

RG 46 update

November 2024



SUMMARY OF ASIC DISCLOSURE PRINCIPLES AND BENCHMARKS

ASIC has established eight disclosure principles and six benchmarks that Responsible Entity's 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 Responsible Entity aims to provide clear, concise and effective disclosure.

BENCHMARK AND DISCLOSURE PRINCIPLES	DESCRIPTION
<p>GEARING</p> <p>Benchmark 1 addresses a scheme's policy on gearing at an individual credit facility level.</p> <p>Disclosure principle 1 addresses disclosure of the gearing ratio of the scheme, the calculation of the ratio and its explanation.</p>	<p>Benchmark 1: Gearing Policy</p> <p>Key Capital has a written policy that governs the level of gearing at an individual credit facility level for the Fund. The policy provides that the gearing of the Fund will be managed carefully and must not exceed 65%, with gearing being calculated as borrowings divided by the current valuation of the Property.</p> <p>Disclosure Principle 1: Gearing ratio</p> <p>The gearing ratio of the Fund is 53%. The gearing ratio represents the extent to which the assets of a Fund are financed by debt. The higher a Fund's gearing ratio the greater its reliance on external liabilities (primarily borrowings) to finance the assets. A higher gearing ratio may also expose a Fund to increased costs if interest rates rise or property values decrease. A highly geared Fund generally has a lower asset buffer to rely upon in times of financial stress.</p> <p>The Fund's gearing ratio is calculated as:</p> <div><div>Gearing ratio =</div><div>Total interest bearing liabilities / Total Assets</div></div> <p>Investors can use the gearing ratio to assess the potential risks associated with an investment in a Fund in the event interest rates rise or property values decrease; and to compare the risk associated with a Fund's return on investment to other similar products.</p> <p>The Fund does not have any off-balance sheet financing.</p>
<p>INTEREST COVER</p> <p>Benchmark 2 addresses a scheme's policy on the level of interest cover at an individual credit facility level.</p> <p>Disclosure principle 2 addresses disclosure of the Interest Cover Ratio of the scheme, the calculation of the ratio and its explanation.</p>	<p>Benchmark 2: Interest cover policy</p> <p>Key Capital has a written policy that governs the level of interest cover at an individual credit facility level for the Fund.</p> <p>The Westpac policy provides that the Key Capital will not undertake any borrowing which would cause the Fund's interest cover ratio to fall below 1.30 times.</p> <p>The Fund is currently complying with the policy.</p> <p>Disclosure Principle 2 — Interest cover</p> <p>The Fund's interest cover is estimated to be 1.36 times calculated using Westpac credit approval as at May 2024. The figure indicates that the Fund has sufficient earnings to satisfy interest payments in the forecast period.</p> <div><div>Interest cover ratio =</div><div>EBITDA-unrealised gains+unrealised losses / Interest Expense</div></div> <p>EBITDA means earnings before interest, tax, depreciation and amortisation. The EBITDA calculation used relates to the Property EBITDA as reviewed and measured by the Lender.</p> <p>Investors may use an interest cover ratio to assess a Fund's ability to meet ongoing interest payments and therefore service debt. The lower the interest cover, the higher the risk a Fund will not be able to meet its interest payments. A Fund 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.</p>

BENCHMARK AND DISCLOSURE PRINCIPLES**DESCRIPTION****INTEREST CAPITALISATION**

Benchmark 3 addresses whether the interest expense of a scheme is capitalised.

Benchmark 3: Interest capitalisation

The interest expense of the Fund is being paid from rental revenue paid from tenants from the Property held by the Fund. Interest expense of the scheme is not normally capitalised.

The loan is \$15,115,000 for the Fund as at 30 June 2024. The approved limit is \$15,635,000

SCHEME BORROWING

Disclosure principle 3 addresses disclosure of the scheme's credit facilities, including the circumstances in which credit facility covenants will be breached.

Disclosure Principle 3: Scheme borrowing

The Fund will secure a Business Markets – Flexible Rate Loan from Westpac Bank. The total facility limit will be \$15,635,000 when fully drawn.

The facility will be secured by first mortgage held over the Property and a General Security Agreement in respect of all the assets of the Fund. Key Capital is compliant with the interest times cover loan covenant imposed by the Fund's lender in relation to the Fund's borrowings and our policies. Key Capital is required to maintain an interest time's cover of no less than 1.3 times in the loan agreement.

Investors' interests in the Fund will rank behind lenders and unsecured creditors of the Fund. This means, if the Fund was to be wound-up, then the Fund's lenders and unsecured creditors would be repaid first, before any capital or outstanding distributions were paid to investors.

The bank loan is a variable interest rate and between 6.00% to 6.50% excluding bank fees. The Constitution and the Corporations Act give Unit Holders certain powers. In particular, the requisite number of Unit Holders may call a meeting to consider resolutions to amend the Constitution, terminate the Fund or remove Key Capital as Responsible Entity. The exercise of those powers without the consent of the Bank will lead to events of default under the Fund's finance facility and in certain circumstances will give the Bank rights to, amongst other things, call for immediate repayment of the amounts outstanding.

VALUATIONS

Benchmark 4 addresses the way in which valuations are carried out by a Responsible Entity in relation to the scheme's assets.

