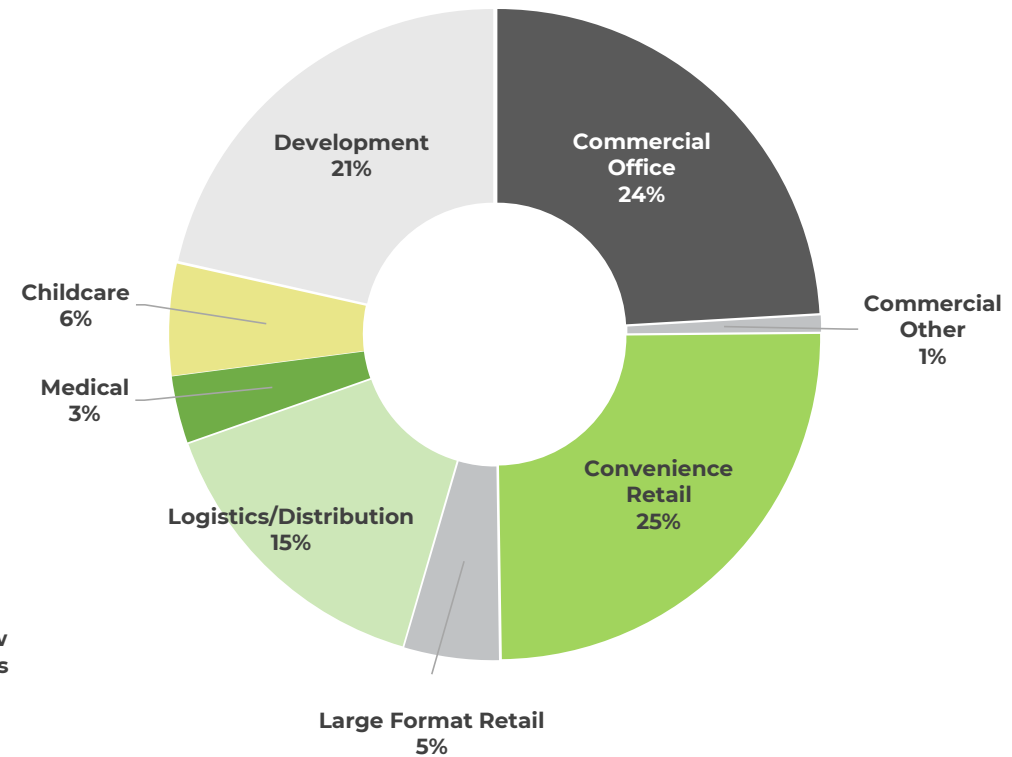
### 6 Portfolio Diversification (continued)

Below is a graphical summary of the Group's property portfolio at March 2022. Specific information in relation to each of the properties can be found on our website [www.clarenceproperty.com.au](http://www.clarenceproperty.com.au).

Geographic Diversification (by Value)



