STOCKLAND DIRECT RETAIL TRUST NO. 1 (SDRT1 or the Trust)
ASIC REGULATORY GUIDE 46: IMPROVING DISCLOSURES
Updated September 2015

Introduction

The following document has been prepared for SDRT1 for the purposes of ASIC Regulatory Guide 46. **All figures are as at 30 June 2015** unless stated otherwise. 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.

The Trust's previous loan facility with National Australia Bank was replaced by a new loan facility with the Commonwealth Bank of Australia (CBA) on 19 December 2014. For further information please refer to SDRT1's financial report for the year ended 30 June 2015 (Financial Report) located on our website: www.stockland.com.au/investor-centre/unlisted-property-funds.htm.

Disclosure Principle 1: Gearing Ratio

Gearing Ratio:	51.5%

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

Under the new loan facility agreement with CBA, the gearing benchmark expressed as a Loan to Value Ratio (LVR), must not exceed 65%. SDRT1 has adopted this benchmark as its Gearing Policy. The Gearing Ratio of 51.5% satisfies the Benchmark.

Disclosure Principle 2: Interest Cover

Interest Cover Ratio:	3.2 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 CBA, 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 3.2 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 2015.

Facility Limit $m	Undrawn Amount $m	Facility Expiry	Interest Rate p.a
41.0	0.5	Dec 2019	4.3%*

**Weighted average interest rate on the loan facility during the year ended 30 June 2015 including margin, line fee and attributable transaction costs.*

Loan Covenants

All Loan Covenants were complied with as at 30 June 2015. 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.

A standby loan facility offer provided by Stockland Trust Management Limited (STML) to the Trust for up to $40 million was terminated on 19 December 2014 following the refinancing of the previous NAB loan facility with CBA.

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 currently invests 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	Benowa Gardens Shopping Centre
Valuation	$39.0m
Date of External Valuation	30 June 2015
Valuer	Savills Australia
Cap rate	7.25%
Occupancy by rental income	94%
Book Value at 30 June 2015	$39.0m

Property	Pacific Pines Town Centre
Valuation	$24.0m
Date of External Valuation	30 June 2015
Valuer	Savills Australia
Cap rate	7.00%
Occupancy by rental income	95%
Book Value at 30 June 2015	$24.0m

Property	Tamworth Homespace
Valuation	$15.6m
Date of External Valuation	30 June 2015
Valuer	Savills Australia
Cap rate	10.00%
Occupancy by rental income	100%*
Book Value at 30 June 2015	$15.6m

**A tenant at the property has the right to hand back 600 square metres if they elect to trade from a smaller store.*

Top 5 Tenants by Income

Tenant	% of Income
Woolworths	14.0%
Coles	8.3%
The Good Guys	4.1%
Benowa Gardens Pharmacy	3.4%
Your Homemaker	3.4%

Top 5 Tenants by Gross Lettable Area (GLA)

Tenant	% of GLA
Woolworths	14.9%
The Good Guys	10.1%
Your Homemaker	9.1%
Coles	8.2%
Pillow Talk	7.5%

Diversification at 30 June 2015 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 2015, SDRT1's occupancy was 96% by rental income. The Weighted Average Lease Expiry (WALE) was 3.8 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 (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 30 June 2015.

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.

Listed below are the primary related party transactions for the year ended 30 June 2015. Please refer to Note 13 of the Financial Report for a full review of Related Party Transactions concerning SDRT1. We note that at 30 June 2015:

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

Fees to Related Parties for the Year Ended 30 June 2015*

Type	Amount	When Paid?
RE Fee	$0.338m for the year ended 30 June 2015, representing 0.45% p.a. of the Trust's gross assets.	Paid quarterly in arrears to SCPL out of the assets of the Trust.
Performance Fee	Nil provided for at 30 June 2015. 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. Please refer to Section 7 of the PDS.	Payable to SCPL on expiry or wind up of the Trust or sale of the properties.
Manager Expenses	$0.074m	Payable to SCPL in arrears in respect of recoverable expenses including accounting, taxation and compliance services.
Standby Loan Facility Fees (the Standby Loan was terminated on 19 December 2019).	$0.057m	Payable to STML, as RE of Stockland Trust payable 6 monthly in arrears.
Property Management Fee	$0.527m representing 5% of the gross income from the properties.	Payable to Stockland Property Management Limited throughout the year.
Finance Renegotiation Fee	$0.103m	Payable to SCPL in arrears for services performed to negotiate the terms of the new external loan facility with CBA.

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;
- 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.

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 2015 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. 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 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 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 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	$0.9443 per unit

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

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

$$\text{NTA} = \frac{\$37{,}393{,}136}{39{,}600{,}000}$$

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.