STOCKLAND DIRECT RETAIL TRUST NO. 1 (SDRT1 or the Trust)
ASIC REGULATORY GUIDE 46: IMPROVING DISCLOSURES
March 2021 Update

Introduction

The following document has been prepared for SDRT1 for the purposes of ASIC Regulatory Guide 46. **All figures are as at 31 December 2020** unless stated otherwise. For further information please refer to SDRT1's interim financial report for the half year ended 31 December 2020 (**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 completed a sale process for the Trust's properties. Stockland Pacific Pines was sold on 19 August 2019, Tamworth Homespace was sold on 31 October 2019 and Benowa Gardens was sold on 20 March 2020.

Following the sale of Benowa Gardens, the final property to be sold, the Trust was terminated on 20 March 2020, pursuant to the resolution passed by unitholders at the meeting of members held on 8 March 2019. The vendor warranty provided for Benowa Gardens expired on 21 December 2020 without any claims being made and accordingly, it is intended to wind up the Trust as soon as practicable.

Disclosure Principle 1: Gearing Ratio

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.

This Disclosure Principle is not applicable to SDRT1 as the Trust's loan facility was repaid in full and terminated on 20 March 2020 following the sale of Benowa Gardens.

Disclosure Principle 2: Interest Cover Ratio

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.

This Disclosure Principle is now not applicable as the Trust's loan facility has been fully repaid and terminated.

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

This Disclosure Principle is now not applicable as the Trust's loan facility was repaid in full and terminated on 20 March 2020.

Disclosure Principle 4: Portfolio Diversification

Investment Strategy

The Trust aims were to provide regular distributions and the opportunity for capital growth, noting that following members voting in favour of selling the Trust's properties and winding-up the Trust, all of the Trust's properties have now been sold. Accordingly, this Disclosure Principle is now not applicable to SDRT1.

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 half year ended 31 December 2020. Please refer to Note 8 of the Financial Report for a full review of Related Party Transactions concerning SDRT1. We note that at 31 December 2020:

- Stockland Trust Management Limited (**STML**) as the Responsible Entity of Stockland Trust, a related party of SCPL, held 78,775 units in SDRT1; and
- SCPL is the Responsible Entity of SDRT1. SCPL does not hold any units in SDRT1.

Related Party fees for the half year ended 31 December 2020

Type	Amount	When Paid?
Management fee payable to SCPL	$0.006m 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	$0.063m in respect of recoverable expenses relating to accounting, taxation and compliance services.	Payable annually in arrears.
Insurance premiums payable to Singapore Pte Ltd	Nil.	Not applicable.
Property Management fee payable to Stockland Property Management Pty Limited (SCPL)	Nil.	Not applicable.
Salaries and wages payable to SPMPL	Nil.	Not applicable.
Tenancy design and delivery services payable to Stockland Development Pty Limited	Nil.	Not applicable.
Provision for transaction and Trust wind up costs	$0.008m pursuant to Trust constitution	Payable upon the 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 half year ended

31 December 2020 were funded 100% from realised income, including any proceeds from the sale of properties, 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 completion of the winding up 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 until the winding up of the Trust has been completed.

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 until the winding up of the Trust has been completed. 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 Until Winding-up

Following the sale of the properties, the performance of the Trust during the period until winding-up will be influenced by a range of factors including:

- Claims on the remaining vendor warranties provided in connection with the sale of Benowa Gardens which may impact the final distribution payable to investors; and
- A risk that the costs of winding-up are more than expected.

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

Disclosure Principle 8: Net Tangible Assets

Trust Net Tangible Assets (NTA)	$2.47 per unit*

**Based on the number of units on issue at 31 December 2020, following the redemption and cancellation of 99 per cent of unitholder units on 2 June 2020. For comparison purposes, on a proforma basis, that is, assuming the redemption and cancellation of units had not occurred, the NTA as at 31 December 2020 would have been $0.0247 per unit.*

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

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

$$NTA = \frac{\$979{,}760.16}{395{,}995}$$

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.