



# **NewActon East Property Fund**

**ARSN 601 457 229**

**Disclosure Guide**

**ASIC Regulatory Guide 46**

**31 December 2015**

## Scope of this Disclosure Guide

The Australian Securities and Investments Commission (ASIC) have established eight disclosure principles and six benchmarks that responsible entities of unlisted property schemes are required to disclose against. These principles and benchmarks are set out in ASIC Regulatory Guide 46 (**RG 46**).

These disclosure principles were introduced to help investors to understand the key characteristics of unlisted property schemes and assess associated risks by clarifying the disclosure requirements of the law.

The purpose of this document is to update investors on the status of key information, including the benchmark and disclosure principle information. Updates will be provided at least every six months. These updates should be read in conjunction with the latest PDS, the Fund's financial statements, investor updates and any continuous disclosure notices. All such documents are available via [www.placerproperty.com.au](http://www.placerproperty.com.au).

## 1. Benchmarks

Responsible entities of unlisted property schemes offered to retail investors should disclose against a series of benchmarks on an 'if not' basis.

The table below summaries the benchmarks as they apply to the Fund.

Item	Benchmark	Page No.	Benchmark Met
1. Gearing Policy	The responsible entity maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.	3	✓
2. Interest Cover Policy	The responsible entity maintains and complies with a written policy that governs the level interest cover at an individual credit facility level.	3	✓
3. Interest Capitalised	Interest expense of the Fund is not capitalized.	N/a	✓
4. Valuations policy	The responsible entity maintains and complies with a written valuation policy.	N/a	✓
5. Related Party Transactions	The responsible entity maintains and complies with a written policy on related party transactions, including the assessment and approval process for such transactions and arrangements to manage conflicts of interest.	5	✓
6. Distribution Practices	The Fund will only pay distributions from its cash from operations (excluding borrowings) available for distribution.	6	✓

## 2. Disclosure Principles

### Disclosure Principle 1 - Gearing Ratio

Disclosure Principle	Benchmark	Benchmark Met
Disclosure Principle 1 addresses disclosure of the gearing ratio of the scheme, the calculation of the ratio and its explanation.	The Fund complies with a written policy that governs the level of gearing at an individual credit facility level.	YES

Gearing is the amount of debt the Fund has borrowed compared to the gross assets of the Fund is referred to as it's gearing. Gearing both increases the potential returns to investors, as well as potential risks by magnifying capital losses. The higher the gearing the greater the associated risk.

The Gearing Ratio gives an indication of the potential risks faced by the Fund as a result of its borrowings due to, for example, an increase in interest rates or a decrease in property value.

The repayment of loan principal and interest ranks ahead of investors' equity in the Fund and payment of interest on borrowings must be funded before any distributions to investors. As a result, the borrowing terms and conditions are important factors to consider.

**The Gearing Ratio as at 31 December 2015 was 46.4% using the following formula <sup>1</sup>**

$$\text{Gearing ratio} = \frac{\text{Total interest bearing liabilities}}{\text{Total assets}}$$

- Please note that the Gearing Ratio is different to the Loan to Value Ratio used by National Australia Bank under the Debt Facility covenant. The Fund is compliant with the loan to value ratio for the debt facility.

### Disclosure Principle 2 - Interest Cover Ratio (ICR)

Disclosure Principle	Benchmark	Benchmark Met
Disclosure Principle 2 addresses disclosure of the ICR of the scheme, the calculation of the ratio and its explanation.	The Fund complies with a written policy that governs the level of interest cover at an individual credit facility level.	YES

During the term of the Debt Facility, interest is paid on the principal amount of the loan from earnings of the Fund. The ratio between earnings and interest is called the interest cover ratio (ICR) and reflects the ability of the Fund to meet its interest payments on borrowings from its earnings. The lower the ICR the greater the associated risk.