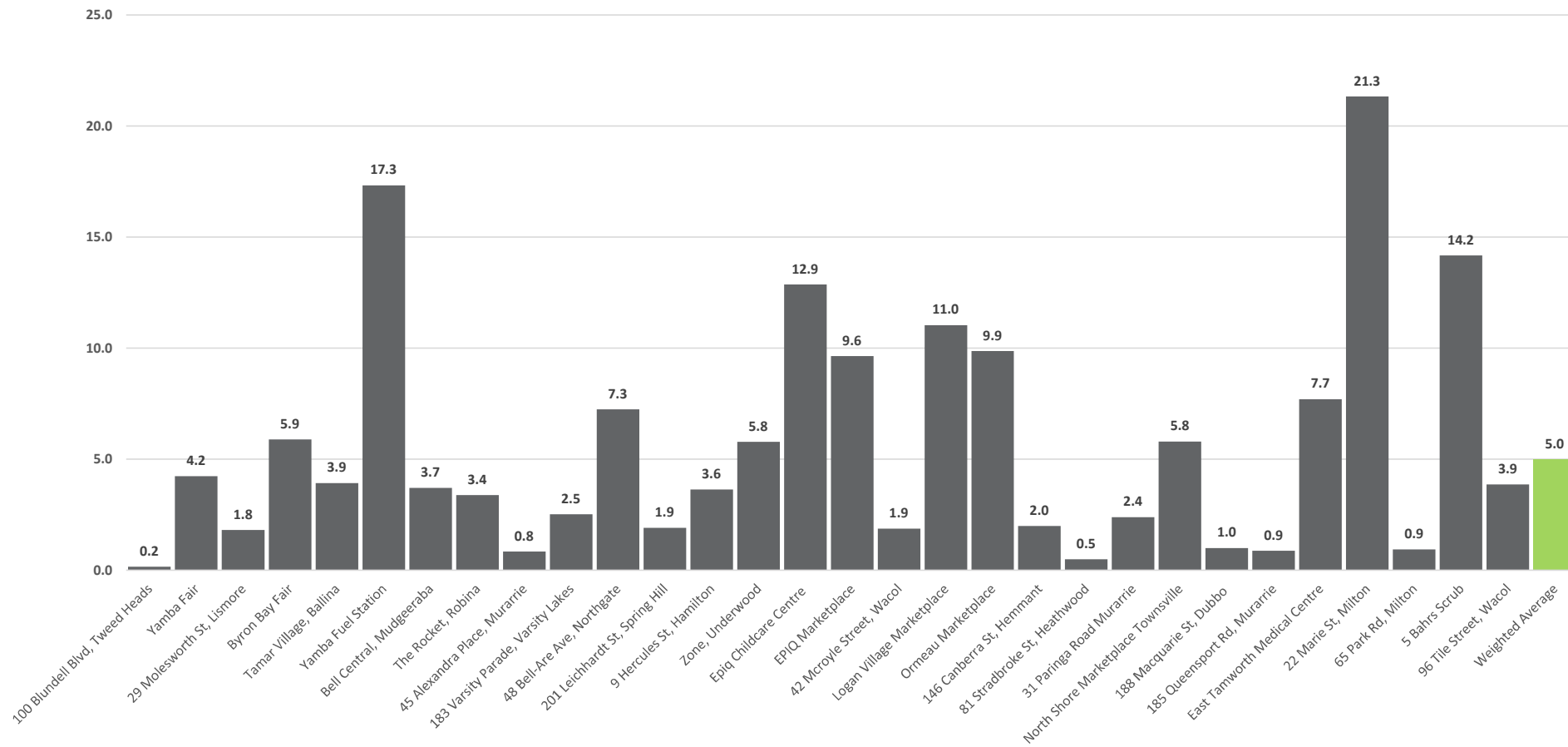
Sector Diversification (by Value)



## 6 Portfolio Diversification (continued)

### 6.2 WALE (Weighted Average Lease Expiry)

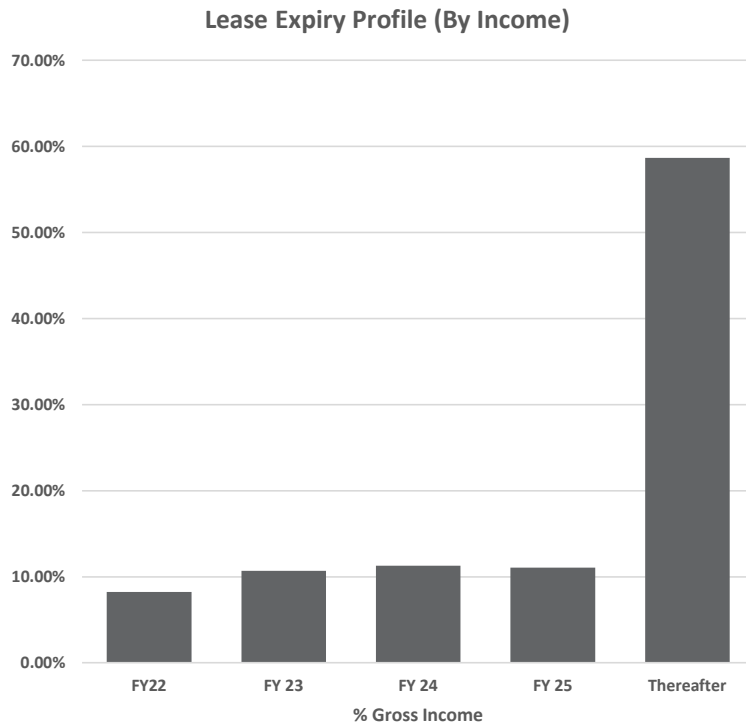
The following graph demonstrates the WALE for each leased property at March 2022.



