

# **ASIC REGULATORY GUIDE 46**

## **Unlisted Property Schemes – Improving Disclosure for Retail Investors**



December 2017

## Fund update – December 2017

Westlawn Property Trust

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### 1 Introduction

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- 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** This document has been prepared by Clarence Property Corporation Limited (**the Manager**) as the responsible entity of the Westlawn Property Trust (**Trust**) in order to update investors of the Trust's position against these benchmarks and disclosure principals.

### 2 Summary

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The table below details the Trust's position against each of the benchmarks and disclosure principals:

#### Benchmark

	Benchmark Met?	Further Information
<b>1. Gearing</b>	Yes	See Section 3
<b>2. Interest Cover</b>	Yes	See Section 4
<b>3. Interest Capitalisation</b>	No	See Section 5
<b>4. Valuations</b>	Yes	See Section 8
<b>5. Related Party Transactions</b>	Yes	See Section 9
<b>6. Distribution Practices</b>	Yes	See Section 10

### Disclosure Principal

	Current Value	Further Information
<b>1. Gearing</b>	43.4%	See Section 3
<b>2. Interest Cover</b>	1.91	See Section 4
<b>3. Scheme Borrowing</b>	<p>Borrowings repayable in less than 5 years is \$113,401,196.</p> <p>Borrowings repayable in more than 5 years is nil.</p>	See Section 6
<b>4. Portfolio Diversification</b>	The Trust is diversified both geographically and by property sector	See Section 7
<b>5. Related Party Transactions</b>	The Manager has a strict policy regarding entry into transactions with related parties, which requires it to ensure these transactions are entered into on commercial arms length terms and the details of these transactions are disclosed to investors.	See Section 9
<b>6. Distribution Practices</b>	Cash distributions for the 12 months ended 31 December 2017 totalled 6.5 cents per unit. This comprised earnings before unrealised gains/losses from ordinary activities.	See Section 10
<b>7. Withdrawal Arrangements</b>	The Trust is an illiquid investment and should be considered as a long term investment.	See Section 11
<b>8. Net Tangible Assets (Pre-Tax)</b>	\$0.83	See Section 12

### **3 Gearing**

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#### **3.1 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 Trust shall not exceed 70%.

#### **3.2 Gearing Ratio**

The gearing ratio set out in the summary above indicates the extent to which the Trust'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 Trust by the total assets of the Trust. The assets and borrowings used to calculate the gearing ratio are consistent with those included in the Trust's latest audited financial statements (31 December 2017). There have been no material changes to the Trust's gearing ratio since then.

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

### **4 Interest Cover**

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#### **4.1 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 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 interest cover at an individual credit facility level. The policy states that the interest cover ratio of the Trust shall at all times exceed 1.0.

#### **4.2 Interest Cover Ratio**

Interest cover gives an indication of the Trust's ability to meet interest repayments from earnings. Interest cover 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 Trust's latest audited financial statements (31 December 2017).

Interest cover measures the ability of the Trust to service interest on debt from its earnings. It is therefore a critical indication of the Trust's financial health and key to analysing the sustainability and risks associated with the Trust'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 that the entity may be unable to adequately service its debt.

A ratio of greater than 1.00 indicates that 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 that a distribution can be made.

## 5 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 Trust from its borrowings associated with its development assets is capitalised until that asset is sold, at which point it is repaid from proceeds of the sale prior to any investor distributions.

The interest expense of the Trust in relation to its rental investment properties is not capitalised and is paid from earnings prior to any investor distributions.

