Specialist Residential Property Impact Fund

ARSN 632 123 794

Benchmarks and Disclosure Principles Document

Issued by One Managed Investment Funds Limited
ABN 47 117 400 987 | AFSL 297 042

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Benchmarks and Disclosure Principles Document

Important Information

One Managed Investment Funds Limited ABN 47 117 400 987 | AFSL 297 042 (OMIL, RE, we or us) is the responsible entity of the Specialist Residential Property Impact Fund ARSN 632 123 794 (Fund) and issuer of this disclosure document. Inclusive Housing Australia Pty Ltd ABN 89 634 202 609 (authorised representative number 001281382) (Inclusive Housing Australia or Fund Manager) is the manager of the Fund and has been appointed by the RE to provide investment management and associated services in respect of the Fund.

Unless otherwise specified, all dollar amounts in this document are Australian dollars. Information about the Fund's management structure, investments, capital management, liquidity terms, fees and risks can be found in the Product Disclosure Document for the Fund issued by MSI Funds Management Limited (MSIFML) dated 16 April 2019 (PDS) as updated by this and other disclosures provided in respect of the Fund.

This document should be read in conjunction with the MSIFML PDS a copy of which can be obtained by contacting the Fund Manager.

About this document

The Australian Securities and Investments Commission (ASIC) has released benchmarks and disclosure principles to assist investors in understanding and comparing risks and returns across investments in the unlisted property sector. This document addresses the benchmarks and adopts the disclosure principles set out in ASIC Regulatory Guide 46 *Unlisted property schemes: Improving disclosure for retail investors*, and the document should be read in conjunction with the MSIFML PDS for the Fund. The Benchmark and Disclosure Principles Document for the Specialist Residential Property Impact Fund will be updated at least twice yearly where material changes to information in the document are identified. A copy of the Benchmark and Disclosure Principles Document is available online at www.oneinvestment.com.au/srpfund or can be obtained free of charge on request.

Enquiries

If you have any questions or require assistance or additional copies of this document or the MSIFML PDS, please contact the Fund Manager on 1800 442 732.

Background information

The Fund was established in 2019 to invest in a portfolio of high-quality specialised residential property assets for inclusion and operation in the Australian federal Government's Specialist Disability Accommodation (SDA) scheme.

The Fund is an unlisted Australian unit trust established by the constitution for the Fund (Constitution). It is a managed investment scheme which has been registered with ASIC.

The Fund is invested in the Specialist Residential Property Trust (Sub-Trust), an Australian wholesale unlisted unit trust which is wholly-owned by the Fund. The Fund may also invest into underlying properties directly or indirectly (including via other sub-trusts).

The objective of the Fund is to provide investors with income and long-term capital growth, with a goal of achieving a positive quantifiable social impact for people living with disabilities, their carers, and families. The Fund completed the program building six homes for inclusion in the SDA scheme, and commenced paying distributions in December 2020.

While the Fund's investment strategy was to acquire new SDA assets, as at the date of this report no acquisitions are being considered.

The Fund is currently closed for new investment. If the Fund is reopened, a new product disclosure statement will be issued in respect of the Fund.

Performance of Fund

The Specialist Residential Property Impact Fund (the Fund) was established with growth targets contained in the MSIFML PDS of 150 homes at a cost of $100 million within two years. The first stage was proposed to be 24 properties in and around Brisbane. As at the date of this report 6 homes in Narangba have been completed with only $3.9m of the approximately $85m equity required to fund these targets raised before the Fund closed.

The Fund Manager believes this has resulted in a Fund that is sub-scale and inefficient, and the administrative costs associated with operating the Fund are unsustainably high, negatively impacting returns to investors and making the Fund more sensitive to fluctuations in costs or income. A strategic review of the Fund is being undertaken and more information will be provided in due course, but it is unlikely the Fund's target net distribution rate of 8.25% will be met in the near term.

The Fund Manager has negotiated a significant reduction of fund administration, registry and RE fees. This will result in a reduction in administration costs of approximately $28,257 this calendar year, leading to a temporary financial reprieve.

