

# Newmark Hardware Trust

Disclosure Guide: ASIC Regulatory Guide 46  
As at 30 June 2020



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## Scope of this Disclosure Guide

This guide contains disclosure about the six benchmarks and eight disclosure principles described in Regulatory Guide 46 (**RG 46**) issued by the Australian Securities and Investments Commission (**ASIC**). RG 46 aims to improve disclosure to retail investors to help them compare risks and returns across investments in the unlisted property sector. As with all investment types, the business model of unlisted property funds can create risk for investors. There are a number of common risks associated with investments in unlisted property funds, and disclosure relating to them can help investors make informed decisions, including comparing the risks and returns across investments in the sector.

All information in this document is as at 30 June 2020 unless stated otherwise.

Newmark Capital met five of the six ASIC benchmarks for unlisted property funds in respect of the Newmark Hardware Trust (**Trust**) as at 30 June 2020. However, after completion of the Warragul property on 1 July 2020 all of the ASIC benchmarks were met.



# 1.0 Borrowings

## 1.1 Disclosure Principle 1 – Gearing ratio

The Trust’s **gearing ratio** on a look through basis was approximately **49%** as at **30 June 2020** based on the Trust’s latest audited financial statements. The gearing ratio is calculated using the following formula:

$$\text{Gearing ratio} = \frac{\text{Total interest-bearing liabilities}}{\text{Total assets}}$$

### Explanation to investors

The gearing ratio demonstrates the extent to which a trust’s total assets are funded by interest bearing liabilities and gives an indication of the potential risks investors face in terms of external liabilities that rank ahead of them. A higher gearing ratio means the Trust has a higher amount of debt to service, and leads to greater magnification of gains and losses for investors compared to a lower gearing ratio.

Because the Trust may invest in indirect real property investments (ie property securities), Newmark Capital has taken into account any indirect gearing ratio of the indirect real property investments of the Trust (known as the ‘look through gearing ratio’).

## 1.2 Benchmark 1 – Gearing policy

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

Met or not met **The Trust met the benchmark.**

### Newmark Capital Policy

Newmark Capital has a Gearing Policy under which it seeks to limit the Trust’s look through gearing ratio to no greater than 45% on a Trust level and 55% on an individual credit facility level.

The Trust may have a look through gearing ratio of up to 55% on an interim basis pending the raising of further capital to facilitate the acquisition of a property or during the construction or development phases of a property, as was the case as at 30 June 2020.

## 1.3 Disclosure Principle 2 – Interest cover ratio

The Trust’s **interest cover ratio (ICR)** on a look through basis was **3.08 times** as at **30 June 2020** based on the Trust’s latest audited financial statements.

### Explanation to investors

The ICR measures the ability of a trust to service interest on debt from earnings. The lower the interest cover ratio, the higher the risk that a trust will not be able to meet its interest expense. Failure to make an interest payment when



due can lead to a requirement to repay debt, sell assets and pay additional fees and penalties that can result in losses for investors in unlisted property funds.

The Trust's interest cover ratio of 3.08 times means that the Trust should be able to pay distributions and expenses of the Trust after the payment of interest, and the income of the Trust should be sufficient to cover these costs.

## 1.4 Benchmark 2 – Interest cover policy

Benchmark	<b>The Responsible Entity maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level.</b>
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Met or not met	<b>The Trust met the benchmark.</b>
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### Newmark Capital Policy

Newmark Capital maintains and complies with a written interest cover policy that governs the level of interest cover at an individual credit facility level. Under this policy, Newmark Capital targets to limit interest cover ratio to be no less than 2.0 times on an individual credit facility level.

## 1.5 Benchmark 3 – Interest capitalisation

Benchmark	<b>The interest expense of the Trust is not capitalised.</b>
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	<b>As at 30 June 2020, the Trust did not meet the benchmark.</b>
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Met or not met	<b>As at 1 July 2020, the Trust met the benchmark.</b>
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### Explanation to investors

Interest is not capitalised for the Launceston, Maroochydore and Lake Haven properties.

As foreshadowed in the PDS, having settled the acquisition of the Warragul property on 17 July 2019, the Trust did not meet 'Benchmark 3: Interest Capitalisation' of RG 46, as the development of the Warragul property was funded via a construction loan which required the interest to be capitalised as a development cost. This means that 'Benchmark 3: Interest Capitalisation' of RG 46 was not met until the development of the Warragul property was completed on 1 July 2020. From 1 July 2020, Newmark Capital makes repayments on the loan and interest is not capitalised and the Trust meets the benchmark.

