

# Centuria Property Funds No. 2 Limited

## Unit Pricing Policy

### Version History

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# Overview

## 1.1 Definitions

The meaning of words and phrases used in this document is set out in Appendix 1.

## 1.2 Introduction

### 1.2.1 Policy purpose, ownership and change management

#### **Purpose**

The purpose of this document is to outline Centuria Property Funds No.2 Limited's (CPF2L) policy with respect to the pricing of its Centuria Healthcare Property Fund (CHPF, Fund). This Unit Pricing Policy is designed to ensure that CPF2L adheres to good market practice and is consistent with the standards and principles identified by regulators and industry bodies. Its purpose is also to set out how CPF2L will exercise discretions it has in relation to aspects of calculation of the Fund's issue Unit Price and withdrawal Unit Price; and to ensure that the Unit Prices are calculated and applied consistently and equitably.

This Policy outlines the Unit pricing methodology and approach adopted. In particular, the following areas are considered:

- + Identification of an appropriate Unit pricing methodology in line with good market practice;
- + Guidance to sourcing appropriate valuations of underlying assets;
- + The circumstances in which CPF2L may exercise a discretion in relation to an aspect of calculating the Unit Price;
- + Roles and responsibilities.

#### **Policy Ownership**

This Policy document shall be maintained by Fund Manager and shall be reviewed on a regular basis, at least at a minimum once in two years to ensure the content is current. In addition, compliance with this Policy will be incorporated as part of CPF2L's Risk Management and Compliance Framework.

#### **Change Management**

Any changes made to this document shall be conducted in accordance with the following guidelines:

#### **Static Data**

Static data refers to changes to the following:

- + Name of CHPF;
- + Inclusion of additional managed investment schemes, only where the methodologies are consistent with the current policy;
- + Updates to governing documents (i.e. issue date or name of document), provided there is no impact to a Governing Policy within this document;
- + Titles or Team changes;

- + Updates to definitions in Appendix 1;

Changes to Static Data may be made with the approval of the Chief Financial Officer, or as delegated. Board approval is not required for such changes.

### Governing Policies

Governing policies refer to the methodologies and assumptions outlined in Sections 2 to 5 and to any other data in this policy other than Static Data.

Changes to Governing Policies must be approved by the Board of CPF2L.

### Communication of Changes

Any changes to the Policy must be communicated in writing to any appointed service provider and for dissemination as appropriate internally.

## 1.2.2 Policy Scope

This Policy is applicable to the CHPF.

## 1.2.3 Relevant Documentation

The governing documents which support the content in this Policy document have been listed below:

### i. Scheme Constitution and Compliance Plan

Scheme	Constitution and Compliance Plan
Centuria Healthcare Property Fund	Constitution for CHPF dated 8 October 2019 as amended from time to time
	Master Compliance Plan dated 30 July 2020 as amended from time to time

### ii. Product Disclosure Statements

Scheme	Product Disclosure Statements
Centuria Healthcare Property Fund	Product Disclosure Statement dated 10 August 2020

### iii. Relevant Legislation and Guidance

Regulatory Body/Legislation	Document
APRA/ASIC	Regulatory Guide 94 - APRA/ASIC Unit pricing: Guide to Good Practice dated 1 August 2008
Corporations Act 2001	Managed Investment Schemes registered under Chapter 5C, additional obligations include:

Regulatory Body/Legislation	Document
	s601FC(1) (a), s601FC(1) (b), s601FC(1) (c), s601FC(1) (d), s601FC(1) (j), s601FC(1) (k)

#### iv. Other Policies

Scheme	Policy
Centuria Healthcare Property Fund	Centuria Property Valuation Policy

## 2 Pricing Methodology

### 2.1 Pricing Basis

The following table details the key Unit pricing principles:

Product Group	Frequency	Basis (historical v forward)	Rounding principles
Centuria Healthcare Property Fund	Every Business Day	Forward	4 decimal places for reporting purposes.

### 2.2 Unit Price Calculation

The Application Unit Price for Units is \$1.00 plus any accrued income for all Ordinary Units issued on, or before, the earlier of the following:

- (i) the acquisition of the second real property Asset or real property Sub Entity Asset by the Fund;
- (ii) 1 October 2020; or
- (iii) once the Trust has issued \$59 million worth of Units in the Trust (determined based on the total value of the Application Price of those Units at the time of issue of the Units).

