CLARENCE PROPERTY DIVERSIFIED FUND ARSN 095 611 804

FUND UPDATE

AUGUST 2023 - ASIC REGULATORY GUIDE 46

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MANAGER & RESPONSIBLE ENTITY

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Fund Update - August 2023

Clarence Property Diversified Fund

1 Introduction

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.

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

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.

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

Gearing	Benchmark	**<70%**
	Current	**36%**
	Benchmark met	**Yes**
	Additional information	**See section 2**
Interest Cover	Benchmark	**>1.0**
	Current	**5.1 times**
	Benchmark met	**Yes**
	Additional information	**See section 3**
Interest Capitalisation	Benchmark	**Does the Group capitalise Interest**
	Current	**Yes**
	Benchmark met	**No**
	Additional information	**See section 4**
Scheme Borrowing	Borrowings summary:	
	Borrowings due in < 5 years	**$282m**
	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 Conflicts 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 the gearing ratio of the Group shall not exceed 70%.

2.2 Gearing Ratio

The gearing ratio set out in section 1 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 2023).The gearing ratio of the Group at 30 June 2023 was 36%.

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 2023).

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.

Fund Update - August 2023

Clarence Property Diversified Fund

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 year ended 30 June 2023 was 5.1.

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.

Below: Grant St, Port Macquarie.

5 Scheme Borrowings

5.1 Debt Facilities

The Group has the following debt facilities as at August 2023:

	Maturity Date(s)	Facility Limit	Amount Drawn	Amount Undrawn	Hedged %	Post-hedging Interest Rate %
Common Terms Facility	Aug-24 to May-27	$232.6m	$207.6m	$25.0m	63%	4.9%
ING	May-25	$8.0m	$7.8m	$0.2m	N/A	5.9%
BOQ Epiq Marketplace Facility	Sep-25	$19.8m	$19.8m	$0.0m	100%	3.9%
BOQ Epiq Childcare Facility	Aug-24	$2.3m	$2.3m	$0.0m	N/A	6.4%
BOQ Development Facility	Aug-24	$45.0m	$20.0m	$25.0m	100%	5.4%
Westpac Development Facility	May-24	$32.9m	$24.0m	$9.0m	N/A	7.2%
Total	**N/A**	**$340.6m**	**$281.5m**	**$59.1m**	**60%**	**5.1%**

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]	2.85x
	Headroom to Covenant (ICR)		29.8% [3]
	Loan to Value Ratio	<55%	52%
	Headroom to Covenant (LVR)		5.8% [4]
	Group Loan to Value Ratio	<60%	39%
	Headroom to Covenant (Group LVR)		34.7% [5]

	Facility Terms	Required	Current
ING Logan Facility	First Ranking Mortgage	Y [6]	Registered
	Interest Cover Ratio 1	>1.25x [7]	1.68x
	Headroom to Covenant (ICR 1)		25.7% [3]
	Interest Cover Ratio 2	>2.00x	2.11x
	Headroom to Covenant (ICR 2)		5.3%[3]
	Loan to Value Ratio	<60%	45%
	Headroom to Covenant (LVR)		24.4% [4]

	Facility Terms	Required	Current
BOQ Epiq Marketplace Facility	First Ranking Mortgage	Y [8]	Registered
	Interest Cover Ratio	>2.0x	2.3x
	Headroom to Covenant (ICR)		13.2% [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	2.05x
	Headroom to Covenant (ICR)	N/A	N/A
	Loan to Value Ratio	<62%	47%
	Headroom to Covenant (LVR)		23.4% [4]

5 Scheme Borrowings (continued)

	Facility Terms	Required	Current
BOQ Development Facility	First Ranking Mortgage	Y [10]	Registered
	Interest Cover Ratio	>1.25x	1.36x
	Headroom to Covenant (ICR)		8.2%[3]
	Loan to Value Ratio	<45%	21%
	Headroom to Covenant (LVR)		53.8% [4]

	Facility Terms	Required	Current
Westpac Development Facility	First Ranking Mortgage	Y [11]	Registered
	Interest Cover Ratio	N/A	N/A
	Headroom to Covenant (ICR)	N/A	N/A
	Loan to Value Ratio	<50%	44%
	Headroom to Covenant (LVR)		11.3%[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 properties 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 property known as '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 the plug rate of 6%.
[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 Group's development properties at Lennox Head, Yamba Quays, Brunswick Heads and Bilambil Heights.
[11] First ranking mortgage over the property known as 'Hub, Heathwood'.

