STATEMENT OF INVESTMENT POLICY AND OBJECTIVES

AUGUSTA KEDRON PARTNERSHIP

DESCRIPTION OF THE SCHEME

Augusta Kedron Partnership (the *Scheme*) is an Australian Limited Liability Partnership investment of 296 units to acquire 255-257 Gympie Road, Kedron, Brisbane, Queensland, Australia (the *Property*).

Legal title to the Property is held by Kedron Nominee Limited as bare trustee for the Scheme.

The Scheme is managed by Augusta Funds Management Limited (the *Manager*). The Scheme's supervisor is Covenant Trustee Services Limited (*Supervisor*).

INVESTMENT OBJECTIVES

The Scheme has a long-term investment horizon and the primary objectives are to:

- Sustain the projected sustainable post tax distribution rate of 6.1% per annum as per the projections set out in the Scheme's product disclosure statement and as set out in the investment performance monitoring benchmarks in this statement of investment policy and objectives document (*SIPO)*;
- Take reasonable steps to preserve and grow the value of the Property by attending to necessary ongoing repairs, maintenance and capital expenditure (CAPEX) requirements.
- Leverage lease extension options for the Property to increase lease terms and/or rent and enhance the value of the Property, where possible.

INVESTMENT PHILOSOPHY

The Manager's philosophy, as a leading property funds manager, is to select and manage high quality commercial and industrial real estate which has quality tenant(s) with long lease term(s) in a good location. The approach is to ensure that any risks taken are appropriate and commensurate with the Scheme's goals, protecting the investor's interests and to create satisfied investors who seek repeat investment opportunities.

INVESTMENT STRATEGY

The strategy of the Scheme is to acquire the Property and continue to lease it to quality tenants and preserve equity by active management of the Scheme and the Property. Below are the parameters and minimum investment performance monitoring benchmarks against which the performance of the Scheme will be monitored:

<u>Benchmarks</u>:

1. Provide investors a post-tax cash return of 6.1% per annum on the investor's original equity amount until 30 June 2020. The cash return does not take into account any increase or decrease in the value of the Property or any other non-cash items;
2. Weighted average lease expiry *(WALE)* of not less than four years;
3. Property occupancy of greater than 90%;

4. There is to be a period of at least 12 months remaining on the loan term – from the Scheme's latest annual financial reporting date of 30 June;
5. Maintain the loan to value ratio (*LVR*) at a level below 55% of the greater of the consideration paid for the Property under the Put and Call Option Deed and the most recent valuation obtained for the Property (which may be an "as-if complete" valuation if there is any development, maintenance or capital expenditure being completed on the Property);
6. Maintain the interest cost cover ratio at a level not less than 2 times (i.e. the income from the Property is at least 2 times the interest cost);
7. Net tangible assets (*NTA*) not less than 85% of NTA when the Property was acquired; and
8. The Scheme's bank account holds funds equivalent to at least one month of rent.

The benchmarks will be reviewed as necessary and a minimum of four times per year.

ASSET ALLOCATION

The only assets the Scheme may hold are:

- The Property and any leases/licences of the Property;
- Cash deposits with registered Australian and New Zealand banks; and/or
- Any other assets arising in connection with holding the Property including prepayments, accounts receivables, interest rate swap agreements and insurance receivables.

There are no limits on the proportion of the above assets that the Scheme may hold.

INVESTMENT POLICIES

Cash flow management policy

The Manager will manage the Scheme's cash flow in such a way to not cause undue risk or expense to the Scheme by:

- Incurring only costs that are deemed appropriate and reasonable;
- Maintaining and regularly reviewing a cash flow budget for a minimum of two years in advance and provide an early warning system for potential problems;
- Undertaking six monthly reviews with the Scheme's lender to assess the steps required to ensure that the best finance package and interest rate management strategy is in place. These will include review of the loan term, interest rate margin, LVR and assessing when it is prudent to amortise debt;
- The circumstances in which the Manager may reduce or withhold investor distributions:
  - Projected reduction or cessation of rental income;
  - Breach of lender interest cover ratio covenant;
  - Breach of lender LVR covenant;
  - The bank account balance is less than the equivalent of one month of rent;
  - Unexpected expenditure;
  - Interest rate movement; or
  - Any other circumstance where the Manager deems appropriate.

- The circumstances in which the Manager may increase investor distributions:
  - There are sufficient funds in the bank account to fund all anticipated expenses, repairs and maintenance and CAPEX costs for the medium term;
  - There is a regular monthly surplus from rent receipts after paying expenses and investor distributions; or
  - Any other circumstance where the Manager deems appropriate.

Interest Cover Policy
The interest cost cover ratio is to be maintained at a level that is not less than 2 times the interest payments (such that the Scheme's income is 2 times the interest payments payable under its bank debt).

Capital Expenditure Policy
The Manager's ongoing CAPEX policy is to regularly monitor the general condition of the Property and the building and to ensure ongoing routine repairs and maintenance for plumbing, air conditioning, roofing and other relevant building services are undertaken with a high level of workmanship and has sought a building condition report to assist in identifying future CAPEX requirements, which have been provisioned for at the Scheme's establishment including a future capex fund of $100,000.

The Manager will request and review all tenders if and when required for any CAPEX needed for the Property, produce potential strategy(s) of how to fund costs and seek investor consent if it is necessary as per the Scheme's governing document. Furthermore, the Manager will ensure that any works being undertaken comply with current health and safety legislation.

Hedging/Interest Rate Policy
The future return to investors is subject to interest rate variations on the bank loan and interest rate movements are unable to be accurately predicted. The Manager's current overarching interest rate policy is to adopt a minimum 50% hedging position, but in some cases increasing or decreasing, depending on the Manager's assessment of managing the overall risk profile. In respect of the Scheme, the Manager will manage the interest rate risk initially by entering into swap agreements with terms of at least three years on 100% of the Scheme's debt drawn on settlement.

