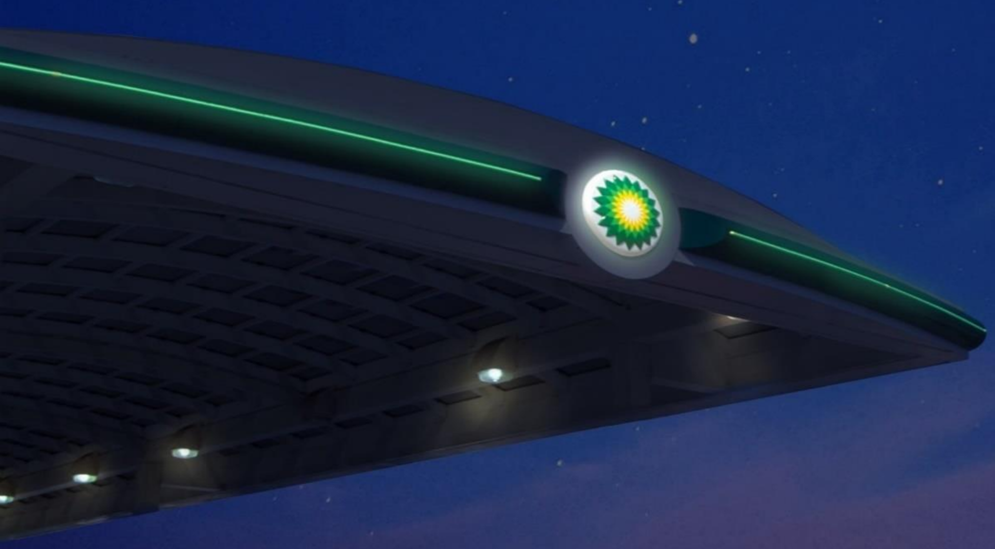
FAWKNER PROPERTY

COMMERCIAL PROPERTY SYNDICATORS

26-May-20



Unit Pricing Policy

Applicable to redemptions and to second and subsequent issues in registered schemes

Fawkner Property Ltd

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Unit pricing policy - introduction

This document details the formulas and considerations used by Fawkner Property Ltd (**Fawkner**), as Manager in determining unit prices for unlisted registered managed investment schemes. It also sets out the principles and procedures that the Manager adheres to in exercising judgement on certain aspects of the calculation of unit prices and in arriving at any estimates.

ASIC regulatory guide 94

The joint ASIC and APRA guide *Unit pricing – Guide to good practice* sets out good practice principles for unit pricing and describes the application of those principles. One important principle is that unit pricing policies and procedures should be documented.

ASIC regulatory guide 134

This guide relating to the content of the constitution of a registered scheme makes no reference to RG 94 other than listing it among other sources in *Related Information*.
As RG 134.19 ASIC states:

> *Because s601GA is principles based, what constitutes 'adequate provision' will depend on the circumstances of the registered scheme.*

ASIC class orders

ASIC has made *ASIC Class Order 13/655*, modifying Chapter 5C of the Corporations Act as it applies to responsible entities of schemes such as those managed by Fawkner, by inserting new sections 601GAD – 601GAF. The class order provides for circumstances where units are issued in the course of:

- a placement;
- a rights issue;
- a unit purchase plan;

- a distribution reinvestment plan;
- a fee arrangement with wholesale clients;
- issuing stapled securities;
- issuing interests in schemes where there is limited or no pooling; and
- allocation of forfeited partly paid units.

As at the issue of this policy, none of these circumstances applied to schemes managed by Fawkner.

ASIC has made *ASIC Class Order 13/657*, modifying Chapter 5C of the Corporations Act as it applies to responsible entities of schemes such as those managed by Fawkner, by inserting new sub-sections 601FC(1A) – 601FC(1E). The class order also inserts section 1013DAA, requiring that documentation required under sub-sections 601FC(1B) or (1C) must be made available free of charge and a statement to this effect must be included in any relevant PDS.

This policy complies with *ASIC Class Order 13/657.*

ASIC instrument

ASIC has made *ASIC Corporations (Managed investment product consideration) Instrument 2015/847*, modifying Chapter 5C of the Corporations Act as it applies to responsible entities of schemes such as those managed by Fawkner, by inserting new sections 601GAA – 601GAC. The instrument also inserts sub-section 1013D(2B), requiring that documentation required under sub-sections 601GAB(7) or (8) or 601GAC(7) or (8) must be made available free of charge and a statement to this effect must be included in any relevant PDS.

