



# STOCKLAND DIRECT OFFICE TRUST NO. 2 (“SDOT2” or “the Trust”)

## ASIC REGULATORY GUIDE 46: IMPROVING DISCLOSURES

Updated March 2014

### Introduction

The following document has been prepared for SDOT2 for the purposes of the updated ASIC Regulatory Guide 46. **All figures are as at 31 December 2013** unless stated otherwise. It should be noted that the sale of the property occurred on 7 February 2014 and a distribution was made to investors on 28 February 2014. For further information please refer to SDOT2's financial report for the half year ended 31 December 2013 (Financial Report) on our website: [www.stockland.com.au/investor-centre/unlisted-property-funds.htm](http://www.stockland.com.au/investor-centre/unlisted-property-funds.htm).

### Disclosure Principle 1: Gearing Ratio

<b>Gearing ratio:</b>	<b>56.0%</b>
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The gearing ratio indicates the extent to which a scheme'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.

#### Benchmark 1: Gearing Policy

Under the facility agreement with Westpac the gearing benchmark, expressed in Loan to Value (“LVR”) ratio, must not exceed 65%. SDOT2 has adopted this benchmark as its gearing policy. The gearing ratio of 56.0% satisfies this Benchmark.

### Disclosure Principle 2: Interest Cover

<b>Interest Cover Ratio:</b>	<b>1.6 times</b>
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Interest cover measures the ability of the scheme to service interest expense on debt from earnings. It is therefore a critical

indication of a scheme's financial health and key to analysing the sustainability and risks associated with the scheme's level of borrowing. The lower the interest cover, the higher the risk that the scheme will not be able to meet its interest payments.

#### Benchmark 2: Interest Cover Policy

Under the facility agreement with Westpac, the interest cover benchmark for each twelve month period must be at least 1.2 times greater than the Interest Expense for the same period. The Interest Cover Ratio (ICR) of 1.6 indicates that SDOT2 is able to meet its interest payments, and satisfies the Benchmark.

Please note the ICR above varies from the ratio provided to the financier. The variation is due to different calculations required by ASIC and the financier.

#### Benchmark 3: Interest Capitalisation Policy

SDOT2's policy is not to capitalise its interest payments. This Benchmark is met as SDOT2's interest expense is not, and has never been, capitalised.

*Interest Capitalisation is when the 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.*

### Disclosure Principle 3: Scheme Borrowing

The following table provides a summary of SDOT2's borrowing arrangements as at 31 December 2013.

	<b>Limit</b>	<b>Undrawn Amount</b>	<b>Facility Expiry</b>	<b>Interest Rate</b>
	<b>\$m</b>	<b>\$m</b>		<b>p.a</b>
Facility	103.2	0.0	Sept 2014	4.48%

Subsequent to the date of this document, the \$103.2 million loan facility with Westpac Banking Corporation has been repaid in full.

#### Loan Covenants

All loan covenants were complied with as at 31 December 2013. 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 SDOT2 then the lender will be reimbursed prior to the return of any capital to investors.

### Disclosure Principle 4: Portfolio Diversification

#### Investment Strategy

As at 31 December 2013, the Trust had a 49% interest in Macquarie Park Trust (“MPT”) which owned the Optus Centre. A members meeting was held on 24 September 2012, where Stockland Capital Partners Limited (SCPL), as the Responsible Entity (RE) of SDOT2 provided its recommended investment strategy for the Trust which included the sale of SDOT2's interest

in MPT and to subsequently wind up the Trust. Members voted in favour of the sale and subsequent wind up. Subsequent to the date of this document, the interest in the property has been sold for a price of \$184,425,000.

The following tables provide a summary of the property valuation and a snapshot of the property's key metrics as at 31 December 2013:

#### Geographic Spread

Diversification	Geographic Spread	Sector Spread
	NSW	Office
By Value	100%	100%
By Number	100%	100%

#### Occupancy

The property was 100% occupied as at 31 December 2013 .

Tenant	% of Income	% of NLA
Optus Centre	100%	100%

#### Benchmark 4: Valuation Policy

SDOT2's valuation policy provides for the property to be independently valued at least once every three years by a Certified Practising Valuer registered with the Australian Property Institute. All the investors of MPT agreed to have the property valued at 30 June every financial year. An internal valuation is undertaken at every half year when an external valuation does not occur (i.e. 31 December). Where the internal valuation results in a variance outside the range -5% to +5% of the 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.

As at 31 December 2013, the investment property held by Macquarie Park Trust was not externally valued on the basis that the agreement for sale of investment was conditionally signed on 23 November 2013 and settled on 7 February 2014 representing the current value of the investment.

Property	Optus Centre, Macquarie Park
Valuation*	\$183.75 m
Date of External Valuation	30 June 2013
Valuer	Colliers International
Cap rate	7.50%
Occupancy	100%
Book Value at 31 Dec 2012*	\$183.75 m

\* Represents SDOT2's 49% interest in Optus Centre.

SDOT2 complies with its policies with respect to property valuation.

#### 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 7.8 of the Product Disclosure Statement, approval of all related party transactions by the board of the RE are to be by unanimous vote, including independent directors. Any Stockland executive directors are excluded from voting on such transactions.

