<u>RG 46 – Centuria Healthcare Property Fund (August 2020)</u>

This document has been prepared by Centuria Property Funds No.2 Limited (Centuria) as Responsible entity for the Centuria Healthcare Property Fund (Fund or CHPF). It sets out key disclosures required by ASIC's Regulatory Guide 46 – Unlisted Property Schemes: Improving Disclosure for Retail Investors (RG46). RG46 sets out 8 disclosure principles and six benchmarks in relation to those principles. This document is provided bi-annually and in addition to quarterly investor updates.

Key risks covered by ASIC's disclosure principles and benchmarks	Centuria's Policy	What does this mean in practical terms and where can this information be found in your Fund Quarterly Update?
Scheme Borrowings and Gearing (Disclosure Principles 1&3 and Benchmark 1) The Principles and Benchmark relate to the extent to which the Fund's assets are funded by interest bearing liabilities and providing disclosure in respect of what this means to investors. Gearing is the level of finance that is used to purchase properties or manage the capital expenditure within a fund. Gearing increases the exposure of unitholders to movement in the value in the underlying properties in which a fund invests. It can magnify capital gains; however, it can also magnify capital losses. A highly geared fund will have a lower asset buffer to rely on in times of financial stress.	***Centuria Complies with ASIC's Benchmark 1*** Centuria has in place a policy for the management of the gearing and interest cover for its funds. Centuria's gearing policy requires a fund's gearing to be set by management from the outset. The level of gearing will be determined on a fund by fund basis based on factors including lender and investor appetite, finance pricing at various gearing levels and ensuring there is sufficient headroom for anticipated financial covenants. Also taken into consideration are expectations of short-term funding requirements for building works, tenant incentives etc. Each financier will set what is known as a Loan to Valuation Ratio (LVR) or Gearing covenant. This covenant is the maximum percentage level of gearing the fund can hold relative to asset values under the financing facility. If this covenant is breached, the	CHPF currently has no debt in place but is in discussions with a number of financiers to receive credit approved terms. Your Fund Quarterly Updates will have a '**Debt Summary**' section. Within this section we will keep you regularly updated of the following information in respect of borrowings: • Details of borrowing facilities including any undrawn amounts; • Detail of refinancing due dates and prospects of refinance; and • Debt covenants and debt covenant compliance. The fund currently has no debt facility. The fund is currently in the process of receiving

The gearing ratio formula as set down by RG46 is: *Total interest bearing liabilities / total assets* It is important to note that borrowings are generally secured by the property(ies) held by the fund and this will mean that repayment of these borrowings ranks ahead of investor's interest in the Fund. Most facilities will also have conditions that enable the financier to call on the loan if unit holders exercise their rights to remove and replace the Responsible Entity of the Fund. If a Fund's borrowings are to mature within a short timeframe, it will need to refinance. There is a risk that refinancing will be on less favourable terms or not available at all. **ASIC's Benchmark 1** is for Centuria to have in place a Gearing Policy that governs the gearing within a fund at the individual facility level.	financier may exercise its rights under the facility agreement including the imposition of higher interest margins or forcing the sale of the property. It is for this reason that Centuria will seek to set gearing with headroom over the covenant. If financing / refinancing is sought to increase gearing within a fund, this will only occur in accordance with a fund's capital management plan and it must be in the best interest of unitholders and in accordance with the fund constitution and disclosure documents. Centuria monitors both the Gearing and Interest Cover Ratio (ICR) covenants for each fund on a monthly basis at formal monthly treasury meetings and a monthly property executive committee meeting. During these meetings, management will take active steps to manage gearing and ICR within the debt covenants where possible. The measures available to manage gearing and ICR covenants will vary between funds and are subject to commentary in Centuria's quarterly investor updates. Where a covenant is breached Centuria will work in consultation with the financier to take appropriate steps to manage the breach and to do so in the best interests of unit holders. A summary of Centuria's Gearing and ICR Policy is available on request from Centuria.	credit approved terms from the financier/s to borrow debt. **Fund Gearing Ratio** The fund currently has no outstanding debt. However, the target LVR is 45%.

