# ASIC REGULATORY GUIDE 46

# DISCLOSURE PRINCIPLES AND BENCHMARKS

**Centuria Diversified Property Fund (a stapled fund that will comprise the Centuria Diversified Property Fund and the Primewest Property Income Fund)**

11 March 2022

# DISCLOSURE PRINCIPLES AND BENCHMARKS

The Australian Securities and Investment Commission (**ASIC**) has set out number of disclosure principles and benchmarks in ASIC Regulatory Guide 46, unlisted property schemes – improving disclosure for retail investors (**RG 46**). The disclosure principles and benchmarks are intended to assist investors compare risks and returns across investments in the unlisted property sector.

The table below provides a summary of the disclosure principles and benchmarks set out in RG 46 for the Stapled Fund, comprising of Centuria Diversified Property Fund ARSN 611 510 699 (**CDPF**) and Primewest Property Income Fund ARSN 645 597 404 (**PPIF**). It also confirms whether Centuria Property Funds Limited (ACN 086 553 639) (AFSL 231 149) (**Responsible Entity**) complies with each benchmark and cross refers to where further disclosure can be found in the PDS.

This document should be read in conjunction with the Stapled Fund's Product Disclosure Statement (PDS) dated 11 March 2022.

This document is intended to be provided bi-annually and in addition to quarterly investor updates. Updates will be available at **https://centuria.com.au/cdpf-merger**

| ASIC's disclosure principles and benchmarks | Does the Responsible Entity comply? | PDS Reference |
|---|---|---|
| **Scheme Borrowings and Gearing (Disclosure Principles 1 & 3 and Benchmark 1)**<br>These principles and benchmarks relate to the extent to which the Stapled Fund's assets are funded by interest-bearing liabilities and ensuring disclosure is provided in respect of what this means to Unitholders.<br>ASIC's Benchmark 1 is for the Responsible Entity to have in place a gearing policy that governs the gearing within a fund at the individual facility level. | Yes | Sections 4.8 and 10.2 |
| **Interest Cover Ratio (ICR) (Disclosure Principle 2 and Benchmark 2)**<br>This principle and benchmark relates to how the Stapled Fund's cost of liabilities (interest cover) is maintained and providing disclosure in respect of what this means to Unitholders.<br>ASIC's Benchmark 2 is for the Responsible Entity to have in place a policy that governs the management of ICR within a fund at the individual facility level. | Yes | Section 10.3 |
| **Interest Capitalisation (Benchmark 3)**<br>ASIC's Benchmark 3 states that the interest of the Fund should not be capitalised. | Yes | Section 4.8 |

| | | |
|---|---|---|
| **Portfolio Diversification (Disclosure Principle 4)**<br><br>This disclosure principle relates to disclosure around the level of diversification in a portfolio. | Yes | Sections 2.3, 2.4 and 2.6 |
| **Valuations (Benchmark 4)**<br><br>ASIC's Benchmark 4 addresses the way in which valuations are carried out on the Fund's assets. The benchmark requires the Responsible Entity to maintain and comply with a written valuation policy that meets ASIC's minimum requirements. | Yes | Section 10.5 |
| **Related-Party Transactions (Disclosure Principle 5 and Benchmark 5)**<br><br>This principle and benchmark relates to the Responsible Entity's policy for related-party transactions and how this is disclosed to Unitholders.<br><br>ASIC's Benchmark 5 requires the Responsible Entity to maintain and comply with a written policy on related-party transactions, including the assessment and approval processes for such transactions and arrangements to manage conflicts-of-interest. | Yes | Section 10.6 |
| **Distribution Practices (Disclosure Principle 6 and Benchmark 6)**<br><br>This disclosure principle and benchmark relates to the source of distributions.<br><br>ASIC's Benchmark 6 requires the Stapled Fund to only pay distributions from its cash from operations (excluding borrowings) available for distribution. | No | Section 4.5 |
| **Withdrawal Arrangements (Disclosure Principle 7)**<br><br>This disclosure principle addresses disclosure of withdrawal arrangements within the Stapled Fund. | Yes | Sections 4.6 and 4.7 |
| **Net Tangible Assets (Disclosure Principle 8)**<br><br>This disclosure principle addresses disclosure of the net tangible asset (**NTA**) backing per Stapled Unit of the Stapled Fund. | Yes | Section 4.3 |