6 Portfolio Diversification

6.1 Portfolio Composition

Below is a summary of the Group's property portfolio at August 2023. 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	21	$320,205,000
Brisbane	21	$238,180,000
Gold Coast	4	$116,670,000
Central New South Wales	2	$25,500,000
North Queensland	1	$23,250,000
Victoria	2	$15,325,000
Total Direct Portfolio	**51**	**$739,130,000**

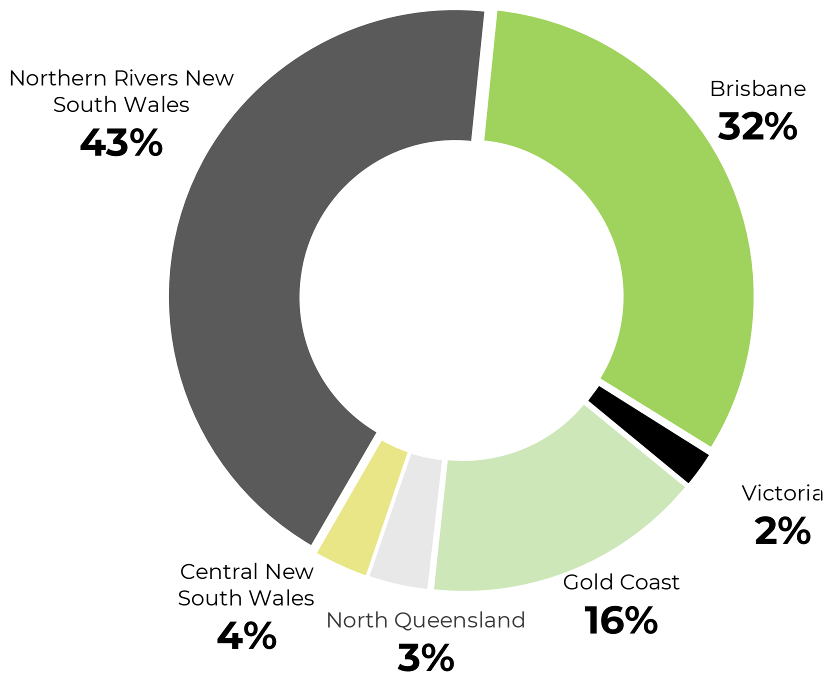
Sector Diversification (by Value)

Property Sector	No. of Properties	Valuation
Commercial Office	10	$183,245,000
Commercial Other	1	$5,650,000
Retail	7	$152,105,000
Logistics/Distribution/Other	9	$107,850,000
Medical	2	$24,400,000
Childcare	11	$77,430,000
Development	11	$188,450,000
Total Portfolio	**51**	**$739,130,000**

