

**BECTON INDUSTRIAL FUND**  
**ARSN 099 680 252**  
**ASIC REGULATORY GUIDE 46 DISCLOSURE**

*This document was last updated 20 October 2010*

**Purpose of this update**

The Australian Securities & Investments Commission ('ASIC') requires responsible entities of unlisted property funds in which retail investors invest to address eight disclosure principles set out in Regulatory Guide 46 *Unlisted property schemes—improving disclosure for retail investors* (RG 46). The disclosure principles are intended to assist retail investors to understand the risks associated with investing in unlisted property funds and to decide whether such investments are suitable for them.

Becton Investment Management Limited ABN 62 090 939 192 AFSL 223739 ('Becton') as responsible entity of the Becton Industrial Fund ('Fund') has issued this document addressing the disclosure principles for the Fund. A hard copy of this document is available upon request by contacting Becton Customer Service on 1800 182 257 or [biml@becton.com.au](mailto:biml@becton.com.au).

Updates on material information relating to the disclosure principles will be available on Becton's website at [www.bim.com.au](http://www.bim.com.au). Investors should also refer to the Fund's product disclosure statement, the annual financial statements, and investor quarterly reports for more information.

This document has been prepared as general information only and does not take into account the investment objectives, financial situation or needs of a particular person.

**Disclosure Principle 1—Gearing Ratio**

The gearing ratio of the Fund is 61.4 per cent<sup>1</sup>. The gearing ratio represents the extent to which the assets are financed by debt. A higher gearing ratio means a higher reliance on external liabilities (primarily borrowings) to fund assets and may expose a fund to increased costs if interest rates rise. A more highly geared fund has a lower asset buffer to rely upon in times of financial stress. Investors can use the gearing ratio to assess the potential risks a fund may face in the event interest rates rise or property values decrease, and to compare the risk associated with the fund's return on investment to other similar products.

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<sup>1</sup> Calculated by dividing the Fund's total interest bearing liabilities by the total value of the assets, based on the most recent audited financial statements as at 30 June 2010.

The Fund does not have any off balance sheet financing as at 20 October 2010.

### **Disclosure Principle 2—Interest Cover**

The Fund's interest cover is 1.43 times<sup>2</sup>. This figure indicates that the Fund has sufficient earnings to satisfy interest repayments. Specifically, the Fund could service its debt 1.43 times over.

Investors can use an interest cover ratio to assess a fund's ability to meet ongoing interest payments and therefore service debt. Having a high interest cover provides a buffer if interest rates or other expenses of the fund increase. The lower the interest cover, the higher the risk the fund will not be able to meet its interest payments. A fund with a low interest cover only needs a small reduction in earnings (or a small increase in interest rates or other expenses) to be unable to meet its interest payments.

### **Disclosure Principle 3—Fund Borrowing**

Investors should consider information about borrowings of a property fund as there may be risks associated, particularly in relation to a fund's borrowing maturity profile and potential breaches of loan covenants.

Investors should be aware that their equity interests in the Fund will generally rank behind lenders and other creditors in terms of payment preference. This means, if the Fund was to terminate, then the Fund's lenders and other creditors would be repaid first before any capital or outstanding distributions were paid to investors.