The Fund's yields have been impacted by both increased costs and reduced income:

1. *Increased Cost – Land & Building Price*. The PDS gives a guidance of a $640,000 house and land package, the actual cost of house and land averaged $722,000, 16% higher than budgeted.

2. *Reduced Income*:

- *Occupancy Rate* – while the PDS gives guidance of a 90% occupancy rate for the life of the Fund, the current Occupancy Rate is 75%.
- *Design Category* - The PDS gives guidance all participants will receive High Physical Support funding, the highest funded Design Category of Specialist Disability Accommodation. This assumption is very narrow and restricts the ability to find participants who are adequately funded to fill vacancies in the portfolio. The majority of people with SDA funding are not funded for High Physical Support. The SDA Pricing review which came into effect 1st July 2023 has reduced the spread of funding for SDA participants. This will provide more opportunities to increase occupancy in the future and improve fund returns.
- *Location Factor* - The PDS assumes a "Location Factor" of 1.00, the actual Location Factor for Narangba is 0.90, resulting in a 10% drop in SDA income.

As previously disclosed pre-May 2022, distributions paid may have exceeded the income of the Fund. In effect these distributions were made wholly or partially from capital decreasing the cost base of the Fund. Since inception to the end of FY 23 the Fund had net operating losses of $124,237 and had paid $454,269 in distributions.

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Risk/return Profile – High Risk – Guidelines given in the MSIFML PDS Description and Summary:

The MSIFML PDS stated the Fund will focus on specialised real property assets, with the potential for higher returns than lower risk investments, however, there is also the greater potential for below-average returns and/or loss of capital than lower risk investments. Investors should not invest in the Fund unless they understand and are comfortable with, and have sought their own advice concerning, the risks associated with investing in the Fund.

Improving Fund Performance

The Fund Manager proposes two main areas to improve performance:

- Improving occupancy rate, working with support providers to fill vacancies on a sustainable basis to ensure that in the long-term occupancy is above the 90% target.
- Assessing options on the overhead burden and improve efficiency of the fund.

DISCLOSURE PRINCIPLE 1 – GEARING RATIO

The gearing ratio shows the extent to which the Fund's total assets are funded by interest bearing liabilities and gives an indication of the potential risks that investors face in terms of external liabilities that rank ahead of them.

The Fund's gearing ratio is expressed as a percentage and calculated by dividing total interest-bearing liabilities by total assets as follows:

Gearing Ratio = Total interest-bearing liabilities /Total Assets

The Gearing Ratio of the Fund as at 30 June 23 was calculated as:

Total interest-bearing liabilities of $1,050,000/Total Assets of $5,368,047 = 19.56%.

BENCHMARK 1 – GEARING POLICY

Benchmark: *The RE maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.*

The RE and the Fund Manager comply with Benchmark 1.

Gearing involves entering into a loan facility (debt) which may or may not be secured against the Fund's assets. Gearing has the effect of magnifying the Fund's returns, both positive and negative, which means that the risk of loss of capital may be greater than if gearing did not take place. Other risks associated with gearing include refinancing risk (the ability to repay the debt when it falls due) and interest rate rises.

Responsibility for implementing gearing is delegated to the Fund Manager. The Fund Manager manages gearing within the Fund according to the RE's Treasury Management Policy. The Fund has total secured debt of $1,050,000 as at 30 June 2023.

The Fund Manager's gearing strategy for the Fund is to limit debt to no more than 50% of the Fund's gross assets at the time of borrowing. Debt may be used to acquire investments or to fund capital expenditure. The Fund's target gearing range is 0-50% of the Fund's gross assets at the time of borrowing.

The MSIFML PDS disclosed that normally debt was expected to range from 0-15% of the Fund's gross assets at the time of borrowing, but at times the Fund may borrow up to a maximum of 25% of the Fund's gross assets at the time of borrowing.

For information on the Fund's gearing ratio, see Disclosure principle 1 – Gearing ratio in this document.