The inserted section 601GAA provides for circumstances where units are issued in the course of:

- a placement;
- a rights issue;
- a unit purchase plan;
- a distribution reinvestment plan;
- a fee arrangement with wholesale clients;
- issuing stapled securities;
- issuing interests in schemes where there is limited or no pooling;
- allocation of forfeited partly paid units.

As at the issue of this policy, none of these circumstances applied to schemes managed by Fawkner.

The inserted sub-section 601GAB(1) applies to schemes managed by Fawkner by virtue of paragraph 601GAB(2)(a), and requires that a formula or method of determining the acquisition price must be –

based on the value of scheme property attributable to interests in that class at the time of issue less any liabilities that under the constitution may be met from that property attributable to interests in that class divided by the number of interests on issue in that class.

Sub-section 601GAB(1) provides that the formula or method contained in the constitution of the scheme for calculating the acquisition price may give the responsible entity –

a discretion to do one or more of the following:

- *decide a matter that affects the value of a factor included in the formula*;
- *decide a matter that is an aspect of the method;*
- *determine the amount of an adjustment to the amount determined by the formula for the costs in acquiring or disposing of scheme property, for assets of the scheme that are not scheme property or otherwise.*

Inserted section 610GAC makes similar provisions for the determination of the withdrawal price.

FSC standard no 8

In compiling this policy, Fawkner has had regard to the principles set out in section 9 of FSC Standard No 8 – *Scheme Pricing*.

Purpose

Unlike the objective of accounting or valuation, the prime objective of unit pricing is not accuracy of measurement but equity between continuing unit holders and redeeming unitholders or between current unit holders and new unit holders.

The purpose of this policy is to ensure that unit prices are equitable and are established in a manner consistent with the Corporations Act (as modified by *ASIC Corporations (Managed investment product consideration) Instrument 2015/847* and *ASIC Class Order 13/657*), the constitution of the scheme and the principles in RG 46, RG 94 and RG 134.

This Policy sets out how Fawkner will fulfil these requirements and outlines the circumstances in which any discretion or judgement is exercised to ensure that:

- the application of the policy does not result in the issue of units at a price that would unfairly reduce the value of the units on issue;
- the application of the policy does not result in the redemption of units at a price which does not reflect the costs of realising assets and the risks of holding units to maturity;
- the method prescribed for determining the unit price that can be implemented consistently and that is capable of independent verification;
- elements of discretion are limited to those required to ensure that unit pricing is equitable; and
- there are procedures for the exercise of discretion and for making of any required estimates.

The exercise of any discretion is subject to the general duties of a responsible entity under Section 601FC of the Corporations Act, to act in the best interests of unitholders and to exercise a degree of care and diligence that a reasonable person would exercise in that position.

Relevant standards

The key standards which apply to setting the unit price based on the net tangible asset value are:

- AASB 13 Fair *Value Measurement*, published by the Australian Accounting Standards Board; and
- AASB 138 Intangible *Assets*, published by the Australian Accounting Standards Board; and
- Fawkner Valuation policy.

Applicable schemes

This Policy applies to the unlisted registered managed investment schemes listed at Appendix 1.

Unit price – net tangible asset value

The first step in determining the issue and redemption prices is calculating the current net tangible assets (**NTA**) per unit. This is calculated in accordance with accounting standards and the definition in ASIC RG 46:

Net tangible assets

The value of a Fund's assets other than intangible assets such as unamortised borrowing costs, less the Fund's borrowings, accrued expenses & other liabilities.

Tangible and intangible assets

Tangible assets include real estate assets and marketable securities at the carrying amount. Values of real estate assets must be determined in accordance with the Fawkner Valuation Policy.

Intangible assets

Intangible assets are defined in accounting standards as assets which are:

- non-monetary, that is, not money or to be received in fixed or determinable amounts of money; and
- without physical substance.

Relevant examples include the value of interest rate hedges intended to be held to maturity or unamortised leasing costs and tenant incentives.

