

AusFunds Fractional Property Investment Platform ARSN 623 862 662

ASIC RG46 Disclosure SPDS - NSW-EPP-001 Property Class

25 January 2018
Vasco Investment Managers Limited
ABN 71 138 715 009
AFSL 344486

ASIC Regulatory Guide 46 Disclosure

The Australian Securities & Investments Commission (**ASIC**) requires responsible entities of unlisted property schemes in which retail investors invest to provide a statement addressing ASIC's six benchmarks and eight disclosure principles as set out in Regulatory Guide 46: Unlisted Property Schemes – improving disclosure for retail investors (**RG46**).

The disclosure aims to help retail investors compare risks, assess the rewards being offered and decide whether the investments are suitable to them. Vasco Investment Managers Limited (**Vasco**), as responsible entity (**RE**) of the AusFunds Fractional Property Investment Platform (**Platform**), presents the six benchmarks and eight disclosure principles in relation to an investment in the NSW-EPP-001 Property Class of the Platform in this document.

This document should be read in conjunction with the following documents which will be made available on the website

www.vascofm.com:

- the Platform's Product Disclosure Statement (**PDS**) dated 26 February 2018;
- the Supplementary Product Disclosure Statement (**SPDS**) in respect of the NSW-EPP-001 Property Class;
- the 'ASIC RG46 Disclosure' in respect of the Platform; and
- the financial statements in respect of the Platform NSW-EPP-001 Property Class and which will be available following the end of each financial year.

In accordance with the requirements of RG46, this statement will be updated for any material changes that the RE becomes aware of, and in any event, at least every six months. The updated statement will be included on the RE's website www.vascofm.com.

DISCLAIMER

The responsible entity of the AusFunds Fractional Property Investment Platform (**Platform**) is Vasco Investment Managers Limited (Vasco) (ABN 71 138 715 009, AFSL 344486).

This information has been prepared by Vasco for general information purposes only, without taking into account any potential investors' personal objectives, financial situation or needs. Before investing, you should consider your own objectives, financial situation and needs or you should obtain financial, legal and/or taxation advice.

Vasco does not receive fees in respect of the general financial product advice it may provide, however it will receive fees for operating the Platform which, in accordance with the Platform's Constitution, are calculated by reference to the assets of the Platform.

Entities related to Vasco may also receive fees for managing the assets of, and providing resources to the Platform. To contact us, call +61 3 8352 7120 (local call cost).

Past performance is not a reliable indicator of future performance. Due care and attention has been exercised in the preparation of forecast information, however, forecasts, by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Vasco. Actual results may vary from any forecasts and any variation may be materially positive or negative.

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Disclosure principles and Benchmarks

ASIC Regulatory Guide 46 “Unlisted property schemes: Improving disclosure for retail investors” (RG 46) sets out six benchmarks and eight disclosure principles that unlisted property funds, such as the Platform, must address to assist investors analyse and understand the risks associated with investing in these types of funds and decide whether such investments are suitable for them.

The Disclosure Principles and Benchmarks below refer to the NSW-EPP-001 Property Units. Please refer to the PDS for the RG 46 disclosure for the Platform as a whole.

Benchmark 1 – Gearing policy

Does the RE maintain and comply with a written policy that governs the level of gearing at an individual credit facility (borrowing facility) level?

Yes - The NSW-EPP-001 Property Class meets this benchmark.

Benchmark 2 – Interest Cover Policy

Does the RE maintain and comply with a written policy that governs the level of interest cover at an individual credit facility level?

Yes - The NSW-EPP-001 Property Class meets the benchmark.

Benchmark 3 – Interest capitalisation

Will the interest expense of the scheme not be capitalised?

Yes - The NSW-EPP-001 Property Class meets the benchmark. The Interest expense of the NSW-EPP-001 Property Class will not be capitalised.

Benchmark 4 – Valuation policy

Does the RE maintain and comply with a written valuation policy that contains all the elements as set out in ASIC Regulatory Guide 46?

No - The NSW-EPP-001 Property Class does not meet this benchmark. It does not meet the benchmark as valuations will only be undertaken prior to acquisition and otherwise only once every 3 years unless required more frequently by Vasco or the Fund's auditors.

Benchmark 5 – Related party transactions

Does the RE maintain and comply 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 NSW-EPP-001 Property Class meets this benchmark.

Benchmark 6 – Distribution practices

Will the Platform only pay distributions from its cash from operations (excluding borrowings) available for distribution?

Yes - The NSW-EPP-001 Property Class meets this benchmark.

Disclosure Principle 1 – Gearing ratio

Responsible entities should disclose a gearing ratio for the scheme calculated using the following formula:

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

The gearing ratio indicates the extent to which a scheme's assets are funded by interest-bearing liabilities. It gives an indication of the potential risks the scheme faces in terms of its level of borrowings due to, for example, an increase in interest rates or a reduction in property values.