Interest Cover Ratio and Interest Cover Policy (Disclosure Principle 2 and Benchmark 2) This Principle and Benchmark relates to how the Fund's cost of liabilities (interest cover) is maintained and providing disclosure in respect of what this means to investors. A geared fund will incur an interest expense that will increase with the size of the loan or interest rate margins applied by the financier. A higher geared fund will be more sensitive to interest rate moves. An Interest Cover Ratio (ICR) is a measure of a funds ability to meet its interest expenses from the earnings of the fund. The ICR is a key indicator of a Fund's financial health. The closer a fund is to an ICR of 1, the closer the funds cash flow is to meeting interest expenses only. If the ICR falls below 1, the fund earnings are insufficient to meet interest expenses. Each financier will set an ICR covenant. The covenant will set the minimum ICR that the fund must hold. The gearing ratio formula as set down by RG46 is:	***Centuria complies with ASIC Benchmark 2*** Centuria has a policy in place in relation to the management of the gearing and interest cover for its funds. Centuria's policy requires management to endeavour to maximise the buffer between the forecast ICR for the fund over that of the facility ICR covenant. A specific target ICR is not set beyond the requirement to seek headroom over the covenant at refinance and then to manage the facility within that covenant. See above for further detail on Centuria's Gearing and ICR Policy. A copy of Financial Risk Management Policy is available on request from Centuria.	The fund currently has no outstanding debt as at 30 June 2020. However, the ICR forecast is 4.7 times for the 9 months ending 30 June 2021.

EBITDA – unrealised gains + unrealised losses / interest expense **ASIC's Benchmark 2** is for Centuria to have in place a Policy that governs the management of Interest Cover within a fund at the individual facility level.		
Interest Capitalisation (Benchmark 3) Interest capitalisation means the Fund is not required to make interest payments until an agreed point in time. Interest is therefore capitalised on the value of the Fund's financing facility. This will increase the gearing in the fund. **ASIC's Benchmark 3** states that the interest of the Fund should not capitalised.	***Centuria complies with ASIC Benchmark 3*** The Fund does not capitalise interest in this Fund.	The fund currently has no outstanding debt. However, the interest will not be capitalised.
Portfolio Diversification (Disclosure Principle 4) Generally, the more diversified a portfolio is, the lower the risk than an adverse event affecting one property or one lease will put the overall portfolio at risk.	The Centuria Healthcare Property Fund (Fund) aims to provide monthly tax-effective income and long-term capital growth by investing in the healthcare sector underpinned by long term leases to a range of reputable healthcare operators.	The Fund Quarterly Updates and the monthly Fact Sheets will detail the Fund's investments, and respective investment weighting of these investments. They will also provide the underlying carrying value.
Valuations (Benchmark 4) Investing in a property scheme exposes investors to movements in the value of the	***Centuria complies with ASIC Benchmark 4***	Centuria has a Valuation Policy in place which it complies to. Investors may contact Centuria for a copy of the full Valuation Policy.

scheme's assets. Investors therefore need information to assess the reliability of valuations. **ASIC's Benchmark 4** addresses the way in which valuations are carried out on the Fund's assets. The benchmark requires Centuria to maintain and comply with a written valuation policy that requires: *(a) a valuer to:* *(i) be registered or licensed in the relevant state, territory or overseas jurisdiction in which the property is located (where a registration or licensing regime exists), or otherwise be a member of an appropriate professional body in that jurisdiction; and* *(ii) be independent;* *(b) procedures to be followed for dealing with any conflicts of interest;* *I rotation and diversity of valuers;* *(d) valuations to be obtained in accordance with a set timetable; and* *I for each property, an independent valuation to be obtained:* *(i) before the property is purchased:* *(A) for a development property, on an 'as is'* *and 'as if complete' basis; and*	Centuria has implemented a valuation policy for the valuation of property assets held by each of its property funds that meets ASIC's Benchmark 4. Under Centuria's policy, valuations are classified as either an Internal Valuation or an Independent Valuation. An Internal Valuation is a valuation undertaken by Centuria and approved by Centuria's Board. It is commonly referred to as a Director's Valuation. An Independent Valuation is a valuation undertaken by an external valuer in accordance with Centuria's policy. Both Internal and Independent Valuations may be adopted for the purposes of statutory and financial reporting or to advise investors in a fund of the current market value of the property. All properties are independently valued prior to purchase by any of Centuria's Registered Managed Investment Schemes. Centuria Valuation Policy also requires investment properties to be independently valued at least once every 24 months. However, in practice, Independent Valuations are generally conducted annually for each of Centuria's registered managed investments schemes or such other times required by a fund's financier. Whilst annual valuations are conducted, a further external valuation will be conducted within two months of the directors determining that there is likely to be a material change in the value of the property. This will usually arise where the directors identify a material change during the process of completing a directors' valuation. All external valuers engaged to conduct an	The Fund Quarterly Updates and Factsheet will include a table setting out the latest carrying values of the Fund's investments. The Fund has recently undertaken an out of cycle valuation for South Bunbury (120-122 Spencer Street, South Bunbury WA) on one of its property due to the property's value having materially changed. This will be monitored closely, and Investors will be notified of any changes.