## 6 Scheme Borrowing

### 6.1 Debt Facilities

The Trust has the following debt facilities as at 31 December 2017:

Facility	Maturity Date	Facility limit (\$m)	Amount drawn down (\$m)	Amount undrawn (\$m)	Weighted average effective interest rate	Hedged (%)
NAB Facility	Jun 2019	\$58.853	\$57.395	\$1.458	3.54%	Yes
ING Facility 1	Oct 2018	\$19.815	\$19.815	\$0.000	3.42%	Yes
ING Facility 2	Oct 2018	\$1.200	\$0.000	\$1.200	N/A	No
ING Facility 3	Sep 2020	\$17.300	\$17.300	\$0.000	3.95%	No
ING Facility 4	Sep 2020	\$7.865	\$7.865	\$0.000	3.95%	No
BOQ Facility	Jan 2019	\$16.500	\$11.026	\$5.474	5.00%	No
Total		\$121.533	\$113.401	\$8.132		53%

The Trust's borrowings are secured against its assets. This means that repayment of the borrowings ranks ahead of Unitholders' interests in the Trust. As a result, the borrowing maturity and finance facility expiry profiles of the Trust 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.

#### **Key terms of NAB Facility**

Under this facility, the bank requires:

- First ranking security over all but six properties owned by the Trust;
- An LVR not exceeding 55% calculated on the properties secured. As at 31 December 2017, the actual LVR is 50%. The value of the secured Properties would need to decrease by 9.3% for the Trust to be in breach of this covenant;
- A minimum interest cover ratio of 1.75 times, monitored half yearly. As at 31 December 2017, the actual interest cover is 2.41. The operating cash flow of the secured properties would need to decrease by 27.3% for the Trust to be in breach of this covenant; and
- The Trust to maintain appropriate interest rate hedging arrangements in respect of not less than 50% of the drawn borrowings. As at 31 December 2017, 100% of drawn borrowings were hedged.

A breach of a borrowing covenant may result in the bank charging default interest, requiring immediate repayment of the facility or imposing a freeze on any further draw-down on the facility. The bank also has a right to invoke an event of default in the situation that Unitholders exercise their right to change the responsible entity.

The Trust continues to meet its obligations under the facility agreement.

#### **Key terms of ING Facility 1 & ING Facility 2**

Under these facilities, the bank requires:

- First ranking mortgage over the property known as 'The Rocket', of which the Trust owns 50%. These are joint facilities with the co-owner of that property. The amounts quoted represent the Trust's 50% interest;
- An LVR not exceeding 60% to be maintained at all times. As at 31 December 2017, the actual LVR for these facilities is 56.6%. The value of the secured property would need to decrease by 5.71% for the Trust to be in breach of this covenant;
- A minimum interest cover ratio of 1.25 times to be maintained at all times. As at 31 December 2017, the actual interest cover is 1.56. The interest cover ratio is calculated by taking the net rental income of the property and dividing that by the interest commitment. The interest commitment is the loan amount multiplied by either the current interest rate plus 1.50% or by an 8% floor rate, whichever is higher. The operating cash flow of the property would need to decrease by 19.6% for the Trust to be in breach of this covenant; and
- The WALE for the property to exceed the remaining term of the facilities, monitored annually.

A breach of a borrowing covenant may result in the bank charging default interest, requiring immediate repayment of the facilities or imposing a freeze on any further draw-down on the facilities. The bank also has a right to invoke an event of default in the situation that Unitholders exercise their right to change the responsible entity.

The Trust continues to meet its obligations under the facility agreements.

### **Key terms of ING Facility 3**

Under this facility, the bank requires:

- First ranking mortgage over 183 Varsity Parade, Varsity Lakes, 45 Alexandra Place, Murarrie and 48 Bell-Are Avenue, Northgate;
- An LVR not exceeding 55% to be maintained at all times. As at 31 December, the actual LVR for this facility is 55%. The value of the secured properties would need to decrease by 0% for the Trust to be in breach of this covenant;
- A minimum interest cover ratio of 1.25 times to be maintained at all times. As at 31 December 2017, the actual interest cover is 1.52. The interest cover ratio is calculated by taking the net rental income of the properties and dividing that by the interest commitment. The interest commitment is the loan amount multiplied by either the current interest rate plus 1.50% or by a 7% floor rate, whichever is higher. The operating cash flow of the properties would need to decrease by 17.6% for the Trust to be in breach of this covenant; and
- The WALE for the properties to exceed the remaining term of the facility, monitored annually.

