Newmark Como Property Trust

Disclosure Guide: ASIC Regulatory Guide 46
As at 31 December 2020

Newmark Capital Limited
Level 17, 644 Chapel Street
South Yarra Vic 3141
AFSL: 319 372

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 risks 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.

The information in this guide is as at 31 December 2020 unless stated otherwise.

Newmark Capital met all of the ASIC benchmarks for unlisted property funds in respect of the Newmark Como Property Trust ('Trust') as at 31 December 2020.

1.0 Borrowings

1.1 Disclosure Principle 1 – Gearing ratio

The Trust's **gearing ratio** was approximately **47.2** as at **31 December 2020** based on the Trust's auditor reviewed financial statements as at 31 December 2020. 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.

The Trust holds all assets and liabilities directly therefore the gearing ratio and the 'look-through' gearing ratio are the same.

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 gearing ratio to no greater than 55% on a Trust level and on an individual credit facility level.

1.3 Disclosure Principle 2 – Interest cover ratio

The Trust's **interest cover ratio** ('**ICR**') was **2.38 times** as at **31 December 2020** based on the Trust's reviewed financial statements as at 31 December 2020.

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 2.38 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	**The Responsible Entity maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level.**
Met or not met	**The Trust met the benchmark.**

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	**The interest expense of the Trust is not capitalised.**
Met or not met	**The Trust met the benchmark.**

Explanation to investors

The Trust's interest expense is not capitalised but paid monthly to the Trust's lender.

1.6 Disclosure Principle 3 – Scheme borrowing

Facility as at 31 December 2020	
Term	3 years
Aggregate amount owing	$151.8 million
Aggregate undrawn amount	$0.7 million
Assets to which the facility relates	Como Centre
Maturity profile in 12-month increments	100% - 30 June 2022
Interest rate	Part fixed: 2.62% ($130.0 million) Part floating: Average BBSY bid rate plus margin
Interest Cover Ratio ('ICR') covenant	x1.8
Loan to Valuation Ratio ('LVR') covenant	55%
Is the facility hedged?	Part hedged: $130 million (fixed interest rate: 2.62%)
Amount (expressed as a %) by which the property values will need to fall by before the LVR covenant is breached (based auditor-reviewed financial statements as at 31 December 2020)	12%

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

This disclosure principle addresses a trust's investment practices and portfolio risk. Generally, the more diversified a portfolio, the lower the risk that an adverse event affecting one property or one lease will put the overall Trust at risk.

The Trust invests in one property, the Como Centre, a landmark office, hotel and retail centre prominently positioned on the corner of two of Melbourne's best-known streets – Chapel Street and Toorak Road in South Yarra, Victoria.

The Trust's investment strategy including the intention to undertake various initiatives to add value and develop a plan for future expansion opportunities of the Como Centre was outlined in the PDS, and the Trust's current assets conform to that strategy.

Should Newmark Capital propose any development or expansion works, it will keep investors informed and outline the risk and return profile and advise of any financial return. Newmark Capital is continuing to evaluate the redevelopment opportunities at the Como Centre. An application for planning approval is currently being considered for additional office accommodation consistent with Newmark Capital's strategy of enhancing the value of the Como Centre precinct.

2.1.1 Portfolio & tenant information

The Trust's investment portfolio comprises the following:

Como Centre	Area	Major tenants	Occupancy	% of gross income as at 31 Dec 2020
Office	NLA: 25,538m^2	Network Ten Clemenger Omnicom Media	97%	70%
Retail & cinema	NLA: 6,432 m^2	Palace Cinema	84%	14%
Hotel	111 rooms	Accor	100%	12%
Car park	522 spaces	Secure Parking Network Ten	100%	4%

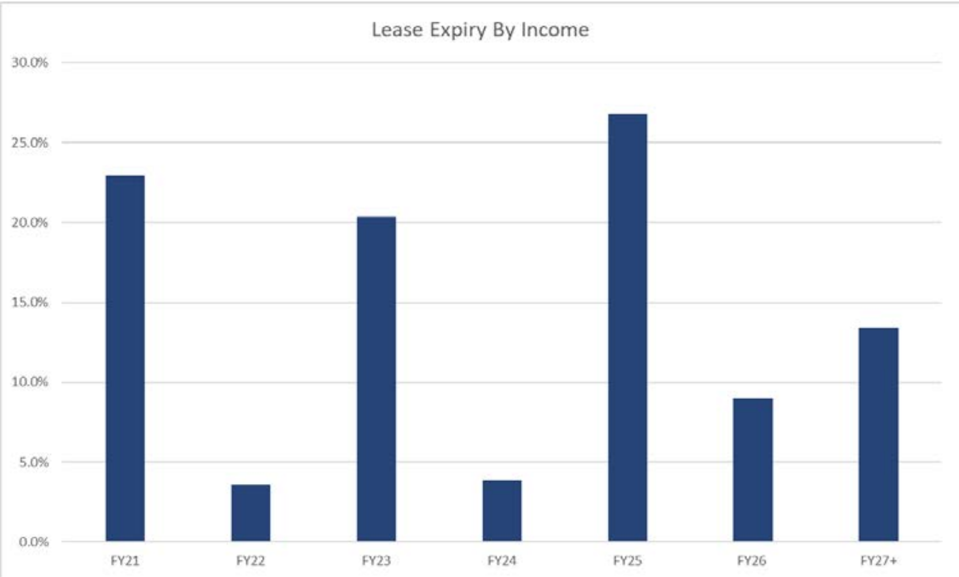
Top 5 tenants	Tenant	% of gross income as at 31 Dec 2020	Area
1	Accor	12%	111 rooms
2	Network Ten	11%	3,874m^2
3	Clemenger	9%	3,742m^2
4	Omnicom Media	5%	2,139m^2
5	Palace Cinema	5%	2,524.8m^2

The weighted average lease expiry (**'WALE'**) for the property in the Trust is listed below by income and by area as at 31 December 2020:

	Office & Carpark	Retail & Cinema	Hotel
WALE – Income	2.90 years	7.63 Years	0.5 years
WALE – Area	2.82 years	6.90 years	0.5 years

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 vacancy and re-leasing costs.