DISCLOSURE PRINCIPLE 2 – INTEREST COVER RATIO

Interest cover measures the ability of the Fund to meet interest payments on any loan facilities from its earnings, which can provide an indication of the Fund's financial health and assist in assessing the sustainability of, and risks associated with, the level of the Fund's borrowing. It is commonly expressed as a ratio of earnings to interest or Interest Coverage Ratio (ICR).

An ICR of 1.0x indicates that all of the Fund's earnings are required to meet its interest expenses on its loan facilities. Generally, the higher the ICR, the greater the ability of the Fund to pay its interest expense; for example, a ratio of 2.0x indicates that the Fund's earnings are twice the level required to pay its interest expense. The ICR for the Fund is calculated as follows:

Interest cover ratio = (EBITDA - unrealised gains + unrealised losses)/Interest expense

For the year ended the 30th June 2023 the Fund had $1,050,000 of total secured and interest-bearing debt (held at the Sub-Trust level) incurring annualised interest expense of $64,967, against annualised EBITDA $112,637 at the consolidated Fund level. This represents ICR of 1.73 times, which is a breach of the ICR covenant. The reason for this breach is due to three factors:

1. Accrued two years of Queensland Land Tax (noting that application for exemption is pending)
2. Increased cost of finance
3. Reduced occupancy rate

This is not expected to be an ongoing issue, fund performance should improve in FY 24 due to increased occupancy and SDA payments. The lender, IHA asset SPV Fund has noted the breach of the covenant and requires no further remediation. Please note that the IHA asset SPV Fund is a related entity as referred to In Disclosure Principle 5 and Benchmark 5 – Related Party Transactions.

BENCHMARK 2 – INTEREST COVER POLICY

Benchmark: *The RE maintains and complies with a written policy that governs the level of interest cover at an individual and grouped credit facility level.*

The RE and the Fund Manager comply with Benchmark 2.

Interest cover measures an unlisted property trust's ability to meet interest payments on any loan facilities from its earnings, which provides an indication of the Fund's financial health. The management of credit facilities used by the Fund has been outsourced by the RE to the Fund Manager. The Fund seeks to maintain an ICR of 2.0x or higher for each credit facility under its interest cover policy. In addition, the Fund Manager manages any loan facility used by the Fund in accordance with the RE's debt risk policy and debt authorisation framework.

Under the RE's Treasury Management Policy, the Fund is required to meet a number of key risk evaluation metrics in relation to the sizing and structure of the Fund's loan facilities. These metrics include interest costs to be fully supported by income producing assets.

At the time of publication of this document the Fund's total debt of $1,050,000 was comprised of six separate mortgages each of

$175,000 and each secured by an individual occupied asset with net operating income of $78,848 pa, against interest expense of $10,827 per annum.

DISCLOSURE PRINCIPLE 3 – FUND BORROWING

The Fund may borrow to acquire assets or to fund capital expenditure.

Generally, interest costs relating to the Fund's borrowings will be met from the gross income of the Fund prior to payment of distributions to investors. Where the Fund borrows, this may affect the Fund's returns and value of your investment in the Fund. Risks associated with borrowing include:

- *changes in interest rates may affect the amount of income available for distribution to investors and / or the capital value of the Fund, and*
- *financing risk, including the Fund's ability to refinance a debt facility on agreeable terms upon the expiry of the original financing term.*

BENCHMARK 3 – INTEREST CAPITALISATION

Benchmark: *The interest expense of the Fund is not capitalised.*

The RE and the Fund Manager comply with Benchmark 3.

Interest capitalisation occurs when accrued or accumulated interest is added to the loan principal instead of being paid on a regular basis. It generally applies where the Fund is holding land, or the Fund is holding assets which are being developed, as during development such assets may not generate sufficient income to meet the required interest payments. The Fund's interest expense policy is to pay interest as it falls due and not to capitalise it.

Exceptions may apply where the Fund is holding land or developing an asset, however presently no interest is being capitalised.