## 1. Gearing (Disclosure Principle 1 and Benchmark 1)

The Responsible Entity maintains and complies with a written policy in relation to the management of gearing at an individual facility level for its funds.

The Responsible Entity'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 any building works, tenant incentive's etc.

A copy of the Responsible Entity's gearing policy is available on request from the Responsible Entity.

The gearing ratio for the Stapled Fund will be calculated on a look-through basis using the following formula in accordance with RG 46:

$$\textbf{Gearing Ratio} = \frac{\text{total interest-bearing liabilities}}{\text{total assets}}$$

The Stapled Fund's Gearing Ratio is 40.4%.

In order to include all material events, the Stapled Fund's Gearing Ratio has been calculated using the consolidated audited financial statements for CDPF and PPIF as at 30 June 2021 (as it relates to syndicate gearing) and the financial statements for CDPF and PPIF as at 15 November 2021 (as it relates to direct asset values, direct debt and investment weightings).

The methodology applied weights each of the gearing of each of the Stapled Fund's investments' by investment value. For example: an investment which represents 10% of the Stapled Fund's investment value was geared at 50%, this would represent a 5% of the Stapled Fund's total gearing. All the Stapled Fund's investments are calculated on this basis and added together to provide total gearing (as set out in the table below).

| Assets | Investment Weighting | Gearing | Look-through Gearing |
|---|---|---|---|
| Cash / Cash like products | 4.3% | 0.0% | 0.0% |
| AREIT investments | 6.2% | 0.0% | 0.0% |
| Syndicate investments | 6.5% | 40.6% | 2.6% |
| Direct property investments | 83.0% | 45.6% | 37.8% |
| | | **Total Gearing** | **40.4%** |

## 2. Interest Cover Ratio (Disclosure Principle 2 and Benchmark 2)

The Responsible Entity maintains and complies with a written policy in relation to the management of interest cover at an individual facility level for its funds.

An interest cover ratio (**ICR**) is a measure of a fund's 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 one (1), the closer the fund's cash flow is to meeting interest expenses only. If the ICR falls below one (1), the fund earnings are insufficient to meet interest expenses.

The following ICR formula as set out in RG 46 will be used by the Responsible Entity to calculate the Stapled Fund's ICR:

$$\textbf{ICR} = \frac{\text{EBITDA - unrealised gains + unrealised losses}}{\text{interest expense}}$$

Using the above formula, the Stapled Fund's ICR for 30 June 2021 is 4.04.times.

## 3. Scheme borrowing (Disclosure Principle 3)

The Stapled Fund has 3 debt facilities and the following table discloses the aggregate amount owing and the maturity profile for each facility.

| Debt facility maturity | Loan amount owing ($) |
|---|---|
| Maturity within 1 year | $30.0m (31 August 2022 Expiry) |
| Maturity between 1 and 2 years | None |
| Maturity between 2 and 3 years | $22.6m (19 February 2024 Expiry)<br>$70.0m (31 July 2024 Expiry) |
| Maturity between 3 and 4 years | None |
| Maturity 5+ years | None |
| **Total debt facilities** | **$122.6m** |

The Stapled Fund's debt facility of $30.0m is due to mature on 31 August 2022. The Responsible Entity does not consider any material risks or issues in their ability to refinance the existing debt facility prior to maturity. The Stapled Fund's debt facility has no material near-term expiry risk, and is forecast to remain compliant with the debt facility's LVR and ICR covenants until maturity.