As at the date of this SPDS the NSW-EPP-001 Property Class has no borrowings. However it is expected that at the Settlement Date, assuming \$3,100,000 will be borrowed, the NSW-EPP-001 Property Class will have a gearing ratio of $3,100,000 / 9,253,800 = 0.335$.

Disclosure Principle 2 – Interest cover ratio

The RE should disclose the scheme's interest cover ratio calculated using the following formula and based on the latest financial statements:

Interest cover ratio =

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

The interest cover ratio measures the ability of the scheme to service interest on debt from earnings.

As at the date of this SPDS the NSW-EPP-001 Property Class has no borrowings therefore the ICR is currently 0%. However it is estimated that at the Settlement Date, assuming that \$7,580 per week rent is achieved, initial scheme expenses plus operational costs of \$379,000 and \$3,100,000 will be borrowed at 4.60%p.a. interest rate, the NSW-EPP-001 Property Class will have an interest cover ratio of 0.11.

Disclosure Principle 3 – Scheme borrowing

If a scheme has borrowed funds (whether on or off balance sheet), responsible entities should clearly and prominently disclose the nature of those borrowings.

As at the date of this SPDS NSW-EPP-001 Property Class does not have any borrowings.

However it is expected that at the Settlement Date, \$3,100,000 will be borrowed for a minimum of 3 year term.

It is expected that the Property value would have to fall by 10% for the NSW-EPP-001 Property Class to breach a loan covenant.

There will not be any credit facility.

All amounts owing to lenders and other creditors of the NSW-EPP-001 Property Class rank before an investor's interest in the NSW-EPP-001 Property Class.

The loan will not be hedged.

Disclosure Principle 4 – Portfolio diversification

The RE should disclose the current composition of the property scheme's direct property investment portfolio.

The RE does not manage portfolio diversification. The NSW-EPP-001 Property Class will comprise of 12 residential apartments in two buildings but same Strata Plan in Epping NSW for a total value of \$9,253,800. No valuations have been obtained in respect of the Property as at the date of this SPDS. However, a valuation on an individual apartment basis will be obtained before the Contract is executed by the RE. If the valuation is

more than 10% lower than the Purchase Price, the RE will not acquire the Property and the NSW-EPP-001 Property Class will not be created.

The Property is currently untenanted. It is expected that before the Settlement Date tenants will be sourced through a licensed real estate agents and market rent of approximately \$7,580 per week will be charged.

No other properties will be held by the NSW-EPP-001 Property Class.

Investors can diversify their property exposure from the Platform by investing in other Property Classes which are of different types and geographic areas.

Disclosure Principle 5 – Related party transactions

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

The RE and the Investment Manager may enter into related party transactions from time to time. See Additional Information section below for further details as to related party transactions.

Disclosure Principle 6 – Distribution practices

If a scheme is making or forecasts making distributions to members, the responsible entity should disclose the nature and source of the distributions.

All distributions will be sourced from cash from operations available for distribution and will not be sourced from borrowings or unrealised capital gains. No distributions are expected to be made for the NSW-EPP-001 Property Class.

Disclosure Principle 7 – Withdrawal arrangements

It is important for responsible entities to make investors aware of withdrawal arrangements so that investors form realistic expectations about their ability to withdraw from the scheme. If investors are given the right to withdraw from a scheme, the responsible entity should clearly disclose the nature of those rights.

Investors in all the Property Classes will only be able to withdraw if the RE makes a withdrawal offer. The RE has no obligation or intention to make a withdrawal offer.

Disclosure Principle 8 – Net tangible assets

The 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.

NTA = (Net assets – intangible assets +/- any other adjustments) / Number of units in the scheme on issue

The NTA in NSW-EPP-001 Property Class is calculated by reference to the annual valuation of the property asset held less any liabilities (e.g. loans and outstanding expenses) related to the NSW-EPP-001 Property Class divided by the number of Units on issue in the NSW-EPP-001 Property Class.

Currently, the NSW-EPP-001 Property Class does not have any assets, liabilities or Units on issue so an NTA is unhelpful. However, it is expected that at the Settlement Date there will be net assets of \$9,253,800 - \$3,100,000 + \$590,100 = \$6,743,900 (Property value minus borrowings plus cash) and a total of 7,700,000 NSW-EPP-001 Property Units on issue. Therefore the NTA of the NSW-EPP-001 Property Class is expected to be approximately \$0.88 per unit.

The NTA will be published on the Platform's website www.ausfunds.com.au and updated every 12 months.

