MEMO

To: Board of Directors

From: Company Secretary

Subject: **UNLISTED PROPERTY SCHEMES – DISCLOSURE FOR INVESTORS**

Managed investment schemes (MIS) include an 'unlisted property scheme' which is a scheme that is not listed on a stock exchange and has at least 50% of its non-cash assets invested in real property and/or in other unlisted property schemes. This is probably the most common form of MIS to which retail investors subscribe.

An MIS is managed by a Responsible Entity (RE) which is required to adhere to the Corporations Act.

Unlisted property schemes often appeal to retail investors, who may believe that such investment offers capital stability and consistent ongoing returns that are not likely to vary significantly. This is not always the case and ASIC believes retail investors need better information on the risks associated with investment in unlisted property schemes; hence RE's need to improve their disclosure so that retail investors can assess the effect of changing economic conditions on their investment. Clear and prominent disclosure of this information should assist retail investors in comparing the relative risk and return of investments in unlisted property schemes.

Improving Disclosure

ASIC has produced Regulatory Guide 46 "Unlisted Property Schemes – Improving Disclosure for Retail Investors" for RE's, compliance committees, compliance plan auditors and others involved with the issue of interests in unlisted property schemes.

RG46 sets out 8 principles for improved disclosure to retail investors to help them compare risks and returns across investments in the unlisted property sector. The guide applies to unlisted property schemes in which retail investors have a direct or indirect investment.

The guide requires that RE's of unlisted property schemes should apply the disclosure principles in their Product Disclosure Statements (PDS) for retail investors. They should also apply the principles in their ongoing disclosures and communicate the information to investors in the most effective way possible (e.g. by email, website or regular printed updates mailed to investors).

Disclosure Principles

Set out below are the 8 disclosure principles, including an overview of their meaning. It is proposed that the RE report on these disclosures each 6 months, beginning from

June, and in the first report actually explain what the principles mean, as well as showing how the RE is performing.

No.	Principle	ASIC Explanation	Comments *
1	Gearing Ratio	A scheme's gearing ratio indicates the extent to which a scheme's assets are funded by external liabilities.	A higher gearing ratio means a higher reliance on external liabilities (primary borrowings) to fund assets. This exposes the scheme to increased funding costs if interest rates rise. A highly geared scheme has a lower asset buffer to rely upon in times of financial stress. *Gearing Ratio = Total interest bearing liabilities / Total assets*
2	Interest Cover	Information on a scheme's interest cover indicates the scheme's ability to meet interest payments from earnings.	A property scheme's interest cover is a key indicator of its financial health. The lower the interest cover, the higher the risk that the scheme will not be able to meet its interest payments. A scheme 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. *Interest Cover = (EBITDA - unrealised gains + unrealised losses) / Interest expense*
3	Scheme Borrowing	This principle requires information on the scheme's borrowing maturity and credit facility expiry and any associated risks. It is also important that investors are kept informed and updated with information they would reasonably require on breaches of loan covenants.	Relatively short-term borrowings and credit facilities with short expiry dates are a risk factor if they are used to fund assets intended to be held long term. If the scheme has a significant proportion of its borrowings that mature within a short time frame, it will need to refinance. There is a risk that the refinancing will be on less favourable terms or not available at all. If the scheme cannot refinance, it may need to sell assets on a forced sale basis with the risk that it may realise a capital loss. Breach of a loan covenant may result in penalties being applied, or the loan becoming repayable immediately. This means that the scheme may need to refinance on less favourable terms or sell assets. Termination of critical financing could also mean the scheme is no longer viable.

4	Portfolio Diversification	This information addresses the scheme's investment practices and portfolio risk.	Generally, the more diversified a portfolio is, the lower the risk that an adverse event affecting one property or one lease will put the overall portfolio at risk.
5	Valuation Policy	Key aspects of the scheme's valuation policy for real property assets should be disclosed so that investors can assess the reliability of the valuations.	Investing in a property scheme exposes investors to movements in the value of the scheme's assets. Investors, therefore, need information to assess the reliability of valuations. The more reliable a valuation, the more likely the asset will return that amount when it is sold. However, any forced sale may still result in a shortfall compared to the valuation.
6	Related Party Transactions	Investors need to be able to assess the responsible entity's approach to related party transactions.	A conflict of interest may arise when property schemes invest in, make loans or provide guarantees to related parties.
7	Distribution Practices	Information on the scheme's distribution practices helps investors assess the sources of the distributions and be informed about the sustainability of distributions from sources other than realised income.	Some property schemes make distributions partly or wholly from unrealised revaluation gains and/or capital rather than solely from realised income. This may not be commercially sustainable over the longer term, particularly where property values are not increasing.
8	Withdrawal Rights	If a scheme gives investors withdrawal rights, these rights should be clearly explained.	Unlisted property schemes often have limited or no withdrawal rights. This means they are usually difficult to exit.

***** Comments taken from the website of Opus Capital Limited; a company that adopts 'best practice' in managing MIS