ASIC REGULATORY GUIDE 46

Unlisted Property Schemes – Improving Disclosure for Retail Investors

June 2019

Fund update – June 2019

Westlawn Property Group

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 Westlawn Property Trust and Epiq Lennox Property Trust, collectively known as the Westlawn Property Group (**Group**), are stapled. The number of units in each Trust is equal and the unitholders identical.

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

2 Summary

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

Benchmark

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

Disclosure Principal

	Current Value	Further Information
1. Gearing	34%	See Section 3
2. Interest Cover	4.56	See Section 4
3. Scheme Borrowing	Borrowings repayable in less than 5 years is $105,881,670. Borrowings repayable in more than 5 years is nil.	See Section 6
4. Portfolio Diversification	The Group is diversified both geographically and by property sector	See Section 7
5. Related Party Transactions	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
6. Distribution Practices	Cash distributions for the 12 months ended 30 June 2019 totalled 6.5 cents per unit. This comprised earnings before unrealised gains/losses from ordinary activities.	See Section 10
7. Withdrawal Arrangements	The Group is an illiquid investment and should be considered as a long term investment.	See Section 11
8. Net Tangible Assets (Pre-Tax)	$0.91	See Section 12

3 Gearing

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 Group shall not exceed 70%.

3.2 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 audited financial statements (30 June 2019). There have been no material changes to the Group's gearing ratio since then.

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

4 Interest Cover

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 Group shall at all times exceed 1.0.

4.2 Interest Cover Ratio

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

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

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 audited financial statements (30 June 2019).

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.

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.

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 Group 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 Group 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 Group has the following debt facilities as at 30 June 2019:

Facility	Maturity Date	Facility limit ($m)	Amount drawn down ($m)	Amount undrawn ($m)	Weighted average effective interest rate	Hedged (%)
Common Terms Facility	Sep 2021	$93.002	$84.209	$8.793	3.40%	Yes
ING Facility	Oct 2019	$20.425	$20.425	$0.000	3.59%	No
BOQ Facility	Feb 2020	$4.5000	$1.248	$3.252	5.20%	No
Total		**$117.927**	**$105.882**	**$12.045**		**66%**

6.2 Bank Guarantee

The Group has the following bank guarantee as at 30 June 2019:

Facility	Maturity Date	Facility limit ($m)	Amount drawn down ($m)	Amount undrawn ($m)	Weighted average effective interest rate	Hedged (%)
Bank Guarantee	Feb 2022	$4.350	$4.113	$0.237	2.50%	No
Total		**$4.350**	**$4.113**	**$0.237**		

6.3 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.

Key Terms of Common Terms Financing Arrangement

The Group has entered into a Common Terms Deed financing arrangement which is secured by first registered mortgages over all but two of the Group's investment properties.

The banks currently providing finance under the Common Terms financing arrangement are the Commonwealth Bank of Australia and Westpac Banking Corporation.

This facility requires:

- First ranking security over all but two investment property owned by the Group;
- A minimum interest cover ratio of 2 times, monitored half yearly. As at 30 June 2019, the actual interest cover is 2.53. The operating cash flow of the secured properties would need to decrease by 21% for the Group to be in breach of this covenant;
- An LVR not exceeding 55% calculated on the properties secured. As at 30 June 2019, the actual LVR is 52%. The value of the secured properties would need to decrease by 14.9% for the Group to be in breach of this covenant; and
- A group LVR not exceeding 60%. As at 30 June 2019, the actual LVR is 43%.

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

The Group continues to meet its key obligations under the facility agreement.

Key terms of ING Facility

Under this facility, the bank requires:

- First ranking mortgage over the property known as 'The Rocket', of which the Group owns 50%. This is a joint facility with the co-owner of that property. The amounts quoted represent the Group's 50% interest;
- An LVR not exceeding 58% to be maintained at all times. As at 30 June 2019, the actual LVR for this facility is 56%. The value of the secured property would need to decrease by 2.9% for the Group to be in breach of this covenant; and
- A minimum interest cover ratio of 1.25 times to be maintained at all times. As at 30 June 2019 the actual interest cover is 1.36. 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 8.13% for the Group to be in breach of this covenant.

