STOCKLAND DIRECT RETAIL TRUST NO. 1 (SDRT1 or the Trust)
ASIC REGULATORY GUIDE 46: IMPROVING DISCLOSURES
September 2019 Update

Introduction

The following document has been prepared for SDRT1 for the purposes of ASIC Regulatory Guide 46. **All figures are as at 30 June 2019** unless stated otherwise. For further information please refer to SDRT1's interim financial report for the year ended 30 June 2019 (**Financial Report**) located on our website: www.stockland.com.au/investor-centre/unlisted-property-funds.htm.

Following the meeting of members held on 8 March 2019 at which investors voted in favour of selling the Trust's properties and winding up the Trust, Stockland Capital Partners Limited as responsible entity of the Trust (**SCPL or the Responsible Entity**), has commenced a sale process for the Trust's properties. Stockland Pacific Pines was sold on 19 August 2019 and a non-binding heads of agreement for the sale of Tamworth Homespace was entered into on 22 August 2019. The Responsible Entity will continue to administer the Trust in accordance with the Trust constitution and product disclosure statement dated 16 October 2006 until all properties are sold and the Trust is wound up.

Disclosure Principle 1: Gearing Ratio

Gearing Ratio:	51.2%

The Gearing Ratio indicates the extent to which the Trust's assets are funded by interest bearing liabilities. It gives an indication of the potential risks the Trust faces in terms of its borrowings due to, for example, an increase in interest rates or a reduction in property values.

Benchmark 1: Gearing Policy

Pursuant to SDRT1's loan agreement with Commonwealth Bank of Australia (**CBA**), the gearing benchmark expressed as a Loan to Value Ratio, must not exceed 65%. SDRT1 has adopted this benchmark as its Gearing Policy. The Gearing Ratio of 51.2% satisfies the Benchmark.

Disclosure Principle 2: Interest Cover Ratio

Interest Cover Ratio:	3.1 times

The Interest Cover Ratio (**ICR**) measures the ability of the Trust to service interest expense on debt from earnings. It is therefore a critical indication of the Trust's financial health and key to analysing the sustainability and risks associated with the Trust's level of borrowing. The lower the ICR, the higher the risk that the Trust will not be able to meet its interest payments.

Benchmark 2: Interest Cover Policy

Pursuant to SDRT1's loan agreement with CBA, the ICR benchmark for each 12-month period must be at least 1.5 times greater than the interest expense for the same period. The ICR of 3.1 indicates that SDRT1 is able to meet its interest payments, and satisfies Benchmark 2.

Benchmark 3: Interest Capitalisation Policy

Interest capitalisation is when the investment scheme is not required to make interest payments until an agreed point in time. This generally applies to developments, where an asset may not generate income during the development period to meet the interest obligations of the facility agreement.

SDRT1's policy is not to capitalise its interest payments. Benchmark 3 is satisfied as SDRT1's interest expense is not, and has never been, capitalised.

Disclosure Principle 3: Scheme Borrowing

The following table provides a summary of SDRT1's borrowing arrangements as at 30 June 2019.

Facility Limit	Undrawn Amount	Facility Expiry	Interest Rate p.a
$43.0m	$0.4m	Sep 2020	4.2% p.a.*

**Weighted average interest rate on the Trust's loan facility during the year ended 30 June 2019 including the margin, line fee, establishment fee and the fixed interest payable under the Trust's interest rate swap.*

Loan Covenants

All loan covenants pursuant to SDRT1's loan agreement with CBA were complied with as at 30 June 2019. A breach of a loan covenant may result in the lender being able to require immediate repayment of the loan or impose a freeze on further draw-downs on the credit facility.

Investors should note that they rank behind the creditors of the Trust. This means if the lender enforces its security over the Trust then the lender will be reimbursed prior to the return of any capital to investors.

