ASIC REGULATORY GUIDE 46

Unlisted Property Schemes – Improving Disclosure for Retail Investors

August 2021

Fund update – August 2021

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. The units in each Trust cannot be traded separately.

1.3 This document has been prepared by Clarence Property Corporation Limited (**the Manager**) as the responsible entity of 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	Yes	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	40%	See Section 3
2. Interest Cover	7.56	See Section 4
3. Scheme Borrowing	Borrowings repayable in less than 5 years is $232,827,997. 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 such transactions are entered into on commercial arms length terms and the details of the transactions are disclosed to investors.	See Section 9
6. Distribution Practices	Cash distributions for the 12 months ended 30 June 2021 totalled 5.8 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	$0.95	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 2021). The gearing ratio of the Group at 30 June 2021 was 36%.

Subsequent to the latest audited financial statements additional borrowing have been drawn. Based upon the 31 August 2021 management accounts the gearing ratio of the group was 40%.

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 that address the risks associated with these arrangements and to comply with these policies. It is also important for investors in these schemes to understand these policies.

The Manager maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level. The policy states the interest cover ratio of the Group shall at all times exceed 1.0.

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 2021).

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

A ratio of greater than 1.00 indicates the scheme is earning enough to cover interest payments and may be in a position to pay investors a distribution. The higher the ratio is above 1.00, the higher the possibility a distribution can be made. The interest cover ratio for the year ended 30 June 2021 was 7.56.

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 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 August 2021:

Facility	Maturity Date	Facility limit ($m)	Amount drawn down ($m)	Amount undrawn ($m)	Interest rate	Hedged (%)
Common Terms Facility	Sep 2023 May 2024 Aug 2024 Sep 2024 Sep 2025	$184.775	$144.775	$40.00	2.00%	76%
CBA						
Rocket Facility	Nov 2023	$23.550	$21.248	$2.302	2.04%	Nil
ING						
Logan & Ormeau Facility	Feb 2023	$24.750	$24.750	$0.000	1.56%	Nil
BOQ						
Epiq Childcare Facility	Aug 2024	$2.255	$2.255	$0.000	2.31%	Nil
Epiq Marketplace Facility	Sep 2023	$19.800	$19.800	$0.000	2.01%	Nil
Development Facility	Aug 2024	$45.000	$20.000	$25.000	2.56%	Nil
Total		**$300.130**	**$232.828**	**$67.302**	**2.05%**	**47%**

6.2 Debt Facility Terms

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

All finance facilities are non-recourse to unitholders.

Key Terms of Common Terms Financing Arrangement

Secured bilateral loan facilities are held with multiple banks by the Group. All banks are contracted under a Common Terms Deed and are secured pari passu by first registered mortgages over a select pool of investment properties held by the Group. All principal amounts outstanding are due at the expiry of each facility.

The banks currently providing finance under the Common Terms financing arrangement are the Commonwealth Bank, Westpac and ANZ.

This facility requires:

- First ranking security over a specific pool of investment properties owned by the Group;
- A minimum interest cover ratio of 2.0, monitored half yearly. As at 30 June 2021, the actual interest cover was 6.74. The operating cash flow of the secured properties would need to decrease by 70% for the Group to be in breach of this covenant;
- An LVR not exceeding 55% calculated on the properties secured. As at 30 June 2021, the actual LVR was 49%. The value of the secured properties would need to decrease by 12% for the Group to be in breach of this covenant; and
- A group LVR not exceeding 60%. As at 30 June 2021, the actual LVR was 41%.

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 Unitholders exercise their right to change the responsible entity.