At all other times, the Application Unit Price will be determined in accordance with the following formula:

Application Price = (Net Asset Value + Acquisition Costs + Indirect Acquisition Cost Adjustment + Transaction Costs) / Units on Issue

The Application Unit Price is adjusted on account of the amortisation of acquisition costs in which the Fund invests. Acquisition costs are defined as capital raising expenses, legal fees, brokerage, stamp duty, taxes and other costs that have been incurred in connection with the acquisition of assets held within the portfolio. These costs are written off over a five-year period.

The Withdrawal Price is calculated as:

Withdrawal Price = (Net Asset Value + Acquisition Costs + Indirect Acquisition Cost Adjustment - Disposal Costs - Transaction Costs) / Units on Issue

There is currently no Transaction Costs (Buy/Sell Spread) however the Manager may apply a Buy/Sell Spread to the Application Unit price.

## 2.3 Discretions

Calculating the Application Unit Price and withdrawal Unit Price involves the exercise of certain discretions by CPF2L. CPF2L can decide certain matters which affect the values of variables making up the formulas for calculating the Application Unit Price and withdrawal Unit Price.

The matters in relation to which CPF2L may exercise discretions are as follows:

- + Calculating the Net Asset Value.
- + Making any allowance for acquisition and transaction costs.
- + Calculating the “Indirect Acquisition Cost Adjustment”.
- + Determining the time at which the Application Unit Price and withdrawal Unit Price should be struck.

CPF2L will act reasonably in exercising any discretion.

## 2.4 Aspects of the formulas

### Net Asset Value

This is the value of all assets and liabilities of CHPF, calculated in accordance with the provisions of this Policy and the Fund Constitution, applicable to the effective date of the Unit Price.

Information about how assets are valued is contained in section 3.

### Acquisition expenses & Indirect Acquisition Cost Adjustment

Acquisition expenses usually include for example capital raising expenses, legal fees, brokerage, stamp duty, taxes and other costs that have been incurred in connection with the acquisition of assets held within the portfolio.

However, in the case of the Fund, acquisition expenses associated with the acquisition of direct property assets by the Fund are normally written off over a five year period. The Net Asset Value is adjusted, to take into account these amortised acquisition expenses. The “Indirect Acquisition Cost Adjustment” similarly contemplates an amortisation of acquisition expenses associated with the underlying property of other unlisted property schemes in which the Fund itself invests. When an asset is sold, any outstanding acquisition and sale costs will be written off immediately against the sale price. Where the investment has a shorter, or longer, holding period, the amortisation of acquisition expenses will be in line with this period. E.g. should the Fund invest in another property syndicate which has two years remaining on the fund term, the amortisation of acquisition expenses will occur on a pro-rata basis over two years. This includes any acquisition costs the Fund incurs or charges associated with the purchase of any investment.

### Buy / Sell Spreads – Transaction costs allowance

The Buy/Sell Spread reflects CPF2L’s estimation of the transaction costs the Fund incurs in acquiring and selling its investments, and the administrative costs associated with issuing and redeeming Units. The Buy/Sell Spread affects the Application Unit price and the withdrawal Unit price. The Application Unit price (the price at which a Unit may be acquired) is calculated by adding the applicable Buy Spread to the prevailing Unit Price. The withdrawal price (the price at which a Unit may be redeemed) is calculated by

subtracting the applicable Sell Spread to the prevailing Unit Price. The difference between the Application Unit price and the withdrawal price is referred to as the Buy/Sell Spread.

The Buy/Sell Spread is set by CPF2L from time to time and may change. At the time of this Policy, CPF2L has exercised its discretion not to apply a Buy Spread or Sell Spread. However, the Buy/Sell Spread is reviewed on a regular basis. The Buy/Sell Spread is not paid to CPF2L but rather, remains as an asset of the Fund. Also, if a Buy/Sell Spread is applied, then CPF2L will ensure that the estimated costs included in it do not result in any double-up with the amortised acquisition costs already included in the Unit Price (as explained earlier).

### **Unit Pricing Timing - Applications**

Applications received prior to 2pm on any Business Day are processed using the Unit Price applicable on that Business Day. Applications received after 2pm on any Business Day are processed using the Unit Price applicable on the following Business Day.

