

# **ASIC REGULATORY GUIDE 46**

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

December 2012

# Fund update – December 2012

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>	Yes	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>	56.2%	See Section 3
<b>2. Interest Cover</b>	1.25	See Section 4
<b>3. Scheme Borrowing</b>	<p>Borrowing repayable in less than 5 years is \$163.25m</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>	Distributions for the 12 months ended 31 December 2012 totalled 4.0 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</b>	\$0.99	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 2012). 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 2012).

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 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:

Facility	Maturity Date	Facility limit (\$m)	Amount drawn down (\$m)	Amount undrawn (\$m)	Weighted average effective interest rate	Hedged (%)
NAB Bill Facility	Jun 2015	\$161.50	\$161.50	\$nil	8.23%	84%
Mayne Loan	Nov 2013	\$1.75	\$1.75	\$nil	7.75%	nil
<b>Total</b>		<b>\$163.25</b>	<b>\$163.25</b>	<b>\$nil</b>	<b>8.22%</b>	<b>83%</b>

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

## 6.2 Key Terms of the NAB Bill Facility

### Asset Security

First ranking mortgage over all but one property of the Trust.

### Loan to Valuation Ratio (LVR)

Loan Value Ratio of 65% to be maintained at all times reducing to 60% by 1 July 2013. At 31 December 2012 the LVR ratio as defined by NAB is 59.5%.

### Interest Cover Ratio (ICR)

Minimum property finance interest cover ratio of 1.40 times monitored half yearly. At 31 December 2012 the ICR ratio as defined by NAB is 1.41 times.

A breach of a borrowing covenant may result in the bank 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 scheme members exercise their right to change the responsible entity.

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

## 6.3 Key Terms of the Mayne Loan Facility

### Asset Security

First ranking mortgage over one property of the Trust.

### Loan to Valuation Ratio (LVR)

At the time of advance of the loan, the LVR will not exceed 60% of the value of the security property. There is no ongoing LVR covenant.

### Interest Cover Ratio (ICR)

There is no ICR covenant as part of the loan.

The lender has a right to invoke an event of default in the situation that scheme members exercise their right to change the responsible entity.

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

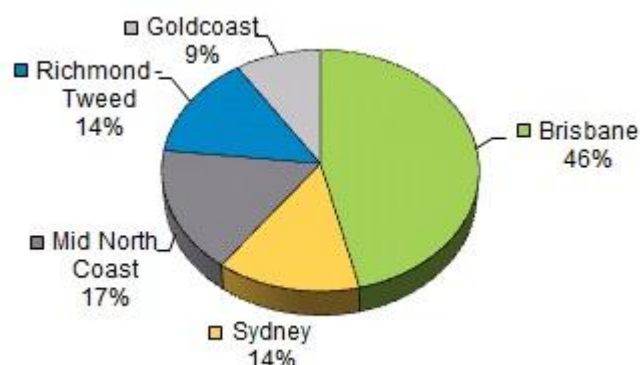
The lender is a mortgage fund that has publicly stated it is looking to wind down its operations. The Manager has been given assurances that the Trust will not be required to repay the facility prior to the current maturity date. The Manager is confident, given the timescales and facility size involved, that refinancing will be able to take place without any adverse impact on the Trust.

## 7 Portfolio Diversification

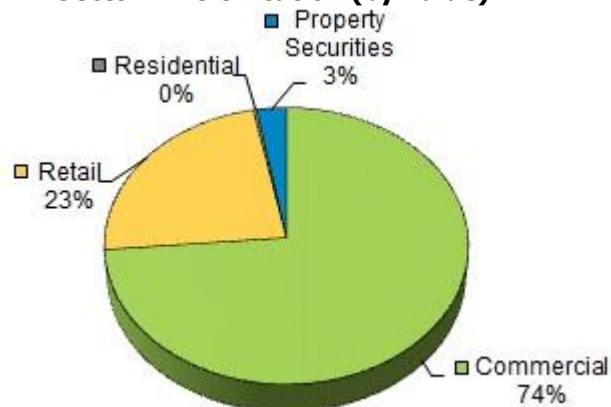
### 7.1 Portfolio Composition

Set out below is a summary of the Trust's property portfolio. 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)