A breach of a borrowing covenant may result in the bank charging default interest, requiring immediate repayment of the facility or imposing a freeze on any further draw-down on the facility. The bank also has a right to invoke an event of default in the situation that Unitholders exercise their right to change the responsible entity.

The Trust continues to meet its obligations under the facility agreement.

### **Key terms of ING Facility 4**

Under this facility, the bank requires:

- First ranking mortgage over 201 Leichhardt Street, Spring Hill;
- An LVR not exceeding 55% to be maintained at all times;
- A minimum interest cover ratio of 1.25 times to be maintained at all times. The interest cover ratio is calculated by taking the net rental income of the property and dividing that by the interest commitment. The interest commitment is the loan amount multiplied by either the current interest rate plus 1.50% or by a 7% floor rate, whichever is higher; and
- The WALE for the property to exceed the remaining term of the facility, monitored annually.

A breach of a borrowing covenant may result in the bank charging default interest, requiring immediate repayment of the facility or imposing a freeze on any further draw-down on the facility. The bank also has a right to invoke an event of default in the situation that Unitholders exercise their right to change the responsible entity.

The Trust continues to meet its obligations under the facility agreement.

### Key terms of BOQ Facility

Under this facility, the bank requires:

- First ranking mortgage over the property Lot 54 Hutley Drive, Lennox Head (known as 'Epiq Lennox'); and
- The undrawn amount to be sufficient to cover expected costs to complete Stage 1B and Stage 2.

A breach of a borrowing covenant may result in the bank charging default interest, requiring immediate repayment of the facility or imposing a freeze on any further draw-down on the facility. The bank also has a right to invoke an event of default in the situation that Unitholders exercise their right to change the responsible entity.

The Trust continues to meet its obligations under the facility agreement.

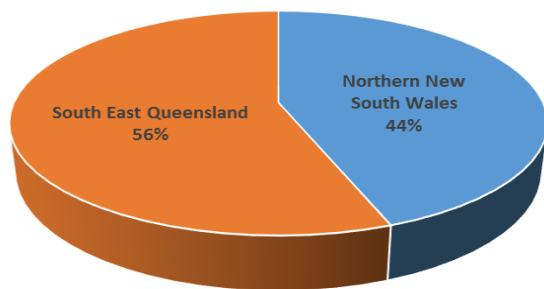
## 7 Portfolio Diversification

### 7.1 Portfolio Composition

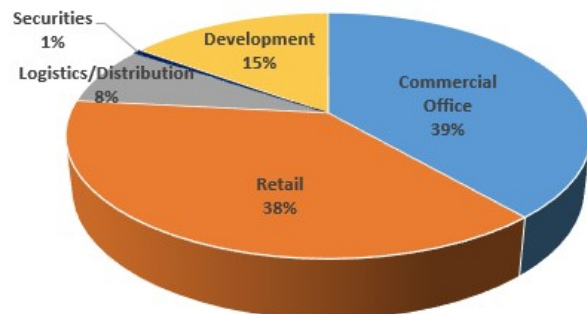
Set out below is a summary of the Trust's property portfolio as at 31 December 2017. Specific information in relation to each of the properties can be found on our website

[www.clarenceproperty.com.au](http://www.clarenceproperty.com.au).