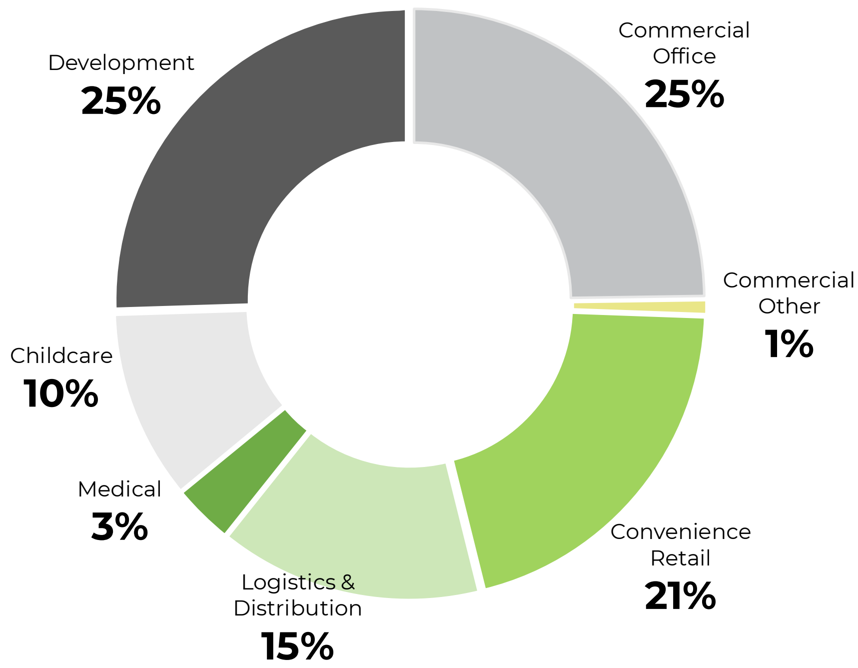
6 Portfolio Diversification (continued)

Below is a graphical summary of the Group's property portfolio at August 2023. Specific information in relation to each of the properties can be found on our website www.clarenceproperty.com.au.

Geographic Diversification (by Value)



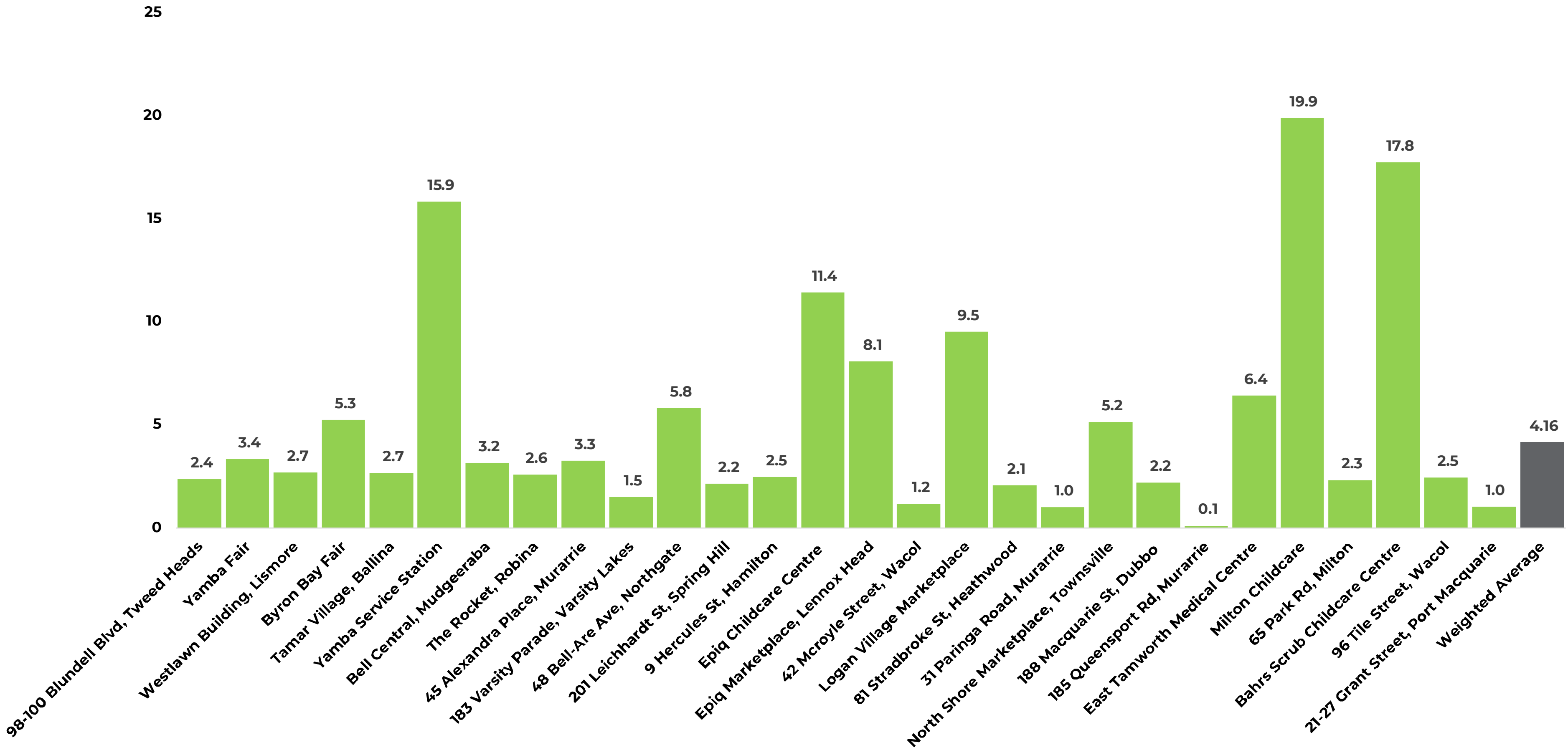
Sector Diversification (by Value)



