Newmark Capital Limited
Gearing policy

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1 Introduction

The Gearing Policy (**Policy**) below provides guidance and explanation in relation to the calculation and limits on the gearing and interest cover ratios of any registered schemes (**Funds**) where Newmark Capital Limited (**Newmark Capital**) is the Responsible Entity, including at an individual credit facility level.

2 Definitions

Fund Manager is the person appointed by Newmark Capital responsible for establishing, implementing and managing a Fund's investment strategy / financial structure and overseeing the day-to-day operating activities of the Fund.

Gearing Ratio of the Fund is calculated as:

$$\frac{\text{Total fund interest - bearing liabilities}}{\text{Total fund assets}}$$

Gearing Ratio for an individual credit facility is calculated as follows:

$$\frac{\text{Total fund interest - bearing liabilities in relation to an individual credit facility}}{\text{Total secured assets in relation to an individual credit facility}}$$

Look Through Gearing Ratio is calculated as:

$$\frac{\text{Total fund interest bearing liabilities + proportionate share of interest bearing liabilities of the fund's underlying investments}}{\text{Total fund assets (excluding investments) + proportionate share of assets of the fund's underlying investments}}$$

Interest Cover Ratio is calculated as:

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

where EBITDA means earnings before interest, tax, depreciation and amortisation.

3 Gearing ratio

(a) The gearing ratio indicates the extent to which all of the Fund's assets are funded by interest-bearing liabilities. It gives an indication of the potential risks the scheme faces in terms of its level of borrowings due to, for example, an increase in interest rates or a reduction in property values.

(b) The higher the level of gearing, typically, the higher level of risk. Low gearing ratios can mean a lower reliance on external liabilities (primarily borrowings) to Fund assets and can be viewed as a measure of financial strength of a Fund.

(c) Where a Fund borrows, a gearing ratio for an individual credit facility will be calculated in respect of each individual credit facility. Newmark Capital will disclose to investors the gearing ratio for each individual credit facility of a Fund to members of that Fund.

(d) The gearing ratio will be calculated using the formula in Section 2 and based on the Fund's latest financial statements. The latest financial statements will be the last audited or reviewed financial statement, except where Newmark Capital is aware of material changes since those documents.

(e) If Newmark Capital does not base the gearing ratio on the latest financial statements, it will disclose the source(s) and date of information used to calculate the ratio.

(f) If member's contributions (other than borrowings from members) are classified as liabilities in financial statements, they will be excluded from liabilities in calculating the gearing ratio.

(g) The financier will only have recourse to the assets of the Funds and will not have recourse to the assets of individual members. The financier's recourse to the assets of the Fund has priority over the rights of members to the income or capital of the Fund. Newmark Capital will target limiting the gearing ratio of an individual credit facility to 55%.

(h) To ensure the Fund has sufficient committed funds available to it on a cost effective basis to meet its anticipated liabilities as and when they fall due, Newmark Capital will target to limit the gearing ratio to a maximum of 55%. This means when undertaking property acquisitions, Newmark Capital will permit the Fund to borrow up to a maximum of 55% of a property's value to finance the acquisition and/or its development. For example, if a property is acquired for $1,000,000 and development and transaction costs are $1,000,000 and the fair value of the property carried in the Fund accounts is $2,000,000, then the Fund's expected borrowing level will not be higher than $1,100,000 in relation to that property.

(i) As this cap on the gearing ratio applies to a Fund as a whole, it is possible that the loan to value ratio of an individual credit facility may exceed this cap. The gearing ratio will vary with the Fund depending on the stage of development.

(j) The look through gearing ratio reflects the ratio of net borrowings to total assets adjusted for the borrowings of investment vehicles in which the Fund invests.

(k) It is not intended that a Fund will have material off-balance-sheet financing, for example, borrowings of equity-accounted investments and loans taken out by investors to invest in the Fund where those loans are secured over the Fund's assets on a limited recourse basis. In the event that a Fund does have material off-balance-sheet financing, Newmark Capital will disclose:

  (i) the look through gearing ratio of the Fund that takes into account such financing; and

  (ii) the gearing ratio of the Fund based on liabilities disclosed in the Fund's financial statements.

(l) Where Newmark Capital is unable to calculate the gearing ratio and/or the look through gearing ratio, Newmark Capital will disclose the reasons why the ratio(s) cannot be calculated, an explanation of risks and impact of being unable to calculate the ratio(s), and the steps being taken by Newmark Capital to address these risks.

4 Interest cover ratio

(a) The interest cover ratio gives an indication of a Fund’s ability to meet the interest payment from earnings.

(b) An interest cover ratio is a measure of how many times the loan interest is covered by the Trust’s EBITDA. A property trust’s interest cover is a key indicator of its financial health.

(c) The lower the interest cover ratio, the higher the risk that the Fund will not be able to meet its interest expense. A Fund with a low interest cover ratio only needs a small reduction in earnings (or a small increase in interest rates or other expenses) to be unable to meet its interest expense. An interest cover ratio of below 1 indicates a fund is not generating sufficient revenues to satisfy interest expenses.

(d) Where a Fund borrows, an interest cover ratio will be calculated in respect of each individual credit facility. Newmark Capital will disclose to investors the interest cover ratio for each individual credit facility of a Fund to members of that Fund.

(e) The ratio will be calculated by dividing the Fund’s forecast EBITDA excluding any unrealised gains and adding any unrealised losses, by the Trust’s forecast annual interest expense (on a look through basis) for the relevant period as per the formula in Section 2.

(f) The calculations will be based on the Fund’s latest financial statements. The latest financial statements will be the last audited or reviewed financial statement, except where Newmark Capital is aware of material changes since those documents.

(g) If Newmark Capital does not base the interest cover ratio on the latest financial statements, it will disclose the source(s) and date of information used to calculate the ratio.

(h) To ensure the Fund has sufficient committed funds available to it on a cost effective basis to meet its anticipated liabilities as and when they fall due, Newmark Capital will target to limit interest cover ratio to be no less than 2.0 times at an individual credit facility level. This means if Newmark Capital forecasts it will have earnings of $10,000 a month, it will only enter into debt facilities that will charge an interest expense of $5,000 per month or less.

(i) Where Newmark Capital is unable to calculate the interest cover ratio, Newmark Capital will disclose the reasons why the ratio cannot be calculated, an explanation of risks and impact of being unable to calculate the ratio, the steps being taken by Newmark Capital to address these risks and the risks associated with these steps.

5 Interest capitalisation policy

(a) The risk associated with capitalising any interest expense is that it will reduce the amount of money available from the ultimate sale of the developed property to be distributed to the members, as the compounding effect of the capitalised interest means that more interest will be payable on the debt facility than if the Fund was able to repay interest throughout the term of the debt facility.

(b) The Fund will not capitalise interest payments. Interest payments will be made monthly to the Fund's lenders.

6 Review

The Policy will be reviewed by the Board on an annual basis to take into account the revised conditions for each Fund. As appropriate, that review may be carried out with the assistance of external compliance advisers and/or the auditor of Newmark Capital.