

RG46 website disclosure for Peet Werribee Land Syndicate (ARSN 610 856 098)

30 September 2021

1. Introduction

In March 2012, the Australian Securities and Investments Commission (“ASIC”) released an updated Regulatory Guide 46 (“RG46”) which applies to unlisted property schemes in which retail investors have a direct or indirect investment.

RG46 requires responsible entities of unlisted property schemes to provide a statement addressing six benchmarks and eight disclosure principles, with the aim to help investors gain a better understanding of investments to decide whether they are suitable for them.

This statement should be read in conjunction with the relevant managed investment scheme’s Product Disclosure Statement (“PDS”), the most recent audited financial statements, reviewed half-year financial statements and quarterly update reports, as applicable.

2. Fund Background

Peet Werribee Land Syndicate (“Syndicate” or “Fund”) is a managed investment scheme that was registered with ASIC on 2 March 2016. Its PDS is dated 16 March 2016. The Syndicate’s purpose is for the development, marketing and sale of a broadacre parcel of land located at 383 Black Forest Road, Werribee, Victoria.

The Responsible Entity (“RE”) of the Syndicate is Peet Funds Management Limited (ACN 145 992 169 and AFSL No 415753).

3. Benchmarks

BENCHMARK	MEETS BENCHMARK
Gearing Policy RG 46.31 - The RE maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.	YES – the RE has a Gearing Policy that it complies with.
Interest Cover Policy RG 46.36 - The RE maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level.	NO – the RE does not consider this ratio relevant for the management of the Syndicate. The Syndicate’s debt facility does not have an interest cover covenant and interest will be capitalised into the loan.

<p>Interest Capitalisation RG 46.41 - The interest expense of the schemes is not capitalised.</p>	<p>NO – the RE does not meet the benchmark as interest will capitalise into the loan.</p> <p>Interest capitalisation occurs when accrued or accumulated interest is added to the loan principal instead of being paid on a regular basis. It generally applies where a fund’s assets are being developed as during development, assets may not generate any income to meet interest payment obligations under debt facilities.</p> <p>The risk associated with capitalising interest is that should there be insufficient capacity in the debt facility to continue to capitalise interest, the Syndicate may not be able to fund interest costs and therefore meet its banking covenants.</p> <p>Default on banking covenants could lead to a sale of assets or funding on less favourable terms.</p> <p>The Syndicate will capitalise interest incurred on the asset and pay down debt as lots are settled.</p> <p>The asset of the Syndicate is a developing asset and therefore interest will be capitalised into the asset during development.</p>
<p>Valuation Policy RG 46.45 - The RE maintains and complies with a written valuation policy.</p>	<p>YES – the RE has a Valuation Policy that it complies with.</p>
<p>Related Party Transactions RG 46.53 - The RE maintains and complies with a written policy on related party transactions, including the assessment and approval processes for such transactions and arrangements to manage conflicts of interest.</p>	<p>YES – the RE has a Related Party Transaction Policy that it complies with.</p>
<p>Distribution Practices RG 46.58 - The fund will only pay distributions from its cash from operations (excluding borrowings) available for distributions.</p>	<p>NO – the RE does not meet the Benchmark as it may pay distributions from debt.</p> <p>The RE intends to pay distributions to members when profits and funds are available, subject to relevant taxation legislation, the availability of franking credits and working capital requirements. These distributions may be made utilising the debt facility which will get repaid from proceeds from the settlement of lots.</p>

4. Disclosure Principles

The information in this Section 4 is based on the Syndicate's unaudited financial statements as at 30 September 2021.

Disclosure Principle 1 – Gearing

RG 46.62 – The RE should disclose the Fund's gearing ratio as calculated in accordance with the prescribed formula.

$$\begin{array}{rclcl} \text{Current Assets} & = & \$17,574,231 & = & 1.80 \\ \text{Current Liabilities} & & \$9,762,776 & & \end{array}$$

RG 46.63 – The liabilities and assets used to calculate the gearing ratio should be based on the scheme's latest financial statements.

The current gearing ratio is based on the Syndicate's unaudited statement of financial position as at 30 September 2021.

In accordance with accounting standards, the Syndicate's major asset (land) is treated as inventory and is recorded at the lower of cost and net realisable value.

RG 46.64 – If the scheme has material off-balance sheet financing, the RE should disclose a 'look through' gearing ratio that takes into account such financing.

Refer to borrowing table under Disclosure Principle 3.

RG 46.65 – The RE should explain what the gearing ratio means in practical terms, and how investors can use the ratio to determine the Fund's level of risk.

The above gearing ratio provides an indication of the extent to which an entity may be funded by debt. Gearing ratios can affect a borrower's level of risk. A lower ratio of current assets to current liabilities may indicate a higher reliance on borrowings to fund investments and this can expose an entity to increased costs in times of financial stress or if interest rates rise.

We refer you to the comments under the response to RG 46.63.