6 Portfolio Diversification (continued)

6.2 WALE (Weighted Average Lease Expiry)

The following graph demonstrates the WALE for each leased property based on income at August 2023.



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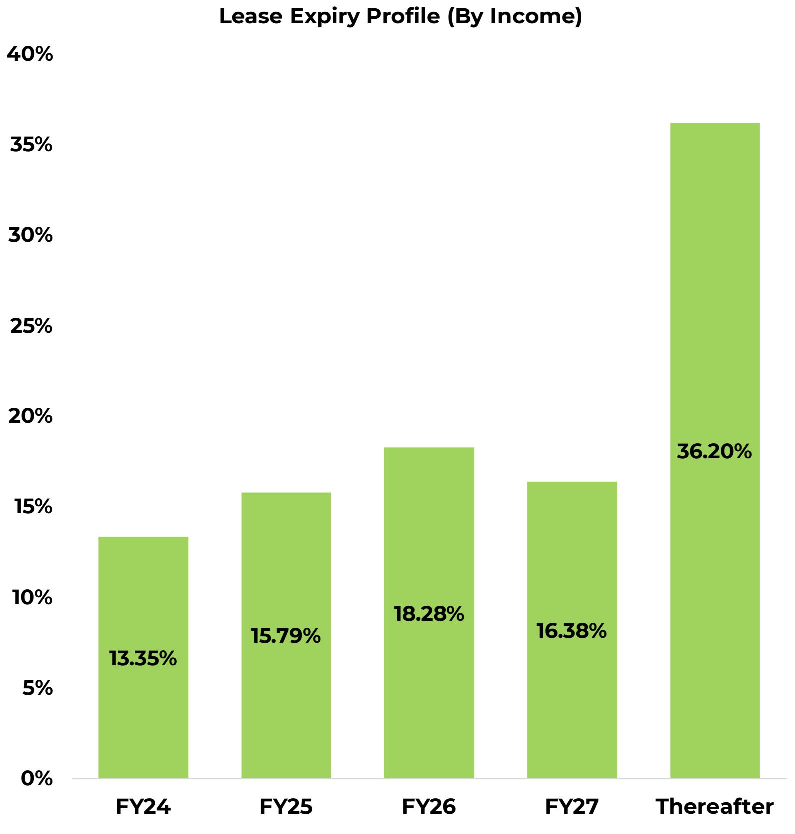
Clarence Property Diversified Fund

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 2023:



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 2023. Where tenants are part of a common corporate group or government body, those details have been aggregated:

Tenant	Area (m^2)	Percentage of Income
Federal Government (including Centrelink, Family Law Court & NDIS)	8,801	11%
Woolworths group	10,106	9%
Government Properties NSW (including Departments of Housing, Education, Community Services and Health)	7,293	7%
Coles group	5,622	5%
Provet	4,651	2%
Sykes	2,131	2%
All other	95,651	64%
Total	**134,255**	**100%**

