



35 Latitude Development Fund

ARSN 620 185 266

ASIC RG46 Disclosure

As at 31 March 2021

DISCLAIMER

The responsible entity of the 35 Latitude Development Fund (**Fund**) is Vasco Trustees Limited (**Vasco**) (ABN 71 138 715 009, AFSL 344486).

This document has been prepared as at 31 March 2021, and was published on 22 July 2021.

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 Fund which, in accordance with the Fund's Constitution, are calculated by reference to the assets of the Fund.

Entities related to Vasco may also receive fees for managing the assets of, and providing resources to the Fund. 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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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 Trustees Limited (**Vasco**), as responsible entity (**RE**) of the 35 Latitude Development Fund (**Fund**), presents the six benchmarks and eight disclosure principles in relation to the Fund.

This document should be read in conjunction with the following documents which will be made available on the website www.vascofm.com:

- the Fund's Supplementary Product Disclosure Statement (**PDS**) dated 29 May 2020 together with the Fund's PDS dated 6 September 2017;

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 as at 31 March and 30 September of each year. The updated statement will be included on the RE's website www.vascofm.com.

If you need help about investing generally, speak to a licensed financial adviser. 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 Fund in particular, speak to your Adviser or call Vasco on +61 3 8352 7120 directly for more information.

Disclosure principles and Benchmarks

Benchmark 1: Gearing Policy

RG 46.31 – The RE maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.

Yes - The Fund meets the benchmark

The RE maintains a written gearing policy. This policy can be obtained by contacting the RE.

Per section 3.9 of the Fund's PDS,

The gearing ratio represents the percentage of debt compared to the gross assets of the Fund and the Sub-Trust. As such it indicates the extent to which the Fund's assets are funded by interest-bearing liabilities. The gearing ratio includes both direct gearing and look-through gearing using the following formula:

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

A higher gearing ratio means a higher reliance on external liabilities (primarily borrowings) to fund assets. A highly geared scheme has a lower asset buffer to rely upon in times of financial stress.

The Responsible Entity intends to limit the maximum gearing ratio (otherwise known as a loan-to-value ratio) to 70% of the value of all Property being used to secure any loan. The Responsible Entity will periodically calculate the gearing of the Fund.

Borrowings will be either on a Project-by-Project basis secured by the Property acquired by the Fund for each Project, or on a Fund-wide basis, using multiple Properties to secure any debt facility.

As at 31 March 2021, neither the Fund nor the Sub-Trusts had any borrowings.

From time to time, the Investment Manager, or a related party of the Investment Manager, may fund some of the development costs associated with the portfolio of properties where it considers it necessary to do so in order to progress the developments in a timely manner.

The RE, or a trustee of a sub-trust, may borrow this money from the Investment Manager, or a related party of the Investment Manager, via an unsecured loan with an interest rate of up to 10% per annum, which has been considered to be within comparative mezzanine financing terms and at arms-length.

Benchmark 2: Interest Cover Policy

RG 46.36 – The RE maintains and complies with a written policy that governs the level of interest cover (ICR) at an individual credit facility level.

Yes - The Fund meets the benchmark

The RE maintains a written interest cover policy as well as a Compliance Plan and a Risk Management Framework.

The RE's Gearing and Interest Cover Policy can be obtained by contacting the RE.

Per section 3.10 of the Fund's PDS,

The interest cover ratio gives an indication of the Fund's ability to meet interest payments on debt from its earnings. It is an important indication of financial health and key to analysing the sustainability and risks associated with the Fund's level of borrowing. The Fund's interest cover ratio is the amount of earnings to service every \$1.00 of interest on debt. It is determined by the following formula:

$$\text{Interest cover (ICR)} = \frac{\text{EBITDA} - \text{unrealised gains} + \text{unrealised losses}}{\text{Interest expense}}$$

where EBITDA = earnings before interest, tax, depreciation and amortisation.

The Fund intends to capitalise interest payments. The Fund will not enter into any interest rate hedges.

As there is no borrowing by the Fund, there is no ICR.

Benchmark 3: Interest Capitalisation

RG 46.41 – The interest expense of the scheme is not capitalised.

Yes - The Fund meets the benchmark

As at 31 March 2021, the Fund had no borrowing.

Benchmark 4: Valuation Policy

RG 46.45 – The RE maintains and complies with a written valuation policy that conforms to ASIC's requirements at RG 46.45, or must explain why they do not.