## 6 Portfolio Diversification (continued)

### 6.3 Lease Expiry Profile

The following graph demonstrates the portfolio lease expiry profile in yearly periods calculated on the basis of income at March 2022:



### 6.4 Top Tenants by Income

Below are the largest six tenants which individually constitute 2% or more by income of the portfolio, determined at March 2022. Where tenants are part of a common corporate group or government body, those details have been aggregated:

Tenant	Area (m <sup>2</sup> )	Percentage of Income
Woolworths group	14,206	12.8%
Federal Government (including Centrelink, Family Law Court, NDIS & Australia Post)	10,738	13.8%
Government Properties NSW (including Departments of Housing, Education, Community Services and Health)	6,139	5.6%
Coles group	5,622	5.2%
Sykes	2,131	2.2%
Provet	4,651	2.0%
All other	121,391	58.5%

# Fund Update - April 2022

Clarence Property Diversified Fund  
ASIC Regulatory Guide 46



## 6 Portfolio Diversification (continued)

### 6.5 Property Valuations

Below is a summary of the Group's property valuations as at March 2022:

Asset	Location	Occupancy	Value	Cap. Rate	Date	Valuer
<b>Commercial Office</b>						
9 Hercules St, Hamilton	BNE	89%	\$ 10,200,000	6.75%	Dec-20	Cushman & Wakefield
65 Park Rd, Milton	BNE	100%	\$ 5,950,000	6.00%	Feb-21	CBRE Valuations
201 Leichhardt St, Spring Hill	BNE	95%	\$ 14,800,000	6.75%	Sep-21	Savills
188 Macquarie St, Dubbo	CNSW	95%	\$ 10,700,000	10.00%	Jun-20	CBRE Valuations
The Rocket, Robina	GCT	85%	\$ 83,900,000	7.00%	Sep-21	CBRE Valuations
183 Varsity Parade, Varsity Lakes	GCT	85%	\$ 12,250,000	7.00%	Dec-20	Savills
100 Blundell Blvd, Tweed Heads	NNSW	100%	\$ 10,000,000	7.00%	Oct-21	JLL
29 Molesworth St, Lismore	NNSW	96%	\$ 20,200,000	8.25%	Oct-21	Cushman & Wakefield
<b>Sub-total</b>		<b>98%</b>	<b>\$ 168,000,000</b>	<b>7.27%</b>		
<b>Retail &amp; Large Format Retail</b>						
Logan Village Marketplace	BNE	100%	\$ 16,000,000	5.75%	Oct-19	Savills
Ormeau Marketplace	BNE	100%	\$ 29,000,000	6.00%	Oct-19	Savills
Zone, Underwood	BNE	77%	\$ 33,000,000	7.00%	Nov-20	JLL
Bell Central, Mudgeeraba	GCT	99%	\$ 16,500,000	6.50%	Dec-20	JLL
205 Yamba Rd, Yamba <sup>3</sup>	NNSW	N/A	\$ 475,000	N/A	Oct-21	JLL
Yamba Fair	NNSW	98%	\$ 41,600,000	5.50%	Oct-21	JLL
Byron Bay Fair	NNSW	100%	\$ 14,000,000	6.00%	Dec-20	JLL
EPIQ Marketplace	NNSW	97%	\$ 33,080,000	6.50%	Aug-19	JLL
North Shore Marketplace Townsville	NQ	90%	\$ 23,250,000	6.00%	Oct-21	JLL
<b>Sub-total</b>		<b>98%</b>	<b>\$ 206,905,000</b>	<b>6.16%</b>		
<b>Childcare &amp; Medical</b>						
22 Marie St, Milton	BNE	100%	\$ 8,435,000	5.25%	Nov-20	Charter Keck Cramer
5 Bahrs Scrub	BNE	100%	\$ 5,600,000	6.36%	Feb-21	Charter Keck Cramer
Ripley Childcare Centre <sup>1</sup>	BNE	100%	\$ 7,560,000	5.50%	Aug-21	JLL
Rochedale South Childcare <sup>1</sup>	BNE	100%	\$ 5,427,184	5.15%	Mar-22	JLL
Salisbury Childcare Centre <sup>1</sup>	BNE	100%	\$ 7,950,000	5.50%	Aug-21	JLL
Epiq Childcare Centre	NNSW	100%	\$ 3,925,000	6.00%	Jan-20	Taylor Byrne
East Tamworth Medical Centre	CNSW	100%	\$ 14,500,000	6.25%	Oct-20	CBRE Valuations
Tamar Village, Ballina	NNSW	100%	\$ 8,800,000	6.50%	Oct-21	JLL
<b>Sub-total</b>		<b>100%</b>	<b>\$ 62,197,184</b>	<b>5.86%</b>		