**Geographic Diversification (by Value)**



**Sector Diversification (by Value)**



Location	No. Properties	Valuation
South East Queensland	Eight	\$141,150,000
Northern New South Wales	Eleven	\$110,561,374
<b>Sub-Total Direct Portfolio</b>	<b>Nineteen</b>	<b>\$251,711,374</b>

Property sector	No. Properties	Valuation
Commercial	Six	\$ 97,825,000
Retail	Seven	\$ 96,235,000
Development	Four	\$ 38,026,374
Logistics/Industrial	Two	\$19,625,000
<b>Sub-Total Direct Portfolio</b>	<b>Nineteen</b>	<b>\$251,711,374</b>
Property Securities	One	\$1,425,000
<b>Total Portfolio</b>		<b>\$253,136,374</b>



## 7.2 Lease Expiry

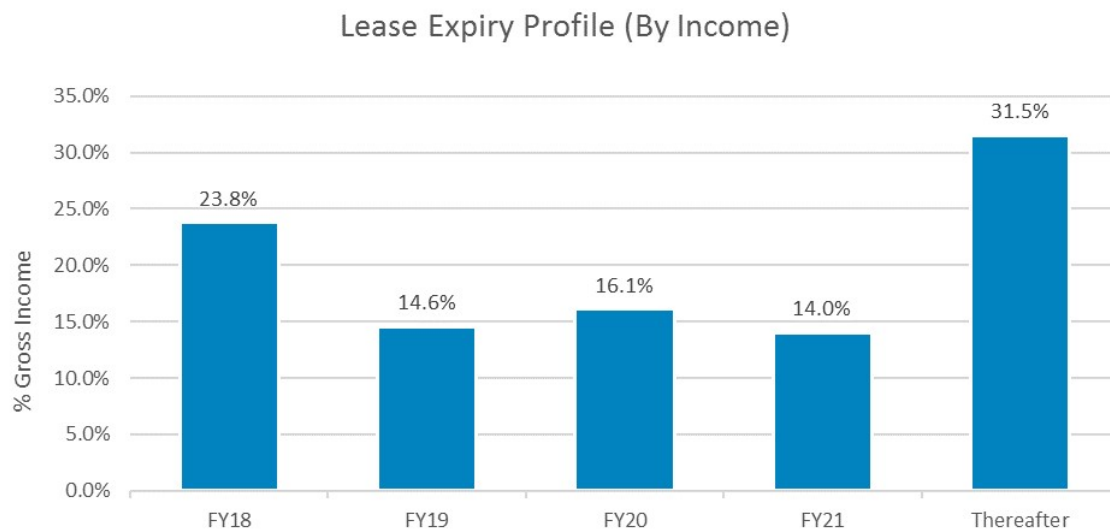
### WALE

The following graph demonstrates the WALE for each leased property.



### Lease Expiry Profile

The following graph demonstrates the Portfolio lease expiry profile in yearly periods calculated on the basis of income.



### 7.3 Top tenants by income

Set out below are the largest five tenants which individually constitute 3% or more by income of the Portfolio. Where tenants are part of a common corporate group or government body, those details have been aggregated:

Tenant	Area (sqm)	Percentage of income
Wesfarmers (including Coles, Target and Coles Liquor stores)	6,694	10.66 %
Government Properties NSW (including Departments of Housing, Education, Community Services and Health)	4,423	9.00 %
Federal Government (including Centrelink and Family Law Court)	2,714	5.89 %
Sykes Australia	1,993	4.40%
Provet	4,651	3.79%

### 7.4 Property Valuations

Set out below is a summary of the Trust's property valuations:

Asset	Location	Occupancy	Value (\$m)	Cap. Rate	Date	Valuer
98 – 100 Blundell Blvd.	Tweed Heads, NSW	100%	\$8.70m	8.50%	Oct 15	CBRE Valuations
Yamba Fair	Yamba, NSW	97.29%	\$32.5m	6.25%	Jun 17	Jones Lang LaSalle
29 Molesworth Street	Lismore, NSW	93.79%	\$16.00m	9.35%	Dec 17	Director Valuation
Byron West Shopping Fair	Byron Bay, NSW	100%	\$11.50m	7.00%	Dec 17	Director Valuation
Easy T Shopping Centre	Robina, QLD	94.57%	\$34.00m	6.75%	Dec 17	Director Valuation
Tamar Shopping Village	Ballina, NSW	84.17%	\$3.20m	N/A	Aug 15	Taylor Byrne
The Rocket	Robina, QLD	87.66%	\$35.025m	8.25%	Jul 15	Jones Lang LaSalle
Bell Central	Mudgeeraba, QLD	83.06%	\$14.40m	7.25%	Dec 17	Director Valuation
45 Alexandra Place	Murarie, QLD	100%	\$11.15m	7.00%	Mar 17	Jones Lang LaSalle
183 Varsity Parade	Varsity Lakes, QLD	100%	\$11.80m	8.25%	Feb 17	CBRE Valuations
48 Bell-Are Avenue	Northgate, QLD	100%	\$8.475m	8.00%	Jul 17	Jones Lang LaSalle
201 Leichhardt Street	Spring Hill, QLD	88.17%	\$14.30m	7.25%	Aug 17	Savills Australia

Asset	Location	Occupancy	Value (\$m)	Cap. Rate	Date	Valuer
9 Hercules St	Hamilton, QLD	100%	\$12.00m	7.75%	Nov 17	Jones Lang LaSalle
9 Treelands Drive (1)	Yamba, NSW	N/A	\$0.629m	N/A	Sep 15	Opteon
Lot 54 Hutley Drive (known as "Epiq Lennox") (2)	Lennox Head, NSW	N/A	\$36.129m	N/A	Jun 17	Director Valuation
Residential Properties (x2) (3)	Yamba, NSW	N/A	\$0.635m	N/A	May 15	Taylor Byrne
Yamba Fuel Station (x2) (4)	Yamba, NSW	N/A	\$1.268m	N/A	Jun 17	Director Valuation
<b>Total Direct Portfolio</b>			<b>\$251.711</b>			

Notes:

- (1) Possible commercial development site
- (2) Commercial and residential land development site
- (3) Non-core assets acquired for potential future expansion of car parking at Yamba Fair
- (4) Development site; latest independent valuation \$0.925 million in January 2016 by Opteon Property Group

## 7.5 Development Assets

### 7.5.1 - 9 Treelands Drive, Yamba

This property comprises a vacant, regular shaped parcel forming part of the West Yamba commercial precinct 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.

### 7.5.2 - EPIQ, Lennox Head

The property comprises 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 Progress

The property was acquired in November 2014 with both Concept Plan and Project Plan approvals in place from the (then) NSW Department of Planning and Infrastructure. The approvals provide for the construction of single dwelling, duplex and medium density lots, together with a neighbourhood shopping centre and a retirement village.

The following table summarises development and sales activity since acquisition:

Development Stage	Description and Comments
Stage 1A	Construction and sale of 51 residential lots. This stage has been sold and settled.

