

ASIC RG46 Disclosure
Heathley Keystone Property Fund No. 32
June 2018



HEATHLEY

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INTRODUCTION

The Australian Securities and Investments Commission (ASIC) has developed six (6) benchmarks and eight (8) disclosure principles for unlisted property schemes that can help retail investors understand the risks, assess the rewards being offered and decide whether these investments are suitable for them. These benchmarks and disclosure principles are set out in *Regulatory Guide 46 Unlisted Property Schemes – improving disclosure for retail investors*, which is available on ASIC's website at www.asic.gov.au.

This document shows how the Heathley Keystone Property Fund No. 32 (Fund) complies with the benchmarks and disclosure principles set out in RG 46. This document should be read in conjunction with the product disclosure statement, investor updates and the financial statements which are available from the Manager. In accordance with the requirements of RG 46, this statement will be updated every six months, or when Heathley Asset Management Limited (HAML or RE or Manager) becomes aware of any material changes to the Fund that would impact any of the benchmark or disclosure principles in RG 46.

BENCHMARKS

Responsible entities of unlisted property schemes offered to retail investors or in which retail investors have invested should disclose against benchmarks on an 'if not, why not' basis

BENCHMARK	DESCRIPTION
<p>Benchmark 1:</p> <p>Gearing Policy</p> <p><i>The Manager maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.</i></p>	<p>Yes, the Manager meets this benchmark. The Manager has adopted and maintains and complies with a written Financial Risk Management Policy.</p> <p>As stated in the PDS, the Fund has a target gearing ratio of 45% with an upper limit of 55%.</p> <p>See Disclosure Principle 1 for further details of the gearing policy.</p>
<p>Benchmark 2:</p> <p>Interest Cover Policy</p> <p><i>The Manager maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level.</i></p>	<p>Yes, the Manager meets this benchmark. The Manager has adopted and complies with a Financial Risk Management Policy for the Fund which requires reporting on the interest cover ratio.</p> <p>See Disclosure Principle 2 for further details on the interest cover ratio policy.</p>
<p>Benchmark 3:</p> <p>Interest Capitalisation</p> <p><i>The interest expense of the scheme is not capitalised.</i></p>	<p>Yes, the Manager meets this benchmark. The interest expense incurred by the Fund on the debt facilities will not be capitalised.</p>
<p>Benchmark 4:</p> <p>Valuations</p> <p><i>The Manager maintains and complies with a written valuation policy.</i></p>	<p>Yes, the Manager meets this benchmark. The Manager has adopted a written Direct Property Valuation Policy for the Fund that governs when an independent valuation is required and establishes the guidelines for the appointment of the valuer. Please contact the Manager to obtain a copy of the Direct Property Valuation Policy.</p>

Benchmark 5:

Related Party Transactions

The Manager maintains and complies with a written policy on related party transactions, including the assessment and approval processes for such transactions and arrangements to manage conflicts of interest.

Yes, the Manager meets this benchmark. The Manager has adopted and maintains and complies with a Conflicts of Interest and Related Party Transactions Policy to ensure that any related party transaction entered into by the Manager or a related party, is on arm's length terms and is monitored on a regular basis.

See Disclosure Principle 5 Related Party transactions for a summary of the key elements of the Fund's policy on related party transactions. For further details on this policy and the Fund's related party transaction procedures please contact the Manager.

Benchmark 6:

Distribution Practices

The scheme will only pay distributions from its cash from operations (excluding borrowings) available for distribution.

Yes, the Manager meets this benchmark. The Manager will pay distributions from its cash from operations (excluding borrowings) available for distribution.

DISCLOSURE PRINCIPLES

DISCLOSURE PRINCIPLE	DESCRIPTION
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Disclosure Principle 1:

Gearing Ratio

RG46.62 The RE should disclose the Fund's gearing ratio as calculated in accordance with the prescribed formula.

ASIC Regulatory Guide 46 requires the gearing ratio to be calculated as:

$$\text{Gearing ratio} = \frac{\text{Total interest-bearing liabilities}}{\text{Total assets}}$$

The Manager intends to maintain a gearing ratio of 45% with an upper limit of 55%.

The Funds' gearing ratio as at 30 June 2018 is 43.0%.

RG46.63 The liabilities and assets used to calculate the gearing ratio should be based on the scheme's latest financial statements.

The gearing ratio above is calculated from the Fund's audited 30 June 2018 financial statements.

RG 46.64 If the scheme has material off-balance sheet financing, the RE should disclose a 'look through' gearing ratio to determine the Fund's level of risk.

