CLARENCE PROPERTY

Fund Update – August 2022

Clarence Property Corporation

ASIC Regulatory Guide 46

Clarence Property Diversified Fund

Manager and Responsible Entity

Clarence Property Corporation

ACN 094 710 942

AFSL 230212

www.clarenceproperty.com.au

Address

PO BOX 1478

Ballina NSW 2478

Phone: 1300 382 862

Email: invest@clarenceproperty.com.au

Fund Update - August 2022

Clarence Property Diversified Fund

1 Introduction

1.1 In March 2012, ASIC revised Regulatory Guide 46: Unlisted property schemes – improving disclosure for retail investors. The Regulatory Guide sets out six benchmarks and eight disclosure principals which responsible entities of unlisted property schemes are required to report against in order to help retail investors understand the risks, assess the rewards being offered and decide whether these investments are suitable for them.

1.2 From 30 June 2018, the units in Clarence Property Diversified Fund and Epiq Lennox Property Trust, collectively known as the Clarence Property Group ("Group") are stapled. The number of units in each Trust is equal and the unitholders identical. The units in each Trust cannot be traded separately.

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

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

1 Disclosure Principals

Gearing	Benchmark	**<70%**
	Current	**38%**
	Benchmark met	**Yes**
	Additional information	**See section 2**
Interest Cover	Benchmark	**>1.0**
	Current	**5.7 Times**
	Benchmark met	**Yes**
	Additional information	**See section 3**
Interest Capitalisation	Benchmark	**N/A**
	Current	**N/A**
	Benchmark met	**N/A**
	Additional information	**See section 4**
Scheme Borrowing	Borrowings summary:	
	Borrowings due in < 5 years	**$283m**
	Borrowings due in > 5 years	**$0m**
	Additional information	**See section 5**
Portfolio Diversification	Benchmark	**N/A**
	Current	**N/A**
	Benchmark met	**N/A**
	Additional information	**See section 6**
Valuation Policy	Benchmark	**Comply with Valuation Policy**
	Current	**Compliant**
	Benchmark met	**Yes**
	Additional information	**See section 7**
Related Party Transactions	Benchmark	**Comply with Conflict of Interest Policy**
	Current	**Compliant**
	Benchmark met	**Yes**
	Additional information	**See section 8**
Distribution Practices	Benchmark	**Comply with Distribution Policy**
	Current	**Compliant**
	Benchmark met	**Yes**
	Additional information	**See section 9**
Withdrawal Arrangements	Benchmark	**N/A**
	Current	**N/A**
	Benchmark met	**N/A**
	Additional information	**See section 10**
Net Tangible Assets	Benchmark	**N/A**
	Current	**N/A**
	Benchmark met	**N/A**
	Additional information	**See section 11**

2 Gearing

2.1 Gearing Policy

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

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

2.2 Gearing Ratio

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

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

The gearing ratio is calculated by dividing the total interest bearing liabilities of the Group by the total assets of the Group. The assets and borrowings used to calculate the gearing ratio are consistent with those included in the Group's latest audited financial statements (30 June 2022). The gearing ratio of the Group at 30 June 2022 was 38%.

3 Interest Cover

3.1 Interest Cover Policy

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

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

3.2 Interest Cover Ratio

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

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

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 2022).

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

3 Interest Cover (continued)

A ratio of greater than 1.00 indicates the scheme is earning enough to cover interest payments and may be in a position to pay investors a distribution. The higher the ratio is above 1.00, the higher the possibility a distribution can be made. The interest cover ratio for the period ended 30 June 2022 was 5.7.

4 Interest Capitalisation

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

The interest expense of the Group 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.

