

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 2014 annual financial report which is available through 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 2014
Gearing ratio	1.08

The actual gearing ratio at 30 June 2014 comprises borrowings provided by Abacus Finance Pty Limited. The level of interest bearing liabilities exceeds the value of the Fund's assets because the value of its assets was impaired at 30 June 2013. The Fund has received an undertaking of support from Abacus Property Group.

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 had a sales covenant test that required 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 net proceeds from the sale of land were used to first repay bank borrowings, interest expense on loans provided by Abacus Property Group was capitalised, that is added to the loan principal. The bank loan has now been fully repaid and net sales proceeds will be available to meet interest costs on the loan from Abacus Property Group.

Interest on the bank loan, that has now been repaid, was paid as incurred and was not capitalised.

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 required to be refinanced.

Disclosure principle 3 – scheme borrowing

Details of the Fund's credit facilities at 30 June 2014 are set out in the table below:

\$000	Bank loan	Abacus Loan Facility
Facility limit (\$000) (Note 1)	12,000	45,000
Drawn amount (\$000)	-	38,903
Undrawn amount/ (overdrawn amount) (Note 1)	12,000	6,097
Value of secured assets (\$000)	15,505 (first mortgage)	15,505 (second)
Maximum loan to value ratio (LVR) permitted (Note 2)	45.0%	Not applicable
Actual LVR	0%	Not applicable
Movement in secured assets to breach LVR	Not applicable	Not applicable
Minimum residential lot sales in half year	39	Not applicable
Actual residential lot sales in half year	45	Not applicable
Movement in lot sales to breach covenant	6	Not applicable
Facility maturity	April 2015	July 2016
Weighted average interest rate	10.5%	10% fixed
Amount hedged	100%	Nil

Note 1. At 31 July 2014 the bank facility limit was permanently reduced from \$12m to \$3.5m and on 23 September 2014 the bank facility was terminated. The Abacus Loan Facility is unchanged.

Note 2. The maximum LVR reduced from 45% to 40% on 1 July 2014

Loan covenants in respect of the bank loan were compliant at 30 June 2014. The bank loan was fully repaid at 30 June 2014. On 23 September 2014 the bank facility was terminated. All funding of the project is now being met from the Abacus Loan Facility.

The Fund had an interest rate swap for \$20,000,000 at 30 June 2014. On 23 September 2014 the swap was terminated.

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 around 1,100 residential lots, school, aquatic centre, and a shopping complex. At 30 June 2014, 459 residential lots had settled and approximately 120 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 2014 the Fund had completed the key infrastructure on the development including serviced lots for a school, shopping centre and aquatic centre and main road through the estate. The school, shopping centre and aquatic centre have been developed by third parties. The school and shopping centre opened in 2011 and aquatic centre opened in 2013.

At current residential sales rates the Fund has approximately 6 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 pre-sold prior to commencing construction. At current sales rates and average sale prices per lot the development profit is small and much less than anticipated when the project commenced. There is risk that demand for lots will decrease both in terms of price achieved and number sold per year compared to the current demand. Demand for commercial land has been slower than anticipated.

Section 3 describes the funding sources for this development. All of the current facilities expire by July 2016 and these are likely to require re-financing to maintain credit facilities before the completion of the scheme. Bank borrowings are being repaid from the net proceeds of sale of the land lots, both

residential and commercial. The cost of construction of new serviced land lots is being met by drawing the Abacus Loan Facility.

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 2014 the value of inventory was \$35.2m. This value is equivalent to the "as if complete" value of the development. The estimated first mortgage valuation was \$15.5m at 31 December 2013 (based on the independent valuation at April 2012 adjusted for sales and developments since that date) 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 108%.

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 each balance date at the lower of cost, including acquisition costs, such as stamp duty, legal and professional fees as well as capitalised finance and other development costs, and net realisable value, in accordance with accounting standards. At 30 June 2014 the carrying value of the property was \$35.2m. This carrying value is in excess of the estimated first mortgage valuation of \$15.5m, based on the independent valuation at April 2012 adjusted for sales and developments since that date.

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 unitholders.

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 or the explanatory memorandum of any meeting of unitholders held to approve related party transactions. Abacus Property Group's 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 may be liable to pay 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 2014 no management fees or sales fees were charged by Abacus Property Group. Full details of related party transactions are set out in note 13 to the 30 June 2014 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. Net 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 2014 was nil.

Accounts at 30 June 2014	\$000
Net liabilities	(6,278)
Less deferred tax assets	-
Net tangible liabilities	(6,278)
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

1 November 2014

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.