Yes - The Fund meets the benchmark

The RE maintains and complies with a written valuation policy.

The RE's Valuation Policy can be obtained by contacting the RE.

Benchmark 5: Related Party Transactions

RG 46.53 – The RE 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 Fund meets the benchmark

The RE maintains a Related Party Transaction Policy that provides a framework for the review of the terms of all related party transactions. The policy details the circumstances, terms and conditions as to when related party transactions will be appropriate for Vasco and the Fund and the supporting evidence required in relation to such transactions. Generally, the policy requires related party transactions to be in the best interests of investors and on arm's length terms.

Benchmark 6: Distribution Practices

RG 46.58 – The Fund will only pay distributions from its cash from operations (excluding borrowings) available for distributions.

Yes - The Fund meets the benchmark

The RE has a policy of making distribution payments only from the net realised profit of the Fund.

Disclosure Principle 1: Gearing Ratio

RG 46.62 – The RE should disclose the Fund's gearing ratio as calculated in accordance with the prescribed formula.

RG 46.63 – The liabilities and assets used to calculate the gearing ratio should be based on the scheme's latest financial statements.

RG 46.64 – If the scheme has material off-balance-sheet financing, the RE should disclose a 'look through' gearing ratio that takes into account such financing.

RG 46.65 – 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.

Please refer to 'Benchmark 1: Gearing Policy' above.

Disclosure Principle 2: Interest Cover Ratio

RG 46.71 – The RE should disclose the Fund's interest cover ratio calculated in accordance with prescribed formula.

RG 46.72 – 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.

RG 46.74 – The RE should explain how investors can use the interest cover ratio to assess the Fund's ability to meet its interest payments.

Please refer to 'Benchmark 2: Interest Cover Policy' above.

Disclosure Principle 3: Scheme Borrowing

RG 46.78 – If a scheme has borrowed funds (whether on or off balance sheet) the RE should clearly and prominently disclose:

- *for each borrowing that will mature in five years or less – the aggregate amount owing and the maturity profile in increments of not more than 12 months;*
- *for borrowings that will mature in more than five years – the aggregate amount owing;*
- *the amount (expressed as a percentage) by which either the operating cash flow or the value asset(s) used as a security for the facility must fall before the scheme will breach any covenants in any credit facility;*
- *for each credit facility;*
 - i. *the aggregate undrawn amount;*
 - ii. *the assets to which the facility relates;*
 - iii. *the loan to-valuation and interest cover covenants under the terms of the facility;*
 - iv. *the interest rate of the facility; and*
 - v. *whether the facility is hedged;*
- *details of any terms within the facility that may be invoked as a result of scheme members exercising their rights under the constitution of the scheme;*
- *the fact that amounts owing to lender and other creditors of the scheme rank before investor's interests in the scheme.*

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 (e.g. sales of assets or further fund raising).

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.

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

Borrowing by the Fund is known as gearing. Repayment of borrowings ranks ahead of Unitholders’ interests in the Fund and payment of interest on borrowings must be funded prior to any distributions being made to Unitholders. See section 8 of the PDS for further information about the risks involved in geared investments. The Fund expects to borrow in order to fund the construction costs for each Project. Borrowings will be on a Project- by-Project basis and will be secured by the Property acquired by the Fund for each Project. However, in certain circumstances the Responsible Entity may, at its discretion, use multiple Properties to secure any debt facility. Debt will be provided by Australian ADI’s or other financiers considered appropriate by the Responsible Entity.

The Fund currently has no borrowing that will mature in five years or less.

There are currently no borrowings that will mature in more than five years.

Disclosure Principle 4: Portfolio Diversification

RG 46.87 – The RE should disclose the current composition of the Fund’s direct property investment portfolio, including:

- *properties by geographic location, by number and value;*
- *non-development projects by sector (e.g. industrial, commercial, retail and residential) and development projects by number and value;*
- *for each significant property, the most recent valuation, the date of the valuation, whether the valuation was performed by an independent valuer and where applicable, the capitalisation rate adopted in the valuation;*
- *the portfolio lease expiry profile in yearly periods calculated on the basis of lettable area or income and, where applicable, the weighted average lease expiry;*
- *the occupancy rates of the property portfolio;*
- *for the top five tenants that each constitutes 5% or more by income across the investment portfolio, the name of the tenant and percentage of lettable area or income; and*
- *the current value of the development and/or construction assets of the scheme as a percentage of the current value of the total assets of the scheme.*

RG 46.88 – Disclosure should cover the responsible entity’s investment strategy on these matters, including its strategy on investing in 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. A responsible entity should also provide a clear description of any significant non-direct property assets of the scheme, including the value of such assets.