## 6 Portfolio Diversification (continued)

### 6.5 Property Valuations (continued)

Asset	Location	Occupancy	Value	Cap. Rate	Date	Valuer
<b>Commercial Other</b>						
Yamba Fuel Station	NNSW	100%	\$ 5,650,000	5.50%	Oct-21	JLL
<b>Sub-total</b>		<b>100%</b>	<b>\$ 5,650,000</b>	<b>5.50%</b>		
<b>Logistics/Distribution/Industrial/Other</b>						
45 Alexandra Place, Murarrie	BNE	87%	\$ 14,900,000	5.75%	Sep-21	Herron Todd White
48 Bell-Are Ave, Northgate	BNE	100%	\$ 11,600,000	5.75%	Nov-20	Herron Todd White
42 Mcroyle Street, Wacol	BNE	100%	\$ 7,850,000	7.50%	Mar-20	JLL
146 Canberra St, Hemmant	BNE	100%	\$ 8,400,000	5.25%	Oct-21	JLL
31 Paringa Road Murarrie	BNE	100%	\$ 18,200,000	6.00%	Aug-20	Herron Todd White
185 Queensport Rd, Murarrie	BNE	100%	\$ 10,350,000	5.50%	Oct-21	JLL
18 Macgregor Pl, Richlands <sup>1</sup>	BNE	100%	\$ 14,400,000	6.00%	May-21	Herron Todd White
96 Tile Street, Wacol	BNE	100%	\$ 6,236,888	5.25%	Jul-21	Herron Todd White
81 Stradbroke St, Heathwood	BNE	100%	\$ 7,400,000	6.75%	Jun-20	JLL
Arndilly	NNSW	100%	\$ 6,000,000	N/A	Nov-21	Acumentis
<b>Sub-total</b>		<b>100%</b>	<b>\$ 105,336,888</b>	<b>5.95%</b>		
<b>Development</b>						
Hub Heathwood	BNE	N/A	\$ 36,000,000	N/A	Nov-21	Herron Todd White
9 Treelands Dr, Yamba <sup>2</sup>	NNSW	N/A	\$ 1,000,000	N/A	Oct-21	JLL
Epiq Lennox	NNSW	N/A	\$ 31,500,000	N/A	Aug-21	Charter Keck Cramer
Yamba Quays	NNSW	N/A	\$ 20,000,000	N/A	Aug-21	Charter Keck Cramer
Bayside Brunswick	NNSW	N/A	\$ 35,000,000	N/A	Jun-21	Charter Keck Cramer
Bilambil Heights	NNSW	N/A	\$ 17,000,000	N/A	Aug-21	Charter Keck Cramer
Newmans Road - Woolgoolga	NNSW	N/A	\$ 9,500,000	N/A	Jan-22	Charter Keck Cramer
<b>Sub-total</b>		<b>N/A</b>	<b>\$ 150,000,000</b>	<b>N/A</b>		
<b>Total Direct Portfolio</b>		<b>95%</b>	<b>\$ 698,089,072</b>	<b>6.46%</b>		

<sup>1</sup> Property currently under construction. Amount represents the as-if-complete valuation.

<sup>2</sup> Possible commercial development site.