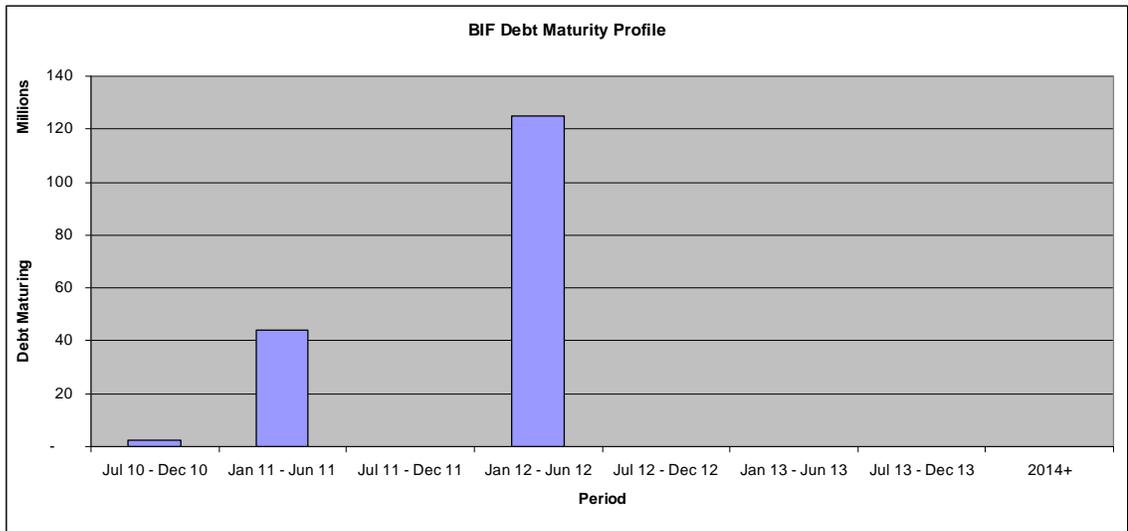
#### **Details of direct borrowings of the Fund**

The Fund has loan facilities with National Australia Bank ('NAB') and Bank of Western Australia ('BankWest'). The facilities are drawn to a total of \$171.38million. The maturity dates of the loan facilities are set out in the table below:

<b>Financier</b>	<b>Amount Drawn (\$m)</b>	<b>Amount Undrawn (\$m)</b>	<b>Date of Maturity</b>
BankWest	2.42	NIL	31-Dec-10
NAB	43.96	2.69	31-Jan-11
NAB	125.00	NIL	31-Jan-12

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<sup>2</sup> A fund's interest cover is calculated by determining a fund's annual earnings before interest, tax, depreciation and amortisation (EBITDA), subtracting unrealised gains (if any) and adding unrealised losses (if any). This figure is then divided by the current annual interest expense (also known as the finance cost) of the fund. Based on the most recent financial statements as at 30 June 2010.



### Managing Risks associated with the borrowings of the Fund

The Fund has two loan facilities expiring within the next twelve months, the \$43.96 million facility with NAB due to expire on 31 January 2011 and the \$2.42 million Bankwest facility due to expire on 31 December 2010. The Fund expects to be able to refinance the maturing debt. However, there is a risk refinancing this debt will be on less favourable terms or not available at all.

To reduce the Fund's exposure to unfavourable movements in interest rates, the Fund seeks to ensure that the majority of its interest rate exposure is either fixed or capped for a minimum weighted average period of three years. As a result of recent asset sales reducing the amount borrowed, the Fund currently has 104 per cent of Fund borrowings fixed or capped for an average period of 2.66 years. Approximately \$19.8 million of this fixed interest rate exposure is due to expire before the end of November 2010. This will bring the amount of Fund borrowings that are fixed or capped back to less than 100 per cent.

### Loan Covenants

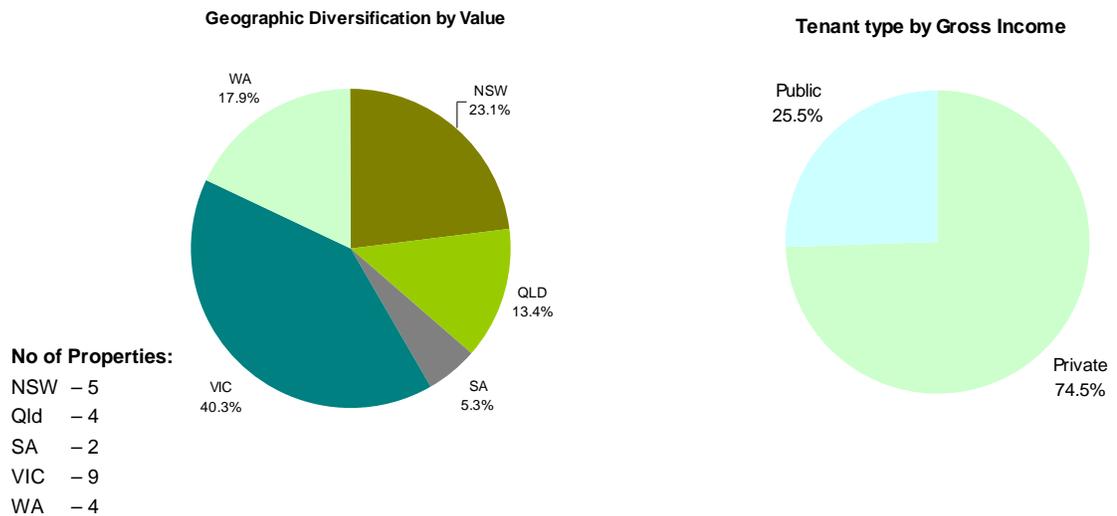
A breach of a loan covenant may result in a lender being able to impose a penalty or require immediate repayment of the loan, in which case a fund may be forced to arrange alternative financing or sell assets. At the date of this update, the Fund is compliant with its loan covenants. However, the Fund has limited headroom on the loan-to-value and weighted average lease expiry covenant limits under the terms of the NAB facilities.

