FORT STREET
REAL ESTATE CAPITAL
FUND IV

ASIC BENCHMARK & DISCLOSURE PRINCIPLES

Disclosure update – 31 December 2019

Australian Securities and Investment Commission (**ASIC**) requires responsible entities of unlisted property funds to address six benchmarks and eight disclosure principles set out in Regulatory Guide 46, Unlisted Property Schemes - Improving Disclosure for Retail Investors (**RG 46**). The disclosure benchmarks and principles are intended to assist retail investors to understand, compare and assess unlisted property trusts, such as the Fort Street Real Estate Capital Fund IV (**Fund**).

Updates on the status of information relating to the disclosure benchmarks and principles will be available on the Fund's website at: **www.fsrec.com.au**.

The following is each ASIC disclosure benchmark and principle and a summary of how each is addressed by the Responsible Entity.

Under the Product Disclosure Statement, the Trust can acquire the following types of interests in properties:

- **direct interests** – where the Trust owns the properties directly;
- **indirect interests** – where a wholly owned entity of the Trust owns properties directly;
- **co-investment interests** – where a joint venture entity (such as a trust or special purpose vehicle) established by the Trust and a joint venture partner owns properties directly; or
- **external trust interests** – where the Trust invests in a registered managed investment scheme or other managed investment scheme which owns interests in properties.

In this section, where the context requires, references to the Trust include references to the Trust together with the entities through which the Trust invests in properties (**Investment Entities**).

Gearing

Benchmark – the Responsible Entity maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.

The Responsible Entity meets this benchmark.

Principle – it is important to understand how much debt will be used by the Fund and its underlying investments. The gearing ratio represents the extent to which assets are financed by debt. A higher gearing ratio means a higher reliance on debt to finance scheme assets and exposes a scheme to additional risks involved with, for example, increases in interest rates or a reduction in property values. A highly geared scheme has a lower asset buffer to rely upon in times of financial stress. You can use the gearing ratio to assess the potential risks a scheme may face in the event interest rates rise or property values decrease, and to compare the risk associated with the scheme's return on investment to other similar products.

The gearing ratio of the Fund will be calculated on a look-through basis in accordance with the following formula:

$$\text{Gearing} = \frac{\text{Total interest bearing liabilities (of the Fund and the Trust)}}{\text{Total assets (of the Fund and the Trust)}}$$

The Fund will always target a consolidated gearing level of around 40% to 50% at the time of acquisition of underlying properties by the FSREC IV No.1 Trust (**Trust**). The maximum overall look-through gearing ratio of the Fund will be 60%. Look-through gearing reflects the ratio of net borrowings to total assets adjusted for the borrowings of investment vehicles in which the Fund invests (i.e. the Trust and Investment Entities).

The maximum gearing ratio of an individual credit facility for the Trust is 60%.

At the Fund level, the Responsible Entity does not currently intend to obtain debt financing. The Fund will be exposed to the risks of borrowing at the Trust level. The Fund meets the criteria, given the Trust's current level of borrowings.

Refer to Appendix A for the Fund's current look-through gearing ratio.

Interest cover ratio

Benchmark – the Responsible Entity maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level.

The Responsible Entity meets this benchmark.

Principle – Investors can use an interest cover ratio to assess a scheme's ability to meet ongoing interest payments from earnings and therefore service debt as it shows how many times a scheme's earnings can meet the scheme's interest expenses each year. The lower the interest cover, the higher the risk 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.

The interest cover ratio of the Fund and the Trust will be calculated in accordance with the following formula:

$$\text{Interest cover} = \frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest expense}}$$

EBITDA is the consolidated earnings before interest, tax, depreciation and amortisation.

Under the Fund's gearing and interest cover policy, the minimum interest cover ratio for the Fund will be 1.5 times and for each credit facility of the Fund, the Trust and its controlled entities will be 1.5 times. The Fund meets the criteria, given the Trust's current level of borrowings.

Refer to Appendix A for the Fund's current interest cover ratio.

Interest capitalisation (benchmark only)

Benchmark – the interest expense of the Fund and the Trust will not be capitalised.