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

Key terms of CBA Facility

Rocket 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 60% to be maintained at all times. As at 30 June 2021, the actual LVR for this facility was 54%. The value of the secured property would need to decrease by 10% for the Group to be in breach of this covenant; and
- A minimum interest cover ratio of 2.0 to be maintained at all times. As at 30 June 2021 the actual interest cover was 4.6. The operating cash flow of the property would need to decrease by 57% 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 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

Logan & Ormeau Facility

Under this facility, the bank requires:

- First ranking mortgage over the properties known as 'Ormeau Marketplace' & 'Logan Village Marketplace';
- An LVR not exceeding 60% to be maintained at all times. As at 30 June 2021, the actual LVR for this facility was 55%. The value of the secured properties would need to decrease by 8% for the Group to be in breach of this covenant; and
- A minimum interest cover ratio of 1.25 to be maintained at all times. As at 30 June 2021 the actual interest cover was 1.51. 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 6% floor rate, whichever is higher. The operating cash flow of the property would need to decrease by 17% 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 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 Facilities

Epiq Childcare Centre Facility

Under this facility, the bank requires:

- First ranking mortgage over the property known as 'Epiq Childcare Centre'; and
- An LVR not exceeding 62% to be maintained at all times. As at 30 June 2021, the actual LVR for this facility was 57%. The value of the secured property would need to decrease by 7% 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 Unitholders exercise their right to change the responsible entity.

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

Epiq Marketplace Facility

Under this facility, the bank requires:

- First ranking mortgage over the property known as 'Epiq Marketplace';
- An LVR not exceeding 60% to be maintained at all times. As at 30 June 2021, the actual LVR for this facility was 60%; and
- A minimum interest cover ratio of 2.0 to be maintained at all times. As at 30 June 2021, the actual interest cover was 3.4. The operating cash flow of the secured properties would need to decrease by 41% 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 Unitholders exercise their right to change the responsible entity.

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

Development Facility

Under this facility, the bank requires:

- First ranking mortgage over the Groups development properties at Lennox Head, Yamba, Brunswick Heads and Bilambil Heights;
- An LVR not exceeding 45% to be maintained at all times; and
- A minimum interest cover ratio across all BOQ facilities of 1.75 to be maintained at all times.

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 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

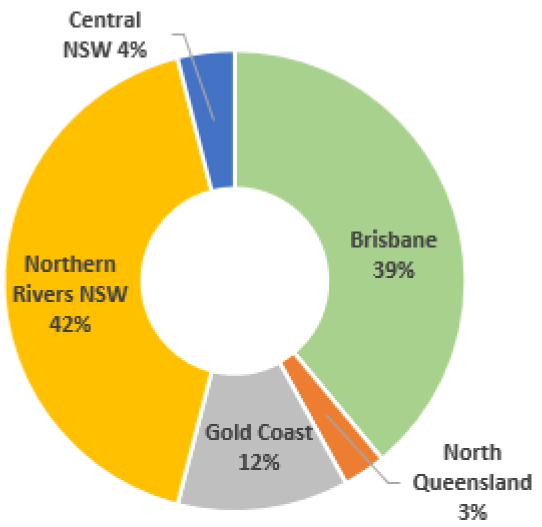
Below is a summary of the Group's property portfolio at August 2021. Specific information in relation to each of the properties can be found on our website www.clarenceproperty.com.au.

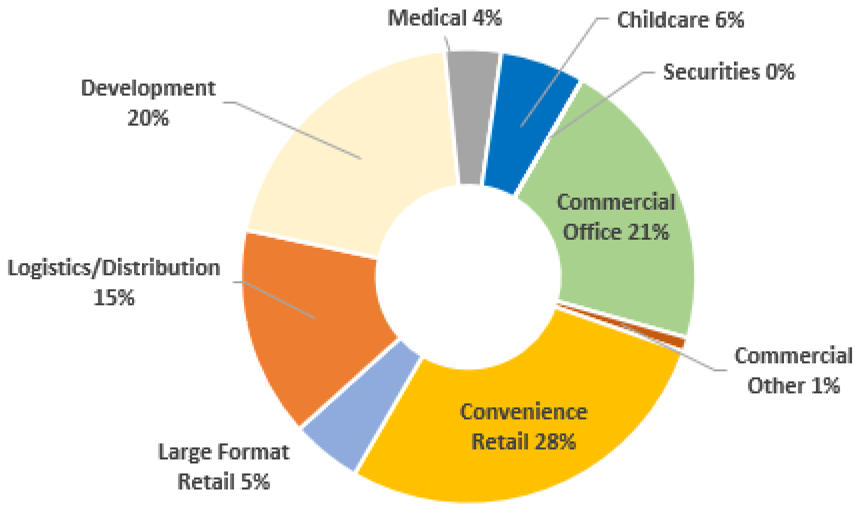
Geographic Diversification (by Value)