Stage 2	<ul style="list-style-type: none"> <li>- Construction and sale of 82 residential lots.</li> <li>- All lots have been sold, for a gross sales value of \$21.69m. (excl. GST).</li> <li>- Construction of these lots is under way, with practical completion expected in early 2018.</li> <li>- Settlement of the 82 exchanged contracts is expected prior to 30 June 2018. At that point the development profit from this stage will be recorded in the Trust's financial statements.</li> </ul>
Stage 3 (a)	<ul style="list-style-type: none"> <li>- Construction and sale of 78 residential lots.</li> <li>- All lots have been sold for a gross sales value of \$24.718m. (excl. GST).</li> <li>- The DA for the construction of this stage was approved by Ballina Shire Council in September 2017, and construction commenced in late 2017. Based on an estimated construction timeframe of twelve months, settlements are forecast for early 2019 at which time profits from this stage of the development will be recorded.</li> </ul>
Stage 3 (b)	<ul style="list-style-type: none"> <li>- Construction and sale of 41 ocean-view residential lots.</li> <li>- The DA for the construction of this stage was approved by Ballina Shire Council in September 2017. The Manager's intention is to construct these lots before taking them to the market.</li> <li>- The Manager expects to settle these sales during the year ended 30 June 2019.</li> </ul>
Stage 4	<ul style="list-style-type: none"> <li>- Construction and sale of 35 residential lots and 3 medium density lots.</li> <li>- The DA for construction of this stage was approved by Ballina Shire Council in September 2017.</li> <li>- The Manager proposes constructing and selling these lots during 2018, and settling those sales during the year ended 30 June 2019.</li> </ul>
Stage 5	<ul style="list-style-type: none"> <li>- Construction and sale of 87 residential lots.</li> <li>- A DA for this stage was lodged with Ballina Shire Council in September 2017. Construction is expected to be undertaken during the 2018/19 financial year, with settlement of sales occurring during the year ended 30 June 2020.</li> </ul>
Shopping Centre (Super Lot 1)	<ul style="list-style-type: none"> <li>- Current State Planning approvals provide for the construction of a 5,500m<sup>2</sup> neighbourhood shopping centre.</li> <li>- It is the Manager's intention that the Trust will construct and retain the shopping centre as an addition to its existing rent-producing retail portfolio.</li> <li>- The shopping centre will include a full-line supermarket, complemented by medical services and specialty shops typically associated with a neighbourhood shopping centre (e.g. coffee shop, butcher, baker, hairdresser etc.).</li> <li>- DA approval for the bulk earthworks for the shopping centre site has been received and work commenced in late 2017, with construction of the centre itself set to start during 2018/19 financial year.</li> <li>- Lease negotiations with the anchor supermarket tenant are well advanced.</li> </ul>
Childcare Centre (Super Lot 3)	<ul style="list-style-type: none"> <li>- A 3,000m<sup>2</sup> site has been identified for construction of a 98 place childcare centre.</li> <li>- The intention is that the Trust will build and retain the centre as another income-producing rental property.</li> <li>- The DA for the centre is expected to be lodged by 30 June 2018.</li> </ul>

Super Lot 5	<ul style="list-style-type: none"> <li>- Super Lot 5 is a 4.1 ha. site currently approved for retirement living. The Manager's view is that a better outcome for investors will be derived from developing the site as a terrace home development, delivering quality "ready-to-occupy" terrace homes to the market. Current designing contemplates the construction of 145 Torrens title residences.</li> <li>- The Manager is presently in discussion with the various consent authorities regarding the proposed change of use.</li> </ul>
Super Lot 7	<ul style="list-style-type: none"> <li>- Super Lot 7 is a 5.59 ha. site currently approved for residential lots. Again, the Manager's view is that a better financial outcome for investors can be derived by seeking approval for a change of use to "mixed use". A mixed use development could include, inter alia, "live work" premises, commercial premises, community facilities together with traditional residential lots.</li> <li>- Discussions with the various consent authorities regarding the proposed change of use are continuing.</li> </ul>

### Funding arrangements

**Source of funding:** The acquisition of the development site was funded at the time from the Trust's cash reserves. Subsequent development costs have also been funded from cash reserves and a finance facility with the Bank of Queensland.

As at 31 December 2017 the Bank of Queensland finance facility is \$16.50 million, with \$5.40 million undrawn, to fund the completion of Stage 1B and Stage 2. An increased facility (to \$21m) to incorporate the funding of Stages 3 and 4 has since been negotiated on comparable terms and conditions, along with a \$1m facility to fund the supermarket bulk earthworks and a \$4.35m bank guarantee facility for council maintenance bonds for Stages 1B, 2, 3 and 4.

### 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 will be obtained for this site 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 Trust.

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

## 7.6 Investments in Securities

The Trust 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 Trust's investment criteria.