The Responsible Entity meets this benchmark. The interest expense of the Fund and the Trust will not be capitalised.

Interest capitalisation means the Fund or the Trust is not required to make interest payments until an agreed point in time and that is added to the amount owing by the Fund or the Trust.

Scheme Borrowing (principle only)

Principle – Investors should consider information about borrowings of a property trust such as the Fund as there are risks associated, particularly in relation to the scheme's borrowing maturity profile and any breaches of loan covenants.

If the Fund does borrow, then any amounts owing to the financiers and other creditors of the Fund will rank before an investor's interests in the Fund. Similarly, the Fund's interest in the Trust will rank behind any amounts owing to financiers and other creditors of the Trust. All covenants attached to the debt facility are only applicable to the Trust.

Refer to Appendix A for more information on the Trust's current borrowings.

Portfolio Diversification (principle only)

Principle – Investors should understand the Responsible Entity's approach to portfolio diversification. Generally, the more diversified a portfolio, the lower the risk that an adverse event affecting one property, or one lease, will put the overall portfolio at risk.

The Fund's only investment will be units in the Trust. The Trust's investment strategy is to invest in office buildings, retail centres and specialist properties, including industrial, healthcare, and other specialist uses in the major cities along the eastern seaboard of Australia.

As noted at the start of this section, the Trust can acquire interests in property directly or via Investment Entities through indirect, co-investment and external trust interests. The Trust's investment strategy is further detailed in 'Section 3. Fund Overview' of the initial Product Disclosure Statement dated 9 April 2018 (**IPO PDS**) and the investment parameters for the Trust are set out in Section 4 of the IPO PDS.

Refer to Appendix A for more information on the real property assets held by the Trust.

Valuation policy (benchmark only)

Benchmark — the Responsible Entity maintains and complies with a written valuation policy.

The Responsible Entity does not meet this benchmark as the valuation policy required is suitable only for schemes which directly hold real property. The Fund's only assets will be cash equivalents and units in the Trust.

However, the Responsible Entity has established a written valuation policy, to which the Trustee of the Trust is subject to.

The policy requires that for each real property asset of the Trust, the Trustee will obtain an independent valuation:

a) before a property is purchased:
    i) for a development property, on an 'as is' and 'as if complete' basis; and
    ii) for all other property, on an 'as is' basis;
b) at least once every three years; and
c) within two months after the Trustee or directors of the Responsible Entity forms the view that there is a likelihood that there has been a material change in the value of the real property.

The Responsible Entity believes that the above policy adequately reduces the risks in connection with this benchmark not being met.

When obtaining a valuation of a real property asset, the Trustee and Responsible Entity are required to use valuers that are independent and registered or licensed in the relevant jurisdiction in which the property is located (where a registration or licensing regime exists), or, are otherwise members of an appropriate professional body in that jurisdiction. Prior to appointing an independent valuer, the Trustee and the Responsible Entity must ensure that the independent valuer has no conflict of interest and is rotated such that the same independent valuer cannot value a real property asset of the Trust for more than two consecutive years.

Related Party Transactions (benchmark only)

Benchmark – 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.

The Responsible Entity meets this benchmark. The key elements of the Responsible Entity's related party transaction policy include the following:

a) all related party transactions must be immediately notified to the compliance officer through the completion of a conflicts of interest notice, following receipt of which the compliance officer will complete the conflicts of interest register
b) each related party transaction will be evaluated and assessed as either a minor conflict or a material conflict
c) each related party transaction will be approved by members of the Fund, unless the board of directors of the Responsible Entity determines it falls within an exception, including the following:
    i) the transaction is on arm's length terms or on terms that are more favourable to the Fund than arm's length terms
    ii) the benefit received by the related party is the payment of expenses or remuneration of an officer or employee of the Responsible Entity and the payment is reasonable in the circumstances
    iii) financial benefits given under a court order.