5 Scheme Borrowings

5.1 Debt Facilities

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

	Maturity Date(s)	Facility Limit	Amount Drawn	Amount Undrawn	Interest Rate	Hedged
Common Terms Facility	Sep-23, May-24 Aug-24, Sep-24 Jan-25, Sep-25	$232.6m	$196.0m	$36.6m	4.00%	56%
ING	May-25	$24.8m	$24.8m	$0.0m	2.97%	N/A
Westpac	May-24	$32.9m	$14.1m	$18.8m	7.52%	N/A
BOQ Epiq Childcare Facility	Aug-24	$2.3m	$2.3m	$0.0m	4.02%	N/A
BOQ Epiq Marketplace Facility	Sep-23	$19.8m	$19.8m	$0.0m	3.80%	N/A
BOQ Development Facility	Aug-24	$45.0m	$26.0m	$19.0m	5.32%	N/A
Total	**N/A**	**$357.4m**	**$283.0m**	**$74.4m**	**4.19%**	**39%**

5 Scheme Borrowings (continued)

5.2 Debt Facility Terms

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

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

Key Terms of Common Terms Financing Arrangement

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

	Facility Terms	Required	Current
Common Terms Deed CBA, WBC, ANZ	First Ranking Mortgage	Y [1]	Registered
	Interest Cover Ratio	>2x [2]	5.38x
	Headroom to Covenant (ICR)		62.8% [3]
	Loan to Value Ratio	<55%	48%
	Headroom to Covenant (LVR)		12.8% [4]
	Group Loan to Value Ratio	<60%	38%
	Headroom to Covenant (Group LVR)		36.4% [5]

	Facility Terms	Required	Current
ING Logan & Ormeau Facility	First Ranking Mortgage	Y [6]	Registered
	Interest Cover Ratio	>1.25x [7]	1.80x
	Headroom to Covenant (ICR)		30.6% [3]
	Loan to Value Ratio	<60%	51%
	Headroom to Covenant (LVR)		15.4% [4]

	Facility Terms	Required	Current
BOQ Epiq Marketplace Facility	First Ranking Mortgage	Y [8]	Registered
	Interest Cover Ratio	>2.0x	4.19x
	Headroom to Covenant (ICR)		52.3% [3]
	Loan to Value Ratio	<60%	51%
	Headroom to Covenant (LVR)		15.6% [4]

	Facility Terms	Required	Current
BOQ Epiq Chilcare Facility	First Ranking Mortgage	Y [9]	Registered
	Interest Cover Ratio	N/A	4.20x
	Headroom to Covenant (ICR)	N/A	N/A
	Loan to Value Ratio	<62%	57%
	Headroom to Covenant (LVR)		7.3% [4]

Fund Update - August 2022

Clarence Property Diversified Fund

5 Scheme Borrowings (continued)

	Facility Terms	Required	Current
BOQ Development Facility	First Ranking Mortgage	Y [10]	Registered
	Interest Cover Ratio	>1.75x	2.11x
	Headroom to Covenant (ICR)		17%
	Loan to Value Ratio	<45%	26%
	Headroom to Covenant (LVR)		43% [4]

Notes to the Key Terms of Scheme Borrowings

[1] First ranking security over a specific pool of investment properties owned by the Group.

[2] Monitored half yearly.

[3] The operating cashflow of the secured properties would need to decrease by this percentage for the Group to be in breach of this covenant.

[4] The value of the secured property would need to decrease by this percentage for the Group to be in breach of this covenant.

[5] The value of the Group's assets would need to decrease by this percentage for the Group to be in breach of this covenant.

[6] First ranking mortgage over the properties known as 'Ormeau Marketplace' & 'Logan Village Marketplace'.

[7] 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.

[8] First ranking mortgage over the property known as 'Epiq Marketplace'.

[9] First ranking mortgage over the property known as 'Epiq Childcare Centre' .

[10] First ranking mortgage over the Groups development properties at Lennox Head, Yamba Quays, Brunswick Heads and Bilambil Heights.

6 Portfolio Diversification

6.1 **Portfolio Composition**

Below is a summary of the Group's property portfolio at August 2022. 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. of Properties	Valuation
Northern Rivers New South Wales	19	$303,980,000
Brisbane	21	$284,072,000
Gold Coast	4	$116,470,000
Central New South Wales	2	$25,200,000
North Queensland	1	$23,250,000
Victoria	1	$6,900,000
Total Direct Portfolio	**48**	**$759,872,000**

Sector Diversification (by Value)