#### Related Party Transactions

Listed below are the primary related party transactions for the year ended 31 December 2013. Please refer to Note 10 of the Financial Report for a full review of related party transactions concerning SDOT2:

- Stockland Trust Management Limited (STML) as the RE of Stockland Trust, a related party of SCPL, held a 19.9% interest in SDOT2;
- STML, as RE for Stockland Trust, held 31% of units in MPT at 31 December 2013; and
- SCPL does not hold any interest in SDOT2.

#### Fees to Related Parties

Type	Amount	When Paid?
Responsible Entity Fee	\$0.424m for the half year ended 31 December 2013, representing 0.45% p.a. of the gross value of the assets of the Trust and an asset disposal fee.	Payable to SCPL from SDOT2's assets quarterly in arrears. A portion of the RE fee was deferred and payable upon the wind up of the Trust. Please refer to Note 10 of the 31 December 2013 Financial Report for further details.

Type	Amount	When Paid?
Property Management Fee	\$0.055m for the half year ended 31 December 2013, representing property management services including on site property management and leasing fees.	Payable quarterly in arrears by Macquarie Park Trust to Stockland Property Management Limited.

### Benchmark 5: Related Party Transaction Policy

A corporate governance framework has been established to protect investors' interests. This framework includes:

- Documented and formally approved and executed agreements between Stockland Corporation, STML and SDOT2 by separate independent legal advice obtained by SCPL on behalf of SDOT2;
- One of the Directors of the SCPL Board are independent of Stockland Corporation;
- Monitoring of compliance with SDOT2's obligations by the Compliance Committee;
- A six 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, including the independent directors;
- Acting in accordance with our 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 SDOT2. Please refer to Section 7.8 of the Product Disclosure Statement for further information concerning SDOT2's Corporate Governance policies.

SDOT2 complies with its policies and procedures with respect to Related Party Transactions. Monitoring of the Policy is ongoing.

### Disclosure Principle 6: Distribution Practices

#### Benchmark 6: Distribution Policy

SDOT2's policy is to fund distributions entirely by available cash from realised income. The distribution made for the September 2013 quarter comprised 100% of income. A further distribution was made for the period 1 October 2013 to 28 February 2014 comprising both income and capital. The capital component comprised part of the net proceeds from the sale of SDOT2's interest in the Optus Centre, after certain retentions.

In the future, it is anticipated that distributions will comprise the balance of capital realised from the sale of SDOT2's interest in the Optus Centre, after allowing for costs in connection with the Trust and wind up costs.

### Disclosure Principle 7: Withdrawal Arrangements

Investors are unable to redeem their units until SDOT2 terminates. Investors may however transfer their interest through an Off Market Transfer.

#### Limited Liquidity Facility

Investors were previously able to transfer their units in SDOT2 via a Limited Liquidity Facility (LLF). In accordance with the terms of the SDOT2 PDS, the LLF is now closed. Stockland's

holding as at 31 December 2013 was 19.9%, the maximum holding permitted under section 3.7 of the PDS.

#### Off Market Transfers

Investors are able to transfer their interest in SDOT2 via an Off Market Transfer. Investors may transfer their interest to third parties in accordance with the terms and conditions detailed in Section 3.6 of the Product Disclosure Statement dated 27 July 2005. The Off Market Transfer form is available on our website:

[www.stockland.com.au/investor-centre/unlisted-property-funds.htm](http://www.stockland.com.au/investor-centre/unlisted-property-funds.htm).

#### New Issue of Securities

In accordance with the Constitution of the Trust and the Security Trust Deed, now that the Instalment Receipt has been paid, the RE will cancel the existing units and the attached Instalment Receipts, and issue an equal number of new units to investors. This is summarised in Section 4 of the SDOT2 Product Disclosure Statement dated 27 July 2005.

#### Risks on Termination

As noted above, the Trust has sold its interest in the Optus Centre. Notwithstanding this, the performance of the Trust will be influenced by a range of factors during the term of the Trust and at termination including:

- A successful claim by the purchaser on the retained warranty of \$10 million; and
- The costs to wind-up the trust are greater than anticipated.

Please refer to Section 10 of the Product Disclosure Statement for more information.

#### Final Instalment Payment

From the total distribution made on 28 February 2014, the Final Instalment totalling 60 cents per unit was paid to Westpac Banking Corporation on behalf of unitholders. Therefore

investors have no further liability in connection with the Instalment Receipts.

## Disclosure Principle 8: Net Tangible Assets

<b>Net Tangible Assets</b>	<b>\$0.9036*</b>
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\* Includes the \$0.60 Final Instalment in connection with the Instalment Receipt that was paid on behalf of investors on 28 February 2014. The distribution paid on 28 February 2014, has been pro-rated from 1 October 2013 to 31 December 2013, and then deducted from the NTA as at 31 December 2013.

The net tangible assets per unit (NTA) states the underlying value of the Trust, and is calculated as follows:

$$\text{NTA} = \frac{\text{Net assets - intangible assets +/- adjustments}}{\text{Number of SDOT2 units}}$$

$$\text{NTA} = \frac{\$77,588,406}{85,867,000}$$

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.

Note that the fund is a closed end fund and therefore there are no redemption rights available to investors.

## 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](http://www.stockland.com.au/investor-centre/unlisted-property-funds.htm) or contact us at (02) 9035 2000.

Future updates on these Disclosure Principles will be made available on our website.