### Stapled Fund[1]

| | Aggregate Undrawn Amount | Asset Secured | Loan to Value Ratio (%) | Interest Cover Ratio (x)[2] | Portion Hedged |
|---|---|---|---|---|---|
| Actual[3] | 25,816,697 | All direct assets of the Stapled Fund | 45.2% | 5.39x | 28.9% |
| Covenant | - | - | 55.0% | 2.00x | - |
| Headroom to covenant[4] | - | - | 17.8% | 0.63x | - |

Borrowings are generally secured by the properties held by the Stapled Fund. This means that repayment of these borrowings will rank ahead of a Unitholder's interest in the Stapled Fund

[1] Assumes cross collateralisation of CDPF and PPIF debt facilities.
[2] Interest cover ratio test under all facilities = net property income / interest costs.
[3] As at 31 December 2021.
[4] Indicates the required decrease in asset value before the covenant is breached as at 31 December 2021, adjusted for material movements as per the Stapled Fund pro forma accounts.

The Responsible Entity may determine to hedge all or a portion of the interest rate exposure of the Stapled Fund from time to time. Hedging refers to the means by which the responsible entity can manage the rate of interest for the loan for an agreed period of time. The Responsible Entity is intends to hedge at least 50% of the Stapled Fund's borrowings.

The Responsible Entity may also determine to switch a portion of the Stapled Fund's borrowings to a fixed interest rate. As the floating interest rate is currently lower than the fixed interest rate for future periods, this may impact future cash flows.

There are no loan covenant breaches to report.

## 4. Valuation (Benchmark 4)

The Responsible Entity maintains and complies with a valuation policy that meet this benchmark. Under the policy:

(a) a valuer must be independent and 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;

(b) there must be an adequate rotation of valuers such that no valuer may perform an independent valuation more than three times consecutively on a particular property;

(c) valuations are generally conducted on an 'as is' basis using either a discounted cash flow or capitalisation approach; and

(d) independent valuations must be obtained:

    (i) prior to a property purchase;

    (ii) at least once every 24 months (in practice, independent valuations are generally conducted more frequently); and

    (iii) within two months of the directors forming a view that there is a likelihood that there has been a material change in the value of the property.

## 5. Portfolio diversification (Disclosure Principle 4)

A summary of the property portfolio of the Stapled Fund on implementation of the Merger Proposal is set out below.

Property valuations are as at 15 November 2021 and based on the most recent independent valuations of those properties. Occupancy and WALE are provided as at 15 November 2021, unless otherwise stated.

**Stapled Fund property portfolio summary**

| | |
|---|---|
| **Diversified Portfolio** | 10 direct property assets located in major metropolitan areas across Australia with exposure to the commercial office, industrial and social infrastructure sectors and 7 syndicate holdings. |
| **Occupancy** | 98.79% |
| **Lease Expiry Profile (WALE)** | 5.15 years |
| **Tenancy Profile** | Commercial Office assets: Entain plc (LSE:ENT), TAC (Government), Optus (SGX:Z74), Tyco Australia Group<br>Industrial assets: Cleanaway (ASX:CWY)<br>Social Infrastructure: Think Childcare (ASX:TNK), Bluebird Early Learning |