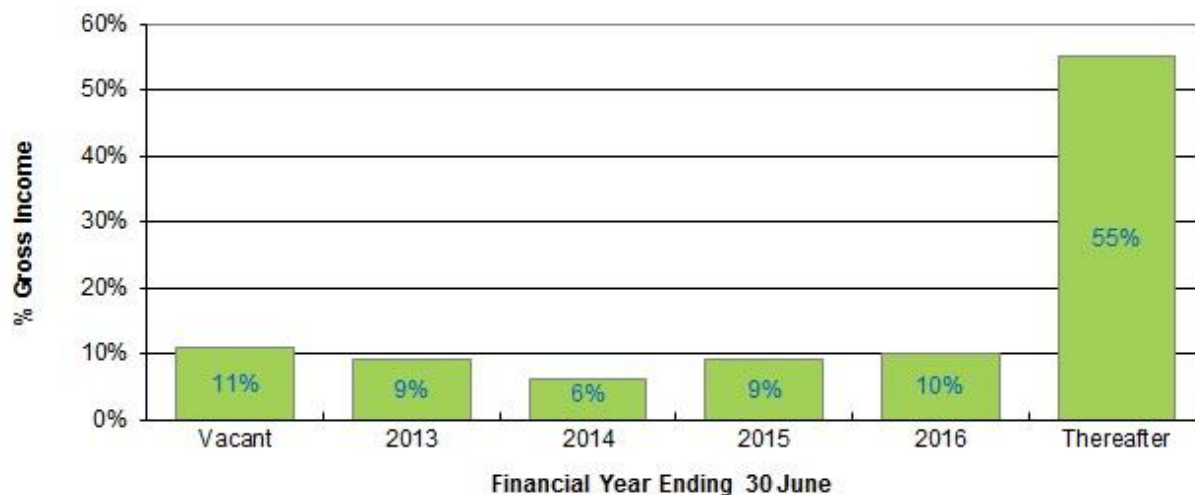
Location	No. Properties	Valuation
Brisbane	One	\$125,000,000
Gold Coast	One	\$25,000,000
Sydney	One	\$37,500,000
Mid-North Coast	Eight	\$44,855,000
Richmond - Tweed	Four	\$37,850,000
<b>Sub-Total Direct Portfolio</b>	<b>Fifteen</b>	<b>\$270,205,000</b>

Property sector	No. Properties	Valuation
Commercial	Five	\$204,650,000
Retail	Seven	\$64,660,000
Residential	Three	\$895,000
<b>Sub-Total Direct Portfolio</b>	<b>Fifteen</b>	<b>\$270,205,000</b>
Property Securities	N/A	\$7,730,580
<b>Total Portfolio</b>		<b>\$277,935,580</b>

### 7.2 Lease Expiry Profile

The weighted average lease expiry (WALE) of the direct property portfolio is 3.65 years (as at 31 December 2012).

Set out below is the lease expiry profile by income of the direct property portfolio:



### 7.3 Top tenants by income

Tenant	Percentage of income
Roads and Maritime Services	13.8%
NSW State Government (other)	8.0%
Essential Energy	7.1%
Wesfarmers	5.9%
Federal Government	5.0%
Qld State Government	3.5%

### 7.4 Property Valuations

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

Property	Value (\$m)	Cap Rate	Date	Valuer
72 – 78 Prince Street, Grafton	\$1.760m	10.00%	May 11	Herron Todd White
98 – 100 Blundell Blvd, Tweed Heads	\$8.250m	9.25%	Jun 12	C B Richard Ellis
8 – 12 Buller Street, Port Macquarie	\$15.400m	11.00%	Jun 12	Savills
Yamba Shopping Fair	\$20.000m	8.00%	Jun 11	C B Richard Ellis
29 Molesworth Street, Lismore	\$18.500m	9.00%	May 11	C B Richard Ellis
307 Queen Street, Brisbane (Note 1)	\$125.000m	8.10%	Dec 12	Internal Valuation
Rocks Shopping Fair, S.W. Rocks	\$6.300m	9.25%	Mar 11	Colliers International
9 Treelands Drive, Yamba (Note 2)	\$0.500m	N/A	Dec 12	Internal Valuation
Byron West Shopping Fair	\$8.500m	8.25%	Jun 12	M3 Property
Easy T Shopping Centre, Robina	\$25.000m	9.00%	Jun 12	M3 Property
110 George Street, Parramatta (Note 3)	\$37.500m	9.25%	Dec 12	Internal Valuation
Tamar Shopping Village, Ballina (Note 4)	\$2.600m	N/A	Dec 12	Internal Valuation
Yamba Residential Properties	\$0.895m	N/A	Mar 11	Taylor Byrne
<b>Total Direct Portfolio</b>	<b>\$270.205m</b>			

Note 1 - The last independent valuation was \$127.0m as at Jun 12.

Note 2 - The last independent valuation was \$0.70m as at Jun 12.

Note 3 - The amount quoted represents the Trust's 50% ownership in that property. The last independent valuation was \$39.0m as at Jun 12.

Note 4 - The last independent valuation was \$3.85m as at Jun 10.



## 7.5 Investment Strategy

The Trust's investment policy requires the Manager to promote diversification within the property portfolio. The Trust primarily invests in Australian non-residential property including commercial, retail and industrial property. It can also invest in entities (listed or unlisted) which primarily hold real property assets.