Property Sector	No. of Properties	Valuation
Commercial Office	10	$187,820,000
Commercial Other	2	$5,650,000
Convenience Retail	8	$183,655,000
Large Format Retail	1	$33,000,000
Logistics/Distribution/Other	9	$106,400,000
Medical	2	$23,300,000
Childcare	7	$45,797,000
Development	9	$174,250,000
Total Portfolio	**48**	**$759,872,000**

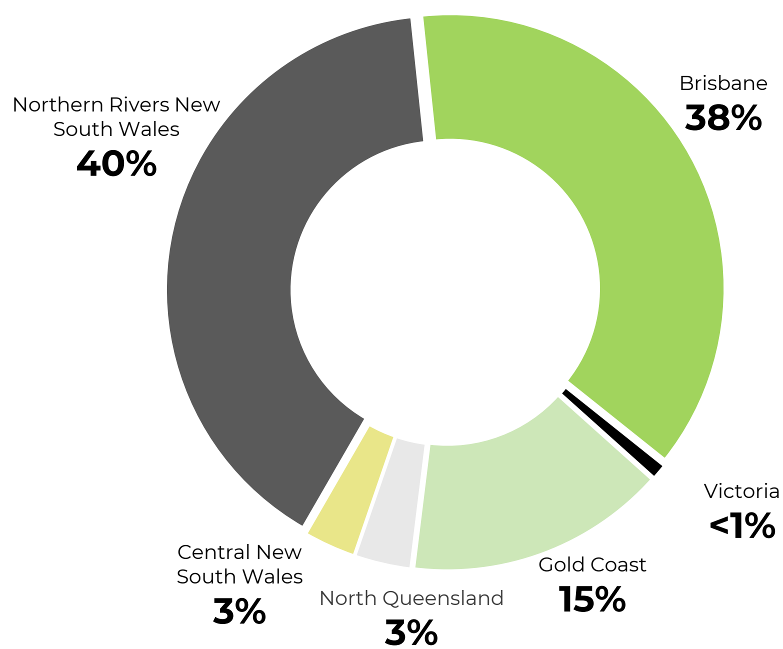
Fund Update - August 2022

Clarence Property Diversified Fund

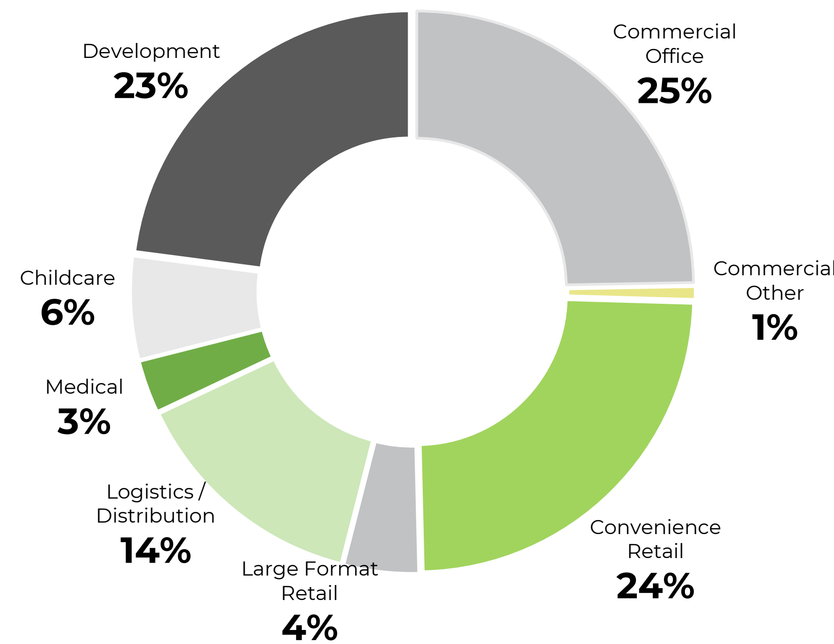
6 Portfolio Diversification (continued)

Below is a graphical summary of the Group's property portfolio at August 2022. 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)