### **Unit Pricing Timing – Redemptions**

As redemptions are processed once per quarter, for investors withdrawing from CHPF the applicable redemption Unit price will be:

- where a redemption request is received prior to 2pm on the final Business Day of the quarter, the Unit price (i.e. withdrawal price) at the close of business on the last Business Day of the relevant quarter; and
- where a redemption request is received after 2pm on the final Business Day of the quarter, the request is taken to be received on the first business day of the following quarter and therefore the Unit price (i.e. withdrawal price) will be the price at the close of business on the last Business Day of that following quarter.

Proceeds from accepted withdrawal requests are generally paid within 21 days of the last business day of the relevant quarter. However, under the Fund's Constitution, the Manager is allowed up to 365 days in which to accept any withdrawal requests.

Please see the PDS for information in relation to the Fund's limited quarterly withdrawal facility.

### **Unit Pricing – Dividend Re-investment**

An Investor may elect to re-invest some or all of their distribution in additional Units through the Distribution Reinvestment Plan (DRP). In this event, Centuria will be treated as having received and accepted an application to re-invest distributions immediately before the application cut-off on the last business day of the relevant income distribution period. The investor will therefore receive Units at the Application Unit Price (ex-distribution price) as at the last business day of the month. These units will be allocated at the time the distribution is paid.

The calculation of the allocation of Units under the DRP may result in a residual amount. This is because your distribution amount is used to acquire a whole number of Units, which may leave a residual amount which is less than the price of one Unit. For each distribution, the value of that residual amount is carried forward, without interest, and added to your next distribution.

## **3 Valuation of Investments**

The value of the assets of the Fund is relevant to calculating the Net Asset Value of the Fund, for the purpose of determining the Unit Price (see section 2).

The following table details the asset classes which the CHPF can invest in and the valuation methodology which is followed for each asset class.

Asset Type	Valuation Methodology	Responsibility / delegations	Frequency
Cash deposits with banks	Market value	Chief Financial Officer, or as delegated.	Daily
A-REIT's: <ul style="list-style-type: none"> <li>ie ASX-300 real estate investment trust</li> <li>ASX listed exchange traded fund</li> </ul>	Share price	Chief Financial Officer, or as delegated.	Daily
Investment Property held directly	Based on property value (which is determined in accordance with Centuria's separate Valuation Policy). Property values will be adjusted based on audited financial statements or management accounts, or updated approved valuations, if required (Note, the Unit Price is also adjusted for the amortisation of acquisition costs- see section 2.4).	Board.	Independent valuations at least every 24 months. However, in practice, independent valuations are generally conducted annually, or within 2 months from the time there is a material change (greater than 5%). An internal (i.e. directors') valuation is generally undertaken at each other reporting date (i.e. 30 June, 31 December) when an independent valuation does not occur.
Investment in property trust	If the trust calculates unit price, the Unit Price issued by the fund manager.  If the fund is not unit priced, Net Asset Value as disclosed in semi-annual audited financial accounts	Chief Financial Officer, or as delegated.	Semi- annual or more regularly as deemed appropriate
Derivative Financial Instruments	Mark to market valuation provided by financial institution or external valuer	Chief Financial Officer, or as delegated.	Monthly or more regularly if the Directors deem necessary to facilitate unit issues or redemptions



Asset Type	Valuation Methodology	Responsibility / delegations	Frequency
Bank Debt	Amount owing (outstanding debt)	Chief Financial Officer, or as delegated.	Monthly or more regularly if the Directors deem necessary to facilitate unit issues or redemptions
All other assets and liabilities	Net realisable value at the close of the day	Chief Financial Officer, or as delegated.	Daily or less regularly if the nature of the asset or liability permits

Additional information:

### **A-REITS**

Valuation for the purpose of Unit pricing will be taken from the net asset value on the trading day the unit price is struck.

### **Investment in Property Trust**

The unit prices obtained from managed investment schemes are inclusive of fees ("net unit price").

### **Independent Property Valuation**

CPF2L has a valuation policy for direct property. CPF2L adopts that policy for CHPF, in relation to any direct properties held. Under the valuation policy, properties are to be independently valued at least once every 24 months. However, in practice, independent valuations are generally conducted annually, or more frequently if there is a material change. Accordingly, generally CPF2L will value the CHPF's direct properties twice a year, alternating between an independent valuation and an internal Directors' valuation. CPF2L will also obtain an independent valuation at such other times as it determines where there has been a significant change (greater than +/- 5%) in market value.

The fair market value of the Fund's properties as disclosed in the Net Tangible Assets calculation is reviewed by the CPF2L Board at a minimum every 6 months, or more frequently if market or property circumstances require.