Location	No. Properties	Valuation
Northern Rivers New South Wales	14	$240,734,000
Central New South Wales	2	$25,200,000
Gold Coast	3	$68,000,000
North Queensland	1	$16,677,500
Brisbane	18	$225,385,000
Total Direct Portfolio	**38**	**$575,996,500**

Sector Diversification (by Value)

Property sector	No. Properties	Valuation
Commercial Office	8	$121,550,000
Commercial Other	1	$4,510,000
Convenience Retail	7	$160,757,500
Large Format Retail	1	$33,000,000
Logistics/Distribution	8	$86,790,000
Medical	2	$21,825,000
Childcare	5	$33,470,000
Development	6	$114,094,000
Sub-Total Direct Portfolio	**38**	**$575,996,500**
Property Securities		$185,250
Total Portfolio		**$576,181,750**

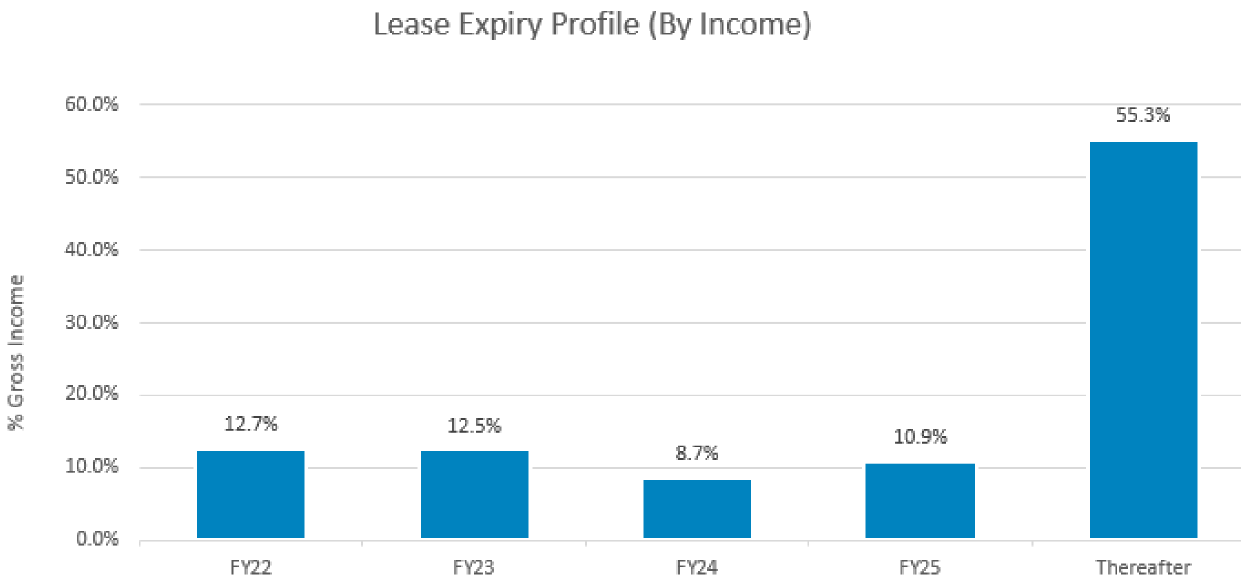




7.2 Lease Expiry

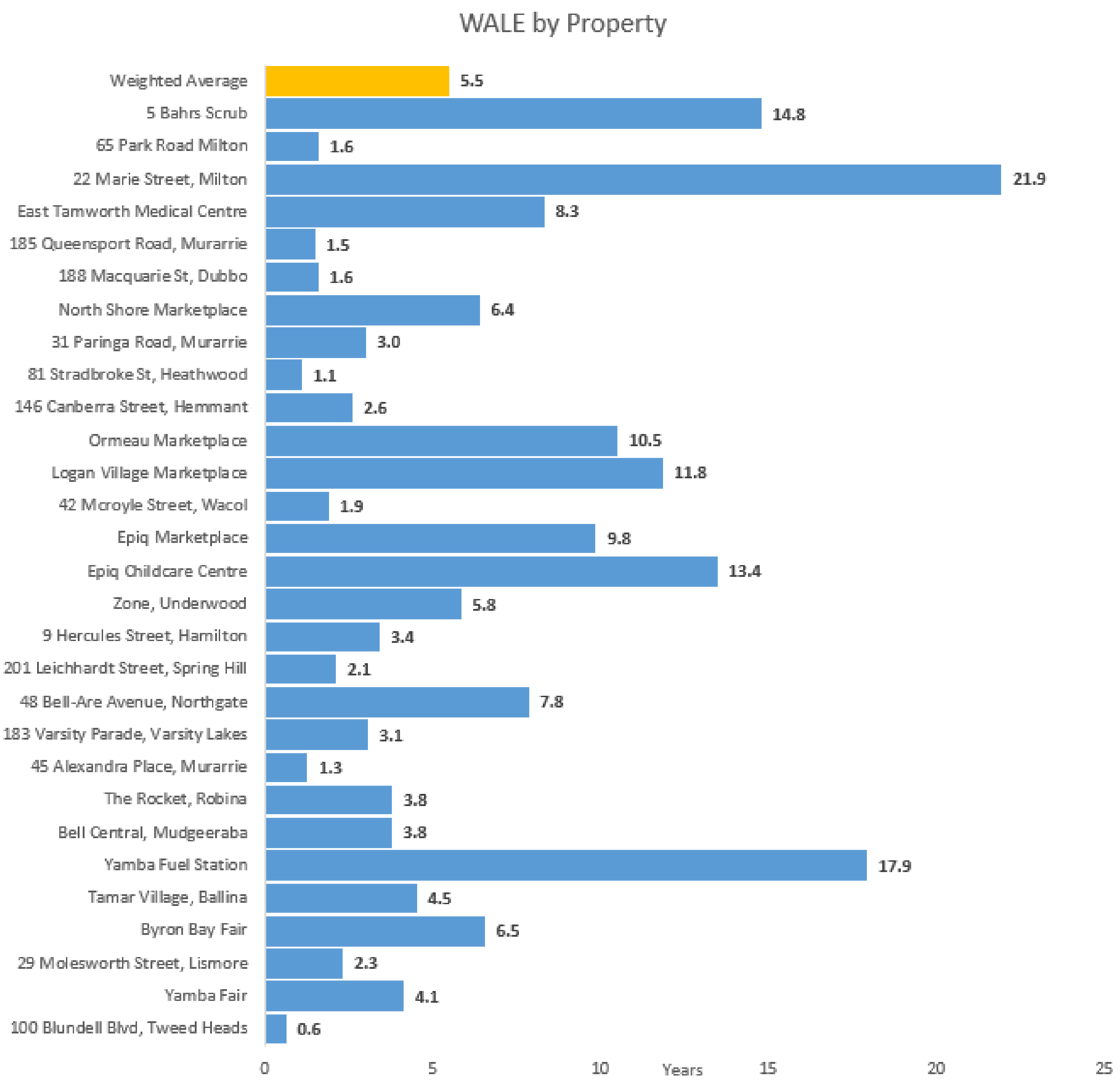
Lease Expiry Profile

The following graph demonstrates the portfolio lease expiry profile in yearly periods calculated on the basis of income at August 2021.



WALE (Weighted Average Lease Expiry)

The following graph demonstrates the WALE for each leased property at August 2021.



7.3 Top tenants by income

Below are the largest six tenants which individually constitute 2% or more by income of the portfolio, determined at August 2021. Where tenants are part of a common corporate group or government body, those details have been aggregated:

Tenant	Area (sqm)	Percentage of income
Woolworths Group	14,206	14.4%
Federal Government (including Centrelink, Family Law Court, NDIS & Australia Post)	9,339	8.3%
Government Properties NSW (including Departments of Housing, Education, Community Services and Health)	6,157	6.3%
Coles Group	5,622	5.6%
Provet	4,651	2.3%
Sykes	2,131	2.4%

7.4 Property Valuations

Below is a summary of the Group's property valuations at August 2021:

Asset	Location	Occupancy	Value ($m)	Cap. Rate	Date	Valuer
100 Blundell Boulevard	Tweed Heads, NSW	100%	$9.000m	8.00%	Nov 19	Jones Lang LaSalle
Yamba Fair	Yamba, NSW	100%	$35.500m	6.25%	Dec 20	Jones Lang LaSalle
29 Molesworth Street	Lismore, NSW	96%	$19.300m	8.00%	Oct 19	CBRE Valuations
Byron Bay Fair	Byron Bay, NSW	100%	$14.000m	6.00%	Dec 20	Jones Lang LaSalle
Tamar Village	Ballina, NSW	100%	$7.325m	7.50%	Nov 19	Jones Lang LaSalle
Yamba Fuel Station	Yamba, NSW	100%	$4.510m	6.50%	Nov 19	Jones Lang LaSalle
Bell Central	Mudgeeraba, QLD	91%	$16.500m	6.50%	Dec 20	Jones Lang LaSalle
The Rocket	Robina, QLD	84%	$39.250m	7.00%	Jan 20	Colliers
45 Alexandra Place	Murarrie, QLD	100%	$12.000m	6.75%	Nov 19	Herron Todd White
183 Varsity Parade	Varsity Lakes, QLD	85%	$12.250m	7.00%	Dec 20	Savills
48 Bell-Are Avenue	Northgate, QLD	100%	$11.600m	5.75%	Nov 20	Herron Todd White

Asset	Location	Occupancy	Value ($m)	Cap. Rate	Date	Valuer
201 Leichhardt Street	Spring Hill, QLD	100%	$14.900m	7.125%	Nov 19	Savills
9 Hercules St	Hamilton, QLD	34%	$10.200m	6.75%	Dec 20	Cushman Wakefield
Zone Underwood	Underwood, QLD	88%	$33.000m	7.00%	Nov 20	Jones Lang LaSalle
42 Mcroyle St	Wacol, QLD	93%	$7.850m	7.50%	Mar 20	Jones Lang LaSalle
Logan Village Marketplace	Logan Village, QLD	100%	$16.000m	5.75%	Oct 19	Savills
Ormeau Marketplace	Ormeau, QLD	100%	$29.000m	6.00%	Oct 19	Savills
146 Canberra St	Hemmant, QLD	100%	$6.500m	6.25%	Feb 20	Jones Lang LaSalle
81 Stradbroke St	Heathwood, QLD	100%	$7.400m	6.75%	Jun 20	Jones Lang LaSalle
31 Paringa Rd	Murarrie, QLD	100%	$18.200m	6.00%	Aug 20	Herron Todd White
North Shore Marketplace	Townsville, QLD	88%	$16.677m	7.50%	Jun 20	Jones Lang LaSalle
188 Macquarie St	Dubbo, NSW	95%	$10.700m	10.00%	Jun 20	CBRE Valuations
185 Queensport Rd	Murarrie, QLD	100%	$8.800m	6.75%	Jul 20	Jones Lang LaSalle
279B Marius St, East Tamworth Medical Centre	Tamworth, NSW	100%	$14.500m	6.25%	Oct 20	CBRE Valuations
22 Marie St	Milton, QLD	100%	$8.435m	5.25%	Nov 20	Charter Keck Cramer
65 Park Rd	Milton, QLD	100%	$5.950m	6.00%	Feb 21	CBRE Valuations
5 Bahrs Scrub Rd	Bahrs Scrub, QLD	100%	$5.600m	6.36%	Mar 21	Charter Keck Cramer
18 Macgregor Pl **(1)**	Richlands, QLD	N/A	$14.440m	6.00%	May 21	Herron Todd White
1 Brooking Rise **(1)**	Ripley, QLD	100%	$7.560m	5.50%	Aug 21	Jones Lang LaSalle
278 Orange Grove Rd, 126B & 132 Golda Ave **(1)**	Salisbury, QLD	100%	$7.950m	5.50%	Aug 21	Jones Lang LaSalle
Epiq Childcare Centre	Lennox Head, NSW	100%	$3.925m	6.00%	Jan 20	Taylor Byrne
Epiq Marketplace	Lennox Head, NSW	93%	$33.080m	6.50%	Aug 19	Jones Lang LaSalle
"Epiq Lennox" Stage 5	Lennox Head, NSW	N/A	$3.047m	N/A	Jun 21	Director Valuation
"Epiq Lennox" The Pocket	Lennox Head, NSW	N/A	$2.000m	N/A	Mar 20	Acumentis
"Epiq Lennox" Super Lot 5	Lennox Head, NSW	N/A	$17.500m	N/A	Aug 21	Charter Keck Cramer