(B) for all other property, on an 'as is' basis; *and* *(ii) within two months after the directors form a view that there is a likelihood that there has been a material change in the value of the property.*	Independent Valuation must be approved valuers on Centuria's valuation panel and can only be appointed to the panel if they meet criteria in relation to qualifications, experience and independence. Centuria's valuation panel is also designed to provide a diversity of valuers. Centuria's policy requires adequate rotation of valuers such that no valuer may perform an Independent Valuation more than three times consecutively. A valuer appointed from the valuation panel must also have no conflicting interests. Valuations are conducted on an 'as is' basis using either a Discounted Cash Flow or Capitalisation Approach. The Capitalisation Approach is the primary method and involves dividing the annual fully leased net income of a property by the appropriate capitalisation rate. The capitalisation rate is determined by analysing recent sales with similar characteristics to the subject property, and calculating what the annual net market income of the property is as a percentage of the sale price. The Discounted Cash Flow Analysis, which compliments the Capitalisation Approach and essentially acts as a check method, allows an investor or owner to make an assessment of the property's current value and likely long-term return based on rental and capital growth assumptions over an assumed investment horizon, which is generally 10 years.	

Related Party Transactions (Disclosure Principle 5 and Benchmark 5) This Principle and Benchmark relates to Centuria's Policy for related party transaction and how this is disclosed to investors. **ASIC's Benchmark 5** requires Centuria to maintain and comply with a written policy on related party transactions, including the assessment and approval processes for such transaction and arrangement to manage conflicts of interest. A conflict of interest may arise where there is the potential for the interests of the Responsible Entity (and its related entities) and the interests of unit-holders to conflict.	***Centuria meets ASIC Benchmark 5*** Centuria has a Group wide conflicts of interest policy that governs the way in which conflicts of interest are managed. The primary examples of the conflicts of interest that applies to Centuria's property funds is the appointment of related parties to perform property management services and investments in Centuria unlisted property funds. The conflict of interest policy requires these conflicts to be assessed and steps implemented by Centuria's compliance department to manage the conflict. The Board of the Responsible Entity must also approve any conflict of interest measures. Where a conflict arises, Centuria's conflict measures are to ensure that the appointment is in the best interest of members and on arm's length commercial terms.	As outlined in the PDS, to support the Fund, Centuria Healthcare Pty Ltd ACN 001 477 505 (CHPL) has entered into a "value guarantee" with the Fund (Guarantee). Under the Guarantee, CHPL has agreed to guarantee the price difference between the current value of the Bunbury Property and the acquisition price, up to a maximum of $1.7 million (Guarantee Payment). The Fund has not entered into any additional related party transactions.
Distribution Practices (Disclosure Principle 6 and Benchmark 6) **ASIC's Benchmark 6** requires the Fund to only pay distributions from its cash from operations (excluding borrowings) available for distribution. Some property schemes make distributions partly or wholly from unrealised revaluation gains, capital, borrowings, or support facilities arranged by the responsible entity, rather than solely from cash from operations available for	***Centuria complies with ASIC Benchmark 6*** Distributions are paid from the cash flows from operations and, where applicable, accumulated working capital of the Fund. The Fund has forecast to incur various capital works and leasing related expenses throughout the Financial Year. These expenses are anticipated to be paid for from debt funding.	The Fund's monthly Fact Sheets will include details on distributions paid under the '**Monthly Distribution**' table. Distributions for the 2021 Financial Year will be paid from cash operations available for distribution, and where applicable, accumulated working capital of the fund. The partial payment of distributions from accumulated working capital allows the Fund to smooth distributions between periods. This approach will reduce the amount of