Disclosure Principle 4: Portfolio Diversification

Investment Strategy

The Trust aims to provide regular distributions and the opportunity for capital growth (noting that members have voted in favour of selling the Trust's properties and winding up the Trust). To achieve this, the Trust currently invests in three retail properties. The following tables provide a summary of the external property valuations for the Trust's properties at 30 June 2019 and a snapshot of the portfolio's key metrics:

Property	Benowa Gardens Shopping Centre
Valuation	$38.75m
Valuer	Urbis
Cap rate	7.00%
Occupancy by rental income	88.6%
Book Value at 30 June 2019	$38.75m

Property	Stockland Pacific Pines
Valuation	$30.0m
Valuer	Urbis
Cap rate	6.00%
Occupancy by rental income	97.7%
Book Value at 30 June 2019	$30.81m*

**Reflects sale price actually achieved for the property.*

Property	Tamworth Homespace
Valuation	$14.5m
Valuer	Urbis
Cap rate	8.50%
Occupancy by rental income	82.9%
Book Value at 30 June 2019	$14.1m*

**Reflects the estimated net sale price based on a non-binding heads of agreement entered into on 22 August 2019.*

Top 5 Tenants by Rental Income

Tenant	% of Income
Woolworths Pacific Pines	14.4%
Coles Benowa	8.8%
The Good Guys	5.2%
Pillow Talk	3.9%
Benowa Gardens Chempro Chemist	3.3%

Top 5 Tenants by Gross Lettable Area (GLA)

Tenant	% of GLA
Woolworths	14.6%
The Good Guys	9.9%
Coles	8.1%
Pillow Talk	7.4%
Lincraft	5.0%

Diversification by Book Value

Diversification	Geographic Spread By Value	Geographic Spread By Number
QLD	83%	67%
NSW	17%	33%

	Sector Spread By Value	Sector Spread By Number
Retail	100%	100%

SDRT1 Occupancy and Weighted Average Lease Expiry

At 30 June 2019, SDRT1's occupancy was 89.8% by rental income. The Weighted Average Lease Expiry (**WALE**) was 3.6 years by rental income.

Benchmark 4: Valuation Policy

SDRT1's policy is for all properties to be independently valued at least every three years by a Certified Practicing Valuer registered with the Australian Property Institute. A Directors' valuation is undertaken at every other reporting date when an external valuation does not occur. Where the internal valuation results in a variance outside the range -5% to +5% of a property's built up book value, an external valuation is required. In addition, where the variance in the built up book value is outside the range -5% to +5% of the most recent independent valuation, a new external valuation is required.

SDRT1 complies with its policies with respect to property valuation with the most recent independent valuations being undertaken on 30 June 2019.

Disclosure Principle 5: Related Party Transactions

Related Party Transactions carry a risk that they could be assessed and monitored less rigorously than arm's length third party transactions. Investors should therefore be able to assess whether a Responsible Entity takes 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.

As outlined in Section 4.6 of the Product Disclosure Statement (PDS), approval of all related party transactions by the Board of SCPL, the Responsible Entity of SDRT1, are to be by unanimous vote. Any Stockland Executive Directors are excluded from voting on such transactions.

Listed below are the primary related party transactions for the year ended 30 June 2019. Please refer to Note 20 of the

Financial Report for a full review of Related Party Transactions concerning SDRT1. We note that at 30 June 2019:

- Stockland Trust Management Limited (**STML**) as the Responsible Entity of Stockland Trust, a related party of SCPL, held 7,877,500 units in SDRT1; and
- SCPL is the Responsible Entity of SDRT1. SCPL does not hold any units in SDRT1.

Related Party fees for the year ended 30 June 2019

Type	Amount	When Paid?
Management fee payable to SCPL	$0.41m for the year ended 30 June 2019, representing 0.45% p.a. (excluding GST) of the Trust's gross assets.	Payable quarterly in arrears out of the assets of the Trust.
Manager expenses payable to SCPL	$0.08m in respect of recoverable expenses relating to accounting, taxation and compliance services.	Payable annually in arrears.
Insurance premiums payable to Singapore Pte Ltd	$0.04m	Payable annually in arrears.
Property Management fee payable to Stockland Property Management Pty Limited (**SCPL**)	$0.47m representing 5% of the gross income from the properties.	Payable quarterly in arrears.
Salaries and wages payable to SPMPL	$0.33m for staff costs pursuant to the property management agreement.	Payable quarterly in arrears.
Tenancy design and delivery services payable to Stockland Development Pty Limited	$0.16m pursuant to the property management agreement.	Payable quarterly in arrears.
Provision for transaction and Trust wind up costs	$0.35 pursuant to Trust constitution	Payable upon termination and winding up of the Trust.