## **4 Fees and Expenses**

Responsibility for ensuring that only fees and expenses properly incurred and payable from the assets of CHPF are paid, rests with the Chief Financial Officer, or as delegated.

### **4.1.1 Performance Fee**

This is the fee paid to CPF2L as an incentive to maximise the value of the portfolio. CPF2L is entitled to a performance fee of 20% of the Fund's outperformance over the benchmark. The financial benchmark for the Fund is a total return of 8.00% per annum (pre-tax, net of fees). The performance fee is calculated and paid quarterly within 10 days from the end of the relevant quarter from the Fund's assets. The performance fee is charged on a High Watermark basis, such that any prior underperformance must be recovered prior to a performance fee being paid.

This example is provided for information purposes only to illustrate the calculation of the performance fee. Actual results may vary significantly from those in the example. It is assumed for the purposes of this

example that there has been no prior underperformance in the Fund. The performance fee calculation will be carried out quarterly.

The benchmark performance for the period 8.00% per annum / 4	2.00%
The Closing Unit Price	\$1.02
The Opening Unit Price	\$1.00
Distributions per Unit for the quarter	\$0.015
The Number of Units on issue at the end of the quarter	50,000,000

The Fund performance for the period is 3.5%, calculated as

$$\text{Formula (expressed as a percentage)} = \frac{(\text{Closing Unit Price} - \text{Opening Unit Price} + \text{Distributions})}{\text{Opening Unit Price}}$$

$$\text{Example} = \frac{(\$1.02 - \$1.00 + \$0.015)}{\$1.00} = 3.5\%$$

The Fund's performance fee is calculated as:

$$\text{Formula} = (\text{Fund performance} - \text{benchmark performance}) \times 20\% \times \text{Closing Unit Price} \times \text{the number of Units on issue at the end of the quarter}$$

$$\text{Example} = (3.5\% - 2.00\%) \times 20\% \times \$1.02 \times 50,000,000 = \$153,000$$

### 4.1.2 Management Fee

The management fee is calculated as 0.80% p.a. of the Fund's Gross Asset Value, paid monthly in arrears.

If the Fund invests indirectly in property via investment in another fund managed by an entity within Centuria, any management fee charged at the underlying fund level is deducted from the management fees payable in the Fund. For example, if an underlying Centuria managed fund has a management fee of 0.60% p.a. of that fund's gross asset value, the Fund only charges a management fee referable to the underlying asset of 0.20% p.a. of the gross asset value of the relevant fund to ensure the total management fee on the asset does not exceed 0.80% p.a.

### 4.1.3 Expenses

Under the Constitution, CPF2L is entitled to pay from the Fund, or be reimbursed for, a wide range of expenses relating to the operation of the Fund.

These operating expenses include for example (but are not limited to) expenses associated with issuing Units, expenses of establishing and maintaining registers, accounting records costs, as well as service provider costs, compliance costs and audit costs.

To provide Investors with certainty regarding expense recovery, CPF2L has, as at the date of this Policy, agreed to cap the operating expenses of the Fund (excluding Abnormal Expenses) at 0.35% p.a. of the Funds' Gross Asset Value.

Operating expenses will therefore be accrued at 0.35% p.a. of the Funds' Gross Asset Value.

CPF2L will therefore pay any expenses (excluding Abnormal Expenses) the Fund incurs above the expense cap but will be entitled to recover these expenses in future years once the Fund's Gross Asset Value reaches a sufficient level to cover the reimbursement of those expenses.

Note, as explained above, Abnormal Expenses are not included in the expense cap. Abnormal Expenses are expenses not generally incurred during the day-to-day operation of the Fund and not necessarily incurred in any given year. These expenses are due to abnormal events and include (but are not limited to) the cost of convening and hosting a meeting of Investors, preparing a new offer document for the Fund, legal costs incurred by changes to the Fund's Constitution or commencing or defending legal proceedings, and agent's costs for the sale of real property assets.

## 4.2 Backdating

Under no circumstances can a Unit pricing transaction be backdated in the Fund's records.

## 4.3 Pricing Suspension

### 4.3.1 Circumstances

CPF2L may suspend the Unit pricing, and therefore the processing of applications and redemptions in CHPF, in the following instances:

- + Identification of a Unit pricing error;
- + Significant market movements resulting in an inability to calculate fair value of CHPF;
- + Inability to value an investment;
- + Current valuations do not accurately reflect the true value of the CHPF investments; and
- + Any similar or other circumstances determined by the Board where it would not be in the best interests of CHPF investors to strike a Unit price or to allow applications or redemptions from CHPF.