## Disclosure Principle 4—Portfolio Diversification

### Fund snapshot

Key Fund Data	Becton Industrial Fund
Fund start date	December 2002
Portfolio Valuation	\$283.8 million
Number of properties	24
Property sector	Industrial
Occupancy Rate	91.4%
Weighted Average Lease Expiry (by income)	3.31 years

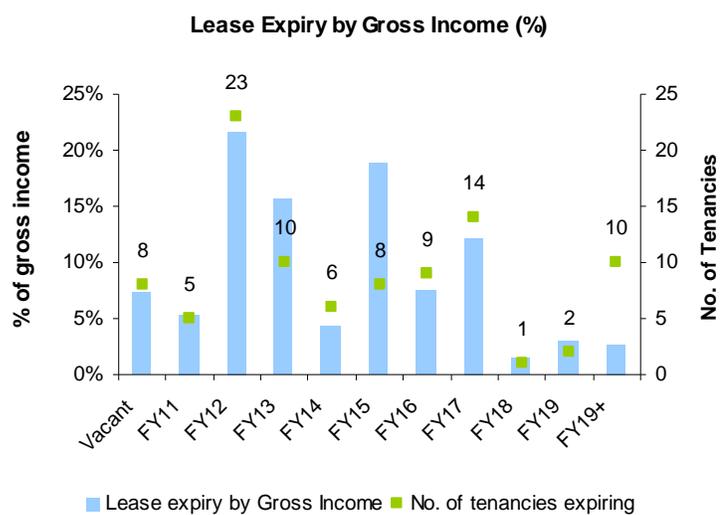
### Location and sector



## Top ten tenants

Tenant	% of portfolio (by income)
Visy	8.1
Kent Transport Industries	7.2
Post Logistics Australia	5.9
BP Shopfitting Services	4.7
Dick Smith Electronics	4.0
AWH	3.9
Hugo Boss Australia	3.8
Mitre 10 Australia	3.7
Bidvest QSR	3.6
Plexicor	3.6

## Lease expiry profile



The Fund faces considerable lease expiry exposure over the next three years, both in terms of value and number of leases. To address this, the Fund is engaging with tenants as part of its active management strategy with a view to renewing leases well ahead of time.

### Significant direct properties

Property	Valuation (\$m)	Valuer	Date of valuation	Capitalisation rate (%)
Spearwood Avenue, Bibra Lake WA	35.0	CBRE	Aug '10	9.25
500 Princess Hwy, Noble Park, VIC	20.7	CBRE	Jun '09	9.00
60 Marple Ave, Villawood, NSW	20.0	Savills	Aug '10	9.25
37-51 Scrivener St, Warwick Farm, NSW	17.1	Savills	Jun '10	10.25
6 Albert St, Preston, VIC	17.2	m3property	Jun '10	9.25
102-128 Bridge Rd, Keysborough, VIC*	17.6	JLL	Aug '10	9.50
Lot 3, 241 Shellharbour Rd, Kemblawarra NSW	11.0	Savills	Jun '10	10.25
145 Archerfield Rd, Richlands, VIC	12.5	JLL	Aug '10	9.50
38 Westgate St, Wacol, QLD	9.2	JLL	Aug '10	10.00
Penelope Cres, Arndell Park, NSW	11.8	Savills	Aug '10	9.00