The ICR is calculated using the formula below. EBITDA represents earnings before interest, tax, depreciation, straight lining of rentals and amortisation. Interest expense excludes amortisation of loan establishment costs.

$$\text{Interest Cover Ratio} = \frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest expense}}$$

### Disclosure Principle 2 - Interest Cover Ratio Continued

The ICR for the Fund was **3.76 times** based on the Fund's 2015 Financial Report, which was for the six-month period to 31 December 2015:

Note the ICR is different to the Debt Facility interest cover ratio covenant. The Debt Facility interest cover ratio is 3.51 times, compared to the Debt Facility covenant of 1.75 times.

### Disclosure Principle 3 - Scheme Borrowing

Disclosure Principle	Benchmark	Benchmark Met
Disclosure Principle 3 addresses disclosure of the scheme's credit facilities, including the circumstances in which credit facility covenants will be breached.	No ASIC Benchmark	N/a

#### A summary of the Fund's debt facility as follows:

Total Facility Limit	\$22,500,000, fully drawn
Maturity Date	31 August 2019
Loan to value ratio (LVR) covenant <sup>2</sup>	The loan to value ratio must not exceed 60%. <i>Covenant testing</i> LVR at 31 December 2015 was 47.6%. The Property would need to fall by more than 20.6% in value for the Bank LVR covenant to be breached.
Interest Cover Ratio covenant <sup>2</sup>	Interest Cover Ratio is to be no less than 1.75x. <i>Covenant testing</i> Interest Cover Ratio at 31 December 2015 was 3.51x. For the bank covenant to be breached: <ul style="list-style-type: none"> <li>• Net rental income generated by the Property would need to fall by 50%; or</li> <li>• interest (finance charges) would need to increase in the order of 100%.</li> </ul>
Hedging	The Responsible Entity has entered into an interest rate swap over \$22.5 million of the Debt Facility to hedge the variable interest rate payable to 30 September 2019. The swap interest rates obtained range from 2.35% to 3.15%.

2. There were no loan covenant breaches to report.

### Disclosure Principle 4 – Portfolio Diversification

Disclosure Principle	Benchmark	Benchmark Met
The Fund acquired the commercial part of the NewActon East building, located at 21-23 Marcus Clarke Street, Canberra, ACT. The Responsible Entity does not intend to acquire additional real estate for the Fund.	No ASIC Benchmark	N/a

### The profile of the Property as at 31 December 2015 is as follows:

Property	NewActon East
State	ACT
Occupancy	100%
Valuation	\$47,250,000 (at 30 June 2015)
Valuation change	0% change since 30 June 2015
WALE	7.8 years, weighted average lease expiry by income
Tenants	<b>Gross Rent %</b>
• Australian Competition & Consumer Commission	80.9
• Colliers International	10.3
• Twenty One Café & Grocer	6.5
• Pilates Canberra	1.3
• ED	1.0
<b>Total</b>	<b>100%</b>

### Disclosure Principle 5 – Related Party Transactions

Disclosure Principle	Benchmark	Benchmark Met
Disclosure Principle 5 addresses disclosure about related party transactions.	The Fund maintains and complies with a written policy on related party transactions.	YES

The Responsible Entity is required to maintain and comply with a written policy on related party transactions, including the assessment and approval process for such transactions and arrangements to manage conflicts of interest. For the Fund, a related party transaction refers to transactions such as investments, loans, service agreements or guarantees with other entities related to the Responsible Entity.

All related party transactions are governed by our conflicts of interest and related party transaction policy. These policies are available from our website at [www.placerproperty.com.au](http://www.placerproperty.com.au).



### Disclosure Principle 5 – Related Party Transactions Continued

The Responsible Entity of the Fund is Placer Property Ltd, which has outsourced a number of the Fund’s management functions to Placer Property Management Pty Ltd (“The Manager”). Placer Property Management Pty Ltd is a related party.