The Manager adopts and frequently reassesses the appropriate interest rate policy for the Scheme depending on the following factors:

- Current and predicted economic and market conditions (in consultation with economists and interest rate specialists);
- Overall Scheme risk profile;
- Remaining WALE;
- Cash flow impacts – assessing if there is a material impact in the short term and investor yield expectation is compromised;
- The condition of the Property and any requirements for structural repairs, maintenance or CAPEX; and
- Flexibility requirements of the Scheme – potential future development, sale and/or wind up of the Scheme.

The Scheme's interest rate policy is regularly reviewed and is subject to change.

Leverage Policy
- The maximum allowable loan amount for the Scheme is 55% of the greater of the purchase price for the Property under the Put and Call Option Deed and the most recent independent valuation obtained for the Property (which may be an "as if complete" valuation if there is any development, maintenance or capital expenditure being completed on the Property). In addition, the facility agreement with the bank provides that the maximum amount outstanding does not exceed 52.5% of the bank's security (but subject to change by agreement between the bank and the Manager).
- The Scheme's lending leverage is tested at least annually against the independent market Property revaluation from a qualified registered valuer.
- If the maximum allowable loan amount exceeds this policy anticipated strategies to remedy are:
    - Undertake a strategic review and assess options (such as a sale of the Property);
    - Debt reduction through principal repayments;
    - Reduce or cease investor distributions; and/or
    - Raise further equity, subject to compliance with applicable laws.

INVESTMENT PERFORMANCE MONITORING

The Manager's finance team and asset management team are jointly responsible for the management of investment risk by monitoring the benchmarks set out in this document. These are designed to be measured and reported in a transparent manner. They are measured every quarter or more frequently if necessary if a potential problem has been identified. This monitoring provides an early warning system for any issues.

Quarterly performance tests include:

- Sustainability of investor distribution;
- WALE;
- Property occupancy rate;
- Term remaining on the Scheme's loan;
- LVR;
- Interest cover ratio;
- NTA; and
- The Scheme's bank account balance.

Performance is measured against the result from the previous quarter. If any result has deteriorated beyond what is expected or breaches the benchmark it is communicated to the Manager's Chief Financial Officer, Chief Operating Officer, the Head of Funds Management and, if applicable, to the Manager's Compliance Committee. Furthermore, any downward trends in performance are monitored relative to benchmark indices and investment objectives.

<u>Periodic Investment Reporting</u>

The Manager will, periodically, report in writing to investors on aspects of the Scheme and the Property. Investor updates will include, at a minimum, data and/or commentary on the following:

- Tenant: WALE, updates and any concerns;
- Property: current independent market valuation, any issues or anticipated costs, keys risks or opportunities (if applicable); and
- Loan: loan amount, loan maturity, LVR and interest rate.

The Manager will hold an annual investor Scheme meeting, and special meetings as required.

INVESTMENT STRATEGY REVIEW

The long-term hold strategy is subject to rigorous review as follows:

- Reviewing the cash flow budget for a minimum of two years in advance, assessing liquidity, LVR projections, sustainability of investor distribution rate, future repairs and maintenance, CAPEX requirements and tenant inducement requirements;
- Reviewing the bank facilities and interest rate management strategy, researching interest rate forecasts and implementing opportunities to hedge interest rate costs where appropriate;
- Reviewing the annual Property revaluation and, where necessary, examine why there are value differences to the prior year;
- Reviewing and placing suitable insurance cover for the Property including a provision for two years of loss of rents cover;
- Assessing each tenant's business operations and gather financial information where possible to ascertain their financial standing;
- Proactively negotiating rent reviews and lease extensions;
- Reviewing potential development opportunities to attract or retain quality tenants and to add value to the Property;

- Researching and investigating any potential external factors relating to the location of the Property that could affect the use and/or value; and
- Reviewing opportunities for a sale of the Property (and therefore an end to the Scheme), making assessments of return on capital, and if a recommendation to sell is made, put a plan into place to ensure the Property is in good saleable condition.

REVIEW AND AMENDMENT OF SIPO

The Manager undertakes a full strategic review of the Scheme and Property at least once per year. This review will analyse the strategic position by considering or discussing the following factors:

- The cashflow budget out for a minimum of two years;
- Assess sustainability of investor distribution rates;
- The age of the Scheme;
- Bank funding;
- Whether to hold or sell the Property;
- Current versus prior year valuation, examine any changes and the reason why;
- Review of lease expiries. If any lease is due to expire within two years, consider a strategy of retaining the existing tenant or marketing for a replacement tenant;
- Consider any potential tenant inducements and/or re-leasing costs;
- Examine the rent review dates;
- Compare rent levels against current market rent to determine if an over or under rented situation exists and the potential impact on the Scheme;
- What is the future capital spend, considering building age and tenant inducements;
- Calculate LVR projections;
- Explore the Property adaptability for future or alternative uses;
- Evaluate interest rates and an appropriate interest rate management policy; and
- Assess if there any opportunities to add value to the Property, for example early lease renewal and increasing occupancy percentages.

At the time of this investment strategic review the SIPO benchmarks will be measured and if it is deemed appropriate a formal review of the SIPO may be undertaken at this time.

If necessary the SIPO may be updated with any proposed amendments to be made in consultation with the Supervisor.

<u>Ad-hoc SIPO Review</u>

Should a breach of any SIPO benchmark occur at the time of quarterly monitoring, a full strategic review of the Scheme and Property will be undertaken and the requirement of an ad-hoc review of the SIPO will be triggered.