Compliance with the policies and procedures set out in the Responsible Entity's related party transaction policy is monitored by the Responsible Entity's compliance officer by, among other things, reviewing the Responsible Entity's conflicts of interest and related party records and reporting any breaches of the policies and procedures in accordance with the reporting procedures of the Responsible Entity. The reporting procedures may involve reporting the breach directly to the board or to ASIC, depending on the seriousness of the breach.

If you require further information on the Responsible Entity's policies and procedures in relation to related party transactions, please contact the Responsible Entity.

Transactions to date (principle only)

Principle – Investors need to understand the way in which the Responsible Entity will deal with related parties so as to manage conflicts of interest. Related party transactions carry a risk that they could be assessed and monitored less rigorously than arm's length third party transactions. Related party transactions may include commercial contracts for the supply of goods or services with persons that are related parties or larger transactions, such as asset acquisitions or disposals.

The Responsible Entity has currently entered into the following related party transactions:

Name of entity	Nature of relationship with the Responsible Entity	Description of the related party transaction
Walsh & Company Asset Management Pty Limited in its capacity as fund manager of the Fund**.**	The Trustee and the Responsible Entity are related parties	Investment of Fund's capital (being the proceeds of the Offer) in the Trust pursuant to the Fund's IPO PDS.
Walsh & Company Asset Management Pty Limited in its capacity as trustee of the Trust (**Trustee).**	The Trustee and the Responsible Entity are related parties	The payment of a monthly management fee to the Trustee out of the assets of the Trust pursuant to the Trust's constitution.
Fort Street Real Estate Capital Pty Ltd in its capacity as investment manager of the Trust (**Investment Manager**).	The ultimate holding company of the Responsible Entity indirectly has a 75% economic interest in the Investment Manager, whilst maintaining a non-controlling interest.	The Investment Manager and the Trustee have entered into an Investment Management Agreement under which the Investment Manager provides certain investment management services to the Trust.
Fort Street Real Estate Capital Pty Ltd in its capacity as property manager of the Trust (**Property Manager**).	The ultimate holding company of the Responsible Entity indirectly has a 75% economic interest in the Property Manager, whilst maintaining a non-controlling interest.	The Property Manager and the Trustee have entered into a Property Management Agreement under which the Property Manager provides certain property management services to the Trust.
Fort Street Real Estate Leasing Pty Ltd (**Leasing Agent**)	The ultimate holding company of the Responsible Entity indirectly holds an interest in the Leasing Agent.	The Leasing Agent and the Trustee have entered into a Leasing Services Agreement under which the Leasing Agent provides certain leasing services to the Trust.
Walsh & Company Investments Limited in its capacity as the responsible entity of the Fund (**Responsible Entity**).	This is the Responsible Entity.	The payment of a monthly management fee to the Responsible Entity out of the assets of the Fund pursuant to the Fund's constitution, and in relation to the payment of one off structuring and arranging and handling fees.
Fort Street Real Estate Development Pty Ltd (**Development Manager**)	The ultimate holding company of the Responsible Entity indirectly holds an interest in the Development Manager.	The Development Manager and the Trustee have entered into a Development Management Agreement under which the Development Manager provides certain development management services to the Trust.

Value of benefit	Any applicable exemptions (e.g. arm's length, reasonable remuneration)	Fund member approval sought and if so, when	Risks
The net proceeds of the Offer.	This related party transaction is on a commercial arm's length terms and proceeds based on the disclosure provided under the Fund's IPO PDS.	No.	Refer Section 6.1(f) of the Fund's IPO PDS for disclosure of related party transaction risks.
A trustee fee of up to 0.1045% per annum (inclusive of GST and net of RITC[1]) of the gross asset value of the Trust, payable monthly. See Section 7.2(c) of the Fund's IPO PDS.	The monthly trustee fee is a fee payable to the Trustee as provided in the Trust's trust deed.	No.	Refer Section 6.1(f) of the Fund's IPO PDS for disclosure of related party transaction risks.
An investment management fee of 0.7211% per annum (inclusive of GST and net of RITC[1]) of the gross asset value of the Fund and the Trust Group (but excluding the value of any inter-group balances). An acquisition fee of 1.3063% (inclusive of GST and net of RITC[1]) of the purchase price of assets acquired by the Trust. A disposal fee of 1.0450% (inclusive of GST and net of RITC[1]) of the net proceeds of the sale of any property investment of the Trust, the sale of any units in the Trust, the redemption of any units in the Trust by the transfer of other assets than cash, or the distribution in specie of the capital of the Trust. A performance fee equal to 20.90% (inclusive of GST and net of RITC[1]) of the returns above a pre-tax return of 8% per annum on all invested capital in the Trust by the Fund. See Section 7.1 of the Fund's IPO PDS.	The remuneration paid to the Investment Manager by the Trustee out of the assets of the Trust is reasonable and on commercial arm's length terms.	No.	Refer Section 6.1(f) of the Fund's IPO PDS for disclosure of related party transaction risks.