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 Group continues to meet its key obligations under the facility agreement.

Key terms of BOQ Facility

Under this facility, the bank requires:

- First ranking mortgage over development land known as 'Epiq Lennox'; and
- The undrawn amount to be sufficient to cover expected costs to complete Stage 4.

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.

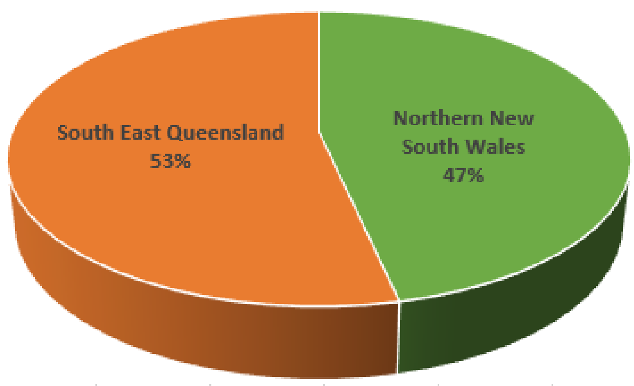
The Group continues to meet its key obligations under the facility agreement.

7 Portfolio Diversification

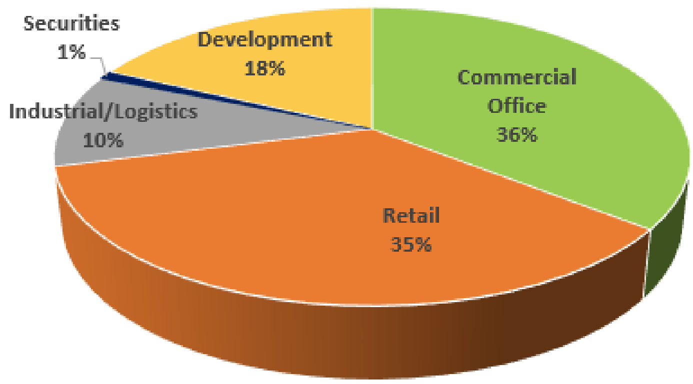
7.1 Portfolio Composition

Below is a summary of the Group's property portfolio as at 30 June 2019. Specific information in relation to each of the properties can be found on our website www.clarenceproperty.com.au.

Geographic Diversification (by Value)



Sector Diversification (by Value)



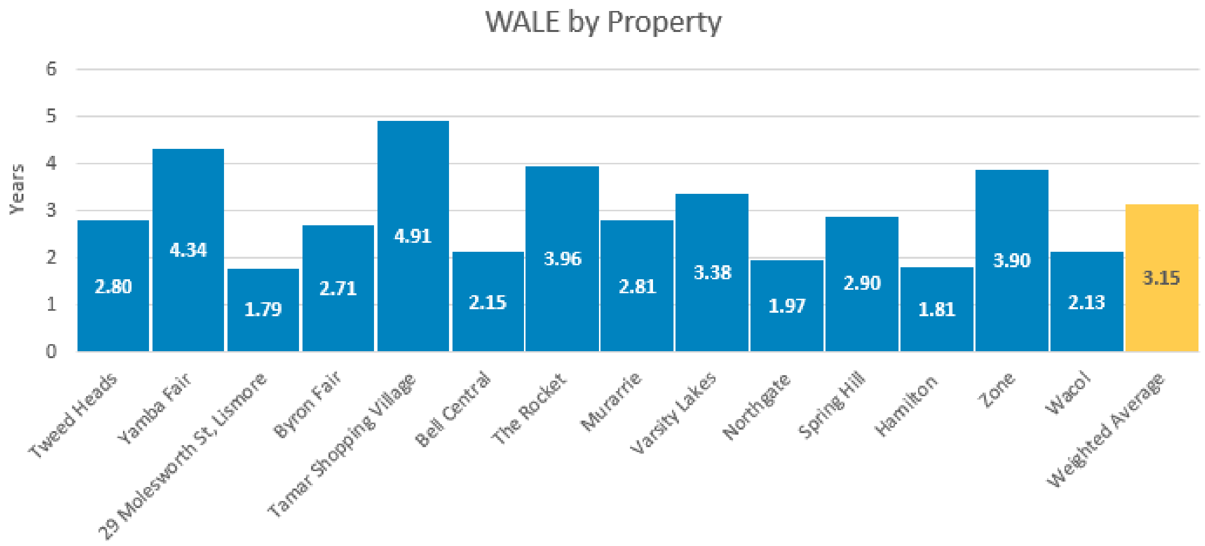
Location	No. Properties	Valuation
South East Queensland	Nine	$146,850,000
Northern New South Wales	Ten	$127,908,662
Sub-Total Direct Portfolio	**Nineteen**	**$274,758,662**