\* Part of this property is being redeveloped. The developer is a wholly owned subsidiary of the Becton Property Group. The development is approximately 90 per cent complete and all of the twelve constructed units have been leased. The development agreement provides for the construction of one more unit. Construction of this final unit is due to commence early in 2011 with estimated completion by September 2011. The twelve completed units have been debt funded by the NAB loan facilities described under Disclosure Principle 3 on page 2 of this document. The remaining unit is to be funded by the Becton Property Group.

## **The Fund's investment strategy**

The Fund's investment strategy is to invest in industrial property in established or zoned industrial precincts within Australia and New Zealand.

The Fund's investment strategy is further detailed in the Fund's product disclosure statement, the annual financial statements and investor quarterly reports.

## **Disclosure Principle 5—Valuation policy**

All Properties within the Fund have been independently valued by an external valuation firm within the last twelve months.

### **Frequency and timing of valuations:**

- The Fund's Compliance Plan requires each property to be independently valued at least every three years.
- An independent valuation is to be completed for each property to comply with the Fund's constitutional and Compliance Plan requirements.
- All properties are either subject to an independent valuation or directors' valuation for the purpose of meeting statutory accounting requirements.
- An independent valuation is to be completed for each property to comply with the Fund's debt financing facility agreements.
- Where a fund has been closed to applications or redemptions for a period of greater than three months all properties within the fund are to be independently valued within the twelve months prior to the fund reopening for investor applications or redemptions.

### **Directors' valuations:**

- In the periods between independent valuations properties are subject to directors' valuations for reporting purposes (June and December Financial Reports) and for unit pricing in accordance with Becton's Unit Pricing Policy. These valuations take into account changes in relevant property markets during the period and consider independent valuations of similar properties to ensure the value at which properties are included in financial reports represent fair value.
- If there is not a material change (greater than plus or minus ten per cent) the previous valuation may be adopted as directors' valuation.
- If there is a change of greater than plus or minus ten per cent the Fund Manager recommends a directors' valuation to the Board which will review the valuations and adopt them if they are considered appropriate.

### **Capital additions/book value:**

- The directors' valuation will have reference to the book value of the property.
- Any capital costs are added to the book values between reporting periods.
- The directors' or independent valuation will override the book value. Any variance from the book value will result in a gain or loss in the valuation. This will affect the profit and loss performance, balance sheet and unit pricing of the Fund.
- The adopted valuations will be reconciled against the accounts prepared for the reporting period, report on any variation and highlight where capital costs are being written off from the book value.

### **Engaging an appropriate valuation firm and the instruction process:**

Valuation firms and/or valuers can be used for a period of three consecutive valuation reports for each property valued. After this period the valuation firm and valuer must change. Becton only uses certified practicing valuers who are members of the Australian Property Institute. Prior to instructing the appropriate valuation firm, quotes must be obtained. Once a quote has been agreed Becton's standard instruction letter must be used to instruct the valuer.

### **Information required for independent valuations:**

Full Valuation: Becton requires, as a minimum, discounted cash flow ('DCF') and capitalisation valuation methodologies to be used for all investments. A valuation of replacement cost for insurance purposes is also required. The valuer is required to provide supporting calculations for the replacement cost assessment.

All other aspects of a standard full report and valuer's conduct must be in accordance with the current edition of the Australian Property Institute Professional Practice Standard.

In order that all valuations use the same terminology the following definitions are strictly adhered to:

- 1) **Passing / initial yield:** Current net income at the time of the valuation divided by the adopted value or sale price.
- 2) **Equated market or reversionary yield:** The property's net market income divided by the adopted value or sale price.
- 3) **Capitalisation rate:** The market yield used to determine the current market value of the property prior to capital adjustments.