At the time of publication of this document the Fund, none of the Fund's debt facilities included capitalisation of interest.

DISCLOSURE PRINCIPLE 4 – PORTFOLIO DIVERSIFICATION

The Fund has been established to deliver quantifiable social impacts by investing in residential property assets in Australian capital cities and key regional markets that the Fund Manager considers:

- *meet the relevant criteria (and market demand) for successful inclusion and operation in the SDA scheme; and*
- *in doing so provide the opportunity for high investment yield; and*
- *provide the opportunity for stable long-range capital growth*.

The Fund has successfully completed a program to develop a portfolio of 6 properties north of Brisbane. It has commenced paying distributions but has closed the Fund for new investment while the Fund Manager monitors the performance of the assets ahead of making recommendations of further investments.

At the time of publication of this document the Fund's property weighting (held via the Sub-Trust) was 96% with the balance held in cash and cash like assets. The Fund aims to maintain a property weighting at 95%, with 5% held as cash. The Fund may invest cash in term deposits, cash management accounts, cash and/or bond/note managed investment schemes.

BENCHMARK 4 – VALUATION POLICY

Benchmark: *The RE maintains and complies with a written valuation policy in relation to direct property investments that requires:*

- *a valuer to:*
  - *be registered or licensed in the relevant state, territory or overseas jurisdiction in which the property is located (where a registration or licensing regime exists), or otherwise be a member of an appropriate professional body in that jurisdiction; and*
  - *be independent;*
- *procedures to be followed for dealing with any conflicts of interest;*
- *rotation and diversity of valuers;*
- *valuations to be obtained in accordance with a set timetable; and*
- *for each property, an independent valuation to be obtained:*
  - *before the property is purchased:*
    - *(A) for a development property, on an 'as is' and 'as if complete' basis; and*
    - *(B) for all other property, on an 'as is' basis; and*
  - *within two months after the directors form a view that there is a likelihood that there has been a material change in the value of the property.*

The RE and the Fund Manager comply as far as practicable with Benchmark 4, adjusted as appropriate to meet the specific requirements of the SDA Scheme. For example, the RE and the Fund Manager require:

- valuations – The RE has engaged Colliers, an independent valuer to value the properties in Narangba. The new valuation figures will be available by mid to end of September 2023. Any valuations (Net Assets) used in this RG46 are based on last financial year's accounts. Audited accounts will be available upon request in October 2023.
- units in unlisted funds (including the Sub-Trust) are valued at the most recent unit price supplied by the trustee of the relevant fund
- properties to be valued on an "as if enrolled as an SDA property basis" whereby the valuation assumes:
  - the property is occupied by, or capable of occupation by, an SDA participant/s who qualifies for SDA payments in accordance with the relevant SDA category registration that the property is enrolled (or capable of enrolment) under;
  - unless the directors form a view that the property should be assessed on the basis of the broader property market in circumstances where they form a view that a particular property is no longer suitable for enrolment as an SDA scheme property due to (for example) a lack of market demand for SDA enrolled properties generally,

(or for SDA properties with the specific attributes of a particular property) in the locality of the property.

- for each property, an independent valuation to be obtained:
  - before the property is purchased:

    (A) for a development property, on an “as is” and “as if complete and enrolled as an SDA property” basis

    (B) for all other property, on an “as is” basis and “as if enrolled as an SDA property” basis
  - at least annually commencing 12 months following the date of the respective contract of sale and/or completion (unless the property is being marketed for sale)
  - within 2 months after the directors of the RE form a view that there is a likelihood that there has been a material change in the value of the property
  - newly acquired land assets are valued on an “as-is” basis with building costs valued at cost until completion of construction when the completed property is valued on an “as if enrolled as an SDA property” basis.
- a valuer to:
  - be knowledgeable regarding and experienced in the SDA scheme and/or specialised residential assets such as that held by the Fund
  - be registered/licensed in the relevant state or territory where the property is located (where a registration or licensing regime exists) or otherwise be a member of an appropriate professional body
  - be independent
- rotation and diversity of valuers
- procedures to be followed for dealing with conflicts of interest

Written valuation policies are maintained and complied with in relation to direct property investments. The RE has assigned the Fund Manager responsibility for obtaining and managing valuations and properties are valued according to the RE’s real property asset guidelines. These guidelines set out the methodologies used by the Fund and its appointed agents to value direct property assets.