Property sector	No. Properties	Valuation
Commercial	Six	$98,750,000
Retail	Six	$98,130,000
Development	Four	$49,728,662
Industrial/Logistics	Three	$28,150,000
Sub-Total Direct Portfolio	**Nineteen**	**$274,758,662**
Property Securities	One	$2,579,250
Total Portfolio		**$277,337,912**

7.2 Lease Expiry

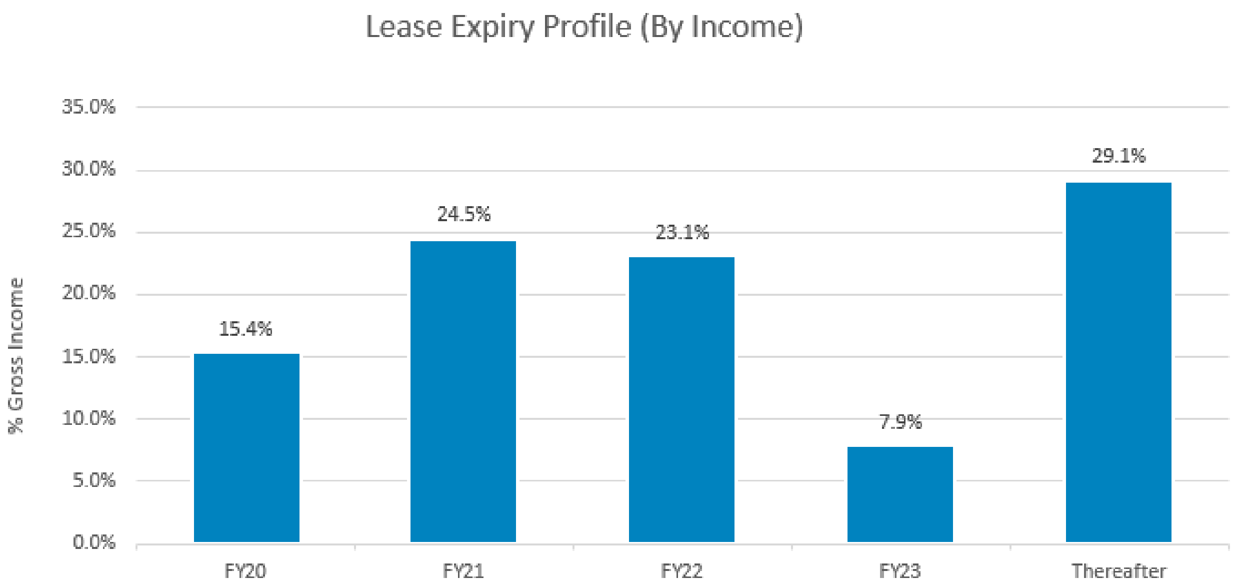
WALE

The following graph demonstrates the WALE for each leased property as at 30 June 2019.



Lease Expiry Profile

The following graph demonstrates the Portfolio lease expiry profile in yearly periods calculated on the basis of income as at 30 June 2019.



