



STOCKLAND DIRECT RETAIL TRUST NO. 1 (SDRT1 or the Trust)

ASIC REGULATORY GUIDE 46: IMPROVING DISCLOSURES

Updated September 2014

Introduction

The following document has been prepared for SDRT1 for the purposes of ASIC Regulatory Guide 46. **All figures are as at 30 June 2014** unless stated otherwise. We note that the resolution to sell the Trust's properties and wind up the Trust did not receive the required 75% majority of votes at the meeting of Investors held on 27 June 2014. Accordingly, Investors voted in favour of a second resolution requiring Stockland Capital Partners Limited (SCPL) as Responsible Entity (RE) of the Trust to convene another meeting to consider termination of the Trust prior to 30 June 2019. For further information please refer to SDRT1's financial report for the year ended 30 June 2014 (Financial Report) located on our website: www.stockland.com.au/investor-centre/unlisted-property-funds.htm.

Disclosure Principle 1: Gearing Ratio

Gearing ratio:	55%
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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 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 National Australia Bank (the gearing benchmark, expressed as a Loan to Value (LVR) ratio, must not exceed 65%. SDRT1 has adopted this benchmark as

its gearing policy. The gearing ratio of 55% satisfies the Benchmark.

Disclosure Principle 2: Interest Cover

Interest Cover Ratio:	2.8 times
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Interest cover 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 interest cover, the higher the risk that the Trust will not be able to meet its interest payments.

Benchmark 2: Interest Cover Policy

Under the facility agreement with National Australia Bank the interest cover benchmark for each twelve month period must be at least 1.5 times greater than the interest expense for the same period. The Interest Cover Ratio (ICR) of 2.8 indicates that SDRT1 is able to meet its interest payments, and satisfies Benchmark 2.

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

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 met 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 2014.

	Limit	Undrawn Amount	Facility Expiry	Interest Rate
	\$m	\$m		p.a
Total Facility	40.0	0.7	Dec 2014	4.70%*

**Weighted average interest rate on the loan facility during the year ended 30 June 2014 including margin and fees.*

Loan Covenants

All loan covenants were complied with as at 30 June 2014. 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.

Following the Investor vote to continue the Trust for up to 5 years, the RE will seek to extend or refinance the existing loan facility which expires on 31 December 2014. The Trust has been provided with a finance facility offer by Stockland Trust Management Limited (STML) if the existing facility is not

renewed. The terms and conditions of the STML facility would be the same as those available in the market place to SDRT1 at the time of acceptance. The facility offer is capable of being accepted by the Trust until 28 February 2015.

Disclosure Principle 4: Portfolio Diversification

Investment Strategy

The Trust aims to provide regular distributions and the opportunity for capital growth. To achieve this, the Trust has invested in three retail properties.

The following tables provide a summary of the property valuations for the Trust's properties and a snapshot of the portfolio's key metrics:

Property Valuations

Property	Benowa Gardens Shopping Centre
Valuation	\$33.25m
Date of External Valuation	19 May 2014
Valuer	CBRE
Cap rate	8.25%
Occupancy	96%
Book Value at 30 June 2014	\$33.25m
Property	Pacific Pines
Valuation	\$22.8m
Date of External Valuation	19 May 2014
Valuer	CBRE
Cap rate	7.5%
Occupancy	95%
Book Value at 30 June 2014	\$22.8m

Property	Tamworth Homespace
Valuation	\$14.9m
Date of External Valuation	30 June 2014
Valuer	CBRE
Cap rate	10.50%
Occupancy	100%
Book Value at 30 June 2014	\$14.9m

Top 5 Tenants by Income

Tenant	% of Income
Woolworths	16%
Coles	8%
The Good Guys	3%
Benowa Gardens Pharmacy	3%
Your Homemaker	3%

Top 5 Tenants by Net Lettable Area (NLA)

Tenant	% of NLA
Woolworths	14%
Your Homemaker	9%
Coles	8%
The Good Guys	7%
Pillow Talk	7%

Diversification at 30 June 2014 by Book Value

Diversification	Geographic Spread By Value	Geographic Spread By Number
QLD	79%	67%
NSW	21%	33%
	Sector Spread By Value	Sector Spread By Number
Retail	100%	100%

SDRT1 Occupancy and Weighted Average Lease Expiry

At 30 June 2014, SDRT1 occupancy was 98% and the Weighted Average Lease Expiry was 4.7 years by income.