distribution. This may not be commercially sustainable over the longer term, particularly when property values are not increasing.		accumulated working capital available in the Fund. From time to time the Fund may draw upon the debt facility to pay for various items including capital works, leasing fees, and lease incentives. Distributions are forecast on an annual basis (or as required based on applications, withdrawals, acquisitions or divestments) at the commencement of each Financial Year and will be confirmed annually in the June Quarterly Report. It is advised that COVID-19 has had no impact on the rental income for the property located in South Bunbury (120-122 Spencer Street, South Bunbury WA). However, this will be monitored closely, and Investors will be notified if there are any adverse impacts on revenue.
Withdrawal arrangements (Disclosure Principle 7) This Disclosure Principle addresses disclosure of withdrawal arrangements within the Fund.	Generally, the Fund offers Investors the opportunity to withdraw their investment quarterly on a limited basis (March, June, September & December). The amount available for withdrawal on a quarterly basis will be subject to available liquidity, and capped at:	Withdrawals may be suspended in certain circumstances or generally if the satisfaction of all withdrawal requests would compromise the operation of the Fund, if it is impracticable or impossible for Centuria to calculate the withdrawal price, or when Centuria otherwise

Often property schemes will have limited or no withdrawal rights. This means that they are usually difficult to exit.	• 10% of the Fund’s NAV when the Fund’s NAV is <= $100 million • $10 million when the Fund’s NAV is > $100 million. The minimum amount available to meet withdrawal requests during a quarter is 0.5% of the Fund’s NAV. However, the actual amount available in any quarter is expected to exceed this amount. At the beginning of each quarter the Manager estimates the amount it expects will be available to satisfy withdrawal requests received during that quarter and publishes this amount on the Fund’s website at centuria.com.au/chpf. The actual amount available to satisfy withdrawal requests is determined as at the day before the withdrawals are processed (i.e. after the end of the relevant quarter).	determines it to be in the best interests of all Investors. In addition, Centuria must at all times ensure Investors are not unfairly treated by any withdrawal facility offered. Centuria may therefore vary the terms and conditions of any withdrawal facility to ensure the fair and equal treatment of all Investors. Any suspension or variation of the withdrawal facility will be communicated to Investors on Centuria’s website at centuria.com.au/chpf. The Fund will notify Investors via the website should the liquidity facility be withdrawn.
Net Tangible Assets (Disclosure Principle 8) This Disclosure Principle addresses disclosure of the net tangible asset (NTA) backing per unit of the Fund. The net tangible asset (NTA) backing of a scheme gives investors information about the value of the tangible or physical assets of the scheme. The initial and ongoing NTA backing may be affected by various factors, including fees and charges paid up-front for the purchase of properties, costs associated with capital raising, or fees paid to the responsible entity or other parties.	Centuria has implemented written procedures that governs the timing and calculation of Net Tangible Asset Backing per unit (referred to by Centuria as Net Asset Backing or NAB). NAB calculations are updated after the completion of its monthly financial accounts.	The current NAB of the Fund will be detailed in the latest audited financial accounts, which will be available to download via the Centuria Investor online portal. The Fund’s daily unit price is available on the Fund’s website at centuria.com.au/chpf. Full unit price history will be available on the Fund’s website from the date of unitisation of applications (on or around 18 September 2020)

Continuous Disclosure (ASIC Regulatory Guide 198) The Fund is subject to the requirements of continuous disclosure whereby Centuria is required continually keep investors appraised of material information likely to affect the value of the Fund.	Centuria achieves compliance with the continuous disclosure requirements by the publishing and updating the following information of the Fund's webpage: • Continuous disclosure notes • Unit price history • Portfolio information	The Fund has a continuous disclosure page on the Fund's website. http://centuria.com.au/chpf