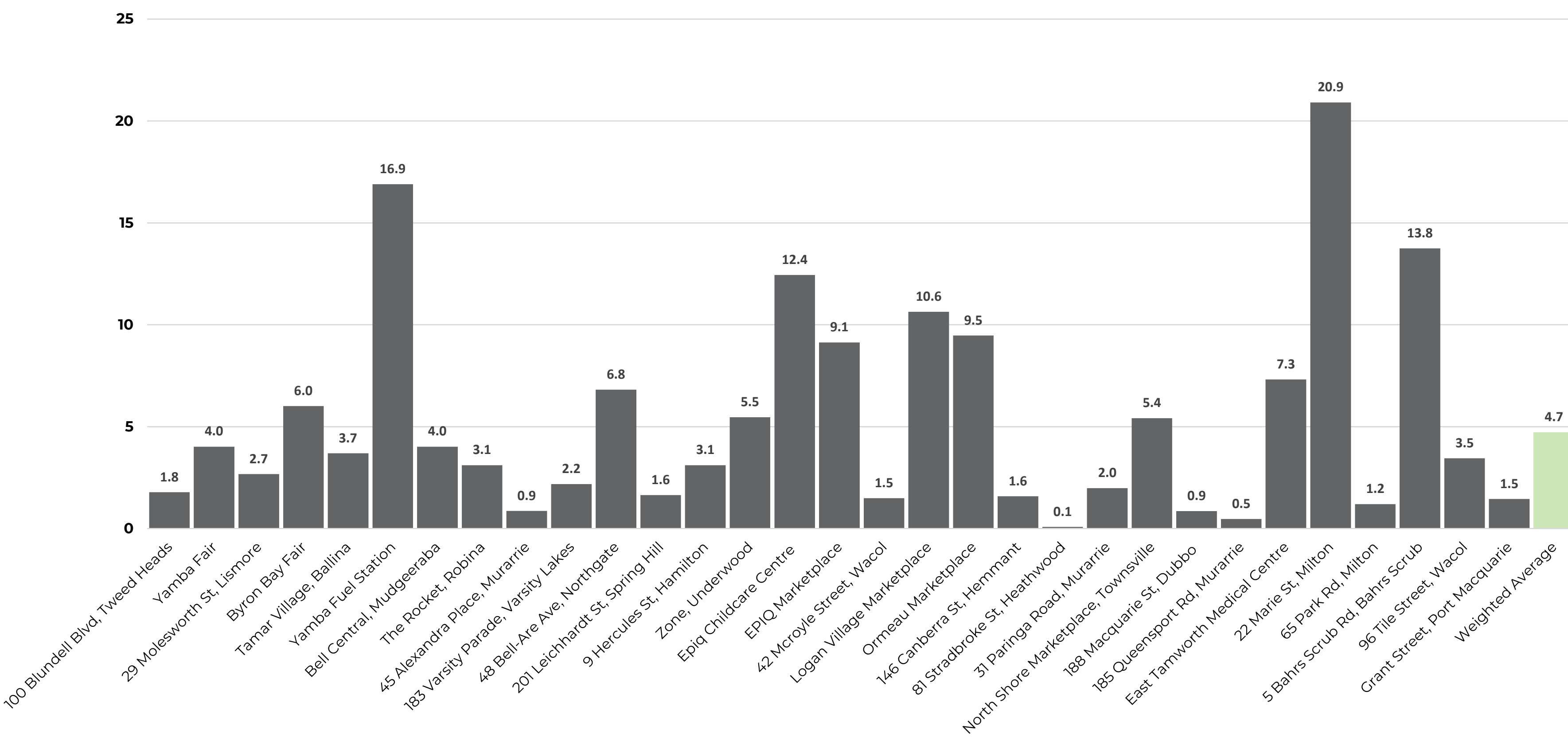
Fund Update - August 2022

Clarence Property Diversified Fund

6 Portfolio Diversification (continued)

6.2 **WALE (Weighted Average Lease Expiry)**

The following graph demonstrates the WALE for each leased property based on income August 2022.