Benchmark 4: Valuation Policy

SDRT1's policy is for all properties to be independently valued at least every three years by a Certified Practising Valuer registered with the Australian Property Institute. A Directors' valuation is undertaken at every other reporting date when an external valuation does not occur (i.e. 30 June and 31 December). 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 valuation being undertaken on 19 May 2014.

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 (RE) 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 RE of SDRT1, are to be by unanimous vote, including the Independent Director. 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 30 June 2014. Please refer to Note 19 of the Financial Report for a full review of related party transactions concerning SDRT1. We note that at 30 June 2014:

- Stockland Trust Management Limited (STML) as the RE of Stockland Trust, a related party of SCPL, held 7,867,500 units in SDRT1;
- SCPL is the RE of SDRT1. SCPL does not hold any units in SDRT1; and
- STML has provided SDRT1 with a letter of offer for a loan facility. The facility offer is capable of being accepted by the Trust until 28 February 2015 in the event that the Trust's external debt facility with NAB is required to be repaid or is not renewed. The terms and conditions of the STML facility

would be the same as those available in the market place to SDRT1 at the time of acceptance.

Fees to Related Parties for the Year Ended 30 June 2014*

Type	Amount	When Paid?
RE Fee	\$0.313m for the year ended 30 June 2014, representing 0.45% p.a. of the Trust's gross assets.	Paid quarterly in arrears to SCPL out of the assets of the Trust. A portion of the RE fee is deferred and payable upon the wind up of the Trust.
Performance Fee	Nil provided for at 30 June 2014. The performance fee is calculated at 2.5% of the gross value of the properties provided that hurdle rates are met and Investors receive at least the return of their application monies.	Payable to SCPL on expiry or wind up of the Trust or sale of the properties.
	Please refer to Section 7 of the PDS.	

*Refer to Note 19 of the Trust's Financial Report.

Type	Amount	When Paid?
Manager Expenses	\$0.074m	Payable to SCPL in arrears in respect of other recoverable expenses including accounting, taxation and compliance service fees.
Standby Loan Facility Fees	\$0.093m	Payable to STML, as RE of Stockland Trust payable 6 monthly in arrears.
Property Management Fee	\$0.645m representing 5% of the gross income from the properties.	Payable to Stockland Property Management Limited throughout the year.
Finance Renegotiation Fee	\$0.100m	Payable to SCPL in arrears for services performed to negotiate the terms of the external debt facility with NAB.

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

SDRT1 with the assistance of separate independent legal advice obtained by SCPL on behalf of SDRT1;

- One of the Directors of the SCPL Board is independent of Stockland Corporation;
- Monitoring of compliance with SCPL'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 Director. The Stockland Executive Director is excluded from voting on such transactions;
- Acting in accordance with the RE'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. Monitoring of the Policy is ongoing.

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 2014 were funded 100% from realised income, which met Benchmark 6. It is anticipated that distributions will continue to be funded from available cash from realised income. This

approach is considered sustainable over the next 12 months. However, SCPL may review and adjust accordingly.

Disclosure Principle 7: Withdrawal Arrangements

Investors are unable to redeem their units until termination of the Trust. As disclosed in the Explanatory Memorandum prepared for the Investors' meeting held on 27 June 2014, the Trust's Limited Liquidity Facility (LLF) offered by National Australia Bank was closed prior to 30 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 on 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 the economy and market conditions may affect demand and therefore property values;
- Investors will be indirectly exposed to property market risk;
- The value of the properties may fluctuate depending on market conditions and there may be a delay in achieving a sale of the properties;
- The Trust will be required to refinance the debt facilities; and

- If the facilities cannot be entirely refinanced on its termination or expiry, then returns to investors may be adversely affected.

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

Disclosure Principle 8: Net Tangible Assets

Trust Net Tangible Assets	\$0.7575 per unit
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The Net Tangible Assets per unit (NTA) states the underlying value of the Trust, and is calculated as follows:

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

$$\text{NTA} = \frac{\$29,997,181}{39,600,000}$$

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.