7.3 Top tenants by income

Below are the largest five tenants which individually constitute 4% or more by income of the Portfolio, determined as at 30 June 2019. Where tenants are part of a common corporate group or government body, those details have been aggregated:

Tenant	Area (sqm)	Percentage of income
Federal Government (including Centrelink, Family Law Court, NDIS & Australia Post)	7,792	12.61%
Wesfarmers (including Coles, Target and Coles Liquor stores)	6,694	10.41%
Government Properties NSW (including Departments of Housing, Education, Community Services and Health)	3,640	7.07%
Sykes Australia	1,993	4.57%
Provet	4,651	4.36%

7.4 Property Valuations

Below is a summary of the Group's property valuations as at 30 June 2019:

Asset	Location	Occupancy	Value ($m)	Cap. Rate	Date	Valuer
98 – 100 Blundell Blvd.	Tweed Heads, NSW	100%	$8.70m	8.50%	May 18	LandMark White
Yamba Fair	Yamba, NSW	100%	$33.75m	6.50%	May 18	Jones Lang LaSalle
29 Molesworth Street	Lismore, NSW	78.24%	$18.10m	9.00%	Jun 19	Director Valuation
Byron Bay Fair	Byron Bay, NSW	100%	$11.00m	6.75%	May 18	CBRE Valuations
Tamar Village	Ballina, NSW	68.75%	$6.30m	7.25%	Jun 19	Director Valuation
The Rocket	Robina, QLD	82.30%	$36.25m	7.50%	Mar 18	Colliers
Bell Central	Mudgeeraba, QLD	91.42%	$15.50m	6.75%	Jun 18	CBRE Valuations
45 Alexandra Place	Murarrie, QLD	100%	$11.70m	7.00%	Jun 19	Director Valuation
183 Varsity Parade	Varsity Lakes, QLD	100%	$11.40m	8.00%	Jun 18	CBRE Valuations
48 Bell-Are Avenue	Northgate, QLD	100%	$8.60m	7.75%	May 18	Jones Lang LaSalle
201 Leichhardt Street	Spring Hill, QLD	100%	$14.10m	7.25%	May 18	LandMark White
9 Hercules St	Hamilton, QLD	100%	$10.20m	7.75%	Jun 19	Director Valuation

Asset	Location	Occupancy	Value ($m)	Cap. Rate	Date	Valuer
Zone	Underwood, QLD	76.60%	$31.25m	7.50%	Jun 18	Jones Lang LaSalle
42 Mcroyle St	Wacol, QLD	84.18%	$7.85m	7.50%	Apr 19	Jones Lang LaSalle
9 Treelands Drive **(1)**	Yamba, NSW	N/A	$0.629m	N/A	Jun 19	Director Valuation
"Epiq Lennox" **(2)**	Lennox Head, NSW	N/A	$33.693m	N/A	Jun 19	Director Valuation
205 Yamba Rd (Residential Property) **(3)**	Yamba, NSW	N/A	$0.330m	N/A	May 18	Opteon
Yamba Fuel Station (x2) **(4)**	Yamba, NSW	N/A	$3.370m	N/A	Jun 19	Director Valuation
Yamba Quays **(5)**	Yamba, NSW	N/A	$12.036	N/A	Jun 19	Director Valuation
Total Direct Portfolio			**$274.758**			

Notes:

(1) Possible commercial development site; latest independent valuation $620,000 in May 18 by Opteon Property Group.

(2) Commercial and residential land development site; latest independent valuation $52,920,000 by Taylor Byrne Valuations in September 2018. Since that date, further development activity and sub-division has been undertaken.

(3) Non-core asset acquired for potential future expansion of car parking at Yamba Fair.

(4) Development site; latest independent valuation $1.050 million in May 18 by Opteon Property Group. Since that date, further development activity has been undertaken.

(5) In November 2018, the Group entered into a contract to acquire Stage 1 of a residential subdivision known as 'Yamba Quays' in Yamba, NSW for $10,000,000. The acquisition settled on 8th January 2019. Yamba Quays was independently valued in November 2018 by JLL Valuations at $22,500,000. This valuation includes both Stage 1 and Stage 2 of the development.