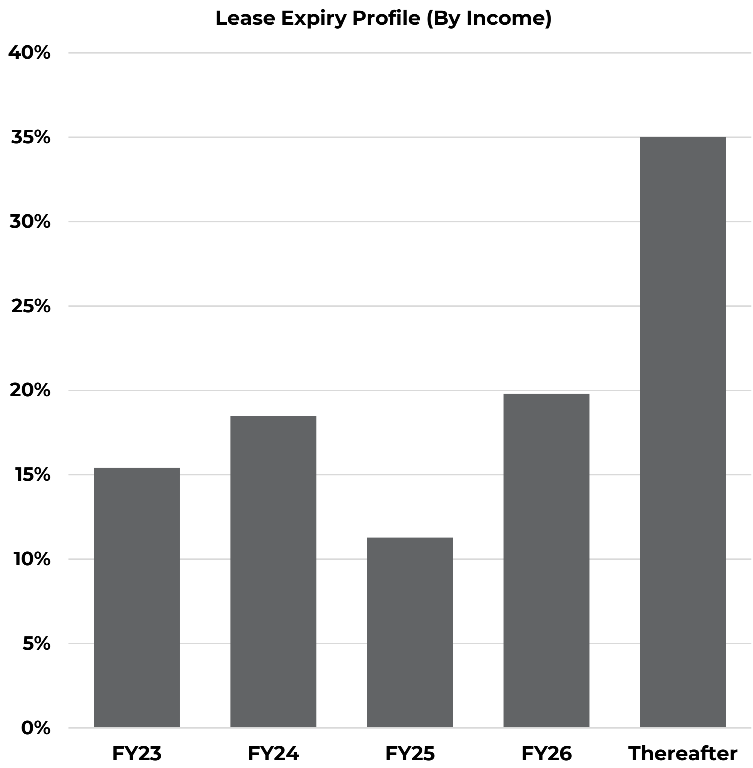
Fund Update - August 2022

Clarence Property Diversified Fund

6 Portfolio Diversification (continued)

6.3 Lease Expiry Profile

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



6.4 Top Tenants by Income

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

Tenant	Area (m^2)	Percentage of Income
Woolworths group	14,206	13%
Federal Government (including Centrelink, Family Law Court, NDIS & Australia Post)	13,219	12%
Government Properties NSW (including Departments of Housing, Education, Community Services and Health)	4,968	4%
Coles group	5,622	5%
Sykes	2,131	2%
Provet	4,651	2%
All other	116,109	62%
Total	**160,905**	**100%**

6 Portfolio Diversification (continued)

6.5 Property Valuations

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

Asset	Location	Occupancy	Value	Cap. Rate	Date	Valuer
Commercial Office						
201 Leichhardt St, Spring Hill	BNE	90%	$14,800,000	6.75%	Sep-21	Savills
9 Hercules St, Hamilton	BNE	95%	$10,200,000	6.75%	Dec-20	Cushman & Wakefield
65 Park Rd, Milton	BNE	100%	$5,950,000	6.00%	Feb-21	CBRE
188 Macquarie St, Dubbo	CNSW	95%	$10,700,000	10.00%	Jun-20	CBRE
The Rocket, Robina (100%)	GCT	91%	$83,900,000	7.00%	Sep-21	CBRE
183 Varsity Parade, Varsity Lakes	GCT	85%	$12,250,000	7.00%	Dec-20	Savills
The Base, 197 Robina Town Centre Drive [1]	GCT	N/A	$3,820,000	N/A	Mar-22	JLL
100 Blundell Blvd, Tweed Heads	NNSW	100%	$10,000,000	7.00%	Oct-21	JLL
29 Molesworth St, Lismore	NNSW	69%	$20,200,000	8.25%	Oct-21	Cushman & Wakefield
Grant St, Port Macquarie	NNSW	96%	$16,000,000	7.50%	May-22	CBRE
Commercial Office Sub-total		**90%**	**$187,820,000**	**7.14%**		
Retail & Large Format Retail						
Logan Village Marketplace	BNE	100%	$17,250,000	5.25%	Mar-22	Savills
Ormeau Marketplace	BNE	100%	$31,500,000	5.25%	Mar-22	Savills
Zone, Underwood	BNE	77%	$33,000,000	7.00%	Nov-20	JLL
Bell Central, Mudgeeraba	GCT	99%	$16,500,000	6.50%	Dec-20	JLL
Yamba Fair	NNSW	99%	$41,600,000	5.50%	Oct-21	JLL
Byron Bay Fair	NNSW	100%	$14,000,000	6.00%	Dec-20	JLL
205 Yamba Rd, Yamba [2]	NNSW	100%	$475,000	N/A	Oct-21	JLL
EPIQ Marketplace	NNSW	97%	$39,080,000	5.50%	Mar-22	JLL
North Shore Marketplace Townsville	NQ	90%	$23,250,000	6.00%	Oct-21	JLL
Retail & Large Format Retail Sub-total		**95%**	**$216,655,000**	**5.82%**		
Childcare & Medical						
22 Marie St, Milton	BNE	100%	$8,435,000	5.25%	Nov-20	Charter Keck Cramer
5 Bahrs Scrub	BNE	100%	$5,600,000	6.36%	Feb-21	Charter Keck Cramer
Ripley Childcare Centre [3]	BNE	N/A	$7,560,000	5.50%	Aug-21	JLL
Salisbury Childcare Centre [3]	BNE	N/A	$7,950,000	5.50%	Aug-21	JLL
Rochedale South Childcare [3]	BNE	N/A	$5,427,000	5.00%	May-22	JLL
East Tamworth Medical Centre	CNSW	100%	$14,500,000	6.25%	Oct-20	CBRE
Epiq Childcare Centre	NNSW	100%	$3,925,000	6.00%	Jan-20	Taylor Byrne
Tamar Village, Ballina	NNSW	100%	$8,800,000	6.50%	Oct-21	JLL
Delahey Childcare [1]	VIC	N/A	$6,900,000	4.75%	May-22	JLL
Childcare & Medical Sub-total		**100%**	**$69,097,000**	**5.74%**		