There are potential risks associated with capitalising interest including the risk that the development of the property takes longer than expected, thereby accruing additional interest costs. Also, when the development of the property is complete, it may be valued less than expected, impacting the ability to repay the facility. The facility for the Warragul property was held within the Newmark Hardware Property Trust No. 2 and the lender had no recourse to the Trust.



## 1.6 Disclosure Principle 3 – Scheme borrowing

Launceston, Maroochydore and Lake Haven properties – Facility as at 30 June 2020	
Term	From 23 May 2018 to 30 June 2020
Aggregate amount owing	\$75 million
Aggregate undrawn amount	\$0 million
Assets to which the facility relates	Launceston, Maroochydore and Lake Haven properties
Maturity profile in 12 month increments	100% – 30 June 2020
Interest rate	3.53% (fixed rate)
Interest Cover Ratio ('ICR') covenant	x1.95
Loan to Valuation Ratio ('LVR') covenant	55%
Is the facility hedged?	Yes – 87%
Amount (expressed as a %) by which the property values will need to fall by before the LVR covenant is breached (based on 30 June 2020 book values)	9%

The Newmark Hardware Property Trust No. 2 (100% owned by the Trust) entered into a further debt facility upon settlement of the Warragul property, details of which are outlined below. The facility was secured only against the Warragul property and not the other assets of the Trust and the LVR was required to not exceed 70% of the indicative valuation.

Warragul property – Facility as at 30 June 2020	
Term	17 July 2019 to 16 Sept 2020
Aggregate drawn amount	\$32.8 million
Aggregate undrawn amount	\$0.7 million
Assets to which the facility relates	Warragul property
Interest rate	Average BBSY bid rate plus the margin
Interest Cover Ratio ('ICR') covenant	Less than 2.0 times
Loan to Valuation Ratio ('LVR') covenant	66%
Is the facility hedged?	No
Amount (expressed as a %) by which the property values will need to fall by before the LVR covenant is breached (based on 30 June 2020 book values)	6%

On 25 September 2020, Newmark Capital entered into a syndicated debt facility for \$117.0 million which will mature on 24 September 2023 ('**New Facility**'). The aggregate amount owing under the New Facility as at the date of this document is \$117.0 million.

The loan to the Trust has been secured by a mortgage over each of the Trust's properties as well as the Warragul Property (an asset of the wholly-owned Newmark Hardware Property Trust No. 2), and a general security interest over the assets of the Trust.



A summary of the New Facility has been set out below:

<b>New Facility as at 25 September 2020</b>	
Term	From 25 September 2020 to 24 September 2023
Aggregate amount owing	\$117 million
Aggregate undrawn amount	\$0 million
Assets to which the facility relates	Launceston, Maroochydore, Lake Haven and Warragul properties
Maturity profile in 12 month increments	100% maturing 24 September 2023
Interest rate	2.03% (1.90% margin + BBSY 0.13%)
Interest Cover Ratio ('ICR') covenant	2.0 times
Loan to Valuation Ratio ('LVR') covenant	55%
Is the facility hedged?	No (ability to hedge in future)
Amount (expressed as a %) by which the property values will need to fall by before the LVR covenant is breached (based on 30 June 2020 book values)	2%

### **Explanation to investors**

Most property schemes use a combination of borrowings and investors' funds to acquire properties. Borrowings enhance distributions when the cost of the borrowings is less than the return from the property and capital gain potential when property values are rising. However, they can also lead to reduced distributions when the cost of borrowings is greater than the return from the property or a larger capital loss when property values are falling. The key disclosures for scheme borrowing are set out in the table above.

Amounts owing to lenders and other creditors of the Trust rank before an investor's interest in the Trust. This means that if a lender enforces its security over the assets of the Trust then the lender will be repaid before investors in the Trust receive any capital return.



## 2.0 Assets of the Trust

### 2.1 Disclosure Principle 4 – Portfolio diversification

Generally, the more diversified a portfolio is, the lower the risk that an adverse event affecting one property or lease will put the overall portfolio at risk. The following information addresses the Trust's investment practices and portfolio risk.

The Trust's investment strategy was outlined in the PDS, and the Trust's current assets conform to that strategy. The Trust is yet to invest in listed property securities.