<sup>3</sup> Non-core asset acquired for potential future expansion of car parking at Yamba Fair

## 6 Portfolio Diversification (continued)

### 6.6 Development Assets

#### **Epiq, Lennox Head**

The property, when acquired in November 2014, comprised an 80.48 hectare development site situated approximately 1.5 kilometres south of the Lennox Head town centre, an expanding coastal township approximately 15 kilometres north of Ballina and 20 kilometres south of Byron Bay on the New South Wales Far North Coast.

#### Development Update

The Pocket - A development application to Ballina Shire Council to create 14 residential lots has been lodged.

Stage 5 - The sale of the remaining 8 residential lots have now settled and the stage is complete.

Super Lot 5 - A modification application to create 102 terrace home lots is now with the NSW Dept. of Planning, Industry and Environment for determination.

Super Lot 7 - The civil works programme to create 33 residential lots, 26 live/work lots and 2 commercial lots commenced in August 2021. Completion of civil works is anticipated in June 2022 with the Subdivision certificate and titles to follow. Marketing of the residential lots will commence in April 2022.

#### **Yamba Quays**

The property, when acquired, comprised a 21.75 hectare residential development site located at Witonga Drive, Yamba on the New South Wales North Coast. The site is DA approved for 136 home sites, with 107 having water frontage with easy and direct access to the Clarence River and Pacific Ocean. The site was acquired in two tranches. The first tranche, comprising 42 lots known as Stage 1, settled in January 2019. The second tranche (comprising Stages 2 – 5) settled in June 2020.

#### Development Update

Stage 2 - The Subdivision certificate and titles were issued in early December 2021. 18 of the 24 lots were settled by April 2022. A further 3 lots have unconditional contracts as at April 2022, with settlements anticipated in May, June and July 2022. The remaining 3 lots are being assessed for potential future development.

Stage 3 - Design and planning is continuing. 11 lots from Stage 3 will be developed prior to the requirement to construct a roundabout on Yamba Road. The 6 months civil works program for the 11 lots will commence in late 2022 in conjunction with the civil works for the roundabout.

#### **Sceniq Bilambil Heights**

In June 2021 the Group settled the purchase of a 15.8ha residential subdivision site at Bilambil Heights, on the Tweed Coast in northern NSW, for \$13.5m. The site is development approved for 100 lots.

#### Development Update

Stage 1 - A construction certificate application has been lodged with Tweed Shire Council for the civil works. The 6 months civil works program is anticipated to commence in May 2022.

#### **Wallum Brunswick Heads**

In July 2021, the Group settled the purchase of a 30.2ha residential subdivision site at Brunswick Heads, just north of Byron Bay in northern NSW for \$33m.

#### Development Update

A development application has been lodged with Byron Shire Council for 127 lots.

## 6 Portfolio Diversification (continued)

### Treelands Drive, Yamba

This property comprises a vacant, regular shaped parcel approximately 100 metres north of Yamba Fair. DA approval has been received for a commercial development on the site, however there are no current plans to develop the site.

### Funding Arrangements

The Group has a \$45m finance facility in place with Bank of Queensland to assist with acquisition of land development sites and construction works. As at March 2022 \$20m had been drawn against the facility.

### Development risks

Investment in property development invariably involves a higher degree of risk than investment in passive income-earning real estate. For example, there is a possibility that funding could be obtained for these sites which is based on a loan-to-value ratio exceeding 70% of the 'as is' valuation of the property. If the property is not developed to completion and the facility is in default, the financier would have the right to require the sale of the property in order to be repaid. This could have an adverse impact on the financial returns to the Group.

The Manager undertakes all reasonable steps to mitigate such risks, including entering into pre-sale contracts and adopting disciplined financial and practical oversight and management of the projects involving regular on-site visits, meetings and updates with contractors and consultants, and Council liaison.

### 6.7 Investment in Securities

The Group may also invest in other non-real property assets from time to time including cash, receivables and interests in listed and unlisted entities which predominantly hold real property assets or mortgages secured by real property, and which meet the Group's investment criteria.