Liabilities

For unit pricing purposes, the definition of liabilities excludes any amount representing investors' capital and other amounts representing the value of rights attaching to units in a scheme, regardless of whether characterised as equity or debt in the financial statements of that scheme.

Liabilities are not adjusted for intangibles such as unamortised borrowing costs and changes in the value of interest rate hedges intended to be held to maturity.

Unit Prices

Fawkner considers the valuation methodology outlined below to determine the issue price and withdrawal (redemption) price is reasonable as it is consistent with legislation, ASIC guidance, each scheme's constitution, ordinary commercial practice and the current PDS.

Issue (application) price

The schemes managed by the Manager do not allow for continual applications. Unless the responsible entity determines otherwise in a particular case, there are one or more fundraising periods under offers in regulated disclosure documents. The constitution provides that the unit issue price under the first disclosure document is $1.00 per unit.

The policy is to maintain the price of $1.00 for any issue that is made within 15 months of the issue of the first unit under the offer set out in the first disclosure document.

[Note that the NTA per unit at the date of the first disclosure document is likely to be in the range $0.82 - $0.90, reflecting the difference between the fair value of real estate assets and the full acquisition costs.]

If there is a subsequent offer of units, the policy is to calculate the application price as follows:

$$unit\ issue\ price = \frac{net\ tangible\ assets + transaction\ costs\ adjustment}{units\ on\ issue}.$$

The transaction costs adjustment is the costs of acquisition of the assets and establishment of the liabilities of the scheme, amortised on a straight-line basis, from the date of completion of the acquisition of each asset or establishment of each liability to the date of the next Exit Offer.

Withdrawal (redemption) price

In Fawkner unlisted property schemes, there are no redemption opportunities in the initial period of the scheme. If the scheme is extended beyond the initial period, there are annual redemption offers.

The withdrawal (redemption) price of a unit is determined by reference to the pricing methodology stated in each scheme's constitution and, unless provided for otherwise, the withdrawal price is the fair value of the unit.

The fair value of the unit, for the purposes of a redemption offer is determined as follows:

$$unit\ redemption\ price = \frac{net\ tangible\ assets + liquidity\ adjustment}{units\ on\ issue}$$; where:

- net tangible assets is determined as for unit issue price; and
- the liquidity adjustment is determined as set out below.

The liquidity adjustment reflects the risk that the scheme may be terminated at the next Exit Offer date. This requires the estimation of the sale proceeds for the real estate assets and the costs of winding up the scheme at the next Exit Offer date. The net realisable value of the assets is given by deducting the value of liabilities (disregarding intangibles) and the estimated winding up costs from the sum of:

- estimated realisable value of tangible non-real assets calculated in accordance with relevant accounting standards as at the date of the withdrawal offer; and
- estimated sale value of real estate assets, less selling costs, determined in accordance with the Valuation Policy as at the date of the withdrawal offer.

The liquidity adjustment is given by:

$$liquidity\ adjustment = \frac{net\ realisable\ value - net\ tangible\ assets}{(1+d)^n}$$. where:

- d is a market-derived annual discount rate applicable to real estate valuation; and
- n is the number of years from the date of the offer to the Exit Offer date.

The discount rate must be derived from either advice from an independent valuer or from recent discounted cash flow analyses used in the determination of the value of comparable properties. The directors must act reasonably in determining the applicable discount rate.

The evidence on which the directors based their determination of the market-derived discount rate for a particular offer must be documented and retained with other documentation relating to the withdrawal offer.

The liquidity adjustment may be positive or negative but is more likely to be negative, reflecting the costs involved in realising assets and winding up the scheme.

Discretions

Valuation methods

Generally, Fawkner will use the AIFRS to determine the value of assets and liabilities (including accruals and provisions for expenses and allowances for future expenses not yet incurred). However Fawkner may determine alternative valuation methods and policies, which may change from time to time, for each category of assets and liabilities.