6 Portfolio Diversification (continued)

6.5 Property Valuations (continued)

Asset	Location	Occupancy	Value	Cap. Rate	Date	Valuer
Commercial Other						
Yamba Fuel Station	NNSW	100%	$5,650,000	5.50%	Oct-21	JLL
Commercial Other Sub-total		**100%**	**$5,650,000**	**5.50%**		
Logistics / Distribution / Industrial / Other						
45 Alexandra Place, Murarrie	BNE	100%	$14,900,000	5.75%	Sep-21	Herron Todd White
48 Bell-Are Ave, Northgate	BNE	100%	$11,600,000	5.75%	Nov-20	Herron Todd White
42 Mcroyle Street, Wacol	BNE	100%	$7,850,000	7.50%	Mar-20	JLL
146 Canberra St, Hemmant	BNE	100%	$8,400,000	5.25%	Oct-21	JLL
81 Stradbroke St, Heathwood	BNE	100%	$7,400,000	6.75%	Jun-20	JLL
31 Paringa Road Murarrie	BNE	100%	$18,200,000	6.00%	Aug-20	Herron Todd White
185 Queensport Rd, Murarrie	BNE	100%	$10,350,000	5.50%	Oct-21	JLL
18 Macgregor Pl, Richlands [3]	BNE	N/A	$14,400,000	6.00%	May-21	Herron Todd White
96 Tile Street, Wacol	BNE	100%	$7,300,000	4.50%	Jun-22	Herron Todd White
Arndilly, 662 Tullymorgan Road, Lawrence	NNSW	100%	$6,000,000	N/A	Nov-21	Acumentis
Logistics / Distribution / Industrial / Other Sub-total		**100%**	**$106,400,000**	**5.55%**		
Development						
Hub Heathwood	BNE	N/A	$36,000,000	N/A	Nov-21	Herron Todd White
9 Treelands Dr, Yamba [4]	NNSW	N/A	$1,000,000	N/A	Oct-21	JLL
Yamba Quays	NNSW	N/A	$20,000,000	N/A	Aug-21	Charter Keck Cramer
Epiq Lennox	NNSW	N/A	$31,500,000	N/A	Aug-21	Charter Keck Cramer
264 Yamba Road, Yamba	NNSW	N/A	$8,250,000	N/A	May-22	Charter Keck Cramer
Bayside Brunswick	NNSW	N/A	$35,000,000	N/A	Jun-21	Charter Keck Cramer
Bilambil Heights	NNSW	N/A	$17,000,000	N/A	Aug-21	Charter Keck Cramer
290-290a North Boambee Rd	NNSW	N/A	$16,000,000	N/A	Jun-22	Charter Keck Cramer
Newmans Road - Woolgoolga	NNSW	N/A	$9,500,000	N/A	Jan-22	Charter Keck Cramer
Development Sub-total		**N/A**	**$174,250,000**	**N/A**		
Total Direct Portfolio		**95%**	**$759,872,000**	**6.33%**		

[1] Future commercial office site - Land-only value

[2] Non-core asset acquired for potential future expansion of car parking at Yamba Fair

[3] Property currently under construction. Amount represents the as-if-complete valuation.