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A property manager fee of up to 3.135% per annum (inclusive of GST and net of RITC[1]) of the gross income of the Trust. See Section 7.1 of the Fund's IPO PDS.	The remuneration paid to the Property Manager by the Trustee out of the assets of the Trust is reasonable and on commercial arm's length terms.	No.	Refer Section 6.1(f) of the Fund's IPO PDS for disclosure of related party transaction risks.
A responsible entity fee of 0.0836% per annum (inclusive of GST and net of RITC[1]) of the gross asset value of the Fund, payable monthly. See Section 7.1 of the Fund's IPO PDS.	The fees are payable to the Responsible Entity as provided in the Fund's constitution.	No.	Refer Section 6.1(f) of the Fund's IPO PDS for disclosure of related party transaction risks.
A variable leasing services fee using the methodology as set out in the Leasing Services Agreement.	The leasing services fee paid to the Leasing Agent by the Trustee out of the assets of the Trust is reasonable and on commercial arm's length terms.	No.	Refer Section 6.1(f) of the Fund's IPO PDS for disclosure of related party transaction risks.

[1]This amount includes GST but the Fund or the Trust (as applicable) may be able to recover at least 55% of the GST component of fees charged to it, whether under the reduced credit acquisition provisions of the GST Act or otherwise (see "GST and tax" under the head "Additional Explanation of Fees and Cost" with the IPO PDS dated 9 April 2018).

Distribution Practices

Benchmark – the Fund will only pay distributions from its cash operations (excluding borrowings) available for distribution.

The Responsible Entity did satisfy this benchmark for the most recent distribution payments (September and December 2019). It is not intended for distributions to be sourced other than from cash from operations (excluding borrowings). However, during the acquisition and development of assets, distributions may include a capital component (see below for an explanation of why this may occur and the associated risks). The Fund completed one acquisition during the period.

Principle – it is important for Investors to understand the Responsible Entity's distribution practices as there are risks associated with payment of distributions from capital or unrealised gains where cash is available from either within the Trust or from borrowings.

The Responsible Entity intends to generally only pay distributions from the Fund's cash operations (excluding borrowings) of the Fund. However, during the period in which the Trustee of the Trust is acquiring assets, the Responsible Entity may determine that it will return capital to investors. Such returns of capital would occur through the payment of distributions. Returns of capital would occur in circumstances where the Responsible Entity considered that the Trust was either unable to find satisfactory assets to acquire or was unable to find suitable assets within a satisfactory time frame.

If the Responsible Entity were to pay distributions from capital in those circumstances, the capital return would not be funded from unrealised gains on the Fund's assets or from borrowings. Instead, it would be a return of the initial capital subscribed for by Investors in the Fund.

The risks associated with making such capital distributions are that the Trust may subsequently find a suitable asset(s) for the Trust and the Fund would not be in a position to provide the Trust with the capital necessary to acquire the relevant asset(s). In addition, if the Trust breached one of its credit facilities during the period in which it was acquiring assets because it exceeded the required gearing ratio under the credit facility, then the Fund may not be able to provide additional capital to the Trust to enable it to remedy that breach.