**STAPLED FUND PORTFOLIO OVERVIEW (as at 15 November 2021)**

| ASSET | STATE | SECTOR | TOTAL NLA/GLA (SQM) | OCCUPANCY[5] | WALE[6] (YEARS) | VALUE ($M) | CAP RATE |
|---|---|---|---|---|---|---|---|
| 10 Moore Street, Canberra | ACT | Commercial Office | 6,709 | 94% | 2.55 | $35.00 | 6.50% |
| 381 Macarthur Avenue, Hamilton | QLD | Commercial Office | 2,846 | 100% | 3.36 | $19.30 | 6.50% |
| 25 Montpelier Street, Bowen Hills[7] | QLD | Commercial Office | 7,739 | 100% | 5.54 | $60.00 | 6.125% |
| 13 & 15 Compark Circuit, Mulgrave [8] | VIC | Commercial Office | 5,851 | 100% | 1.76 | $25.25 | 6.25% |
| 171 Camboon Road, Malaga | WA | Industrial | 3,228 | 100% | 3.92 | $12.00 | 5.75% |
| 36 Caribou Drive, Direk[9] | SA | Industrial | - | - | - | $8.84 | 5.25% |
| 60 Investigator Drive, Robina | QLD | Social Infrastructure | 427 | 100% | 14.17 | $7.70 | 6.00% |
| 26 Westbrook Parade, Ellenbrook | WA | Social Infrastructure | 301 | 100% | 19.25 | $5.80 | 5.75% |
| 36-40 John Rice Avenue, Elizabeth Vale | SA | Social Infrastructure | 310 | 100% | 19.33 | $6.00 | 5.50% |
| Foundation Place, 8 Market Ln, Maroochydore | QLD | Commercial Office | 4,526 | 100% | 5.58 | $33.00 | 6.00% |
| Syndicate Property Holdings | N/A | Indirect Holding | 127,300 | 98.81% | 6.02 | $17.71[10] | 6.00% |

**Portfolio lease expiry**

The Stapled Fund will have a WALE of 5.15 years based on income as at 15 November 2021. The WALE of the portfolio is expected to be maintained by continuous lease renewals across the larger property portfolio of the Stapled Fund**.**

[5] By gross income.
[6] By gross income.
[7] 25 Montpelier Road had two major lease expiries accounting for 25% of the NLA. One tenants expiry has been resolved with the tenant extending their lease until 2029, however the other tenant has indicated they want to downsize, but potentially remain in the same building. There is a risk this tenant may vacate, and the space may take longer to lease than allowed for in the Stapled Fund forecast. This may impact the Stapled Fund's rental income received from this investment, and a reduction in rental income may impact the level of distributions the Stapled Fund can make, and may also reduce the value of the asset and adversely impact the value of the Stapled Units.
[8] 13-15 Compark Circuit had a major lease expiry accounting for 39% of the NLA. The tenant has renewed over half of their space, and do not intend to renew the other half. There is a risk this space may not be able to be leased, this can adversely impact the level of income available for distributions the Stapled Fund can make, and may reduce the value of this asset.
[9] Expected to be complete in January 2023.
[10] The Fund’s proportionate ownership in Centuria syndicates.

**Tenant Portfolio:**

The top 5 tenants by income in the Stapled Fund as at 15 November 2021 (which make up 37.38% of the total income of the Stapled Fund) will be as set out below.

| | TENANT | TENANT TYPE | % OF GROSS INCOME | PROPERTIES | SECTOR |
|---|---|---|---|---|---|
| 1 | Entain | Listed Multinational | 15.31% | 25 Montpelier Road, Bowen Hills, QLD | Commercial Office |
| 2 | Transport Accident Commission | Government | 6.76% | 60 Brougham Street, Geelong | Social Infrastructure |
| 3 | Cleanaway | ASX Listed | 5.53% | 171 Camboon Road, Malaga, WA | Industrial |
| 4 | Optus | Listed Multinational | 5.35% | 10 Moore Street, Canberra, ACT | Commercial Office |
| 5 | Tyco Australia Group | Multinational | 4.42% | 13 - 15 Compark Circuit, Mulgrave, VIC | Commercial Office |

**36 Caribou Drive, Direk, South Australia**

**Development Timetable**

| ACTION | STATUS |
|---|---|
| Planning Approval | Planning approval was obtained in 2021. |
| Land Settlement | The land settled in 2021. |
| Construction | Construction commenced in November 2021. |
| Project completion | Development is on track. Expected completion is January 2023. |
| Sale of Property | N/A (No sale expected, the Stapled Fund own the property and will continue to own the property after completion). |

Development costs will be funded through debt financing (which has already been secured) and equity (which will need to be raised or sourced from existing liquid assets).