## **Disclosure Principle 6—Related Party Transactions**

### **Related party transactions**

The Fund has entered into the following related party transactions:

The Becton Diversified Property Fund (which is managed by Becton) owns approximately 18.5 per cent of the units on issue in the Fund.

The Fund is redeveloping part of the property at 102-128 Bridge Road in Keysborough, Victoria (refer to Disclosure Principle 4 above). This redevelopment is largely complete. To facilitate the redevelopment, the Fund entered into an arms length development agreement with a wholly owned subsidiary of the Becton Property Group.

### **Policy on related party transactions**

The related party provisions of the Corporations Act are set out in Chapter 2E (and are applied to schemes by virtue of section 601LA). In essence, these provide that funds must not give a financial benefit to a related party without the approval of the unit holders of a fund unless the giving of that benefit is on terms that would be reasonable if the parties were dealing 'at arms length'. 'Arms length' refers to transactions conducted as if the parties were not related.

In the normal course of conducting its business of managing funds, Becton expects to transact with entities either directly owned or associated with the Becton Property Group. For example;

- Becton may enter into agreements on arms-length terms with the Becton Property Group's Development and Construction division to provide project management and other related services when capital works are undertaken on Fund property.
- Becton may buy assets from, or sell assets to, entities controlled by the Becton Property Group.
- The Becton Property Group, through its managed funds, will continue to own units in Becton funds and officers and employees of the Becton Property Group may also own units in the funds.

Becton aims to ensure that all transactions that might involve related parties are dealt with on a fair, reasonable and consistent basis.

Becton utilises a number of processes to enable it to give full consideration to transactions with a related party. These processes cover the initial assessment and approval of related party transactions, as well as ongoing monitoring. The processes include:

1. Compliance Plan and Committee – Each Fund has a Compliance Plan which provides a means for review of related party transactions and conflicts of interest at an operational level by the Compliance Committee;
2. Due Diligence Committee's ('DDC') - Becton establishes a DDC for transactions such as the establishment of a new fund, issue of a product disclosure statement, capital raisings etc. The DDC includes an executive director and has responsibility for ensuring that any issues arising due to a conflict of interest or related party transaction are appropriately dealt with.
3. Investment Committee - Becton has a standing Investment Committee which includes an executive director and external legal advisor. The Investment Committee reviews and makes decisions in relation to the acquisition and disposal of assets in the funds management business as well as significant leasing transactions. The Investment Committee has responsibility for ensuring that any issues arising due to a conflict of interest or related party transaction are appropriately considered and have suitable management protocols.
4. Where Becton proposes to enter into a related party transaction the proponent of the proposed transaction must seek the consent of the Investment Committee to proceed with either the sale or acquisition and must give the Investment Committee details of the proposed transaction and evidence of 'arms length' terms.
5. If a related party transaction is considered not to be on 'arms length' terms and is not subject to any statutory or listing rule exemption then the transaction should be referred to the CEO Funds Management or the General Counsel – Corporate to ensure that, if proceeded with, the transaction is carried out in accordance with Becton policy, the Corporations Act and the Constitution and Compliance Plan of the relevant Fund.

#### **Disclosure Principle 7—Distribution Practices**

The fund is not currently making distributions to investors.

#### **Disclosure Principle 8—Withdrawal Rights**

Investors have no rights to withdraw from the Fund until December 2012.

The Fund has an exit mechanism in December 2012, and every ten years thereafter, pursuant to which investors will be offered to exit their investment for an amount per unit equal to the unit price at that time. The Fund may sell assets or raise further equity or debt to meet the liquidity requirement. If the Fund is not able, or it is not considered to be in investor's best interests to provide the exit mechanism, the Fund must be wound up.

Otherwise, investors have no redemption rights. However, until December 2012 the Manager may, if it considers it to be in the best interests of investors, make withdrawal offers to Investors in accordance with the Corporations Act and the Product Disclosure Statement for the Fund.

### **F u r t h e r I n f o r m a t i o n**

For further information in relation to the above, please refer to our website at [www.bim.com.au](http://www.bim.com.au) or contact us on either 1800 187 257 or [biml@becton.com.au](mailto:biml@becton.com.au).