6 Portfolio Diversification (continued)

6.5 Property Valuations

Below is a summary of the Group's property valuations as at August 2023:

Asset	Location	Occupancy	Valuation	Cap. Rate	Date	Valuer
Commercial Office						
201 Leichhardt St, Spring Hill	BNE	83%	$12,600,000	7.00%	Jun-23	Directors valuation
9 Hercules St, Hamilton	BNE	89%	$11,450,000	6.50%	Jun-23	Directors valuation
65 Park Rd, Milton	BNE	45%	$4,325,000	6.50%	Jun-23	Directors valuation
188 Macquarie St, Dubbo	CNSW	79%	$9,900,000	9.50%	Jun-23	Directors valuation
The Rocket, Robina	GCT	98%	$83,900,000	7.00%	Sep-21	CBRE
183 Varsity Parade, Varsity Lakes	GCT	100%	$11,350,000	7.00%	Jun-23	Directors valuation
The Base, Robina[1]	GCT	N/A	$3,820,000	N/A	Mar-22	Jones Lang Lasalle
98-100 Blundell Blvd, Tweed Heads	NNSW	100%	$10,000,000	7.00%	Oct-21	Jones Lang Lasalle
Westlawn Building, Lismore	NNSW	90%	$20,200,000	8.25%	Oct-21	Cushman & Wakefield
21-27 Grant Street, Port Macquarie	NNSW	100%	$15,700,000	7.50%	Oct-22	CBRE
Commercial Office Sub-total		**94%**	**$183,245,000**	**7.13%**		
Retail						
Logan Village Marketplace	BNE	100%	$14,600,000	5.50%	Jun-23	Directors valuation
Bell Central, Mudgeeraba	GCT	98%	$17,600,000	6.25%	Sep-22	Jones Lang Lasalle
Yamba Fair	NNSW	100%	$41,600,000	5.50%	Oct-21	Jones Lang Lasalle
Byron Bay Fair	NNSW	100%	$15,500,000	5.50%	Sep-22	Jones Lang Lasalle
205 Yamba Rd, Yamba[2]	NNSW	N/A	$475,000	N/A	Oct-21	Jones Lang Lasalle
Epiq Marketplace, Lennox Head	NNSW	100%	$39,080,000	5.50%	Mar-22	Jones Lang Lasalle
North Shore Marketplace, Townsville	NQ	91%	$23,250,000	6.00%	Oct-21	Jones Lang Lasalle
Retail Sub-total		**98%**	**$152,105,000**	**5.65%**		
Childcare & Medical						
Milton Childcare	BNE	100%	$9,450,000	5.00%	Sep-22	Charter Keck Cramer
Bahrs Scrub Childcare Centre	BNE	100%	$6,800,000	5.40%	Sep-22	Charter Keck Cramer
Ripley Childcare Centre[3]	BNE	N/A	$7,560,000	5.50%	Nov-22	Jones Lang Lasalle
Salisbury Childcare Centre[3]	BNE	N/A	$8,335,000	5.25%	Nov-22	Jones Lang Lasalle
Rochedale South Childcare Centre[3]	BNE	N/A	$6,345,000	5.15%	Nov-22	Jones Lang Lasalle
Lota Childcare Centre[3]	BNE	N/A	$7,175,000	5.25%	Feb-23	Jones Lang Lasalle
Bellbowrie Childcare Centre[3]	BNE	N/A	$5,600,000	5.25%	Feb-23	Jones Lang Lasalle
Rangeville Childcare Centre[3]	BNE	N/A	$6,090,000	5.25%	Nov-22	Jones Lang Lasalle
East Tamworth Medical Centre	CNSW	99%	$15,600,000	6.00%	Sep-22	CBRE
Epiq Childcare Centre	NNSW	100%	$4,750,000	5.25%	Jan-23	Acumentis
Tamar Village, Ballina	NNSW	100%	$8,800,000	6.50%	Oct-21	Jones Lang Lasalle
Delahey Childcare Centre[3]	MLB	N/A	$6,900,000	4.75%	Nov-22	Jones Lang Lasalle
Mount Evelyn Childcare Centre[3]	MLB	N/A	$8,425,000	5.00%	Jan-23	Jones Lang Lasalle
Childcare & Medical Sub-total		**100%**	**$101,830,000**	**5.42%**		

