Thynne Street Property Fund

ARSN 639 590 604

Disclosure Guide | ASIC Regulatory Guide 46

30 June 2020

KM Property Funds Limited ACN 164 635 885 | AFSL 442806 | A KordaMentha group entity

KM Property Funds

Table of contents

1 Scope of this Disclosure Guide

The Australian Securities and Investments Commission (ASIC) have established eight disclosure principles and six benchmarks that responsible entities of unlisted property schemes are required to disclose against. These principles and benchmarks are set out in ASIC Regulatory Guide 46 ('RG 46').

These disclosure principles were introduced to help investors to understand the key characteristics of unlisted property schemes and assess associated risks by clarifying the disclosure requirements of the law.

The purpose of this document is to update investors on the status of key information, including the benchmark and disclosure principle information. Updates will be provided at least every six months. These updates should be read in conjunction with the latest PDS, previous RG46 updates, the Fund's financial statements, investor updates, and any continuous disclosure notices. All such documents are available via www.kmpropertyfunds.com.

2 Benchmarks

Responsible entities of unlisted property schemes offered to retail investors should disclose against a series of benchmarks on an 'if not' basis.

The table below summaries the benchmarks as they apply to the Fund.

Item	Benchmark	Page No.	Benchmark met
1. Gearing policy	The responsible entity maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.	3	✓
2. Interest cover policy	The responsible entity maintains and complies with a written policy that governs the level interest cover at an individual credit facility level.	3	✓
3. Interest capitalised	Interest expense of the Fund is not capitalised.	N/A	✓
4. Valuations policy	The responsible entity maintains and complies with a written valuation policy.	N/A	✓
5. Related party transactions	The responsible entity maintains and complies with a written policy on related party transactions, including the assessment and approval process for such transactions and arrangements to manage conflicts of interest.	5	✓
6. Distribution practices	The Fund will only pay distributions from its cash from operations (excluding borrowings) available for distribution.	5	✓

3 Disclosure principles

3.1 Disclosure principle 1 – Gearing ratio

Disclosure principle	Benchmark	Benchmark met
Disclosure principle 1 addresses disclosure of the gearing ratio of the scheme, the calculation of the ratio and its explanation.	The Fund complies with a written policy that governs the level of gearing at an individual credit facility level.	Yes

Gearing is the amount of debt the Fund has borrowed compared to the gross assets of the Fund is referred to as it's gearing. Gearing both increases the potential returns to investors, as well as potential risks by magnifying capital losses. The higher the gearing the greater the associated risk.

The Gearing Ratio gives an indication of the potential risks faced by the Fund as a result of its borrowings due to, for example, an increase in interest rates or a decrease in property value.

The repayment of loan principal and interest ranks ahead of investors' equity in the Fund and payment of interest on borrowings must be funded before any distributions to investors. As a result, the borrowing terms and conditions are important factors to consider.

The Gearing Ratio as at 30 June 2020 was 45.3% using the following formula[1]

$$\text{Gearing ratio} = \frac{\text{Total interest-bearing liabilities}}{\text{Total assets}}$$

3.2 Disclosure principle 2 – Interest cover ratio

Disclosure principle	Benchmark	Benchmark met
Disclosure principle 2 addresses disclosure of the ICR of the scheme, the calculation of the ratio and its explanation.	The Fund complies with a written policy that governs the level of interest cover at an individual credit facility level.	Yes

During the term of the Debt Facility, interest is paid on the principal amount of the loan from earnings of the Fund. The ratio between earnings and interest is called the interest cover ratio ('ICR') and reflects the ability of the Fund to meet its interest payments on borrowings from its earnings. The lower the ICR the greater the associated risk.

The ICR is calculated using the formula below. EBITDA represents earnings before interest, tax, depreciation, straight lining of rentals and amortisation. Interest expense excludes amortisation of loan establishment costs.

$$\text{Interest Cover Ratio} = \frac{\text{EBITDA – unrealised gains + unrealised losses}}{\text{Interest expense}}$$

The ICR for the Fund at 30 June 2020 was 4.7 times based on the Fund's 30 June 2020 Financial Report. Property settlement occurred on 31 March 2020 and the Fund was constituted on 5 February 2020, making the first reporting period a part year for the period 5 February 2020 to 30 June 2020.

The Debt Facility interest cover ratio of 5.44 compares favourably to the Debt Facility covenant of 2.00 times.

[1]. The Fund is compliant with the loan to value ratio for the debt facility.

3.3 Disclosure principle 3 – Scheme borrowing

Disclosure principle	Benchmark	Benchmark met
Disclosure principle 3 addresses disclosure of the scheme's credit facilities, including the circumstances in which credit facility covenants will be breached.	No ASIC benchmark	N/A

A summary of the Fund's debt facility is as follows:

Borrower	KM Property Funds Limited as Responsible Entity for the Thynne Street Property Fund
Total facility limit	$18,471,000 drawn, $195,000 undrawn.
Maturity date	31 March 2025
Loan to value ratio ('LVR') covenant[2]	The loan to value ratio must not exceed 60%. *Covenant testing* LVR at 30 June 2020 was 47.0%. The Property would need to fall by more than 21.7% in value for the Bank LVR covenant to be breached.
Interest cover ratio covenant[2]	Interest Cover Ratio is to be no less than 2.0. *Covenant testing* Interest cover ratio at 30 June 2020 was 5.44. For the ICR covenant to be breached: • rental income generated by the Property would need to fall by 63.25%; or • interest (finance charges) would need to increase in the order of 172.11%.
Security	The Debt Facility is 'limited recourse' in that financier will only have recourse to the assets of the Fund. The Responsible Entity and the Custodian have granted security for the obligations under the Debt Facility via: • first ranking registered mortgage over the Property granted by the Custodian; • general security arrangement between Custodian, Responsible Entity and Bank; and • general security agreement over the assets and undertakings of the Responsible Entity (as responsible entity of the Fund).
Hedging	The Responsible Entity has entered into a fixed rate loan for $18,471,000 million at an interest rate (excluding line fee or margin) of 0.75% to 28 March 2025.

