Abacus Wodonga Land Fund

DISCLOSURE OF INFORMATION

The Australian Securities and Investments Commission (ASIC) has developed six benchmarks and eight disclosure principles for unlisted property trusts to assist retail investors to understand risks in a scheme, assess the rewards being offered and decide whether an investment is suitable for them. The benchmarks and disclosures are to be applied to both new funds and existing funds.

The benchmarks are intended to highlight features of an unlisted scheme that ASIC believes are desirable. Where a benchmark is not met by the scheme the responsible entity should identify why it has not been met and how that particular risk has been mitigated. The disclosure principles are intended to measure specific attributes of a scheme so that schemes can be more readily compared.

Under a product disclosure statement dated 29 June 2005, investors subscribed $10 million to the Abacus Wodonga Land Fund (**AWLF** or the **Fund**) and $10 million to the Abacus Wodonga Mortgage Fund (**AWMF**). For every $1.00 subscribed, investors received one 50 cent unit in each fund. On 30 June 2010 the units in AWMF were redeemed and investors received additional units in AWLF.

The following information on the Fund is based on the 30 June 2012 full year financial report which is available though the Wodonga page on the Abacus Property Group website at www.abacusproperty.com.au.

ABACUS WODONGA LAND FUND

1. Gearing

Benchmark 1 – gearing policy

Benchmark requirement	
The Fund maintains and complies with a written policy that governs the level of gearing at an individual credit facility level	The Fund meets this requirement

The Fund's gearing policy can be found through the Funds and Investments page on the Abacus Property Group website at www.abacusproperty.com.au

Disclosure principle 1 – gearing ratio

The gearing ratio indicates the extent to which a scheme's assets are funded by interest bearing liabilities. A higher gearing ratio means a higher reliance on external borrowings to fund assets and this potentially exposes the scheme to increased funding costs if interest rates rise. A highly geared scheme has a lower asset buffer to rely on in times of financial stress and implies a greater level of risk.

Gearing enhances the potential for capital gain if properties increase in value. However, it may also increase any capital loss in the event that the value of the properties fall compared to an investment which has no borrowings.

	ACTUAL AS AT 30 JUNE 2012
Gearing ratio	0.94

The actual gearing ratio at 30 June 2012 includes bank debt and borrowings provided by Abacus Finance Pty Limited.

Only the bank borrowings of the Fund are subject to gearing (or loan to valuation ratio) limits, details of which are provided in section 3.

2. Interest cover

Benchmark 2 – interest cover policy

Benchmark requirement	
The Fund maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level	The Fund meets this requirement

The Fund's interest cover policy can be found through the Funds and Investments page on the Abacus Property Group website at www.abacusproperty.com.au

Disclosure principle 2 – interest cover ratio

Interest cover for a Fund is a key indicator of its financial health because it measures the ability of the scheme to service interest on debt from earnings.

Interest cover is not usually an appropriate way to protect a lender to a development project, and for this reason there is no interest cover covenant in AWLF's banking facilities. The interest cover policy adopted by the Fund is not relevant at the current time. Instead the Fund's banking facility has a sales covenant test which requires the Fund to settle a minimum number of residential land lots, within 90% of the agreed independent valuation, in each quarterly and half yearly period. The sales covenant test is based on the independent valuation assumptions. The Fund aims to ensure that its periodic sales are greater than the covenant test although this is dependent on market conditions at the time. Further details are provided in section 3.

Benchmark 3 – interest capitalisation

Interest capitalisation is where interest payments are not paid until an agreed point in time. It generally applies in the context of a development because the asset may not generate income during the development to meet interest obligations. If a development property cannot be sold for more than the credit facility plus capitalised interest then the investor's returns may be reduced.

Benchmark requirement	
The interest expense on borrowings is not capitalised	The Fund does not meet this requirement

As all proceeds from the sale of land are used to first repay bank borrowings, interest expense on loans provided by Abacus Property Group is capitalised, that is added to the loan principal, until bank debt is refinanced and surplus capital made available to repay loans from Abacus Property Group.

Interest on bank loans is paid as incurred and is not capitalised into the principal amount owing to the lender.

3. Scheme borrowing

Relatively short-term borrowings and credit facilities with short expiry dates are a risk factor if they are used to fund assets intended to be held long term. If the Fund has a significant proportion of its borrowings that mature within a short timeframe, it will need to refinance. There is a risk that the refinancing will be on less favourable terms or not available at all. If the scheme cannot refinance, it may need to sell assets on a forced sale basis with the risk that it may realise a capital loss.

