STOCKLAND DIRECT RETAIL TRUST NO. 1 (SDRT1 or the Trust)
ASIC REGULATORY GUIDE 46: IMPROVING DISCLOSURES
Updated March 2014

Introduction

The following document has been prepared for SDRT1 for the purposes of ASIC Regulatory Guide 46. **All figures are as at 31 December 2013** unless stated otherwise. For further information please refer to SDRT1'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.

Disclosure Principle 1: Gearing Ratio

Gearing ratio:	**58%**

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 in Loan to Value (LVR) ratio, must not exceed 65%. SDRT1 has adopted this benchmark as its gearing policy. The gearing ratio of 58% satisfies the Benchmark.

Disclosure Principle 2: Interest Cover

Interest Cover Ratio:	**2.6 times**

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 2.6 indicates that SDRT1 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

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

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

Disclosure Principle 3: Scheme Borrowing

The following table provides a summary of SDRT1's borrowing arrangements as at 31 December 2013 .

	Limit $m	**Undrawn Amount $m**	**Facility Expiry**	**Interest Rate p.a**
Total Facility	40.0	0.7	Dec 2014	4.89%*

* Weighted average interest rate on the loan facility ended 31 December 2013 including margin and fees.

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 the Trust then the lender will be reimbursed prior to the return of any capital to investors.

The Trust's loan facility with National Australia Banks was extended by a further 12 months to December 2014.

The Trust has been provided with a finance facility offer by 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. On 30 April 2012, unitholders voted against the termination and wind up of the Trust. Another meeting must be convened by 30 June 2014 to consider the future strategy of the Trust.

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	$31.5 m
Date of External Valuation	31 December 2013
Valuer	CBRE
Cap rate	8.50%
Occupancy	96%
Book Value at 31 December 2013	$31.5 m

Property	Pacific Pines
Valuation	$22.0 m
Date of External Valuation	31 December 2013
Valuer	CBRE
Cap rate	7.75%
Occupancy	100%
Book Value at 31 December 2013	$22.0 m

Property	Tamworth Homespace
Valuation	$14.3 m
Date of External Valuation	31 December 2013
Valuer	CBRE
Cap rate	11.00%
Occupancy	100%
Book Value at 31 December 2013	$14.3 m

Top 5 Tenants by Income

Tenant	% of Income
Woolworths	13%
Coles	9%
The Good Guys	3%
Benowa Gardens Pharmacy	3%
Pillow Talk	2%

Top 5 Tenants by Net Lettable Area

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

Diversification at 31 December 2013 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 31 December 2013, SDRT1 occupancy was 99% and the Weighted Average Lease Expiry was 5.0 years by area.

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 (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.

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 Stockland Capital Partners Limited (SCPL) the RE of SDRT1, 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 half year ended 31 December 2013. Please refer to Note 19 of the Financial Report for a full review of related party transactions concerning SDRT1.

- Stockland Trust Management Limited (STML) as the RE of Stockland Trust, a related party of Stockland Capital Partners Limited (SCPL), held 7,757,500 units in SDRT1 as at 31 December 2013;
- 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 and gives the Trust access to a STML provided facility if the existing facility 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

Type	Amount	When Paid?
RE Fee	$0.157 m for the half year ended 31 December 2013, 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. Please refer to Note 12 of the Financial Report for further details.
Performance Fee	Nil provided for at 31 December 2013. The performance fee is calculated by 2.56% of the gross value of the properties provided that hurdle rates are met and investors receive at least the return of their application monies. Please refer to Section 7 of the PDS.	Payable to SCPL on expiry or wind up of the Trust or sale of the properties. A portion of the RE fee is deferred and payable upon the wind up of the Trust. Please refer to Note 19 of the Financial Report for further details.
Property Management Fee	$0.217 m for the half year ended 31 December 2013, representing 5% of the gross income from the properties.	Payable to Stockland Property Management Limited throughout the year.
Refinancing Service fee	A provision of $0.110m was made in relation to the refinancing of the Trust's debt facility.	Payable to SCPL out of the assets of the Trust.

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 by separate independent legal advice obtained by SCPL on behalf of SDRT1;
- One of the Directors of the SCPL Board are 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 directors. 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 by available cash from realised income. Distributions for the half year ended 31 December 2013 were funded 100% from realised income, which met the Benchmark.

Subject to the Members meeting to be held prior to 30 June 2014, 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 the Termination Date.

Investors may, however, be able to sell their units by participating in the Limited Liquidity Facility (LLF) offered by NAB, or through the Off Market Transfer process.

Limited Liquidity Facility

The LLF is a facility which NAB has agreed to provide to SDRT1 investors. The LLF is available on a quarterly basis and provides investors with an opportunity to sell their units prior to the termination date, subject to certain conditions.

STML has placed a standing order with NAB to acquire a maximum of 1,000,000 units per Quarter. Pursuant to the Standing Order NAB acquires up to 1,000,000 units in SDRT1 per Quarter from investors seeking to realise their units. Units are acquired at a 2.5% discount to Net Tangible Assets (NTA) per unit less transaction costs. This standing order can be terminated at any time and will be withdrawn if Stockland beneficially owns 19.9% or more of the issued units in the Trust.

There are only a limited number of units remaining available under the LLF, however, remaining Investors who wish to apply to participate should request a LLF form from SCPL, or download the form from the website. Applications under the LLF will be considered an irrevocable offer by investors and cannot be withdrawn. An application must be for an investor's entire holding.

For applications under the LLF to be considered, investors should send completed application forms to the address listed on the form no later than 15 business days before Quarter end. Investors who have made an application to participate in the LLF will be entitled to the distribution for the Quarter in which the application was received.

Completed LLF transfer forms will be accepted by NAB in order of receipt. Any LLF transfer forms that are not accepted due to the LLF being oversubscribed in any single Quarter may be included in the applications for the following Quarter's LLF. SCPL, on behalf of NAB, will notify investors in writing whether their application has been successful within 15 business days after the end of the Quarter in which the transfer form was received.

For the purposes of the LLF, the NTA per unit will be calculated twice a year based on the financial statements of the Trust prepared as at 30 June and 31 December.

Limitations of the Limited Liquidity Facility

The LLF can be terminated by NAB in the following circumstances:

- NAB may unconditionally suspend or terminate the LLF at any time in its sole discretion;
- There is no guarantee that the LLF will continue for the duration of the Trust;
- STML's standing order will terminate when it and its related entities hold 19.9% of the units;
- Following the December Quarter LLF, Stockland Trust's holding in the trust will be 19.6%; and
- The RE will notify investors if the LLF is terminated in the quarterly distribution statement next following the date of termination. Please refer to the Terms and Conditions of the LLF in the PDS.

Off Market Transfers

Investors are able to transfer their units in SDRT1 via an Off Market Transfer. 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 may 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

Net Tangible Assets	$0.6905

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

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

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

$$NTA = \frac{27,343,800}{39,600,000}$$

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.

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.

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