Disclosure Principle 2 – Interest Cover

RG 46.71 – The RE should disclose the Fund's interest cover ratio calculated in accordance with prescribed formula.

Interest cover ratio is calculated by dividing an entity's earnings before interest, tax, depreciation and amortisation ("EBITDA") by its interest expense.

This ratio is not calculated for the Syndicate (and is not a banking covenant). Interest is capitalised into the debt facility, which will be repaid over time from proceeds of lot settlements.

RG 46.72 – The EBITDA and interest expense figures used to calculate the interest cover ratio should be consistent with those disclosed in the scheme's latest financial statements.

Not applicable. Refer to the explanation in section 3 and above.

RG46.74 – The RE should explain how investors can use the interest cover ratio to assess the Trust’s ability to meet its interest payments.

Interest cover ratio measures a borrower’s ability to meet interest payments from its earnings, which provides an indication of the borrower’s financial health. As explained above, this ratio is not relevant for the Syndicate.

Disclosure Principle 3 – Borrowing

RG46.78 – The RE should clearly and prominently disclose:

- **debt facility maturities;**
- **loan to value ratio and interest cover covenants and percentage of headroom before the scheme will breach any of their covenant in any credit facility;**
- **the assets to which the facility relates;**
- **the applicable interest rate;**
- **hedging;**
- **details of any terms within the facility that may be invoked as a result of scheme members exercising their rights under the constitution of the scheme; and**
- **the fact that amounts owing to lenders and other creditors of the scheme rank before an investor’s interests in the Scheme.**

Borrowings as at 30 September 2021	\$6,000,000
Bank guarantees as at 30 September 2021	\$2,239,039
Facility limit	\$15,000,000
Facility expiry date	30 September 2022
LVR covenant	40%
Actual Loan to Valuation Ratio (LVR)	21%
Interest rate as at 30 September 2021*	3.06%

*Prevailing interest rate as at 30 September 2021 (including a line fee of 1.25%).

The bank has a first registered mortgage against the Syndicate’s land and a debenture charge over the assets and undertakings of the Syndicate.

RG 46.79 – If any of the Fund’s borrowings or credit facilities are to mature within the next 12 months, the RE should make appropriate disclosure about the prospects of refinancing or possible alternative actions (e.g. sales of assets or further fundraising).

The Syndicate’s debt facility expires on 30 September 2022. Negotiations with the Syndicate’s financial institution to extend the facility beyond 30 September 2022 have commenced. It is anticipated that the extension will be completed prior to 31 December 2021.

RG46.80 – The RE should explain any risks associated with the Fund’s borrowing maturity profile, including whether borrowings have been hedged and, if so, to what extent.

None hedged.

RG46.81 – The RE should disclose any information about fund borrowing and breaches of loan covenants that is reasonably required by investors.

The Syndicate is not in breach of its covenants as at 30 September 2021.

RG46.86 – Retail investors should be made aware that they will rank behind the creditors of a scheme.

All debt facilities arranged for the Syndicate will limit the security of a financier to the assets of the Syndicate. The financier will have no recourse against any investor personally or against other assets of any investor. No investor will be responsible to a financier for the obligations of any other investor.

Investors should be aware that the amount owing to the financier and other creditors of the Syndicate rank before an investor's interest in the Syndicate.

Disclosure Principle 4 – Portfolio Diversification

RG 46.87 – The RE should disclose the current composition of the Fund's direct property investment portfolio, including:

- **properties by geographic location, by number and value;**
- **non-development projects by sector and development projects by number and value;**
- **for each significant property, the most recent valuation, the date of the valuation, whether the valuation was performed by an independent valuer and where applicable, the capitalisation rate adopted in the valuation;**
- **the portfolio lease expiry profile in yearly periods calculated on the basis of lettable area or income and, whether applicable, the weighted average lease expiry;**
- **the occupancy rates of the property portfolio;**
- **for the top five tenants that each constitutes 5% or more by income across the investment portfolio, the name of the tenant and percentage of lettable area or income; and**
- **the current value of the development and/or construction assets of the scheme as a percentage of the current value of the total assets of the scheme.**

The Syndicate develops and sells residential lots in the Cornerstone estate, in Werribee, Victoria. It is intended that, on completion of the development, the Syndicate will be wound up. It is not intended that the Syndicate will offer a diversified property portfolio investment.

The most recent independent valuation of the Syndicate's englobo land is \$39,100,000 as at 11 March 2021.

RG46.88 – The RE should disclose its investment strategy. The RE should also provide a clear description of any significant non-direct property assets of the Fund, including the value of such assets.

The Syndicate will develop and sell residential lots in the Cornerstone estate, in Werribee, Victoria. It is intended that, on completion of the development, the Syndicate will be wound up.

In accordance with its unaudited statement of financial position as at 30 September 2021, the Syndicate's land (shown as inventory) accounted for approximately 84% of its total assets.

Quarterly updates regarding the status of the Syndicate's development are provided to members, with a copy lodged at ASIC.