The Fund’s valuation policy is to have all properties independently valued by a registered valuer at least every 12 months following the date of the respective contract of sale and/or completion (unless the property is being marketed for sale).

Before a property is acquired, the Fund’s policy is to have it valued on an ‘as is’ and “as is” and “as if complete and enrolled as an SDA property” basis if the property is a development property; and for all other properties on an ‘as is’ “as if enrolled as an SDA property” basis.

Under the Fund’s valuation policy, properties are valued:

- *by a licensed valuer, authorised under the Law of the State or Territory, or overseas jurisdiction, where the property is located (where licensing laws exist)*
- *by an independent valuer with at least five years’ appropriate experience*
- *in compliance with the RE’s conflict of interest guidelines, which outline its policies on dealing with conflicts of interest*
- *by valuers who are rotated every two years to minimise any valuation errors and discrepancies*

All valuations are measured and recorded in accordance with the Australian Accounting Standard AASB 140 Investment Property.

As at publication of this document the Fund complies with the RE’s real estate valuation guidelines. A copy of the guidelines can be obtained free of charge by calling the Fund Manager 1800 442 732 info@inclusivehousing.com.au.

DISCLOSURE PRINCIPLE 5 AND BENCHMARK 5 – RELATED PARTY TRANSACTIONS

Benchmark: *The RE maintains and complies with written policies on related party transactions, including the assessment and approval processes for such transactions and arrangements to manage conflicts of interest.*

The RE and the Fund Manager comply with Benchmark 5.

A related party transaction is a transaction involving parties who have a close relationship with the RE and/or with the Fund Manager, for example, where a fund managed by us invests in other funds where we are the responsible entity or trustee; or where the Fund invests in assets where other related entities of the Fund Manager may have an interest, or where assets are transferred between the RE or the Fund Manager’s funds.

There is a risk that related party transactions may not be assessed or reviewed as rigorously as transactions between unrelated parties.

The RE maintains and complies with written policies on related party transactions, including approval processes of such transactions and arrangements to manage conflicts of interest.

Where the Fund Manager enters into transactions with related parties, it is done in accordance with related party protocols and the Fund Manager policies and standards which require the transaction to be on terms that would be reasonable if the parties were dealing at arm's length (and therefore member approval is not required). These policies and standards, including related party policies, are governed by the RE’s conflicts of interest policy and operational guidelines. These guidelines provide that where related party transactions exist, we must ensure legislative requirements are met and investors’ interests are protected.

The guidelines will be reviewed on a regular basis and may change from time to time.

The objective of the guidelines is to assist in the identification of potential or actual conflicts of interests (including in the context of related party transactions), to assess whether any particular conflict of interest is manageable or may be avoided, to adequately monitor, manage and respond to conflicts of interest, and to ensure adequate disclosure of conflicts of interests are made to clients, investors and other stakeholders.

Decisions in relation to conflicts of interest and related party transactions are documented in accordance with the guidelines.

Where appropriate, ongoing updates of material service engagements and financial benefits paid to related parties are provided through the continuous disclosure notices and updates published on the Fund’s website, copies of which can be obtained by contacting us.

The annual report for the Fund discloses the value of related party payments made from the Fund.

As at the date of this document the RE complies with the conflicts of interest policy and operational guidelines.

Please contact us should you wish to obtain further information on the current related party transactions policy and/or related standards.

RELATED PARTY ACTIVITIES

The RE has engaged the Fund Manager to provide investment management services under a Fund Management Agreement. The Fund Management Agreement was entered into on commercial terms and on an arm's length basis in accordance with the guidelines. Information about the management fees that are paid out of the Fund is contained in the MSIFML PDS.