The Fund will invest in a portfolio of residential development properties located in the Hunter Region. As at 31 March 2021, the Fund owns a 100% financial interest in two residential properties and interests in seven (7) sub-trusts which are each completing a separate property development project. Three (3) of those sub-trusts are in the process of being wound up having completed the relevant property development project. All locations are untenanted.

As at 31 March 2021, the Fund’s direct property investment portfolio was as follows:

Geographic location	Number	Value
Lower Hunter (Newcastle/Lake Macquarie LGA)	5	\$8,137,720
Dubbo	1	\$1,862,087

All of the Fund’s development projects are residential development projects, totalling \$9,999,807.

The most recent valuations were internal valuation.

The RE maintains and complies with a written valuation policy. The RE's Valuation Policy can be obtained by contacting the RE.

As at 31 March 2021, the value of the development and/or construction assets of the scheme as a percentage of the value of the total assets of the scheme was 91.76%.

Disclosure Principle 5: Related Party Transactions

RG 46.98 – REs that enter into transactions with related parties should describe related party arrangements relevant to the investment decision. The description should address:

- (a) the value of the financial benefit;*
- (b) the nature of the relationship (i.e. the identity of the related party and the nature of the arrangements between the parties, in addition to how the parties are related for the purposes of the Corporations Act or ASX listing rules – for group structures, the nature of these relationships should be disclosed for all group entities);*
- (c) whether the arrangement is on 'arm's length' terms, is reasonable remuneration, some other exception applies, or relief has been granted;*
- (d) whether scheme member approval for the transaction has been sought and, if so, when (e.g. if member approval was obtained before the issue of interests in the scheme);*
- (e) the risks associated with the related party arrangement; and*
- (f) whether the responsible entity is in compliance with its policies and procedures for entering into related party transactions for the particular related party arrangement, and how this is monitored.*

The Responsible Entity maintains and complies with a written policy on related party transactions to ensure that any actual or potential conflicts of interest are identified and appropriately dealt with. Any potential transactions with related parties go through an assessment process. No related party transactions can be approved or entered into unless they are strictly on arms-length, commercial terms (unless otherwise approved by Unitholders, with any possible conflicts of interest having been fully disclosed). Unitholders can obtain a copy of the RE's Related Party Transactions Policy by contacting the RE.

The directors, shareholders and associates of the Responsible Entity and the Investment Manager may hold Units in the Fund, along with other Unitholders. Unless otherwise disclosed, these Units will be issued on the same terms as those issued to other Unitholders. To the extent these related Unitholders have an interest (other than as Unitholders) in a resolution put to a meeting of Unitholders they will be excluded from voting on the resolution.

The Fund is not precluded from investing in companies that are related parties of the Responsible Entity or Investment Manager under its Constitution.

Disclosure Principle 6: Distribution Practices

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

- (a) the source of the current distribution (e.g. cash from operations available for distributions, or from capital, or from unrealised revaluation gains);*
- (b) the source of any forecast distribution;*
- (c) whether the current or forecast distribution are sustainable over the next 12 months;*
- (d) if the current or forecast distribution is not solely sourced from cash from operations (excluding borrowings) available for distribution, the sources of funding and the reasons for making the distribution from these other sources;*
- (e) if the current or forecast distribution is sourced other than from cash from operations (excluding borrowings) available for distribution, whether this is sustainable over the next 12 months; and*
- (f) the impact of, and any risks associated with the payment of distributions from the scheme from sources other than cash from operations (excluding borrowings) available for distribution.*

Distributions are expected to be made as at the end of each Financial Year payable by 30 September of each year, following the audit of the Fund's annual accounts.

Distributions will only be made from the income earned by the Fund over the course of the preceding year, which will be generated from the completion of a Project and the sale of all units and townhouses developed as part of that Project.

The RE intends to pay distributions from its cash operations (excluding borrowings) available for distribution.

The RE intends to meet distribution payments only from net realised profit of the Fund.

To date, the Fund has not paid a distribution to Unitholders.