3.4 Disclosure principle 4 – Portfolio diversification

Disclosure principle	Benchmark	Benchmark met
The Fund acquired 1 Thynne Street Bruce ACT. The Responsible Entity does not intend to acquire additional real estate for the Fund.	No ASIC benchmark	N/A

The profile of the Property as at 30 June 2020 is as follows:

Property	1 Thynne Street Bruce
State	Bruce, ACT
Occupancy	100.0%
Valuation	$39,300,000 as at 30 June 2020 (Acquisition valuation)
Valuation change	$nil
WALE	9.0 years, weighted average lease expiry by income
Tenants	**Gross rent (%)**
Australian Institute of Health and Welfare	100.00
Total	**100.00**

[2] There were no loan covenant breaches to report

3.5 Disclosure principle 5 – Related party transactions

Disclosure principle	Benchmark	Benchmark met
Disclosure principle 5 addresses disclosure about related party transactions.	The Fund maintains and complies with a written policy on related party transactions.	Yes

The Responsible Entity is required to maintain and comply with a written policy on related party transactions, including the assessment and approval process for such transactions and arrangements to manage conflicts of interest. For the Fund, a related party transaction refers to transactions such as investments, loans, service agreements or guarantees with other entities related to the Responsible Entity.

All related party transactions are governed by our conflicts of interest and related party transaction policy. These policies are available from our website at www.kmpropertyfunds.com.

The Responsible Entity of the Fund is KM Property Funds Limited, which has outsourced a number of the Fund's management functions to KordaMentha Real Estate Pty Ltd ('The Manager'). KordaMentha Real Estate Pty Ltd is a related party.

KM Custodians Pty Ltd is the sole owner of the Responsible Entity. The Manager is also part of the KordaMentha group.

The fees for these services are payable out of the Responsible Entity's own fee entitlements and resources. There is no additional charge to the Fund, unless the Manager undertakes additional work that would have been performed by another agent of the Fund.

The terms of appointment of the Manager are in the opinion of the Responsible Entity, having regard to those policies and processes, reasonable in the circumstances and what would be expected if the Responsible Entity and the Manager had been dealing at arms-length.

Details of all related party transactions; directors and director's interest in the Fund are reported as part of the Fund's audited 30 June 2020 annual accounts. These accounts are available from our website at www.kmpropertyfunds.com.

3.6 Disclosure principle 6 – Distribution practices

Disclosure principle	Benchmark	Benchmark met
Disclosure principle 6 addresses a scheme's practices for paying distributions from cash from operations available for distribution.	The Fund will only pay distributions sourced from operations (excluding borrowings) available for distribution.	Yes

This disclosure principle relates to whether distributions to Fund investors have been made solely from realised income or from a combination of realised income and a return of capital funded by borrowings. Fund distributions will not be supplemented with a return of capital component funded by debt. All current and forecast distributions are sourced from realised income.

Distributions for the Fund are primarily sourced from net rental income generated by the Property after deducting finance charges and Fund operational expenses.

The Responsible Entity's policy for distributions is that the Fund will:

- make distributions every quarter with the record dates for such distributions being 31 March, 30 June, 30 September and 31 December each year;
- normally pay distributions within six weeks following the end of the quarter; and
- pay distributions from cash generated from operations available for distribution.

The Fund has met the above policies.

3.7 Disclosure principle 7 – Withdrawal arrangements

Disclosure principle	Benchmark	Benchmark met
Disclosure principle 7 addresses disclosure of the withdrawal arrangements within the scheme and risk factors that may affect the unit price on withdrawal.	No ASIC benchmark	N/A

The Fund is illiquid. The initial term of the Fund is expected to end on or about 30 June 2022, unless the term is extended with the approval of investors via a Special Resolution. Refer to the PDS for further details.

3.8 Disclosure principle 8 – Net tangible assets

Disclosure principle	Benchmark	Benchmark met
Disclosure Principle 8 addresses disclosure of the Net Tangible Asset ('NTA') backing per unit of the scheme.	No ASIC benchmark	N/A

The Net Tangible Asset (NTA) of the Fund calculation can help investors understand the value of the assets.

The NTA is calculated as the total assets of the Fund, minus any intangible assets, less all liabilities. The Fund's NTA is shown on a per unit basis. The NTA is calculated in accordance with the following formula:

$$\text{NTA} = \frac{\text{Net assets} - \text{intangible assets} + \text{or} - \text{other adjustments}}{\text{Number of Fund units on issue}}$$

As at 30 June 2020, the Fund has a NTA per unit of $0.89 for Ordinary Unitholders.

For further information on the Fund (including a paper copy of the above information), please contact us on 1300 132 099 or visit our website at www.kmpropertyfunds.com.