Borrowing maturity and credit facility expiry profiles indicate when a scheme will have to renew borrowing or credit facilities.

A lender has no obligation to roll over a loan at the end of the loan term. There is no guarantee that future loan funds will be secured, or be secured at competitive interest rates at the time that the Fund's debt facilities are to be refinanced.

Disclosure principle 3 – scheme borrowing

Details of the Fund's credit facilities at 30 June 2012 are set out in the table below:

$000	Bank loan	Abacus Loan Facility
Facility limit ($000)	15,000	38,000
Drawn amount ($000)	13,901	33,460
Undrawn amount	1,099	4,540
Value of secured assets ($000)	30,893 (first mortgage)	30,893 (second mortgage)
Maximum LVR permitted	45.0%	Not applicable
Actual LVR	45.0%	Not applicable
Movement in secured assets to breach LVR	Nil	Not applicable
Minimum lot sales in half year	36	Not applicable
Actual lot sales in half year	38	Not applicable
Movement in lot sales to breach covenant	2	Not applicable
Facility maturity	April 2015	May 2015
Interest rate	3.5% line/ margin	10% fixed
Amount hedged	100%	Nil

The terms of the bank facility contain extensive undertakings (common for this type of facility), that if breached may cause the loans to be repayable. Breach of a loan covenant may result in penalties being applied, or the loan becoming repayable immediately. The scheme may need to refinance on less favourable terms or sell assets. Termination of critical financing could also mean the scheme is no longer viable.

Loan covenants in respect of the bank loan were compliant at 30 June 2012. The bank loan had a covenant test which required the Fund to settle at least 36 lots in the six month period to 30 June 2012. The Fund met this test. The bank loan was drawn to the maximum permitted LVR of 45% at 29 June 2012 when the loan was refinanced. All proceeds from the sale of land lots are applied to the repayment of debt. Subsequent to 30 June 2012 the LVR was less than 45%.

The Fund has an interest rate swap for $17,000,000 at an effective interest rate (including bank margin) of 10.95% per annum as at 30 June 2012.

4. Portfolio diversification

Generally, the more diversified a portfolio is, the lower the risk that an adverse event affecting one property or one lease will put the overall portfolio at risk. A concentration of development assets in a scheme exposes investors to increased risks involved in the development of property assets.

Disclosure principle 4 – portfolio diversification

The Fund originally owned 173 hectares of land 3 kilometres from the centre of Wodonga in Victoria. Since August 2008 land has been sold for commercial use and residential housing and made available for public open space. The project, known as White Box Rise, is a mixed use development comprising over 1,100 residential lots, school, aquatic centre, and a shopping complex. While the AWLF owns a single property, the land value is spread across a number of possible uses. At 30 June 2012, 292 residential lots had settled and approximately 83 lots were developed and available for sale. Subsequent lots will be developed in line with demand.

All of the land owned by the Fund is a development asset. At 30 June 2012 the Fund had completed the key infrastructure on the development including serviced lots for a school and shopping centre and main road through the estate. The school and shopping centre were developed by a third party and the school opened April 2011 and the shopping centre opened December 2011. An aquatic centre is under construction by council for completion at the end of 2012.

At current residential sales rates the Fund has approximately 8 to 10 years of land lots left to sell. As current residential lots are sold the Fund will develop new land lots (comprising land grading, road infrastructure and essential services) to maintain an inventory of stock for sale. Typically the Fund will aim to have up to one year of expected demand as completed stock to ensure a broad range of product for varying target markets. The majority of residential land lots available for sale are not presold prior to commencing construction. Common with any development, there is risk that demand for lots will decrease both in terms of price achieved and number sold per year.

Section 3 describes the funding sources for this development. All of the current facilities expire by May 2015 and these are likely to require re-financing to maintain credit facilities before the completion of the scheme. Borrowings are being repaid from the proceeds of sale of the land lots, both residential and commercial.

The cost of developing the land and infrastructure is held on the Fund's balance sheet as inventory at the lower of cost and net realisable value. At 30 June 2012 the value of inventory was $49.2m. This value is equivalent to the "as if complete" value of the development. The first mortgage valuation was $30.9m at 30 June 2012 which is equivalent to the "as is" value of the development. The loan to value ratio of the Fund exceeds 70% of the "as is" valuation. As detailed in section 1 the gearing ratio is 94%.

The Fund does not invest in unlisted property securities.