As at March 2022, the Group is invested in the following Securities:

Scheme	Description	Value
Robina Quays Unit Trust ARSN 164 442 835	Unlisted, registered managed investment scheme investing in real property	\$57,000

### 6.8 Investment Strategy

The Group's investment policy requires the Manager to promote diversification within the property portfolio. The objective of the Group is to provide monthly income to unitholders and to maximise returns to unitholders on a sustainable basis.

In order to achieve its investment objective, the Group has adopted the following key principles. It will:

- ▶ invest in a diverse range of property including convenience retail, large format retail, childcare, medical, commercial office, warehousing/logistics and residential/commercial development in geographically diverse locations throughout Australia, but particularly in New South Wales and Queensland;
- ▶ grow the rental income of the Group by attracting and retaining financially sound corporate tenants on competitive leasing terms;
- ▶ increase the value of real property assets through active management (including leasing campaigns and asset refurbishments) over the medium to long term;
- ▶ invest only in appropriate properties and investments which are reasonably expected to achieve satisfactory levels of income and capital growth over the medium to long term;
- ▶ acquire additional real property assets which meet the Group's investment criteria in terms of building quality, tenants, development potential, location and contribution to net cash earnings;
- ▶ invest in listed and unlisted entities which predominantly hold real property, or mortgages secured by real property, and which meet the Group's investment criteria;

## 6 Portfolio Diversification (continued)

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- ▶ invest only in appropriate properties and investments which are reasonably expected to achieve satisfactory levels of income and capital growth over the medium to long term;
- ▶ review and re-balance the portfolio, including through the timely disposal of assets to ensure that progress and performance are consistent with the Group's investment objectives;
- ▶ undertake thorough due diligence enquiries prior to any acquisition or investment; and
- ▶ utilise the expertise and experience of the board and senior management of the Manager in asset and capital management.

## 7 Valuation Policy

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The value of real property assets can be volatile, particularly when access to credit is constrained and more properties are on the market. A significant fall in valuation will mean an increase in the gearing ratio and may trigger a breach of loan covenants.

The Manager maintains and complies with a written valuation policy. A summary of the policy is below and a full copy can be obtained by contacting the Manager.

The Manager must arrange for a valuation or revaluation of an asset where it considers it to be in the best interests of unitholders, or in any event at least once every three years in accordance with the Group's compliance plan.

The Group's valuation policy:

- ▶ requires that valuations be undertaken by an independent valuer who is registered in the relevant State, and has at least five years continuous experience in valuations;
- ▶ sets out procedures for conflicts of interest;

- ▶ requires rotation and diversity of valuers;
- ▶ requires that an independent valuation be obtained for each property before the property is purchased; and
- ▶ requires that an independent valuation be obtained within two months after the directors of the Manager form a view there is a likelihood there has been a material adverse change in the value of the property.

Valuers are instructed to undertake their valuation in accordance with industry standards, and to outline their valuation methodology within their valuation report.

The fair value of the properties within the portfolio will be reviewed by the Manager every six months. The directors' assessment of fair value is periodically confirmed through the engagement of independent valuers to review and compare the directors' assessment of fair value across the portfolio.

In addition, the Manager will assess the value of an asset upon becoming aware of circumstances which would significantly impact on the value of the asset and the value of units.

If an 'as if complete' valuation is obtained for a particular property, the Manager will also obtain an 'as is' valuation of the property. Unitholders should note that 'as if complete' valuations carry a risk the assumptions on which the valuation is based may prove to be inaccurate.

Where the Group invests in the securities of other entities, the assets held by those entities are subject to separate valuation policies administered by those entities. Investments in unlisted securities will be valued based on the most recent financial statements of the relevant entity and where applicable, the current valuation of the underlying assets owned by that entity. If listed, the value of the securities will be their market price.

## 8 Related Party Transactions

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A related party transaction is a transaction involving parties which have a close relationship with the Manager. This includes circumstances where a fund managed by Clarence Property Corporation Limited invests in other funds for which Clarence Property Corporation Limited is the responsible entity or trustee.

The relevant policies and procedures applying to related party transactions are contained in the Manager's conflicts of interest policy. This policy requires the parties to transact on terms which would be reasonable if they were dealing at arm's length, and that regulatory requirements be complied with and the interest of unitholders protected. Actual or potential conflicts and related party matters must be considered by the directors in accordance with the conflicts of interest policy.