Key Investor Information

Key features	Description
Offer	An investment in the NSW-EPP-001 Property Class
Property	Lots 1 (Apt 101), 65 (Apt 420) and 80 (Apt 515) (3 x 1 bedroom apartments), Lots 5 (Apt 105), 29 (Apt 308), 35 (Apt 306), 42 (Apt 317), 56 (Apt 405), 74 (Apt 505) and 81 (Apt 516) (7 x 2 bedrooms apartment) and Lots 19 (Apt 213) and 59 (Apt 414) (2 x 3 bedrooms apartments), 17-25 Epping Road, Epping NSW 2121
Property type	Residential
Purchase Price	\$9,253,800
Target return	As the Property is not expected to be tenanted until the Settlement Date, and given the nature of the investment, expected return information is not reliable enough to be provided. Information about prices in the area in which the Property is located is provided in section 8 Additional Information. Note that past performance is not a reliable guide of future performance.
Investment strategy	Residential property capital growth investment.
Capital to be raised	\$7,700,000 - \$7,800,000
Borrowing	Up to 35% of Purchase Price.
Tenancy	<p>The Property is currently not tenanted but tenants are expected to be sourced by Settlement Date.</p> <p>Rent will be at the market rate.</p>
Valuations	<p>No valuation has been performed as at the date of this SPDS. However, a valuation will be obtained on an individual apartment basis before the contract of sale (Contract) is executed by the RE.</p> <p>If the valuation is more than 10% lower than the Purchase Price, the RE will not acquire the Property and the NSW-EPP-001 Property Class will not be created.</p>
Term	5 years from Settlement Date, subject to available liquidity. The RE can reduce or extend the term for up to 1 year in its absolute discretion.
Offer Opening Date	Investors can submit their Conversion Form to invest in the NSW-EPP-001 Property Class from 29 January 2019.
Offer Closing Date	The Offer will close on 29 March 2019. The RE retains the right to close the Offer earlier or delay the Offer Closing Date for an additional 40 Business Days.
Units become quarantined	Once an investor applies to convert some or all of their Cash Units into the NSW-EPP-001 Property Units those Cash Units will become quarantined until the Conversion Date or as otherwise notified by the RE.
Conversion Date	<p>Units which have been quarantined are expected to be converted to the NSW-EPP-001 Property Units 5 Business days before the Settlement Date.</p> <p>The Conversion Date can be brought forward or delayed at the RE's discretion.</p> <p>Where Settlement Date is expected to be delayed beyond 30 June 2019, the RE will either</p>

Key features	Description
	terminate the Contract (and the RE will remove the quarantine from the Units within 10 Business Days of the termination) or offer investors the opportunity, with 10 Business Days prior notice, to remove the quarantine from all or part of their Units.
Settlement Date	Settlement is expected to be on 12 April 2019. However Settlement Date may be earlier or delayed.
Unit pricing	NSW-EPP-001 Property Units are priced annually or as otherwise required by the RE based on updated valuations.
Distribution payments	Distributions are not expected to be made for the NSW-EPP-001 Property Class. However any distributions of income for the NSW-EPP-001 Property Units will be made quarterly.
Withdrawals	NSW-EPP-001 Property Units will generally only be redeemed upon the winding up of the Property Class.
Cooling off rights	No cooling off rights will apply.
NSW-EPP-001 Property Class Minimum Investment	\$25,000 or in \$1,000 increments above \$25,000.
RE Fee (Platform as a whole)	0.31% per annum of the gross asset value of the Platform with a minimum of \$62,700 in each year. This fee will be spread across all Classes (including NSW-EPP-001 Property Class) in the Platform in proportion to the gross asset value of each Class. As at the date of this SPDS, the Cash Class and the NSW-EPP-001 Property Class are the only 2 Classes in the Platform.
Investment Manager Fees	Property Class Establishment Fee - A once-off fee of 1.03% of the gross asset value of the NSW-EPP-001 Property Class. Annual Investment Management Fee - 1.03% per annum of the gross asset value of the NSW-EPP-001 Property Class. Property Acquisition Fee - A once-off fee of 3.38% of the Purchase Price. Property Disposal Fee - A once-off fee of 2.05% of the sale price of each Property.
Expenses	In addition to the RE Fee the RE is entitled to recover all reasonable expenses properly incurred in the performance of its duties. The engagement of third-party service providers such as AusFunds will be an expense of the Platform. Expenses excluding Investment Manager Fees are estimated to be 0.64% p.a. of the gross asset value of the NSW-EPP-001 Property Class.
Buy/Sell spread	No buy/sell spread. However, the RE retains discretion to charge a buy/sell spread in the future (if necessary).

If you need help about investing generally, speak to a licensed financial adviser. The Australian Securities and Investments Commission ("ASIC") can help you check if a financial adviser is licensed.

If you do not have an adviser, contact us and we can put you in touch with someone who can help. If you have questions about this Platform in particular, speak to your Adviser or call Vasco on +61 3 8352 7120 directly for more information.

Further Information

For further information on the Platform, please contact us on +61 3 8352 7120 or visit our website www.vascofm.com.