As at 31 December 2017, the Trust is invested in the Securities set out in the table below:

Scheme	Description	Value
Robina Quays Unit Trust ARSN 164 442 835	Unlisted, registered managed investment scheme investing in real property	\$1,425,000

## 7.7 Investment Strategy

The Trust's investment policy requires the Manager to promote diversification within the property portfolio. The objective of the Trust is to maximise returns to Unitholders on a sustainable basis.

In order to achieve its investment objective, the Trust has adopted the following key principles:

- investing in a diverse range of property including commercial, retail, logistics, industrial, storage, residential and development properties in geographically diverse locations throughout Australia;
- growing the rental income of the Trust by attracting and retaining strong corporate tenants on competitive leasing terms;
- increasing the value of real property assets through active management (including leasing campaigns and asset refurbishments) over the medium to long term;
- acquiring additional real property assets which meet the Trust's investment criteria in terms of building quality, tenants and location;
- investing in listed and unlisted entities which predominantly hold real property, or mortgages secured by real property, and which meet the Trust's investment criteria;
- investing 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;
- regularly reviewing and re-balancing the portfolio, including through the timely disposal of assets to ensure that progress and performance are consistent with the Trust's investment objectives;
- undertaking thorough due diligence enquiries prior to any acquisition or investment; and
- utilising the expertise and experience of the Board and senior management of the Manager in asset and capital management.

## 8 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 to be undertaken 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 Trust's compliance plan.

The Trust'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 form a view there is a likelihood there has been a material 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 that the assumptions on which the valuation is based may prove to be inaccurate.

Where the Trust 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.

## 9 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 that the parties must 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 Trust:

- Clarence Property Works Pty Ltd (a wholly owned subsidiary of the Manager) is appointed to manage and/or oversee the management of the Properties within the Portfolio; and
- Westlawn Insurance Brokers Pty Ltd (which has one common director with the Manager) is appointed to broker the majority of the Trust's insurance needs.

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

The Trust 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 independent Director at the time in accordance with the Trust's investment criteria.



In addition the Manager, its directors, shareholders, employees and related parties hold Units in the Trust either directly or beneficially. In the opinion of the directors, an investment in the Trust 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 Trust's financial statements which can be obtained from the Manager's website [www.clarenceproperty.com.au](http://www.clarenceproperty.com.au).

## **10 Distribution Practices**

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### **Distribution Policy**

It is anticipated the Trust will generate income such as rental income from the properties in the portfolio, profits from the sale of stages of its Lennox development site from time to time, and interest and distribution income from securities investments.

The Trust 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 Trust.

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 Trust. 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 that the current annualised cash distribution rate of 6.5 cents per unit is sustainable over the next 12 months.

It should be noted, however, that the Manager provides no guarantees regarding the amount and frequency of future distributions, as a number of considerations (such as forecast capital expenditure, property yields and overall financial market conditions) may affect the financial performance of the Trust, and its ability to pay distributions.

### **Distribution reinvestment plan**

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

A copy of the Trust's distribution reinvestment plan rules may be obtained by contacting the Manager. Unitholders may vary their participation in the Trust'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 Trust will be paid into the nominated bank accounts of unitholders.

## **11 Withdrawal Arrangements**

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The Trust is an illiquid investment and should be considered as a long term investment. The constitution of the Trust does 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.



## 12 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:

$$\text{NTA} = \frac{\text{Net Assets} - \text{intangible assets} \pm \text{any other adjustments}}{\text{Number of units in the scheme on issue}}$$

The NTA of \$0.83 is consistent with the Trust's latest audited financial statements (31 December 2017).

The unit price quoted is the net tangible asset backing before providing for deferred tax. The Trust is a long term investor and does not intend to dispose of its total investment portfolio. Under current Accounting Standards, the Trust is required to provide for deferred capital gains tax liabilities or benefits, including those that may arise should the portfolio be theoretically disposed of in its entirety at the reporting date.

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.

## **Corporate Directory**

### **Manager and Responsible Entity**

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AFSL 230212

### **Registered Office**

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