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



2.1.2 Valuation information

Property	Como Centre
Valuation	\$305.0 million
Date	30 April 2019
Valuer[1]	CBRE
Capitalisation rate	Office & Car park: 5.63% Retail: 6.25% Hotel: 5.25%
Book value as at 31 December 2020	\$314.4m million
% of portfolio[2]	100%

1 The valuer is independent   2 By value

2.2 Benchmark 4 – Valuation policy

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

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).

The Manager has sub-contracted its obligations under the Investment Management Agreement to its wholly owned subsidiary Newmark Property Management (Como) Pty Ltd ('**Sub-Manager**') under a sub-investment management agreement.

Other related parties of Newmark provide various services to the Trust:

- Newmark Operations Pty Ltd provides various services to the Sub-Manager and Newmark Capital and is a tenant of the Como Centre.
- Newmark Asset Management Pty Ltd provides leasing, property management and tenancy co-ordination services.
- Newmark Developments Pty Ltd provides project management and development services.

All related party transactions are on arm's length terms and comply 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

Distributions are intended to be calculated and paid quarterly to Unitholders and are based on the number of units held during the distribution period and the number of days that an investor held the units in the distribution period.

All distributions are generally to be paid only from cash from operations (excluding borrowings). However, the Trust may pay distributions from other sources if it is considered to be in the best interests of Unitholders (for example if rental income is reduced due to reconfiguration) and where payment from that source is expected to be sustainable in the relevant circumstances. Other sources will include borrowings or a deferral of management fees.

There are risks associated with paying distributions from sources other than cash from operations (excluding borrowings). This practice may not be commercially sustainable over the longer term, particularly where property values are not increasing.

Where part of the distribution is paid from borrowings, this reduces Unitholders' equity and the net tangible assets per unit. It will also increase the gearing ratio and gearing related risks. Where the Trust is close to its loan-to-valuation ratio covenant, the risk of breaching these covenants is increased.

The distribution for the December 2020 quarter was 1.0 cents per Unit resulting in 4.75 cents per Unit for the December 2020 calendar year, sourced from cash from operations and borrowings. Despite income levels slowly returning to pre covid levels, the completion of planned capital works over the coming quarter, and expected development costs in the Financial Year 2022 year will require the fund to monitor cashflows closely. It is expected that Distributions over the next 12 months will see a slight increase after these considerations. Newmark Capital expects distributions to be increase slightly over the Distributions are expected to be paid from cash from operations.

4.2 Benchmark 6 – Distribution practices

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

4.3 Disclosure Principle 7 – Withdrawal arrangements

As the underlying asset of the Trust is illiquid, Unitholders will generally not be able to withdraw from the Trust during the Trust Term[1].

Newmark Capital will, within the first five years of the Trust Term, undertake a review of the Trust ('**Trust Review**'), including its debt, capital structure and term. As part of this Trust Review, Newmark Capital will offer Unitholders the opportunity to withdraw some or all of their investment in the Trust provided that it is in the best interests of Unitholders as a whole, having regard to matters such as the Trust's gearing and the level of interest expressed by investors to withdraw from the Trust. Newmark Capital may finance the withdrawal

[1] The term of the Trust, which is to be approximately 10 years from 28 June 2016.

facility in a number of ways, including from one or more of undeployed capital, facilitating the transfer of units from exiting Unitholders to new investors or obtaining bank finance. Any withdrawal offer will be made pro-rata to all Unitholders in the Trust. Any withdrawal offer, including timing and amounts will be notified to Unitholders at the time.

Newmark Capital will call a meeting (subject to the Trust Review) in approximately the 10th year of the Trust to consider the future of the Trust (including but not limited to whether the Trust is to be wound up or whether it should continue and whether a liquidity facility can be offered).

4.4 Disclosure Principle 8 – Net tangible assets

The Trust's **net tangible assets ('NTA') on a per unit basis** was **$1.26** as at **31 December 2020** based on the Trust's audited financial statements. The NTA is calculated using the following formula:

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

* There were no intangible assets or adjustments included in the calculation above.

Explanation to investors

The NTA calculation should be based on the Trust's latest financial statements. The latest financial statements would usually be the latest audited or reviewed financial statements, except where Newmark Capital is aware of material changes since those statements were issued.

An NTA calculation helps unitholders understand the value of the assets upon which the value of their unit is determined. Changes in the NTA provide unitholders information on the performance of the Trust and therefore the performance of their investment. The NTA is also an indication of what value will be returned to them at the end of the term of the Trust, however past performance is not a reliable indicator of future performance.

Important Notice and Disclaimer

As responsible entity for and the issuer of units in the Newmark Como Property Trust ARSN 616 371 665 ('**Trust**'), Newmark Capital Limited ABN 12 126 526 690, AFSL 319 372 ('**Newmark Capital**' or '**Responsible Entity**') is the issuer of this document, and any additional disclosure or updated information available from https://www.newmarkcapital.com.au/funds/newmark-como-property-trust.

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-como-property-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 carefully and assess, with or without your financial adviser, whether the product fits your objectives, financial situation or needs. Past performance is not a reliable indicator of future performance.

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