Benchmark 5: Related Party Transaction Policy

A corporate governance framework has been established to protect investors' interests. In relation to the Related Party Transactions, this framework includes:

- Executed agreements between Stockland Corporation, STML and SDRT1 with the assistance of separate independent legal advice obtained by SCPL on behalf of SDRT1;
- Monitoring of compliance with SCPL's obligations by the Compliance Committee;
- A 6-monthly review and full year audit by the scheme auditor and full year audit by the compliance plan auditor;
- A requirement for the approval of all related party transactions by the SCPL Board to be by unanimous vote. The Stockland Executive Director is excluded from voting on such transactions;
- Acting in accordance with the Responsible Entity's conflicts of interest policy, which is made available to all staff. The policy is reviewed on an ongoing basis to ensure that Stockland maintains adequate conflicts management arrangements; and
- The SCPL Directors have a fiduciary duty to act in the best interests of investors in relation to decisions affecting SDRT1.

SDRT1 complies with its policies and procedures with respect to Related Party Transactions.

Disclosure Principle 6: Distribution Practices

Benchmark 6: Distribution Policy

SDRT1's policy is to fund distributions entirely with available cash from realised income. Distributions for the year ended

30 June 2019 were funded 100% from realised income, which met Benchmark 6. It is anticipated that distributions will, if any are made before the Trust's properties are sold and the Trust wound up, continue to be funded from available cash from realised income. This approach is considered sustainable over the next 12 months or until the Trust is wound up, whichever happens first. However, SCPL may review and adjust accordingly.

Disclosure Principle 7: Withdrawal Arrangements

Investors are unable to redeem their units until termination of the Trust. Consistent with the terms of the Trust's PDS, the Trust's Limited Liquidity Facility (**LLF**) offered by National Australia Bank was closed on 10 June 2014. Following the June 2014 Quarter LLF, Stockland Trust's holding in the trust was 19.9%. Investors are, however, still able to transfer their units by way of an off market transfer.

Off Market Transfers

Investors may transfer their units to third parties at any time in accordance with the terms and conditions detailed in Section 5.5 of the PDS. The Off Market Transfer form is available on our website:
www.stockland.com.au/investor-centre/unlisted-property-funds.htm.

Risks During the Term of the Trust and at Termination

The performance of the Trust will be influenced by a range of factors during the term of the Trust and at termination including:

- Changes in economic or market conditions which may affect demand for the properties and cause fluctuations in property values;
- A risk that a sale of the properties is delayed or does not proceed; and
- In the event that the properties do not sell before the Trust's loan facility expires, the facility cannot be extended or refinanced on its expiry which may adversely affect investor returns.

Please refer to Section 8 of the PDS for more information.

Disclosure Principle 8: Net Tangible Assets

Trust Net Tangible Assets (NTA)	$0.9782 per unit

The NTA states the underlying value of the Trust, and is calculated as follows:

$$\text{NTA} = \frac{\text{Net assets - intangible assets +/- adjustments}}{\text{Number of SDRT1 units}}$$

$$\text{NTA} = \frac{\$38,738,613.13}{39,600,000}$$

The NTA helps investors understand the value of the assets upon which the value of their unit is determined. The NTA is based on the Financial Report. We note that the fund is a closed end fund and therefore there are no redemption rights available to investor.

Further Information

For further information in relation to the above please refer to the website at www.stockland.com.au/investor-centre/unlisted-property-funds.htm or contact us at (02) 9035 2000. These Disclosure Principles will be regularly updated and made available on our website.