#### 2.1.1 Portfolio & tenants' information

The Trust's investment portfolio comprises the following:

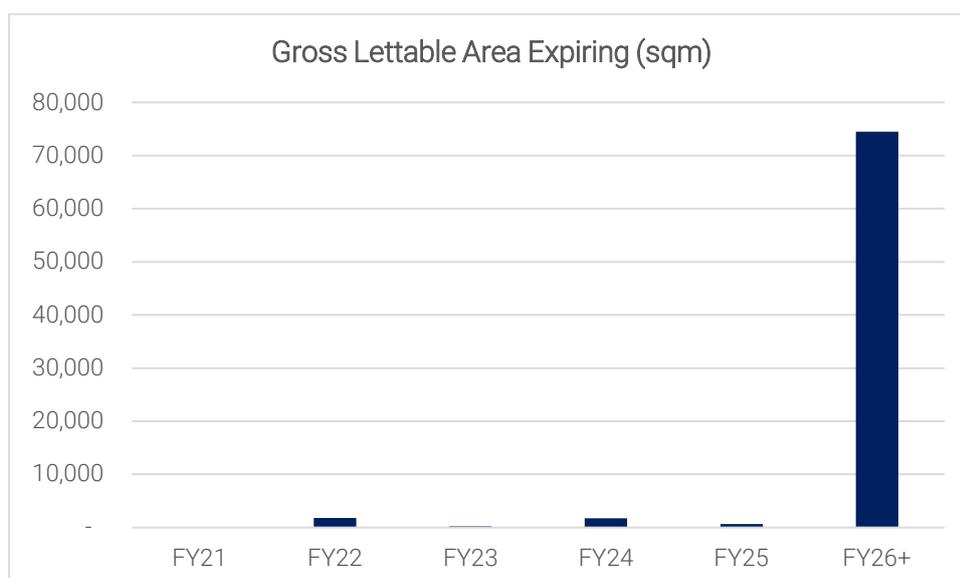
Property	Sector	GLA	Major tenants	Occupancy by income	WALE by income as at 30 June 2020
1 Launceston, TAS	Large format retail	22,329m <sup>2</sup>	Bunnings Officeworks JB Hi-Fi Petstock	100%	5.5 years
2 Maroochydore, QLD	Large format retail	17,963m <sup>2</sup>	Bunnings Howards Storage World F45	100%	6.7 years
3 Lake Haven, NSW	Large format retail	16,313m <sup>2</sup>	Bunnings	100%	10.9 years
4 Warragul, VIC	Large format retail	25,515m <sup>2</sup>	Bunnings Kmart Petstock Reject Shop Repcos My Car	85%	9.3 years

Top 4 tenants	Tenant	% income as at 30 June 2020	Area
1	Bunnings	75%	65,313m <sup>2</sup>
2	Kmart	11%	6,485m <sup>2</sup>
3	Officeworks	3%	1,714m <sup>2</sup>
4	Petstock	3%	1,539m <sup>2</sup>

The weighted average lease expiry ('WALE') for the property portfolio in the Trust was **7.84 years (by income)** and **8.15 years (by area)** as at 30 June 2020. The WALE is an indicator of the risk of lease expiries. It is weighted by income or area allowing for differing tenant sizes and rental rates. The higher the WALE the lower the risk of immediate lease expiries and potential re-leasing costs.



The portfolio lease expiry profile in yearly periods based on area is set out in the chart below:



### 2.1.2 Valuation information

Property	Valuation	Date	Valuer <sup>1</sup>	Capitalisation rate	Book value as at 30 June 2020	% of portfolio <sup>2</sup>
1 Launceston, TAS	\$54.00m	Aug 2020	Savills	5.7%	\$54.00m	25%
2 Maroochydore, QLD	\$63.50m	Aug 2020	Savills	5.3%	\$63.50m	29%
3 Lake Haven, NSW	\$46.50m	Aug 2020	Savills	5.0%	\$46.50m	21%
4 Warragul, VIC	\$53.00m	Aug 2020	Savills	6.0%	\$53.00m	24%
<b>Total</b>	<b>\$216.80m</b>				<b>\$216.80m</b>	

<sup>1</sup> All valuers are independent    <sup>2</sup> By value

### 2.1.3 Development

On 17 July 2019 the Trust acquired the Warragul land and the Warragul property became an asset of the Trust. The development of the Warragul property was completed as at 1 July 2020. The key milestones of development timetable are below:

Key milestones	Status*
Land settlement	Settled
Development agreement	Executed
Planning approval for project and construction	Completed
Construction commencement	Commenced
Project completion	Completed
Lease commencement (major tenancies)	Commenced

\* As at 1 July 2020

There are potential risks associated with property development including the risk that assumptions on which the 'indicative' valuations are based may prove to be inaccurate, time delays, cost overruns and contract risk. Refer to section 4 'Significant Risks' of the PDS for further detail.