[4] Possible commercial development site.

6 Portfolio Diversification (continued)

6.6 **Development Assets**

Epiq, Lennox Head

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

Development Update

The Pocket - Development approval has been received from Ballina Shire Council to create 14 residential lots. Civil construction is expected to commence in late 2022.

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

Super Lot 7 - The civil works programme to create 33 residential lots, 26 live/work lots and 2 commercial lots finished in August 2022. The Subdivision certificate and titles are expected by November 2022. Marketing of the residential lots has commenced.

Yamba Quays

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

Development Update

Stage 2 - The subdivision certificate and titles were issued in December 2021. 20 of the 24 lots were settled by June 2022 with a further lot to be settled in September 2022. The balance of the Stage 2 lots are now being marketed.

Stage 3 - Subdivision works certificate for an 11 lot subdivision was received in May 2022. The 6 months civil works program has commenced and is expected to be complete in early 2023 with subdivision and titles to follow. A marketing campaign for the sale of the 11 lots is about to commence.

Stages 4 & 5 - Design work for these stages is continuing and a construction certificate application for Stage 4 is about to be lodged.

Sceniq Bilambil Heights

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

Development Update

Stage 1 - We are currently awaiting construction approval from Tweed Shire Council.

CLARENCE PROPERTY

6 Portfolio Diversification (continued)

Wallum Brunswick Heads

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

Development Update

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

The "Hub", Heathwood

In November 2021 the Group settled the purchase of a 68.9ha commercial subdivision site at Heathwood, in South Brisbane QLD, for $30m.

Development Update

The site has DA approval for 24 lots. The 11 month civil works program commenced in July 2022. Four lots are under unconditional contracts of sale, with a fifth in due dilligence. Further lots will be taken to the market over the coming months.

Newmans Road, Woolgoolga

In January 2022 the Group settled the purchase of a 9.2ha residential subdivision site at Newmans Road Woolgoolga, on the Coffs Coast in Northern NSW for $6,050,000. Lot design is under way.

264 Yamba Road, Yamba

In April 2022 the Group settled the purchase of a 9.4ha parcel of land on Yamba Road, Yamba adjacent to the Group's existing Yamba Quays development, for $8,250,000. Master planning has commenced.

Treelands Drive, Yamba

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

Funding Arrangements

The Group has a $45m finance facility in place with Bank of Queensland, to assist with land development acquisitions and construction works. An initial Draw of $20m was made in August 2021, with a further draw of $6m made in August 2022.

The Group has a $33m finance facility in place with Westpac, to assist with the acquisition of, and construction works at, the Hub Heathwood. An initial draw of $14m was made in May 2022.

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 where appropriate and adopting disciplined financial and practical oversight and management of the projects involving regular on-site visits, meetings and updates with contractors and consultants, and Council liaison.

6 Portfolio Diversification (continued)

6.7 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 monthly income to unitholders and to maximise returns to unitholders on a sustainable basis. In order to achieve its investment objective, the Group has adopted the following key principles. It will:

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

7 Valuation Policy

The value of real property assets can fluctuate, 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.

Fund Update - August 2022

Clarence Property Diversified Fund

7 Valuation Policy (continued)

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

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

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

8 Related Party Transactions

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

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

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

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

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

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.

9 Distribution Practices

9.1 Distribution Policy

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

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

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

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

9.2 Distribution Reinvestment Plan

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

10 Withdrawal Arrangements

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

11 Net Tangible Assets (NTA)

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:

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

The NTA of $1.10 is consistent with the Group's latest audited financial statements (30 June 2022).

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