Asset	Location	Occupancy	Value ($m)	Cap. Rate	Date	Valuer
"Epiq Lennox" Super Lot 7	Lennox Head, NSW	N/A	$12.000m	N/A	Aug 21	Charter Keck Cramer
9 Treelands Drive **(2)**	Yamba, NSW	N/A	$0.660m	N/A	Oct 19	Jones Lang LaSalle
205 Yamba Rd (Residential Property) **(3)**	Yamba, NSW	N/A	$0.350m	N/A	Oct 19	Jones Lang LaSalle
Yamba Quays – Stage 2	Yamba, NSW	N/A	$6.537m	N/A	Jun 21	Director Valuation
Yamba Quays – Stages 3 to 5	Yamba, NSW	N/A	$20.000m	N/A	Aug 21	Charter Keck Cramer
"Sceniq" Bilambil	Bilambil Heights, NSW	N/A	$17.000m	N/A	Aug 21	Charter Keck Cramer
"Wallum" Brunswick	Brunswick Heads, NSW	N/A	$35.000m	N/A	Mar 21	Charter Keck Cramer
Total Direct Portfolio			**$575.996m**			

Notes:

(1) Property currently under construction. Amount represents the as-if-complete valuation.

(2) Possible commercial development site.

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

7.5 Development Assets

7.5.1 - 9 Treelands Drive, Yamba

This property comprises a vacant, regular shaped parcel approximately 100 metres north of Yamba Fair.

DA approval has been received for a commercial development on the site, however there are no current plans to develop the site.

7.5.2 - EPIQ, Lennox Head

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

Development Progress
The property was acquired 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	Construction and sale of 119 residential lots. This Stage has been sold and settled.
Stage 4	- Construction and sale of 35 residential lots and 3 medium density lots. - The civil works have been completed. - The sale of all 35 residential lots have settled. - Lodgement of a DA application for the development of 14 residential lots on the medium density sites is imminent.
Stage 5	- Construction and sale of 87 residential lots. - Civil works have been completed. - 87 lots have been sold. 79 of those sales have settled; 8 are under contract and due to settle between now and mid-December 2021.
Shopping Centre (Super Lot 1)	- Construction of Epiq Marketplace was completed in May 2020, and the Centre opened for trading on 20 June 2020.
Childcare Centre (Super Lot 3)	- The Childcare Centre construction was completed in December 2019, and a 15 year lease commenced in February 2020.
Super Lot 5	- Super Lot 5 is a 4.1 ha. site currently approved for retirement living. A modification application to create 118 terrace home lots is now with the NSW Dept. of Planning, Industry and Environment for determination. - The independent "as-is" valuation for this site at August 2021 is $17.5m.
Super Lot 7	- Super Lot 7 is a 5.59 ha. site currently approved for a mix of residential and commercial development. This subdivision will create 33 house lots, 26 live/work lots and 2 commercial lots. - A Construction Certificate has now been issued by Ballina Shire Council. - The 8 month civil works programme commenced in August 2021. - The independent "as-is" valuation for this site at August 2021 is $12.0m.

7.5.3 – Yamba Quays

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

Development Progress

Stage 1 achieved practical completion in October 2019 with sub-division registration occurring in early January 2020. As at August 2021 40 lots have been settled, with one lot retained as a sales office site.

Stage 2 civil works were complete in July 2021, with sub-division certificate and titling expected to be finalised by November 2021. 16 of the 24 lots have been taken to the market and sold. The balance 8 lots will be brought to the market in the near future.

Stages 3-5 design and planning is continuing. Before Stage 3 civil works can commence we are required to construct a roundabout on Yamba Road. The civil works for the roundabout are expected to take six months with completion anticipated mid-2022.