## 2.2 Benchmark 4 – Valuation policy

Benchmark	<b>The Responsible Entity maintains and complies with a written valuation policy.</b>
Met or not met	<b>Newmark Capital met the benchmark.</b>

### **Newmark Capital Policy**

Newmark Capital's Valuation Policy requires properties to be independently valued by a registered valuer in the relevant state:

- before acquisition of a property on an as-if-complete basis for development property and an as-is basis for all other property;
- within two months of the Board of Newmark Capital forming the view that there is a likelihood that there has been a material change in the value of a property; and
- at least every three years.

The policy meets all of the requirements of RG 46, including relating to dealing with conflicts of interest, rotation and diversity of valuers and timetable. The policy also includes information on how the Trust's property securities will be valued. A copy of the Valuation Policy can be obtained by calling us on 03 9066 3966.



# 3.0 Related Party Transactions

## 3.1 Disclosure Principle 5 – Related party transactions

Related party transactions can carry a risk that they could be assessed and monitored less rigorously than arm’s length third party transactions. It is important for investors to be able to assess whether responsible entities take an appropriate approach to related party transactions. A significant number and value of such transactions may mean that investors should consider the financial position of the related group as a whole and the risk of potential conflicts of interest.

Newmark Capital’s directors, shareholders and associates may hold units in the Trust, along with other investors.

Newmark Property Funds Management Pty Ltd (**‘Manager’**) has been appointed as the manager of the Trust by Newmark Capital under an Investment Management Agreement. The Manager is a wholly owned subsidiary of Newmark Property Group Pty Ltd (Newmark Property Group Pty Ltd also wholly owns the Responsible Entity).

All related party transactions are on arm’s length terms and are in compliance with Newmark Capital’s policies and procedures for entering into related party transactions. All related party transaction arrangements are monitored by Newmark Capital’s Compliance Committee. Related party transactions are disclosed in the Trust’s annual and half-year financial statements. The most recent disclosure and financial statements can be obtained by calling us on 03 9066 3966.

## 3.2 Benchmark 5 – Related party transactions

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.**

Met or not met      **Newmark Capital met the benchmark.**

### Newmark Capital Policy

The key elements of the policy are that related party transactions must be approved by the Newmark Capital Board (with detailed information provided on the arm’s length basis of the transaction), Newmark Capital must act in the best interests of investors, the transaction must be fair and reasonable and be properly documented. The policy sets out when independent reports may be appropriate, and how disclosure should be made to investors.

Detailed approval and assessment processes are set out in the policy, including ongoing monitoring by the compliance officer and compliance committee.



# 4.0 Trust distributions and withdrawal rights

## 4.1 Disclosure Principle 6 – Distribution practices

The Trust intends to provide Unitholders with regular distributions of income and any realised capital gains.

Distributions are intended to be calculated and paid quarterly to Unitholders and are based on Units held at the end of the distribution period. Distributions can be paid by cash or reinvested in additional Units.

The distribution for the June 2020 quarter was 2.25 cents per Unit resulting in 8.75 cents per Unit for the June 2020 financial year, sourced from cash from operations (excluding borrowings). Newmark Capital considers the current distribution to be sustainable over the next 12 months, however this is not a forecast.

## 4.2 Benchmark 6 – Distribution practices

Benchmark	<b>The Trust will only pay distributions from its cash from operations (excluding borrowings) available for distribution.</b>
Met or not met	<b>The Trust met the benchmark.</b>

## 4.3 Disclosure Principle 7 – Withdrawal arrangements

The constitution of the Trust provides Unitholders with the right to withdraw from the Trust in certain circumstances.

While the Trust is liquid for Corporations Act purposes, Unitholders may make a request to withdraw some or all of their Units and Newmark Capital in its absolute discretion, may:

- a. satisfy the withdrawal request within 12 months of the Withdrawal Date<sup>1</sup> to which the withdrawal request applies (although Newmark Capital will endeavour to satisfy the withdrawal request within 21 days of the relevant Withdrawal Date); or
- b. if a limited Withdrawal Facility is offered, satisfy the withdrawal request in accordance with the procedures described below.