6 Portfolio Diversification (continued)

6.5 Property Valuations (continued)

Asset	Location	Occupancy	Value	Cap. Rate	Date	Valuer
Commercial Other						
Yamba Service Station	NNSW	100%	$5,650,000	5.50%	Oct-21	Jones Lang Lasalle
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%	$12,400,000	5.75%	Aug-22	Herron Todd White
42 Mcroyle Street, Wacol	BNE	100%	$10,000,000	6.25%	Sep-22	Jones Lang Lasalle
81 Stradbroke St, Heathwood	BNE	100%	$9,400,000	6.00%	Sep-22	Jones Lang Lasalle
31 Paringa Road, Murarrie	BNE	100%	$20,200,000	6.00%	Aug-22	Herron Todd White
185 Queensport Rd, Murarrie	BNE	25%	$10,350,000	5.50%	Oct-21	Jones Lang Lasalle
18 Macgregor Pl, Richlands	BNE	53%	$17,300,000	5.75%	Jun-23	Jones Lang Lasalle
96 Tile Street, Wacol	BNE	100%	$7,300,000	4.50%	Oct-22	Herron Todd White
Arndilly, Lawrence	NNSW	100%	$6,000,000	N/A	Nov-21	Acumentis
Logistics / Distribution / Industrial / Other Sub-total		**85%**	**$107,850,000**	**5.44%**		
Development						
Hub Heathwood	BNE	N/A	$36,000,000	N/A	Nov-21	Charter Keck Cramer
9 Treelands Dr, Yamba[4]	NNSW	N/A	$1,000,000	N/A	Oct-21	Jones Lang Lasalle
Yamba Quays	NNSW	N/A	$22,100,000	N/A	Jul-23	Charter Keck Cramer
EPIQ Lennox	NNSW	N/A	$20,600,000	N/A	Jul-23	Charter Keck Cramer
264 Yamba Road	NNSW	N/A	$8,250,000	N/A	May-22	Charter Keck Cramer
Wallum, Brunswick Heads	NNSW	N/A	$37,000,000	N/A	Jul-23	Charter Keck Cramer
Sceniq, Bilambil Heights	NNSW	N/A	$17,000,000	N/A	Aug-21	Charter Keck Cramer
North Boambee Rd, North Boambee Valley	NNSW	N/A	$17,000,000	N/A	Jul-23	Charter Keck Cramer
Newmans Road, Woolgoolga	NNSW	N/A	$10,500,000	N/A	Jul-23	Charter Keck Cramer
Bark Hut Road, Woolgoolga	NNSW	N/A	$15,000,000	N/A	Aug-22	Charter Keck Cramer
36 Bark Hut Road, Woolgoolga	NNSW	N/A	$4,000,000	N/A	Mar-23	Charter Keck Cramer
Development Sub-total		**N/A**	**$188,450,000**	**N/A**		
Total Direct Portfolio		**92%**	**$739,130,000**	**6.17%**		

[1] Future commercial office site, Land value only.
[2] Non-core asset acquired for potential future expansion, 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.

<u>Development Update</u>

The Pocket - The civil works programme to create 14 residential lots finished in January 2023 with subdivision certificate and titles issued in April 2023. The sale of all lots have been settled. The stage is now complete.

Super Lot 5 - The 4.2ha site has been sold to the NSW Department of Education as the future site of the new Lennox Head Primary School. The sale settled on 29 June 2023.