The Manager has entered into the following material related party transactions in relation to the Group:

- ▶ Clarence Property Works Pty Ltd (a wholly owned subsidiary of the Manager) is appointed to manage and/or oversee the management of the investment properties within the portfolio.

The services provided by the above entity is on arm's length terms, and fees for these services are charged at normal commercial rates.

The Group has also invested in securities in a registered managed investment scheme for which Clarence Property Corporation Limited is also the responsible entity, namely the Robina Quays Unit Trust ARSN 164 442 835. This investment was assessed and considered appropriate by the directors at the time in accordance with the Group's investment criteria.

In addition the Manager, its directors, shareholders, employees and related parties hold units in the Group either directly or beneficially. In the opinion of the directors, an investment in the Group by these parties assists to ensure the interests of unitholders in general are aligned with those of the Manager and related parties.

The value of the financial benefit of related party transactions are detailed in the Group's financial statements which can be obtained from the Manager's website [www.clarenceproperty.com.au](http://www.clarenceproperty.com.au).

## 9 Distribution Practices

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### 9.1 Distribution Policy

The Group anticipates it will generate income from sources including rental income from the properties in the portfolio, profits from the sale of stages of its development sites from time to time, and interest and distribution income from securities investments.

The Group aims to pay distributions out of cash from operations and realised capital gains. It is the intention of the Manager that distributions will be made monthly in arrears, subject to the financial performance of the Group.

The Manager is responsible for determining the amount of distributions. In making this decision, the Manager has regard to the future requirements and the overall financial position of the Group. It is the Manager's intention to equalise monthly distributions to the extent reasonably possible within a financial year.

The Manager is of the view the annualised cash distribution rate of 6.10 cents per unit, effective from and including the May 2022 distribution, is sustainable to 30 June 2023. Franking credits may be available to unitholders in addition to the cash distributions. It should be noted, however, the Manager provides no guarantees regarding the amount and frequency of future distributions, as a number of considerations (such as the number of settled land sales, forecast capital expenditure, property yields and overall financial market conditions) may affect the financial performance of the Group, and its ability to pay the current distribution rate or to pay any distributions at all.

## 9 Distribution Practices (continued)

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### 9.2 Distribution Reinvestment Plan

Under the Group's distribution reinvestment plan, unitholders may choose to reinvest their distribution entitlement in additional units, rather than receiving cash distributions.

A copy of the Group's distribution reinvestment plan rules may be obtained by contacting the Manager. Unitholders may vary their participation in the Group's distribution reinvestment plan by providing notice to the Manager in accordance with the terms of the plan. If for any reason in the future the Manager terminates or suspends the distribution reinvestment plan, all distributions from the Group will be paid into the nominated bank accounts of unitholders.

## 10 Withdrawal Arrangements

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The Group is an illiquid investment and should be considered a long term investment. The constitutions of the Group allow the Manager to make limited withdrawal offers to investors from time to time as it sees fit. The Manager does not anticipate making any such offer in the immediate future. Although there is no formal secondary market for units, units are transferrable (able to be sold).

## 11 Net Tangible Assets (NTA)

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An NTA calculation helps investors understand the value of the assets upon which the value of their units is determined. Open-ended schemes regularly disclose the NTA for the scheme or a similar measure such as net asset backing or net asset value to support pricing of units in the scheme. The measure is not generally disclosed for closed-end schemes. NTA is calculated using the following formula:

$$\text{NTA} = \frac{\text{net assets} - \text{intangibles assets} +/- \text{any other adjustments}}{\text{Number of units in the scheme on issue}}$$

The NTA of \$1.08 is consistent with the Group's latest auditor reviewed financial statements (31 December 2021).

The unit price quoted is the adjusted net tangible asset value before providing for deferred tax. Adjustments have been made for the fair value of the Group's development assets which under current Accounting Standards are required to be held at the lower of cost and net realisable value (on the Group's balance sheet).

The movement in NTA from one period to another may indicate the level of risk of the scheme. Generally, the larger the movement the higher the risk.