Disclosure Principle 7: Withdrawal Arrangements

RG 46.104 – If investors are given the right to withdraw from the Fund, the RE should disclose a clear explanation of how investors can exercise their withdrawal rights, including any conditions on exercise. The RE should clearly disclose:

- (a) whether the constitution of the Fund allows investors to withdraw from the Fund, with a description of the circumstances in which investors can withdraw;*
- (b) the maximum withdrawal period allowed under the constitution for the scheme (this disclosure should be at least as prominent as any shorter withdrawal period promoted to investors);*
- (c) any significant risk factors or imitations that may affect the ability of investors to withdraw from the scheme, or the Interest price at which any withdrawal will be made (including risk factors that may affect the ability of the RE to meet a promoted withdrawal period);*
- (d) a clear explanation of how investors can exercise their withdrawal rights, including any conditions on exercise (e.g. specified withdrawal periods and scheme liquidity requirements); and*
- (e) if withdrawals from the scheme are to be funded from an external liquidity facility, including any rights the provider has to suspend or cancel the facility.*

RG 46.105 – Any material changes to withdrawal rights (such as if the RE knows that withdrawal requests will be suspended), through ongoing disclosure.

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

Direct property is by its nature an illiquid asset class and should always be viewed in the context of its long-term returns and diversification benefits within an overall investment portfolio. Typically, investors who allocate to direct property funds make a long-term investment.

Investors should treat the Fund as “illiquid” as there is no automatic right of redemption of Units. Withdrawal terms apply and are subject to the liquidity of the Fund and at the discretion of the RE.

Unitholders will have no right to withdraw from the Fund, other than in response to a Withdrawal Offer made by the RE, subject to Unitholders having been invested in the Fund for the Minimum Term.

Withdrawal Offers will be published on the Responsible Entity's website, at www.vascofm.com.

Unitholders wanting to take advantage of a Withdrawal Offer must complete a Withdrawal Request form and return it to the RE.

Where there are insufficient funds to satisfy all Withdrawal Requests received in response to a Withdrawal Offer, Withdrawal Requests may be satisfied on a pro-rata basis.

For further details, see section 6.8 of the PDS.

There is no formal secondary market for units in the Fund. However, units in the Fund are transferable.

Disclosure Principle 7: Net Tangible Assets

RG 46.108 – 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 Interest basis in pre-tax dollars.

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

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

RG 46.111 – Responsible entities should also explain to investors what the NTA calculation means in practical terms and how investors can use the NTA calculation to determine the scheme's level of risk.

The disclosure principle does not apply to this Fund as it only applies to closed-end schemes and this Fund is an open scheme.

The NTA can be utilised by investors to understand the value of the assets upon which the value of their unit is determined.

The Fund is an open-ended fund. Therefore, the original entry price that unitholders invested into the Fund varies depending on the timing of when they invested.

The Fund's unit price is updated on a monthly basis.

COVID-19

PLEASE NOTE: The Investment Manager has provided the below summary of the impact of COVID-19. The summary below has not been independently verified by the Responsible Entity, and Investors are advised to undertake their own due diligence prior to investing in the Fund.

We have begun to see some pressure arise around material availability (which is having upward pressure on price), delivery timeframes, as well as trade availability. Material availability and timeframes are being driven by the ongoing difficulties via imports which is being impacted by COVID-19, and we expect that material availability to be one of the biggest challenges affecting the timely rollout of construction projects in the short term. Contractor availability not largely an effect of COVID-19 (albeit occasional government "lockdown" measures do on occasion have a minor short-term effect) but mostly driven by the high demand for new construction that the market is experiencing at the moment. Our main construction provider is reporting they are currently declining to commence new jobs other than their repeat clients (like ourselves) to ensure they are able to continue to service the existing relationship.

Sales enquiry through our agent partners have remained strong after an initial drop in enquiry at the onset of the pandemic.

To date we have not received any notice from a contracted buyer that they are experiencing any financial difficulty or require any delays in settlement terms. We have found that there is a large portion of the population largely unaffected financially from COVID-19 and continue to plan toward their next purchase. We have recently received very strong enquiry on our next project which has not even progressed through our design stage, which indicates well designed, positioned and priced properties continue to be in demand in the current market.

After Disclosure Date Events

As at the publication date, the following matters or circumstances have arisen since 31 March 2021 which significantly affect or may significantly affect the disclosures found in this document.

The three (3) sub-trusts which had completed their respective property development projects have been wound up.

Further Information

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