Super Lot 7 - The civil works programme to create 33 residential lots, 26 live/work lots and 2 commercial lots was completed in December 2022 with subdivision certificate and titles issued in April 2023. Sale of 17 of the 33 residential lots have settled. 2 lots are under unconditional sale contracts with the remaining 14 residential lots being marketed for sale. Design and planning for the live/work and commercial lots is also continuing.

All prior stages are sold and settled.

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.

<u>Development Update</u>

Stage 3 - The civil works programme is complete with subdivision certificate issued in July 2023. Titles were issued in August 2023. Settlement of 3 lots is due in September 2023. 3 of the remaining 8 lots are under unconditional sale contracts, with sale details agreed on a further 2 lots. The final 3 lots are being marketed for

Stages 4 & 5 - A construction certificate for Stage 4 was issued by Clarence Valley Council in August 2023. The civil works programme is anticipated to commence in late 2023. Stage 5 design work is continuing.

All prior stages are sold and settled.

Sceniq Bilambil Heights

An unconditional sale of the englobo site has been agreed for $16,500,000 (inc. GST) and is scheduled to settle on 31 January 2024.

Wallum Brunswick Heads

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

<u>Development Update</u>

A development application for 127 lots was approved by Byron Shire Council in May 2023. A construction certificate application has been lodged to commence civil works. It is anticipated early works will commence in late 2023 and construction of the first stage will commence in early/mid 2024. A marketing and sales campaign was launched in December 2022 with eighteen lots now under unconditional contracts of sale, with a further one having sale details agreed. Additional lots will be released and marketed closer to construction commencing.

6 Portfolio Diversification (continued)

The "Hub", Heathwood

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

Development Update

The civil works program commenced in July 2022 and is expected to complete in October 2023. Sales and marketing activity continues with the lots being gradually released to the market. Seven of the twenty four lots are under unconditional contracts of sale for gross proceeds of $21m. Additionally, two lots are in due diligence. Further lots have been taken to the market under an expression of interest campaign.

Newmans Road, Woolgoolga

In January 2022 the Group acquired a 9.2ha residential subdivision site at Newmans Road Woolgoolga, on the Coffs Coast in Northern NSW, for $6,050,000.

Development Update

A development application was lodged in April 2023.

264 Yamba Road, Yamba

In April 2022 the Group acquired 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 for a mixed use development 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, and very preliminary discussions have commenced to develop the site.

290 North Boambee Road

In July 2022 the Group settled the purchase of a 55ha residential subdivision site at 290 North Boambee Road, Boambee NSW for $10,500,000. The purchase was funded from cash reserves. A development application has been lodged, and RFIs are being responded to.

Bark Hut Road, Woolgoolga

In October 2022 the Group settled the purchase of a 16.4ha residential subdivision site on Bark Hut Road, Woolgoolga NSW for $14,500,000. The purchase was funded from cash reserves. A development application is currently being prepared.

In January 2023 the Group settled the purchase of a 3.7ha residential subdivision site at 36 Bark Hut Road, Woolgoolga NSW, adjacent to the Group's existing Bark Hut Road development. The purchase price was $5,050,000 with $2,000,000 of this being deferred for 4 years. The Initial $3,000,000 was funded from cash reserves. A planning proposal for this site has been lodged with Coffs Harbour City Council.

Below: Superlot 7 - Epiq Lennox

6 Portfolio Diversification (continued)

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. Further draws have been made to to fund development costs, which have been subsequently repaid from sale settlements. The current drawn balance is $20m.

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, with further draws of approximately $10m since.

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.

Above & below: Aerial shots of 'The Hub', Heathwood, Q3 2023.

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, tenant profile, 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.

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.

Below: Alexandra Place, Murarrie

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.

Additionally 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 investment properties from time to time, 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 August 2023 distribution, is sustainable to 30 June 2024. 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

CPDF is an illiquid fund with no consumer withdrawal rights. Unitholders may sell or transfer their investment to third parties in accordance with the provisions of CPDF's constitution.

Below: The Rocket, Robina.

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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 2023).

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.

Above: Yamba Service Station. Below: East Tamworth Medical Centre

NOTES

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