RG46.89 – REs of unlisted property schemes involved in property development should also disclose:

- **the development timetable with key milestones;**

- a description of the status of the development against key milestones identified;
- a description of the nature of the funding arrangements for the development (including the sources of funding and repayment strategies if borrowing is used to fund the development);
- the total amounts of pre-sale and lease pre-commitments where applicable;
- whether the loan to value ratio for the asset under development exceeds 70% of the 'as is' valuation of the asset; and
- the risks associated with the property developments activities being undertaken.

Members of the Syndicate are referred to the most recent Quarterly Report for relevant updates on the details of the development including development timetables, sales updates and risks, as applicable and subject to commerciality considerations.

RG46.90 – The RE for any scheme that has over 20% of its assets in development based on an 'as if complete' basis should ensure that the scheme is clearly identified as a development and/or construction scheme.

The principal activity of the Syndicate is the development, marketing and sale of the broadacre parcel of land located on 383 Black Forest Road, Werribee, Victoria, currently marketed as Cornerstone at Werribee.

Disclosure Principle 5 – Related Party Transactions

RG46.98 – REs that enter into transactions with related parties should describe related party arrangements relevant to the investment decision. The description should address:

- the value of the financial benefit;
- the nature of the relationship;
- whether the arrangement is on 'arm's length' terms, is reasonable remuneration, some other exception applies, or relief has been granted;
- whether scheme member approval for the transaction has been sought and, if so, when;
- the risks associated with the related party arrangements; and
- whether the RE is in compliance with its policies and procedures for entering into related party transactions for the particular related party arrangement, and how this is monitored.

The RE has appointed a number of related entities to provide services to the Syndicate. In accordance with its Related Party Transaction Policy, the RE will only approve related party transactions which are on at least arm's length terms or if specific approval is received from members.

Related party transactions were disclosed in the Syndicate's PDS and are also detailed in the Syndicate's half-year and full year financial reports.

Disclosure Principle 6 – Distribution Practices

RG46.102 – If the fund is making or forecasts making distributions to members, the RE should disclose:

- the source of the current distribution (eg. Cash from operations available for distribution, capital); and
- the source of any forecast distribution.

The Syndicate intends to pay distributions to members subject to available working capital and franking credits. Refer to the most recent Quarterly Report for updates on details of any past distributions or forecast distributions. Forecast distributions will be funded using cash and/or debt, as applicable.

Disclosure Principle 7 – Withdrawal Arrangements

RG46.104 – If investors are given the right to withdraw from the Fund, the RE should disclose a clear explanation of how investors can exercise their withdrawal rights, including any conditions on exercise.

Members may, subject to the Constitution, sell or transfer their units at any time. However, the Syndicate is an illiquid investment and there is no liquidity or redemption facility offered.

RG46.105 – Any material changes to withdrawal rights (such as if the RE knows that withdrawal requests will be suspended), through ongoing disclosure.

Not applicable.

RG46.106 – Responsible entities should also clearly disclose if investors have no withdrawal rights.

Members may, subject to the Constitution, sell or transfer their units at any time. However, the Syndicate is an illiquid investment and there is no liquidity or redemption facility offered.

Disclosure Principle 8 – Net Tangible Assets (“NTA”)

RG 46.108 – the RE of a closed end scheme should clearly disclose the value of the NTA of the scheme on a per unit basis in pre-tax dollars.

The NTA per unit on a before tax basis of the Syndicate as at 30 September 2021 is shown on the Quarterly Report, for the quarter then ended.

The NTA (statutory) and NTA (valuation) per unit as at 30 September 2021 was \$0.77 and \$1.33 respectively.

RG46.109 – ASIC consider that the RE should calculate the NTA of the scheme using the following formula:

$$\text{NTA} = \frac{\text{Net assets} - \text{intangible assets} + / - \text{any other adjustments}}{\text{Number of units in the scheme on issue}}$$

RG46.110 – the RE should disclose the methodology for calculating the NTA and details of the adjustments used in the calculation, including the reasons for the adjustments.

The NTA of the Syndicate is calculated using the above formula.

The NTA (valuation) calculation is adjusted for settlements, development costs and titled stock that has occurred between the date of the independent valuation and 30 September 2021.

RG 46.111 – Responsible entities should also explain to investors what the NTA calculation means in practical terms and how investors can use the NTA calculation to determine the scheme’s level of risk.

The NTA per unit adjusted to the market value of the Syndicate's property, may be used as an **indication only** in assessing the value of the Syndicate's units. The value of the Syndicate's units for the purpose of a sale to a third party may however be affected by other commercial matters such as the size of a member's holding, the illiquid nature of an investment in the Syndicate, the fact that certain fees payable by the Syndicate in the event of the sale of its underlying assets are not included in the calculation of the NTA etc.

The Syndicate is an illiquid investment and there is no liquidity or redemption facility offered.

If the assessed market value of the Syndicate's property falls the NTA will fall.

The RE recommends that members and those wishing to transact with members obtain their own independent advice in respect to the value of the Syndicate's units.