The fees for these services are payable out of the Responsible Entity’s own fee entitlements and resources. There is no additional charge to the Fund, unless the Manager undertakes additional work that would have been performed by another agent of the Fund.

The terms of appointment of the Manager are in the opinion of the Responsible Entity, having regard to those policies and processes, reasonable in the circumstances and what would be expected if the Responsible Entity and the Manager had been dealing at arms length.

Details of all related party transactions; directors and director’s interest in the Fund are reported as part of the Fund’s audited 30 June annual accounts. These accounts are available from our website at [www.placerproperty.com.au](http://www.placerproperty.com.au).

### Disclosure Principle 6 – Distribution Practices

Disclosure Principle	Benchmark	Benchmark Met
Benchmark 6 addresses a scheme’s practices for paying distributions from cash from operations available for distribution.	The Fund will only pay distributions sourced from operations (excluding borrowings) available for distribution.	YES

This disclosure principle relates to whether distributions to Fund investors have been made solely from realised income or from a combination of realised income and a return of capital funded by borrowings. Fund distributions will not be supplemented with a return of capital component funded by debt. All current and forecast distributions are sourced from realised income.

Distributions for the Fund are primarily sourced from net rental income generated by the Property after deducting finance charges and Fund operational expenses.

The Responsible Entity’s policy for distributions is that the Fund will:

- make distributions every quarter with the record dates for such distributions being 31 March, 30 June, 30 September and 31 December each year;
- normally pay distributions within 6 weeks following the end of the quarter; and
- pay distributions from cash generated from operations available for distribution. Working capital may be used to smooth distributions.

The Fund has met the above policies.

### Disclosure Principle 7 – Withdrawal Arrangements

Disclosure Principle	Benchmark	Benchmark Met
Disclosure Principle 7 addresses disclosure of the withdrawal arrangements within the scheme and risk factors that may affect the unit price on withdrawal.	No ASIC Benchmark	N/A

The Fund is illiquid. The initial term of the Fund is expected to end on or about 30 June 2021, unless the term is extended with the approval of investors via a Special Resolution. Refer to the PDS for further details.

### Disclosure Principle 8 – Net Tangible Assets

Disclosure Principle	Benchmark	Benchmark Met
Disclosure Principle 8 addresses disclosure of the Net Tangible Asset (NTA) backing per unit of the scheme.	No ASIC Benchmark	N/A

The Net Tangible Asset (NTA) of the Fund calculation can help investors understand the value of the assets.

The NTA is calculated as the total assets of the Fund, minus any intangible assets, less all liabilities. The Fund's NTA is shown on a per unit basis. The NTA is calculated in accordance with the following formula:

$$\text{NTA} = (\text{Net assets} - \text{intangible assets} + \text{or} - \text{other adjustments}) / \text{Number of Fund units on issue}$$

**As at 31 December 2015, the Fund has a NTA per unit of:**

- **\$0.94** (with mark to market of interest rate hedges)<sup>1</sup>
- **\$0.95** (without mark to market of interest rate hedges)<sup>1</sup>

For further information on the Fund (including a paper copy of the above information), please contact us on 1300 132 099 or visit our website at [www.placerproperty.com.au](http://www.placerproperty.com.au).

<sup>1</sup> The Fund has fixed (hedged) the interest rate through to September 2019 through the use of interest rate swaps in order to provide greater certainty to investors of the Fund's cash generated from operations available for distribution. Subsequently, interest rates have fallen. As a result, if the Fund entered into the same interest rate hedges at 31 December 2015, the interest rates would be lower than the interest rates the Fund has entered into. As 31 December 2015, the drop in interest rates has resulted in an increase in the out of the money position of \$186,636 (now totalling \$392,223), which is recorded in the Balance Sheet as a liability titled Derivative Financial Instruments. The increase in the Balance Sheet liability has the impact of reducing the Fund's NTA at 31 December 2015 by \$0.01 per Unit (rounded) but does not impact the Fund's current distributions.