The Trust’s constitution allows Newmark Capital to offer a limited withdrawal facility on a monthly basis (**Withdrawal Facility**). If a limited Withdrawal Facility is offered:

- a. Newmark Capital will make an amount equal to a minimum of 0.5% of the net asset value of the Trust available to satisfy the withdrawal requests received that month (**Withdrawal Cap**) (calculated as at the last Melbourne business day immediately prior to the date of payment of the withdrawal requests);
- b. where in that month, Newmark Capital has received withdrawal requests which in aggregate represent more than the Withdrawal Cap, all withdrawal requests received that month will be partially accepted by Newmark Capital on a pro rata basis and any unfulfilled part of the withdrawal request will be automatically carried forward to the following month. This carry forward procedure will continue until a Unitholder’s withdrawal request is able to be satisfied in full, applying the pro rata procedures referred to above. Each time a Unitholder’s withdrawal request is carried forward to the following month, it will be deemed to be a withdrawal request received the following month (**Deemed Withdrawal Request**);
- c. in the event that Newmark Capital receives any subsequent withdrawal requests while partially unfulfilled withdrawal request are still on foot, the outstanding partially unfulfilled withdrawal request will take priority over such subsequent withdrawal requests received by Newmark Capital, and the subsequent withdrawal requests will also be subject to the same procedures referred to in paragraph 2 above as if they were Deemed

<sup>1</sup> The last Business Day of each calendar month unless otherwise determined by Newmark Capital.



- Withdrawal Requests, to the extent that the subsequent withdrawal requests cannot be satisfied in that month; and
- d. subject to the pro rata procedure referred to in paragraphs 2 and 3 above, Newmark Capital will give effect to each withdrawal request received under the Withdrawal Facility in respect of the relevant month by satisfying the withdrawal request within 12 months of the Withdrawal Date immediately after that withdrawal request is received.

### **Withdrawal Cap**

If the Withdrawal Facility is offered, Newmark Capital will make a minimum of 0.5% of the Trust's net assets available for withdrawal each month. At the beginning of each month, Newmark Capital will set out the estimated amount available for withdrawal for that month on its website, [www.newmarkcapital.com.au/funds/newmark-hardware-trust](http://www.newmarkcapital.com.au/funds/newmark-hardware-trust). The actual amount available for withdrawal will be determined as at the Melbourne business day immediately before the withdrawal requests are processed.

If, in a given month, withdrawal requests exceed the Withdrawal Cap, Newmark Capital may determine that Unitholders will receive a pro rata withdrawal amount in proportion to the amount of withdrawals that can be satisfied that month as explained in the pro rata procedure set out above.

### **Withdrawal Facility**

Newmark Capital currently offers a limited Withdrawal Facility, subject to a Withdrawal Cap. It is expected that withdrawals under the Withdrawal Facility will be satisfied from the Trust's cash.

Unitholders may request withdrawal from the Trust by submitting a withdrawal request in writing.

There are potential risks associated with open-ended unlisted property trusts that own direct property and offer withdrawals. Investors should refer to section 4 of the PDS, in particular 'Liquidity and withdrawal risk' and 'Direct property valuation risk'.

**Further information on withdrawals from the Trust is contained in the PDS.**

## **4.4 Disclosure Principle 8 – Net tangible assets**

The Trust is an open-ended unlisted property trust; therefore **this disclosure principle does not apply**. The Trust is valued daily, and the most recent unit price will be available on our website at [www.newmarkcapital.com.au/funds/newmark-hardware-trust](http://www.newmarkcapital.com.au/funds/newmark-hardware-trust).



## Important Notice and Disclaimer

As responsible entity for the Newmark Hardware Trust ARSN 161 274 111 ('Trust'), Newmark Capital Limited ACN 126 526 690, AFSL 319372 ('Newmark Capital' or 'Responsible Entity') is the issuer of this document, which should be read in conjunction with the product disclosure statement dated 15 February 2019 ('PDS') as updated or replaced from time to time, and any additional disclosure or updated information available from [www.newmarkcapital.com.au/funds/newmark-hardware-trust](http://www.newmarkcapital.com.au/funds/newmark-hardware-trust) or otherwise made available to investors by Newmark Capital.

Newmark Capital may update this document from time to time. Newmark Capital recommends investors refer to the Newmark Capital website at [www.newmarkcapital.com.au/funds/newmark-hardware-trust](http://www.newmarkcapital.com.au/funds/newmark-hardware-trust) for these updates.

From time to time, Newmark Capital may become aware of information that is material to investors but not covered by a disclosure principle. Any such information will be provided to investors in continuous disclosure notices on our website.

The information in this document is general information only and does not take into account your objectives, financial situation or needs. Therefore, in deciding whether to acquire or continue to hold an investment you should consider the PDS and any website updates to it carefully and assess, with or without your financial adviser, whether the product fits your objectives, financial situation or needs.

You are entitled to receive a paper copy of this document upon request.