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	Construction and sale of 82 residential lots. This stage has been sold and settled.
Stage 3 (a)	Construction and sale of 78 residential lots. This Stage has been sold and settled.
Stage 3 (b)	- Construction and sale of 41 residential lots. - Civil works have been completed. - 31 lots have been sold and settled. The balance 10 lots in the stage are being marketed for sale.
Stage 4	- Construction and sale of 35 residential lots and 3 medium density lots. - The civil works program achieved practical completion in August 2019. - 35 lots have been released to the market for sale, with 23 lots so far exchanged under unconditional contracts. - Settlement of these sales is expected in October 2019.
Stage 5	- Construction and sale of 87 residential lots. - Civil works have commenced and practical completion is expected in March 2020. A marketing campaign for the 87 lots in this stage is currently being developed.
Shopping Centre (Super Lot 1)	- Current State Planning approvals provide for the construction of a 5,500m^2 neighbourhood shopping centre. - It is the Manager's intention that the Group will construct and retain the shopping centre as an addition to its existing rent-producing retail portfolio. - The construction of the centre has commenced and is expected to be completed by mid-2020. - A leasing campaign is currently underway with leases agreed for a Woolworths supermarket, BWS, pharmacy, medical practice and gym. Negotiations are well advanced on a number of the remaining tenancies.
Childcare Centre (Super Lot 3)	- A 3,000m^2 site has been approved for construction of a 98 place childcare centre. - The intention is the Group will build and retain the centre as another income-producing rental property. - The 9 month construction has commenced and is expected to be completed by the end of 2019. - A 15 year lease to a childcare operator has been agreed and signed.
Super Lot 5	- Super Lot 5 is a 4.1 ha. site currently approved for retirement living. The Manager's view is that a better financial outcome for investors will be derived by 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. - The Superlot 5 development application was lodged in August 2018 and is currently going through a review process with NSW State Planning;
Super Lot 7	- 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 achieved by seeking approval for a change of use to "mixed use". A mixed use development could include, inter alia, "live-work" premises, commercial premises and community facilities together with traditional residential lots. - The Superlot 7 development application was lodged in August 2018 and is currently going through a review process with NSW State Planning

Funding arrangements

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

As at 30 June 2019 the Bank of Queensland finance facility is $4.5 million, with $3.252 million undrawn and available to fund the completion of Stage 4. A $4.35m bank guarantee facility with Bank of Queensland has been established to fund council maintenance bonds for Stages 1B, 2, 3 and 4.

7.5.3 – Yamba Quays

The property comprises 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 will be acquired and developed in two stages. Stage 1, comprising 42 lots, settled in early January 2019. The purchase of Stage 2 will settle in approximately May/June 2020.

Development Progress

Construction of Stage 1 is well advanced and is due for completion by October 2019. To date, 25 of the 42 lots have been sold, with settlement expected by the end of 2019.

Source of funding
The Stage 1 acquisition price, stamp duty and development costs totalling approximately $15 million will be funded from the Group's existing cash reserves.

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 these sites which is based on a loan-to-value ratio exceeding 70% debt 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 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 projects involving regular on-site visits, meetings and updates with contractors and consultants, and Council liaison.

7.6 Investments 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 30 June 2019, the Group 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	$2,579,250

7.7 Investment Strategy

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

In order to achieve its investment objective, the Group 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 Group 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 Group'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 Group'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 Group'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

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 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 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 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.

9 Related Party Transactions

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; and
- Westlawn Insurance Brokers Pty Ltd (which has one common director with the Manager) is appointed to broker the majority of the Group'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 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.

10 Distribution Practices

Distribution Policy

It is anticipated the Group will generate income such as rental income from the properties in the portfolio, profits from the sale of stages of its Lennox Head and Yamba 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 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 Group, and its ability to pay distributions.

Distribution reinvestment plan

Under the Group's distribution reinvestment plan, unitholders may choose to reinvest their distribution entitlement in 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.

11 Withdrawal Arrangements

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.

12 Net Tangible Assets (NTA)

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:

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

The NTA of $0.91 is consistent with the Group's latest audited financial statements (30 June 2019).

The unit price quoted is the net tangible asset backing before providing for deferred tax. The Group is a long term investor and does not intend to dispose of its total investment portfolio. Under current Accounting Standards, the Group is required to provide for deferred capital gains tax liabilities or benefits, including those which 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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