

ASIC REGULATORY GUIDE 46

UNLISTED PROPERTY SCHEMES: IMPROVING DISCLOSURE FOR RETAIL INVESTORS

FEBRUARY 2015



DHA
Investment
Management

Background

ASIC has developed eight (8) disclosure principles and six (6) benchmarks for unlisted property schemes to assist investors in understanding the risks and deciding whether the investment is suitable for them.

These benchmarks and disclosure principles are set out in *ASIC Regulatory Guide 46 Unlisted property schemes – Improving disclosure for retail investors*, which is available on ASIC's website at www.asic.gov.au.

Updates to the disclosure principles and benchmark information are undertaken every six (6) months and will be available to Investors at dhaim.com.au or on request. If there is a material change to the benchmark or disclosure principles information, the Manager will notify Investors by sending a **Significant Event Notice**.

It is important to note that the information in the report is based on the latest financial reports for DHA Residential Property Fund No. 1, being 31 December 2014.

Disclosure principles

Gearing ratio

The gearing ratio gives an indication of the potential risks a managed property fund faces in terms of its level of borrowings due to, for example, an increase in interest rates or a reduction in property values. A higher gearing ratio means a higher reliance on external liabilities to fund assets.

DHA Residential Property Fund No.1 Disclosure

The Manager does not intend to borrow.

Interest cover ratio

Interest cover refers to the ability of a fund to service interest expense on debt from earnings. The higher the ratio, the more easily the fund can meet its interest payments.

DHA Residential Property Fund No.1 Disclosure

The Manager does not intend to borrow.

Scheme borrowing

Borrowing maturities and credit facility expiry profiles are important information where a fund borrows to invest.

DHA Residential Property Fund No.1 Disclosure

The Manager does not intend to borrow.

Portfolio

Generally, the more diversified a portfolio, the lower the risk that an adverse event affecting one property or one lease will have on the overall portfolio.

DHA Residential Property Fund No.1 Disclosure

A diverse mix of properties has been purchased across major capital cities and selected major regional centres. All the Portfolio properties are leased to a single tenant, being DHA. There is one property within the portfolio valued at \$1.18 million which represents more than 2.5% of the value of the portfolio (2.54%) at 30 June 2014.

Related party

Related party transactions carry a risk that they could be assessed and monitored less rigorously than arm's length third party transactions. A significant number or value of related party transactions increases the risk of potential conflicts of interest.

DHA Residential Property Fund No.1 Disclosure

The Manager's Conflicts of Interest and Related Party Transactions Policy provides a framework for the review of the terms of all related party transactions and agreements. The policy details the circumstances, terms and conditions as to when related party transactions will be appropriate. The basic principles are that related party transactions should be in the best interests of Investors and on arm's length terms. Related party transactions that are material are required to be reviewed by the DHA IML board of directors. The Manager has:

- purchased the portfolio of properties from DHA; and
- entered into Lease Agreements with DHA which includes property management.

The Manager may sell properties or investments to DHA (pursuant to a first right of purchase) or to another fund managed by the Manager but for no less than the price provided in the most recent market valuation obtained for that property.

There are common Directors on the Board of the Manager and DHA.

All transactions in which the Manager may have, or may be perceived to have, a conflict of interest will be conducted in accordance with the Manager's Conflicts of Interest and Related Party Transactions Policy. Under this policy, the Manager is required to identify and manage conflicts of interest (e.g. disclose conflicts of interests to Investors in a manner that is timely, prominent, specific and meaningful).

Further information regarding related party transactions and the Fund will be found in the Audited Financial Statements at 30 June 2015 which will be available to all investors after the end of financial year.

Distribution practices

Some property funds 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.

DHA Residential Property Fund No.1 Disclosure

Distributions are paid quarterly and will be sourced from cash from operations, which includes net income and net sale proceeds derived from residential property. The Manager's Distribution Policy is aligned to the ongoing earning capacity of the Fund.

Withdrawal

Unlisted property funds often have limited or no withdrawal rights. This means they are usually difficult to exit.

DHA Residential Property Fund No.1 Disclosure

The Manager does not intend to offer withdrawal arrangements. However, a transfer or sale of Units may be possible where a willing buyer has been identified.

Net tangible assets

An NTA calculation helps investors understand the value of assets upon which the value of their unit is determined.

DHA Residential Property Fund No.1 Disclosure

The Manager has calculated the Net Tangible Asset (NTA) on a per Unit basis as follows:

Net assets – intangible assets +/- any adjustments

Number of Units in the scheme on issue

The NTA value for each Unit at 31 December 2014 is \$0.9895.

Benchmark	Requirement	Disclosure against benchmark
Gearing	<i>The responsible entity maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.</i>	The Fund meets the benchmark The Manager does not intend to borrow.
Interest cover	<i>The responsible entity maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level.</i>	The Fund meets the benchmark The Manager does not intend to borrow.
Interest Capitalisation	<i>The interest expense of the scheme is not capitalised.</i>	The Fund meets the benchmark The Manager does not intend to borrow.
Valuations	<p><i>The responsible entity maintains and complies with a written valuation policy that requires:</i></p> <p><i>(a) a valuer to:</i></p> <p><i>(i) be 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; and</i></p> <p><i>(ii) be independent;</i></p> <p><i>(b) procedures to be followed for dealing with any conflicts of interest;</i></p> <p><i>(c) rotation and diversity of valuers;</i></p> <p><i>(d) valuations to be obtained in accordance with a set timetable; and</i></p> <p><i>(e) for each property, an independent valuation to be obtained:</i></p>	<p>The Fund meets paragraphs (a)(i) and (b) to (e).</p> <p>In relation to paragraph (a)(ii)</p> <p>A Valuer will be appointed from a national panel of registered qualified valuers expert in their state, territory or local area.</p> <p>All valuers are independent of DHA IML, however it is possible that some of the valuers on the panel will comprise firms that have previously provided valuations to DHA.</p> <p>Valuations are based on market value and are on an 'as is' basis.</p> <p>Valuations have been undertaken by qualified registered valuers prior to the properties being purchased to determine the purchase price and will be undertaken on an annual basis.</p> <p>Each valuer will not perform more than two (2) consecutive valuations on a property.</p>

Benchmark	Requirement	Disclosure against benchmark
	<p><i>(i) before the property is purchased:</i></p> <p><i>(A) for a development property, on an 'as is' and 'as if complete' basis; and</i></p> <p><i>(B) for all other property, on an 'as is' basis; and</i></p> <p><i>(ii) within two months after the directors form a view that there is a likelihood that there has been a material change in the value of the property.</i></p>	
<p>Related Party Transactions</p>	<p><i>The responsible entity 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.</i></p>	<p>The Fund meets the benchmark</p> <p>A register is maintained with all related party transactions duly approved by the Manager consistent with the Conflicts of Interest and Related Party Transactions Policy.</p>
<p>Distribution practices</p>	<p><i>The scheme will only pay distributions from its cash from operations (excluding borrowings) available for distribution.</i></p>	<p>The Fund meets the benchmark</p> <p>Disclosure Principle 6 provides further information on the distribution policy of the Manager.</p>