The Fund does not have off-balance sheet financing.

RG46.65 The RE should explain what the gearing ratio means in practical terms and how investors can use the ratio to determine the Fund's level of risk.

The gearing ratio indicates the extent to which the Fund's assets are funded by borrowings. The gearing ratio gives an indication of the potential risks faced by the Fund as a result of its borrowings due to, for example, an increase in interest rates or a decrease in asset values.

A higher gearing ratio means a higher reliance on interest bearing liabilities to fund assets and exposes the Fund to increased funding costs if interest rates rise or a potential breach of banking covenants if asset values fall.

Disclosure Principle
2:

RG46.71 The RE should disclose the Fund's interest cover ratio calculated in accordance with prescribed formula.

Interest Cover Ratio

ASIC Regulatory Guide 46 requires the interest cover ratio to be calculated as:

$$\text{Interest Cover Ratio} = \frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest expense}}$$

EBITDA means earnings before interest, tax, depreciation and amortisation.

The interest cover ratio calculated in accordance with ASIC disclosure principles is 4.7 times for the financial year ended 30 June 2018.

The above interest cover formula differs from the interest cover formula prescribed by the Fund's financier for the purposes of debt facility covenant calculations. The interest cover ratio reported to the Fund's financier is presented in Disclosure Principle 3 below.

RG46.72 The EBITDA and interest expense figures used to calculate the interest cover ratio should be consistent with those disclosed in the scheme's latest financial statements.

The interest cover ratio above is calculated from the Fund's audited 30 June 2018 financial statements.

RG46.74 The RE should explain how investors can use the interest cover ratio to assess the Fund's ability to meet its interest payments

The interest cover ratio measures the ability of the Fund to meet its interest payments on borrowings from its earnings. The level of interest cover gives an indication of the Fund's financial health, reflected by its ability to pay both interest to the debt finance provider and distributions to Investors. A higher interest cover ratio indicates there is greater available funds with which to pay interest costs and distributions. The lower the interest cover ratio, the higher the risk that the Fund will not be able to meet its interest payments. It is a key measure of the risks associated with the Fund's borrowings and the sustainability of borrowings.

Disclosure Principle
3:

RG 46.78 The RE should clearly and prominently disclose:

Scheme Borrowing

- Debt facility maturities
 - Loan to value and interest cover covenants and percentage headroom before the scheme will breach any of their covenants in any credit facilities
 - The assets to which the facility relates
 - The applicable interest rate
 - Hedging
 - Details of any terms within the facility that maybe invoked as a result of scheme members exercising their rights under the constitution of the scheme and
 - The fact that amounts owing to lenders and other creditors of the scheme rank before an investor's interests in the scheme
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As at 30 June 2018, the Fund has a term facility with NAB of \$4.05 million, with \$3.751 million debt drawn. Borrowings are secured by a registered first mortgage over the Fund's Property. These securities rank ahead of Investors' equity in the Fund.

The loan to value ratio as at 30 June 2018 is 48.8%. This ratio is calculated as the value of the facility limit divided by the Fund's Property value. The maximum LVR as per the loan covenants is 55.0%. The value of the properties would have to reduce by more than 11.3% for the Fund to breach the LVR covenant. LVR calculated based on drawn debt is 45.2%.

The financier's covenant interest cover ratio as at 30 June 2018 is 5.6 times. The financier's covenant interest cover ratio is calculated as net rental income divided by interest expense for the 12 months ended on the testing date. The net rental income would have to reduce by more than 67.6% for the Fund to breach the interest cover ratio of 1.80 times.

RG 46.79 If any of the Fund's borrowings or credit facilities are to mature within the next 12 months, the RE should make appropriate disclosure about the prospects of refinancing; or possible alternative actions

The Fund has no borrowings or credit facilities maturing within the next 12 months.

RG 46.80 The RE should explain any risks associated with the Fund's borrowing maturity profile, including whether borrowings have been hedged and if so to what extent

The Fund has no hedging in place in relation to the borrowings as at 30 June 2018.

RG 46.81 the RE should disclose any information about fund borrowing and breaches of loan covenants that is reasonably required by investors

There are no loan covenant breaches to report.

Disclosure Principle 4:

Portfolio Diversification

RG 46.87 A responsible entity should disclose the current composition of the property scheme's direct property investment portfolio

The Fund wholly owns 312 Bourbong Street, Bundaberg.

The Fund's occupancy by income is 90.7% and the WALE by income is 1.7 years as at 30 June 2018. The following three tenants contribute to 100% of the Fund's property income.