The Stapled Fund will only borrow a maximum loan-to-valuation ratio of 45% against the Direk development.

Investors will be exposed to the risks associated with the development of the facility including the risk that completion of delivery of the developments may be delayed (including due to unforeseen circumstances, contractor default and weather), costs associated with the development may be more than anticipated or counterparties involved in the development may default. Any of these circumstances may have an adverse financial impact on the Stapled Fund.

The current value of the development as a percentage of the current value of the total assets of the Stapled Fund is 2.63% as at 15 November 2021.

## 6. Related-Party Transactions (Disclosure Principle 5 and Benchmark 5)

The Responsible Entity meets the benchmark as it maintains and complies with Centuria Capital Group's group-wide Conflict of Interest Policy which governs the way in which conflicts-of-interest are managed by the Stapled Fund.

The Responsible Entity has entered into a Property Management Agreement with Centuria Property Services Pty Ltd ACN 092 526 924 (**CPS**) to provide property management, development management and facilities management services in respect of any direct properties held by CDPF. CPS holds a real estate licence and manages an extensive portfolio of properties.

CPS is a wholly owned subsidiary of Centuria Capital Limited and any dealings between the Responsible Entity and CPS will be a related party transaction. CPS was appointed in accordance with Centuria's Conflict of Interest Policy and Centuria regularly appraise any fees against other providers to ensure that the engagement remains on arm's length commercial terms.

The fee that CPS earned for its services for the year to 30 June 2021 was $458,745. This fee was disclosed in the audited financial statements for CDPF as at 30 June 2021.

It is intended that the Responsible Entity will enter into a similar arrangement with CPS in respect of the direct properties held by PPIF.

**Related Party and Director holdings**

As at 30 June 2021, the related party and director holdings are as follows:

(a) Peter Done (board member) holds 139,226 units (0.15% of the Stapled Fund);

(b) Centuria Funds Management Limited as responsible entity of Centuria Capital No.2 Fund holds 19.165m units (20.40% of the Stapled Fund); and

(c) ACF Primewest Management holds 15,500,000 units (16.5% of the Stapled Fund).

## 7. Distribution Practices (Disclosure Principle 6 and Benchmark 6)

ASIC's Benchmark 6 requires the Responsible Entity to only pay distributions from its cash from operations (excluding borrowings) available for distribution.

The Responsible Entity intends to pay distributions from Funds from Operations. Whilst the Responsible Entity will predominantly pay distributions based on the Stapled Fund's effective income, some distributions to Unitholders may comprise a component of capital. This is because the Responsible Entity may apply some cash from outstanding tenant incentives to assist in paying distributions (which is in line with FFO distribution practice). Accordingly, the Responsible Entity does not meet this benchmark.

## 8. Withdrawals (Disclosure principle 7)

The Responsible Entity intends to offer limited liquidity to Unitholders on a quarterly basis (March, June, September and December). The dates in relation to completing and lodging a Withdrawal Request will be disclosed following the implementation of the Merger Proposal.

In addition, Unitholders will have the opportunity to redeem their units via a periodic liquidity event, which is intended to be offered in or around December 2025.

## 9. Net Tangible Assets (Disclosure principle 8)

The Net Tangible Assets (**NTA**) can be utilised by investors to understand the value of the assets upon which the value of their unit is determined.

The following NTA formula as set out in RG 46 will be used by the Responsible Entity to calculate the Stapled Fund's ICR:

$$\textbf{NTA} = \frac{\text{Net assets - intangibles +/- other adjustments}}{\text{Units in the Stapled Fund}}$$

The Responsible entity does not expect any intangibles to be included in the NTA calculations, however it has been included in the formula for completeness.

The NTA of the Stapled Fund will be $1.00 per unit as at the date of implementation of the Merger Proposal.