The Trust has a total investment of \$7,730,580 in non-direct property assets as at 31 December 2012, the most significant of which was a \$5,998,080 investment in the unlisted APN National Storage Property Trust. The APN National Storage Property Trust is a registered managed investment scheme that invests in self storage assets which are primarily leased out to a national operator on long term leases.

The Manager has adopted a strict policy for ensuring that the Trust will only invest in appropriate properties/investments which are reasonably expected to achieve satisfactory levels of income and capital growth for the investors. In order to accomplish this, the Trust's investment policy requires the Manager to:

- a) obtain valuation reports prior to investing in a property;
- b) undertake an internal feasibility review of the property's rental income, expected pre-sales and development cost where relevant; and
- c) engage professional advisers such as lawyers, town planners and quantity surveyors to assist in undertaking a thorough due diligence in relation to the property prior to its acquisition.

The quality of the properties held by the Trust, including the quality of leases entered into over those properties, is a key element in the financial position and performance of the Trust. Generally the more diversified a portfolio, the lower the likelihood that an adverse event affecting one property or lease will have a material adverse impact on the overall portfolio.

## 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 valuation policy states:

- a) The valuer must be registered or licenced under the relevant state or territory valuer registration regime in which the property is located or otherwise be a member of an appropriate professional body in that jurisdiction and if applicable be on the lender's approved panel; and
- b) The approved valuer shall be independent of the Manager and provide written confirmation to the Manager that the valuer has no conflict of interest in providing the valuation; and
- c) No more than three consecutive valuations of an asset of the Trust will be conducted by the same valuer; and

- d) The Manager will cause a property owned by the Trust to be valued if the Manager reasonably believes that there has been a significant change in the value of the property and that is in the best interests of Unit Holders to do so, or in any event at least once every three years or more frequently as required under the Trust's lending covenants; and
- e) The Manager will ensure that any individual property is not acquired or disposed of by, or on behalf of, the Manager, unless it has been valued by an approved valuer.

## **9 Related Party Transactions**

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### **9.1 Related Party Transaction Policy**

The Manager complies with a strict policy regarding the 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.

Any transaction which may potentially be characterised as a related party contract must be brought to the attention of the Compliance Manager who will determine whether a transaction represents a related party contract which requires Board approval. If the Compliance Manager determines that the transaction is a related party transaction it must be put before the Board who will be required to confirm that the proposed terms applicable to the transaction are made on commercial arms length terms. The Compliance Manager will record any such transactions in a related party transaction register, which will be reviewed annually by the Compliance Officer as part of the Trust's compliance review.

Further information on the Manager's related party transaction policy can be obtained by contacting the Manager.

### **9.2 Related Party Transactions**

Related party transactions carry a risk that they could be assessed and monitored less rigorously than arms length third party transactions. Investors should therefore assess whether responsible entities take an appropriate approach to related party transactions. A significant number and value of such transactions may mean that investors should consider the financial position of the related group as a whole and the risk of potential conflicts of interest.

Related party transactions may include commercial contracts for supply of goods or services with persons that are related parties. They may also comprise larger transactions, such as asset acquisitions or disposals.

Below is a summary of the material related party transactions which relate to the Trust:

- a) The provision of property and/or asset management services – Clarence Property Works Pty Ltd (a wholly owned subsidiary of the Manager) is appointed to manage, or oversee the management of, the properties in the direct property portfolio.
- b) The provision of insurance brokerage services – Westlawn Insurance Brokers Pty Ltd is appointed to broker the majority of the Trust's insurance needs. Westlawn Insurance Brokers Pty Ltd is a subsidiary of a major shareholder of the Manager.
- c) The provision of accounting and taxation services and advice – Westlawn Business Services Pty Ltd provides both accounting and taxation services and advice to the Trust. Westlawn Business Services Pty Ltd is a subsidiary of a major shareholder of the Manager.

- d) The Manager, its directors, its shareholders, its employees and related parties hold interests in the Trust either directly or beneficially. This helps to ensure the interests of investors in the Trust are aligned to that of the Manager and related parties.

All transactions are entered into on an arms length basis and are in accordance with the Manager's policy and procedures. Member approval has not been sought for these transactions. 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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### 10.1 Distribution Practices

The Trust will only pay distributions from its earnings before unrealised gains/losses from ordinary activities after payment of interest on borrowings.

### 10.2 Distributions

Current and forecast distributions are sourced from cash from operations available for distribution. The Manager is of the view that the current annualised distribution rate of 4.0 cents per unit is sustainable over the next 12 months.

## 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

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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 \$0.99 is consistent with the Trust's latest audited financial statements (31 December 2012).

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**

Clarence Property Corporation Limited  
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AFSL 230212

### **Registered Office**

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