Where reasonable suspicion exists that the above events have been triggered, management are to cease Unit pricing pending resolution of the relevant issue. This will be communicated to Investors in the continuous disclosures located at [centuria.com.au/CHPF](http://centuria.com.au/CHPF).

Management monitor the Unit prices on a regular basis, which ensures the timely identification of a matter which may require Unit pricing, and therefore Unit applications and redemptions, to be suspended.

## 5 Errors

Any errors in the pricing of Units will be dealt with and managed in accordance with the relevant principles set out in the Joint ASIC and APRA guide, *'Unit Pricing Guide to Good Practice'*.

# 6 General

## Responsibilities

Key responsibility for calculating the daily Unit Prices belongs to the Chief Financial Officer, or as delegated (or another delegate from the finance team in their absence).

The daily calculations will be reviewed and validated by a second member of the finance team.

## Taxation

As per clause 15.18 of the Fund Constitution, the Responsible Entity may take any action that it considers necessary to ensure to the extent possible that any Tax liability under the Tax Act in respect of the Distributable Income is borne by the Investors in proportions that correspond with the shares of Distributable Income to which they are presently entitled, and the Responsible Entity incurs no liability to pay Tax under the Tax Act as Responsible Entity of the Fund's assets.

Accordingly as no Tax is likely to be payable by the Fund, and any Tax payable in relation to distributions will pass through to the Investors and former Investors of the Fund, no Tax will be taken into account in relation to the Unit Price of the Fund.

## Departures from this Policy

If CPF2L exercises a discretion:

- + which is not covered by this Policy or in relation to which there is no documented policy that is current at the time of exercise, or
- + in a way that involves a departure from this Policy,

then CPF2L will prepare a document which sets out:

- + the date on which the discretion is exercised;
- + how the discretion is exercised;
- + an explanation why it was reasonable to exercise the discretion the way it was exercised;
- + if CPF2L does not exercise the discretion in a way which is consistent with Fund property being valued in accordance with ordinary commercial practice, an explanation why it is impracticable to do so.

## Record keeping

CPF2L will keep its records in such a way as to identify any documented policy which is applied in the exercise of a discretion, in relation to the Unit Price.

CPF2L will:

- + Retain any documents concerning the exercise of a discretion (including this Policy) for seven years after they cease to be current, and
- + Give a copy of the documents on request at no charge to an Investor or an applicant to invest.

## Appendix 1

<b>Term</b>	<b>Meaning</b>
Application Price	The Application price, calculated in accordance with the Constitution.
Board	Board of Directors of Centuria Property Funds No.2 Limited.
Business Day	A day that is not a Saturday, a Sunday or a public holiday or bank holiday in the state of NSW.
Buy/Sell Spread	The Buy Spread is the difference between NAV per unit and the Issue Price, whereas the Sell Spread is the difference between the NAV per unit and the Withdrawal Price of units in the Fund.
CHPF	Centuria Healthcare Property Fund (ARSN 638 821 360).
Constitution	The Constitution of CHPF as amended from time to time.
Fund	Centuria Healthcare Property Fund (ARSN 638 821 360).
Governing Policies	The methodologies, policies and assumptions outlined in Sections 2 to 4 of this document.
High Watermark	Requirement for CHPF to recover underperformance before the calculation of the performance fee can occur within the Fund.
Investor(s)	Those persons, whether they be natural persons or not and including responsible entities, managers and trustees, in whose name an interest in CHPF may be registered from time to time.
Net Asset Value ('NAV')	Total gross assets less total gross liabilities (inclusive of accrued distributions payable to Unit Holders).
Net Asset Value Per Unit	Net Asset Value divided by the number of Units in CHPF issued.
Product Disclosure Statement	As defined by requirements set out in Part 7.9 of the Corporations Act 2001.
Property (direct)	Refers to direct holdings of real estate.
Responsible Entity	The company named in ASIC's record of the Fund's registration as the Responsible Entity of the Fund.
Unit	A unit in the Fund.
Unit Price	The prevailing NAV of the Fund plus an adjustment for amortised establishment and acquisition costs, calculated as described in Section 2.2.
Withdrawal Price	The Withdrawal Price, calculated in accordance with the Constitution.
Effective date of transactions	Last Business Day of the quarter.