Benchmark 4: Valuation policy

Key Capital has, and complies with, a valuation policy for the Fund. Amongst other things the policy provides that:

- a. the Fund's properties will be independently valued every three years or as when required by the Fund's credit provider;
- b. all independent valuations are to be carried out by appropriately qualified valuers, independent of Key Capital, who are registered in the relevant State or otherwise be a member of an appropriate professional body in that jurisdiction and have a minimum of five years relevant experience;
- c. valuers are to be instructed to undertake their valuation in accordance with industry standards; and
- d. to outline their valuation methodology within the valuation report; and
- e. valuers will not undertake more than two consecutive full valuations of the Property.

Key Capital believes that using independent valuers (with valuers being required to confirm their independence as part of their valuation report) and ensuring that the valuers are rotated in accordance with the valuation policy, will best address any potential conflicts of interest that might arise.

PORTFOLIO DIVERSIFICATION

DESCRIPTION

Generally, the more diversified a Fund's portfolio is, the lower the risk that an adverse event affecting one property, or one lease will materially affect the Fund's performance.

PROPERTY	ASSET EXPOSURE	ASSET TYPE	Valuation
Shepparton Dan Murphy's & Butter Factory Centre	\$ 14,300,000	Neighbourhood shopping centre	Jun-24
Bellerive Dan Murphy's & Shopping Village	\$ 11,350,000	Neighbourhood shopping centre	Dec-22
Kings Meadows Retail Centre	\$ 5,700,000	Convenience Centre	Jun-24
South Nowra Development - Withdrawn Nov-2024	\$ 4,200,000	Large Format Retail	Withdrawn
Wangaratta Co Store Centre *	\$ 25,000,000	Neighbourhood shopping centre	Under Offer

Please note: investment in Wangaratta is a Interest and up to 50%

Key Capital has a policy on related party transactions and conflicts of interest, to ensure related party transactions are assessed and monitored as rigorously as arm's length third party transactions.

Key Capital's related party transaction policy identifies instances where conflicts of interest may arise in relation to the Fund. Key Capital's policy includes an assessment and approval by the Board before related party transactions can be entered into.

Where a potential conflict is identified it must be reported to the Managing Director for assessment. The conflict will be assessed as either "minor", "intermediate" or "serious". The Chairman is then responsible for resolving the conflict but may refer the matter to the Board for a determination.

All decisions in relation to conflicts of interest and all related party transactions must be documented, compliance with the policy must be considered by the Board quarterly and the related party transaction policy and all related party transactions must be reviewed annually.

Key Capital has entered into the following related party transactions:

- > Key Capital expects to appoint Retail Leisure & Life ("RL&L"), a related party, to manage any Direct Property purchased by the Fund
- > Key Capital Directors and related partys own 6,068,941 units

These related party transactions were entered into and are monitored in compliance with Key Capital's related party transactions and conflicts of interest policy. In the view of the Board of Key Capital, none of the transactions above have created any additional risk for the Fund's investors.

BENCHMARK AND DISCLOSURE PRINCIPLES	DESCRIPTION
<p>DISTRIBUTION PRACTICES</p> <p>Benchmark 6 addresses a scheme's practices for paying distributions from cash from operations available for distribution.</p> <p>Disclosure principle 6 addresses where distributions are sourced from and whether forecast distributions are sustainable.</p>	<p>Benchmark 6: Distribution practices</p> <p>The Fund will in the long term only pay distributions from its cash from operations (excluding borrowings) available for distribution. The Responsible Entity may elect to use cash available from borrowings to pay distributions due to the timing constraints associated with the receipt of the rent and project leasing.</p> <p>Disclosure Principle 6: Distribution practices</p> <p>Key Capital forecast distributions from the Fund to members of 7.00% (annualised). This is in line with the distribution policy. The Fund is offering a 10%p.a. for 1 year introduction & reinvestment rate for a \$6,000,000 capital raise commencing September 2024.</p> <p>The Responsible Entity may elect to use cash from borrowings to pay distribution due to timing constraints associated with the receipt of the forecast rent, cash from operations (excluding borrowings) will be the source of distributions.</p> <p>The Responsible Entity considers that the forecast distributions are sustainable over the next 12 months assumptions. The Fund can offer a special introduction rate to new investors.</p>
<p>WITHDRAWAL ARRANGEMENTS</p> <p>Disclosure principle 7 addresses disclosure of the withdrawal arrangements within the scheme and risk factors that may affect the unit price on withdrawal.</p>	<p>Disclosure principle 7: Withdrawal arrangements</p> <p>The Fund is illiquid, there will be no 'cooling off' period relating to applications or any right to withdraw during the investors first year. Investors will have access to the Limited Withdrawal Facility each quarter in the investors 2nd year and any subsequent year. To find out more on the Limited Withdrawal Facility refer to Section 2.2 of the PDS.</p>
<p>NET TANGIBLE ASSETS</p> <p>Disclosure principle 8 addresses disclosure of the Net Tangible Asset (NTA) backing per unit of the scheme.</p>	<p>Disclosure Principle 8: Net tangible assets</p> <p>A net tangible asset ('NTA') is calculated using information from the Fund's latest audited financial statements and using the following formula:</p> $NTA = \frac{\text{Net assets} - \text{intangible assets} \pm \text{any other adjustments}}{\text{Number of units in the scheme on issue}}$ <p>As at 30 June 2024, the NTA per unit of \$0.35 when including add backs.</p> <p>The Fund's NTA expressed on a per Unit basis may be used as an approximate measure of what a Unit Holder could expect to receive for their Units if the Fund were wound up at that time. To the extent that the NTA at any time is less than the price paid for a Unit, it is also an approximate measure of the risk of a capital loss.</p>

Updates about any material changes to the matters listed in this table will be provided at keycapital.com.au

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