Tenants	Lease Expiry	% of Property Income
Queensland Health	Dec-19 & Mar-20	89%
Wilson Eye Centre	Jun-18	9%
Coffee on Bourbong	Oct-18	2%

RG 46.88 Responsible entity's investment strategy, including its strategy on investing other unlisted property schemes, whether the scheme's current assets conform to the investment strategy and an explanation of any significant variance from this strategy.

The Fund aims to invest in and manage the Property with the aim of delivering high returns, along with tax deferral benefits. The potential for capital growth is also expected through prudent investment management and an improvement in

market conditions.

There is no significant deviation from the above mentioned in the investment strategy. The Manager has received unitholder approval to divest the property.

RG 46.89 REs of unlisted property schemes involved in property development should also disclose:

- ***the development timetable with key milestones***
- ***a description of the status of the development against the key milestones identified***
- ***a description of the nature of the funding arrangements for the development***
- ***the total amounts of pre-sale and lease pre-commitments***
- ***whether the loan to value ratio for the asset under development exceeds 70% of the 'as is' valuation of the asset***
- ***the risks associated with the property development activities within the fund***

There are no property developments being undertaken within the Fund.

RG 46.90 The RE for any scheme that has over 20% of its assets in development based on an 'as if complete' basis should ensure that the scheme is clearly identified as a development and/or construction scheme.

There are no property developments being undertaken within the Fund.

Disclosure Principle 5:

Related Party Transactions

RG 46.98 Responsible entities that enter into transactions with related parties should describe related party arrangements relevant to the investment decision.

The RE of the Fund is Heathley Asset Management Limited whose holding company is Heathley Limited.

The Manager has adopted and complies with a Conflicts of Interest and Related Party Transactions Policy to ensure that any related party transaction entered into by the Manager or a related party, is on arm's length terms and is monitored on a regular basis by the Compliance Officer in accordance with the Fund's Compliance Plan.

The Compliance Officer is responsible for monitoring the various procedures and policies regarding related party transactions of the Fund. All related party transactions need to be reported and approved by the Board of Directors. As at the date of this document, all transactions in respect of the Fund are in compliance with its related party policies and procedures. The Manager may receive property management fees, leasing commissions and/or administrative services fees in the ordinary course of the Fund operations. These fees are set out in the PDS and will be charged to the Fund on arm's length terms and in compliance with the terms of the PDS and Conflicts of Interest and Related Party Transactions Policy.

In addition to the above:

- The Compliance Plan of the Fund is independently audited each year; and
- There are two Executive Directors in the Board.

Related Parties Interest

The number of units held by the directors of the RE as at 30 June 2018 is set out below

Director	Units
John Stuckey	100,000

Disclosure Principle 6:

Distribution Practices

RG 46.102 If the Fund is making or forecasts making distributions to members, the RE should disclose:

- the source of the current distribution (e.g cash from operations available for distributions, capital, unrealised revaluation gains) and
- the source of any forecast distribution

It is the Manager's practice to make distributions from funds from operations only. Distributions will be determined by the RE and will primarily comprise net rental income but may also include interest income. The RE may determine not to distribute all the income of the Fund as an allowance against capital expenditure requirements, vacancies and tenant incentives. The Manager last paid a distribution in respect of the quarter ending 30 June 2018.

Disclosure Principle 7:

Withdrawal Arrangements

RG 46.106 Responsible entities should also clearly disclose if investors have no withdrawal rights.

The Fund is an illiquid investment with a Minimum and Maximum Investment Terms of 5 and 10 years respectively, unless Investors agree to an extension (by Special Resolution) of the Investment Term.

Investors will have no withdrawal rights during the Investment Term except where the Manager makes a withdrawal offer.

Disclosure Principle 8:

Net Tangible Assets

RG 46.108 Responsible entity of a closed end scheme should clearly disclose the value of the net tangible assets (NTA) of the scheme on a per unit basis in pre-tax dollars

RG 46.109 We consider that responsible entities should calculate the NTA of the scheme using the following formula:

$$NTA = \frac{\text{Net assets - intangible assets +/- any other adjustments}}{\text{Number of units in the Fund on issue}}$$

The Net Tangible Asset calculation helps Investors understand the value of the assets upon which the value of their Unit is determined. The Net Tangible Asset calculation is based on the Fund's latest financial statements.

The Net Tangible Assets of the Fund as at 30 June 2018 is \$0.8526 per Unit. The NTA is calculated from the Fund's audited 30 June 2018 financial statements.