The following valuation methods and policies are currently applied by Fawkner for the purpose of calculating a scheme's NTA (as applicable):

- purchased assets are initially recognised at cost (including transaction charges) and, from the first balance date (or the first date on which a unit price is to be calculated, if this is earlier), the carrying value is the fair value of the asset;
- the fair value of securities listed on domestic and international securities exchanges is their independently determined market price (where securities are thinly traded, Fawkner may exercise valuation discretion by comparing the securities' initial cost against its average traded price over a period commensurate with the nature of the holding and then determine whether any permanent increase or diminution in value has occurred);
- the fair value of unlisted securities is determined by reference to the latest financial information provided by the issuing fund manager (Fawkner may also consider independent research from reputable independent experts from time to time and, where Fawkner reasonably believes that the latest financial information provided by the fund manager does not accurately reflect the fair value of the unlisted security, the security will be valued according to AIFRS at its NTA, based on the most recently published financial statements, adjusted for known changes to the value of underlying assets which have not yet been reflected in a scheme's financial statements);
- real estate assets are valued in accordance with Fawkner's Valuation Policy (available on request); and
- liabilities are valued by disregarding intangible items, such as unamortised costs and, if the value of a liability is uncertain at the time of calculation, Fawkner will value the liability in accordance with ordinary commercial practice and AIFRS.

Fawkner considers the above valuation methods and policies to be reasonable for the purpose of calculating the unit price.

Allocating assets, liabilities, revenue and expenses between classes of units

Where Fawkner has discretion under a scheme's constitution to issue different classes of units and to determine the rights, liabilities, obligations and restrictions that attach to each class, the respective scheme's constitution and/or PDS will set out how the assets, liabilities, revenue and expenses are allocated between classes. Where the allocation basis applied involves a degree of judgement, Fawkner will allocate in accordance with ordinary commercial practice and AIFRS.

Fawkner considers the allocation of assets, liabilities, revenue and expenses between classes of units in accordance with their rights, liabilities, obligations and restrictions to be reasonable when calculating a unit's NTA.

Rounding of unit pricing

The issue (application) price, withdrawal (redemption) price and reinvestment price will be rounded to four decimal places of a dollar. The number of units to be issued or proceeds of a withdrawal will be calculated using the rounded issue (application) price or withdrawal (redemption) price respectively and in accordance with the relevant scheme's constitution. The number of units issued will be rounded down to the nearest two decimal places. Proceeds of a withdrawal (redemption) will also be rounded down to the nearest cent. Any remaining monies will become an asset of the relevant scheme.

Fawkner considers this to be reasonable as the policy is in accordance with the scheme constitutions and reflective of ordinary commercial practice.

Deviations from Unit Pricing Policy

Fawkner is required to keep a record of any discretion exercised that is not covered by this Policy or which deviates from this Policy. The exercise of a discretion by Fawkner that is not covered by, or deviates from this Policy will be documented in writing and reported to the responsible entity.

Fawkner considers the ability to depart from this Policy as reasonable as it safeguards the interests of unitholders in the event that conditions arise that have not been comprehended by this Policy but will document the reasons in the report to the responsible entity.

Any departure from the Policy in a particular case must be documented including:

- the date on which the unit price was set, using the alternative method;
- the person or group which made the decision;
- the alternative method used;
- the reasons on which the decision to prefer the alternative method was based; and
- if the alternative method departed from ordinary commercial practice or if the unit price resulting from the application of the alternative method is not reasonably current at the time is to be applied, the reasons it was impractical to use ordinary commercial practice or to produce a reasonably current price.

These documents (if any) recording the exercise of a discretion by Fawkner are available to unit holders free of charge on request.

Backdating Unit Prices

This policy does not permit backdating of unit prices.

Performance fees

Fawkner does not charge performance fees.

Effect of taxes

Fawkner expects that, under current taxation laws, a scheme will be "flow through" for the purposes of income tax.

Error Rectification

Unit pricing errors or errors that have a unit pricing impact are rectified in accordance with the Fawkner Error Rectification and Compensation Policy.

Outsourcing

All aspects of unit pricing are performed in house with the exception of the custody function which is outsourced.

Policy review

Review of the unit pricing policy

This policy will be reviewed at least annually by the Fawkner board of directors.

Date of approval by the Board:	7 August 2019
Date of most recent review:	26 May 2020

Contact

Unit holders or advisers who have any questions or would like to request more information available to existing or potential investors, are invited to contact Fawkner investor relations:

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APPENDIX 1

Open Funds

- Private Property Trust No 12 (ARSN 637 331 929)

Closed Funds

- none