5. Valuation policy

Investing in a property scheme exposes investors to movements in the value of the scheme's assets. Investors therefore need information to assess the reliability of valuations. The more reliable a valuation, the more likely the asset will return that amount when it is sold. However, any forced sale is likely to result in a shortfall compared to the valuation unless the valuation has been made on a forced sale basis.

Benchmark 4 – valuation policy

Benchmark requirement	
The Fund maintains and complies with a written valuation policy as described below.	The Fund meets this requirement

The Fund's valuation policy can be found through the Funds and Investments page on the Abacus Property Group website at www.abacusproperty.com.au

The property is valued at the lower of cost, including acquisition costs, such as stamp duty, legal and professional fees, and development costs (including capitalised finance costs), and net realisable value in accordance with accounting standards at each balance date. At 30 June 2012 the carrying value of the property was $49.2 million. This carrying value is in excess of the first mortgage valuation of $30.9m, valued at 30 April 2012.

6. Related party transactions

A conflict of interest may arise when property schemes invest in, or make loans or provide guarantees to, related parties.

Benchmark 5 – related party transactions

Benchmark requirement	
The Fund maintains and complies with a written policy on related party transactions.	The Fund meets this requirement

The Fund's related party transaction policy can be found through the Funds and Investments page on the Abacus Property Group website at www.abacusproperty.com.au

Disclosure principle 5 – related party transactions

Abacus Property Group's policy on related party transactions is that transactions are required to be on arm's length terms as envisaged by the Corporations Act or the financial benefit must be approved by securityholders.

Appropriate disclosure to unitholders is an essential element of Abacus Property Group's arrangements to manage conflicts of interest. This disclosure may be made through the scheme's offer document, annual report and/or the explanatory memorandum of any meeting of unitholders held to approve related party transactions. The Abacus Property Group compliance framework requires appropriate review at least annually of all controls applying to a fund.

The Fund has loan facilities provided by Abacus Finance Pty Limited. The terms of this loan were amended in December 2009. Unitholders were informed of this through an investor update, a copy of which is available from the Wodonga page on the Abacus Property Group website. The interest rate on this loan is set out in section 3.

The Fund pays management and other fees to Abacus Funds Management Limited. Details of all fees are set out in Section 8 of the PDS dated 29 June 2005 and amendments set out in the December 2009 investor update and October 2012 investor update. In the year ended 30 June 2012 the Fund paid a development management fee and sales management fee to Abacus Property Group totaling $391,000. Full details of related party transactions are set out in note 16 to the full year financial report of the Fund.

7. Distribution practices

Some property schemes make distributions partly or wholly from unrealised revaluation gains, capital, borrowings, or support facilities arranged by the responsible entity, rather than solely from cash from operations available for distribution. This may not be commercially sustainable over the longer term, particularly when property values are not increasing.

Benchmark 6 – Distribution practices

Benchmark requirement	
The Fund will only pay distributions from its cash from operations available from distribution.	The Fund meets this requirement

Disclosure principle 6 – Distribution practices

As a development project, the Fund's income is from the sale of property. Proceeds due to the Fund from the sale of property are being applied to the repayment of debt. The Fund does not have the capacity to pay distributions at this time.

8. Withdrawal arrangements

Unlisted property schemes often have limited or no withdrawal rights. This means they are usually difficult to exit.

Disclosure principle 7 – withdrawal arrangements

The Fund does not have any withdrawal arrangements.

9. Net tangible assets

The net tangible asset (NTA) backing of a scheme gives investors information about the value of the tangible or physical assets of the scheme. The initial and ongoing NTA backing may be affected by various factors, including fees and charges paid up-front for the purchase of properties, costs associated with capital raising or fees paid to the responsible entity or other parties.

Disclosure principle 8 – net tangible assets

The NTA per unit of the Fund at 30 June 2012 was nil.

Accounts at 30 June 2012	$000
Net liabilities	(1,523)
Less deferred tax assets	-
Net tangible liabilities	(1,523)
Units on issue	57,037
NTA per unit	**Nil**

The Fund's unit pricing policy can be found through the Funds and Investments page on the Abacus Property Group website at www.abacusproperty.com.au

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1 November 2012

Prepared by Abacus Funds Management Limited ACN 007 415 590 AFSL 227819

Abacus intends to update these disclosures on a six-monthly basis through the Wodonga page on the Abacus Property Group website.

Investors are entitled to a hard copy of this information on request. Please call 1800 253 860 or email enquiries@abacusproperty.com.au.