The independent "as-is" valuation for this site at August 2021 is $20.0m.

7.5.4 – Sceniq Bliambil

In June 2021 the Group settled the purchase of a 15.8ha residential subdivision site at Bilambil Heights, on the Tweed Coast in northern NSW, for $13.5m. The site is DA approved for 100 lots. Lodgement of a Construction Certificate is imminent, and we anticipate commencing on-site civil works in November 2021.

The independent "as-is" valuation for this site at August 2021 is $17.0m.

7.5.5 – Wallum Brunswick

In July 2021, the Group settled the purchase of a 303ha residential subdivision site at Brunswick Heads, just north of Byron Bay in northern NSW for $33m. A DA for 123 house lots and 3 medium density lots is currently being prepared, with lodgement expected in the near future. Less than half the site will be developed. The balance will be preserved as coastal vegetation and to protect and enhance the natural habitat of the Wallum Froglet.

The independent "as-is" valuation for this site at August 2021 is $35.0m.

7.5.6 – Funding arrangements

The Group has a $45m finance facility in place with Bank of Queensland to assist with acquisition of land development sites and construction works. As at August 2021 $20m had been drawn against the facility.

7.5.7 – Development risks

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

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

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 August 2021, the Group is invested in the following Securities:

Scheme	Description	Value
Robina Quays Unit Trust ARSN 164 442 835	Unlisted, registered managed investment scheme investing in real property	$185,250

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 provide enduring monthly income to unitholders and to maximise returns to Unitholders on a sustainable basis.

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

- invest in a diverse range of property including commercial, retail, logistics, industrial, storage, residential and development properties in geographically diverse locations throughout Australia, but particularly in New South Wales and Queensland;
- grow the rental income of the Group by attracting and retaining financially sound corporate tenants on competitive leasing terms;
- increase the value of real property assets through active management (including leasing campaigns and asset refurbishments) over the medium to long term;
- acquire additional real property assets which meet the Group's investment criteria in terms of building quality, tenants, development potential, location and contribution to net cash earnings;
- invest in listed and unlisted entities which predominantly hold real property, or mortgages secured by real property, and which meet the Group's investment criteria;
- invest only in appropriate properties and investments which are reasonably expected to achieve satisfactory levels of income and capital growth over the medium to long term;
- review and re-balance the portfolio, including through the timely disposal of assets to ensure that progress and performance are consistent with the Group's investment objectives;
- undertake thorough due diligence enquiries prior to any acquisition or investment; and
- utilise the expertise and experience of the Board and senior management of the Manager in asset and capital management.

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 where it considers it to be in the best interests of Unitholders, or in any event at least once every three years in accordance with the Group's compliance plan.

The Group's valuation policy:

- requires that valuations be undertaken by an independent valuer who is registered in the relevant State, and has at least five years continuous experience in valuations;
- sets out procedures for conflicts of interest;
- requires rotation and diversity of valuers;
- requires that an independent valuation be obtained for each property before the property is purchased; and
- requires that an independent valuation be obtained within two months after the Directors of the Manager form a view there is a likelihood there has been a material adverse change in the value of the Property.

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

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

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

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

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

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.

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

10.1 Distribution Policy

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

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

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

The Manager is of the view the current annualised cash distribution rate of 6.0 cents per unit is sustainable over the next 12 months. Franking credits may be available to Unitholders in addition to the cash distributions. It should be noted, however, the Manager provides no guarantees regarding the amount and frequency of future distributions, as a number of considerations (such as the number of settled land sales, forecast capital expenditure, property yields and overall financial market conditions) may affect the financial performance of the Group, and its ability to pay the current distribution rate or to pay any distributions at all.

10.2 Distribution reinvestment plan

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

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

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:

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

The NTA of $0.95 is consistent with the Group's latest audited financial statements (30 June 2021).

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

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
ACN 094 710 942
AFSL 230212

Registered Office

Level 1, Suite 4-5
Epiq Marketplace, 5 Snapper Dr
Lennox Head NSW 2478

PO Box 1478
Ballina NSW 2478

Phone: 1300 382 862

Email: invest@clarenceproperty.com.au
Website: www.clarenceproperty.com.au