The Responsible Entity currently pays distributions on a quarterly basis and expects these distributions to be sustainable over the next 12 months. However, distributions are not guaranteed, and the amount may be reduced or not paid in circumstances where the cash distribution received from underlying properties held by the Fund is less than forecast or if other unforeseen events occur. The Responsible Entity does not announce distribution forecasts and continues to ensure that any material changes to the Fund's distribution practices are communicated to unitholders through the ongoing quarterly disclosures.

Withdrawal Arrangements (principle only)

Principle – it is important for investors to be aware of withdrawal arrangements, so they may form realistic expectations about their ability to withdraw from the scheme.

Investors have no rights to withdraw from the Fund, unless the Responsible Entity makes a withdrawal offer. Presently, the Responsible Entity is not at any time obliged and does not intend to make a withdrawal offer.

Net tangible assets (principle only)

Principle – the value of an investment in the Fund is determined by reference to the net tangible assets (NTA) being the assets that have been acquired with investor equity.

In practical terms, the NTA calculation is a measure of the amount, per unit, that an investment in the scheme is worth. If the NTA per Unit is less than $1.60 prior to any capital return paid during the Investment Term, then there is a risk that Investors will not receive their full capital repayment when exiting the Fund or on winding up of the Fund.

The NTA for the Fund is calculated in accordance with the following formula:

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

The basis for calculating the pro forma NTA of the Fund is set out in detail in Section 8 of the IPO PDS. This pro forma financial information has not been the subject of review by the Scheme's independent auditor.

Refer to Appendix A for the Fund's current NTA.

Further Information

For further information in relation to the above, please refer to our website at www.fsrec.com.au or contact us on either 1300 454 801 or at info@fsrec.com.au

Appendix A

The below information is current as at 31 December 2019

I. Fund's current look-through Gearing Ratio: 37.2%

II. Fund's current Interest Cover Ratio: 4.9x[4]. Note all borrowings are at the Trust level, not the Fund level and hence this Interest Cover Ratio is not representative of the ratio used for covenant testing, as it understates the Fund's actual interest coverage.

III. NTA per unit: $1.51

IV. Trust's borrowings maturing within 5 years:

<u>Debt facility with NAB</u>

Aggregate amount owing:	Facility – $45.7 million
Aggregate amount undrawn:	Facility – $8.9 million
Maturing Profile:	Facility – 2 years
Interest rate of the facility:	Average cost of drawn debt is approximately 3.89% (excluding costs relating to undrawn debt)
Is the facility hedged:	Yes, 55% of the Group's borrowings are hedged

Debt Covenants[1]	Loan to value ratio	Facility ICR[4]	Assets Secured
Actual	38.2%	4.09x	All properties
Covenant	<=60.0%	>=2.00x	
Headroom to Covenant	38.8%[2]	51.1%[3]	

V. Trust borrowings maturing after 5 years: None

[1] The calculation of this Debt Covenant is for the Trust and is defined by the Lender. This differs from the Gearing Ratio and ICR calculation stated in Section I and II in Appendix A.
[2] This Headroom to covenant indicates the required decrease in asset value before the covenant is breached as at 31 December 2019.
[3] This Headroom to covenant indicates the required decrease in adjusted net rental income before the covenant is breached based on the trailing 12 months' period.
[4] Interest Cover Ratio: (EBITDA – unrealised gains (non-cash items) + unrealised losses) / Interest expense

($5,216,705 - $2,230,112 + $0) / $610,265 = 4.9x

VI. Current assets held by the Trust include:

Asset	Location	Sector
Keilor Central Shopping Centre	80 Taylors Rd, Keilor Downs, VIC 3038	Retail

VII. Most recent valuation for each significant property:

Asset	Valuation	Date of valuation	Independent/ Internal	Capitalisation Rate Adopted
Keilor Central, Keilor Downs, VIC	$119.5 million	31/12/19	Independent	5.90%

VIII. Property portfolio profile:

Portfolio weighted average lease expiry: 4.26 years
Portfolio occupancy rate: 99%

IX. Top five tenants that by income across the property portfolio:

- Kmart – 15%
- Coles Group Ltd – 15%
- Aldi Group – 6%
- Quality Pharmacy – 5%
- The Reject Shop – 3%

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