The Fund Manager has appointed the Asset Manager (a related party) to give recommendations to the Fund Manager on property related matters and provide certain property and SDA scheme services to the Sub-Trust by entering into the Asset Management Agreement. Under the Asset Management Agreement, the Asset Manager is entitled to fees, cost and expenses.

On the 6th May 2022, entities associated with the RE and the Fund Manager refinanced the $1,050,000 loan to SPRIF at a lower interest rate than previous lender.

Other related party service providers may be appointed from time to time and information provided on the Fund website will be updated to reflect any changes to related party arrangements.

Related parties of the RE and the Fund Manager may invest in the Fund and the Fund may invest in funds operated by the RE, or the Fund Manager or their related parties from time to time. Details of related party investments are included in the Fund's annual report. Investor approval is not required as the investments are made on commercial terms and conditions and on an arm's length basis.

As at the date of this document, related parties held no units in the Fund. Further information is provided in the Fund's annual report.

DISCLOSURE PRINCIPLE 6 AND BENCHMARK 6 – DISTRIBUTIONS PRACTICES

Benchmark: *The Fund will only pay distributions from its cash from operations (excluding borrowings) available for distribution.*

The Fund's distribution policy is to pay distributions sourced from its cash from operations, which is primarily comprised of rental income but may also include interest, rebates and realised capital gains.

If the cash held by the Fund exceeds the taxable income of the Fund, tax deferred amounts may be distributed. At the time of your initial or additional investment in the Fund, there may be unrealised capital gains or accrued income in the Fund. If these amounts are subsequently realised, they may be returned to you as part of a distribution from the Fund.

The Fund's objective is to pay distributions every quarter; however, the amount of each distribution may vary, or no distribution may be paid in a quarter.

The Fund commenced paying distributions in December 2020.

As at the date of this document, the RE considers that the Fund's distributions may be variable over the next 12 months, taking into account the following relevant factors:

- *the sources of distributions (the Fund sources distributions from net operating income)*
- *current levels of occupancy in the Fund's direct real property assets and current levels of rental arrears*
- *the number of tenants occupying the Fund's direct real property assets (having multiple tenants reduces the impact of fluctuations in rental receipts where for any reason a tenant fails to meet its obligations, or a vacancy arises) and*
- *the level of debt held by the Fund and the interest rate applying to this debt.*

Also, regular updates on the Fund's progress are also available on the Fund's website at www.oneinvestment.com.au/srpfund.

DISCLOSURE PRINCIPLE 7 – WITHDRAWAL ARRANGEMENTS

As the Fund is illiquid, Investors may only withdraw their investment in the Fund in response to a withdrawal offer made by RE. Withdrawal offers may only be made in accordance with the Constitution and the Corporations Act.

The RE's ability to make withdrawal offers is materially affected by a number of factors including having sufficient cash available from the Fund's investments to make such offers. The RE therefore cannot guarantee that it will make withdrawal offers twice yearly or at any time.

The PDS indicated that MSIFML as the responsible entity intended to make periodic withdrawal offers.

As the Fund is illiquid and given the Fund's current financial situation, the Fund Manager has indicated it does not intend to recommend the RE make any withdrawal offers.

All withdrawals (including in respect of withdrawal offers) are subject to a minimum withdrawal amount of $10,000 and minimum investment balance of $25,000.

Any withdrawal offers must be made in accordance with the Constitution and the Corporations Act. The RE will make information available about any withdrawal offer at https://oneinvestment.com.au/srpfund.

Refer to the MSIFML PDS for further information about withdrawal arrangements for the Fund. Also, regular updates on the Fund's progress are also available on the Fund's website athttps://oneinvestment.com.au/srpfund.

DISCLOSURE PRINCIPLE 8 – NET TANGIBLE ASSETS

The net tangible assets of the Fund per unit as at 30 June 2023 based on the management account was $1.05.

The net tangible assets of the Fund per unit as at 30 June 2022 based on the annual audited financial statement was $1.06.

CORPORATE DIRECTORY

Responsible Entity and Custodian

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