
Gearing Ratio and Interest Cover Ratio Policy

Instreet Investment Limited

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1. Adoption and Review

Adoption

- 1.1 This policy (**Policy**) contains a general outline of the policies as to gearing ratios and interest cover ratios adopted by Instreet Investment Limited (**Responsible Entity**) in its capacity as responsible entity for the *Raiz Property Fund* (**Fund**).

This Policy was first adopted by the board on 23 February 2022.

Review

- 1.2 This Policy is to be reviewed by the Responsible Manager designated by the board of the Responsible Entity for this purpose and by the Compliance Officer not less than every 12 months. A report of the review, together with the recommendations, if any, of the designated Responsible Manager and Compliance Officer, must be tabled at the meeting of the board held next after the report is completed.
- 1.3 A table of the history of the reviews and amendments to this Policy appears at the end of this Policy.

2. Obligations of the Responsible Entity

Corporations Act

- 2.1 Section 912A(1)(d) of the *Corporations Act 2001* provides that the Responsible Entity, as the holder of its Australian financial services licence no: 434776 (**AFS Licence**), must among other obligations:
- (a) do all things necessary to ensure that the financial services covered by its AFS Licence are provided efficiently honestly and fairly;
 - (b) comply with the conditions on its AFS Licence including the prescribed conditions under regulation 7.6.04 of the *Corporations Regulations 2001*.
 - (c) comply with the financial services laws; and
 - (d) have adequate risk management systems.

AFS Licence Conditions

- 2.2 The Responsible Entity as the holder of its AFS Licence is required to establish and maintain the compliance measures that ensure, as far as is reasonably practicable, that the Responsible Entity complies with the provisions of the financial services law.
- 2.3 ASIC expects that these compliance measures be documented and be consistent with *Australian Standard AS 3806 – 2006, Compliance Programs*.

Policies of the Australian Securities and Investments Commission

- 2.4 ASIC Regulatory Guide 46 - *Unlisted property funds: Improving disclosure for retail investors* (**RG 46**) sets out a number of benchmarks against which the Responsible Entity for the Fund must disclose on an 'if not, why not, basis and a number of disclosure principles against which it must disclose the required information. These

include the disclosures relating to the gearing ratio cover and the interest rate cover, both on an individual credit facility basis for the Fund.

Compliance Plan of the Fund

- 2.5 The compliance plan adopted by the Responsible Entity in respect of the Fund (**Compliance Plan**) contains certain portions to ensure that the Responsible Entity has procedures in place to ensure that it complies with its disclosure obligations under RG 46. These include the following:
- (a) Compliance Rule 15.10 – *Accounting, audit, record keeping and disclosure*, which requires the Responsible Entity to ensure that ongoing disclosure to scheme members addresses the six benchmarks and eight disclosure principles in RG 46; and
 - (b) Compliance Rule 7 – *Scheme Borrowing, Gearing and Interest Cover* which requires the Responsible Entity to maintain, monitor and implement a written Gearing and Interest Cover Policy that meets ASIC RG 46 Benchmarks 1 and 2.

3. Background to Policies

- 3.1 As the responsible entity of the Fund, which is a registered unlisted property managed investment scheme, the Responsible Entity is required to disclose:
- (a) whether it meets certain benchmarks set out in RG 46, and if not, explain why not; and
 - (b) the information as to the Responsible Entity and the Fund that is required by the disclosure principles set out in RG 46.
- 3.2 Among other requirements RG 46 requires the Responsible Entity disclose whether it maintains and complies with:
- (a) a written policy that governs the level of gearing at an individual credit facility level – by benchmark 1 in RG 46.31; and
 - (b) a written policy that governs the minimum interest cover at an individual credit facility level, by benchmark 2 in RG 46.36.
- 3.3 The Responsible Entity has adopted this Policy so that it is in a position to disclose that it meets the benchmarks requiring it to maintain such policies as well as providing the information required to be disclosed under the relevant disclosure principle.
- 3.4 A summary of the policies adopted by the Responsible Entity are set out below.

4. The Responsible Entity's Gearing Ratio Policy

Purpose and Scope

- 4.1 The gearing policy adopted by the Responsible Entity applies to all unlisted property schemes of which the Responsible Entity is the responsible entity. As at the date of this summary, the only scheme to which it applies is the Fund.

- 4.2 The purpose of this policy is to:
- (a) govern the level of gearing of the Fund at an individual credit facility level; and
 - (b) enable it to convey to investors that the Responsible Entity will monitor and manage the gearing levels of the individual credit facilities of the Fund in accordance with this policy.

Gearing Ratio Calculation

- 4.3 Disclosure principle 1 in RG 46.62 and RG 46.63 states that the Fund's gearing ratio should be disclosed and be calculated using the following formula based on the latest financial statements:

$$\text{Gearing Ratio} = \frac{\text{Total interest bearing liabilities}}{\text{Total Assets}}$$

- 4.4 For the purposes of complying with disclosure principle 1 in RG 46, the Responsible Entity will use the latest audited financial statements to calculate the gearing ratio of the Fund semi-annually, except where it is aware of material changes since those statements.

Loan to Valuation Ratio

The loan to valuation ratio, or LVR, of an individual credit facility entered into by the Fund is calculated as follows and in accordance with each credit facility agreement.

$$\text{Loan to Valuation Ratio} = \frac{\text{Drawn amount of the credit facility}}{\text{Assets secured by the credit facility}}$$

Maximum Gearing Ratios

- 4.5 It is the policy of the Responsible Entity that the gearing ratio of the Fund should not exceed the lower of:
- (a) fifty per cent; and
 - (b) the maximum permitted gearing ratio, if any, under the Fund constitution.
- 4.6 As at the date of this summary, the Fund's constitution does not prescribe a maximum gearing ratio.
- 4.7 In addition, the Fund is required to comply with any loan to valuation ratio under the terms of the Fund's credit facilities.

5. Interest Cover Policy

Purpose and Scope

- 5.1 The interest cover policy adopted by the Responsible Entity applies to all unlisted property schemes of which the Responsible Entity is the responsible entity. As at the date of this summary, the only scheme to which it applies is the Fund.
- 5.2 The purpose of this policy is to:
- (a) govern the minimum interest cover of the Fund at an individual credit facility level; and

- (b) convey to investors that the Responsible Entity will monitor and manage the interest cover of the individual credit facilities of the Fund in accordance with this policy.

Interest Cover Ratio Calculation

- 5.3 Disclosure Principle 2 in RG 46.71 states that each Fund's interest cover should be disclosed and calculated using the following formula and based on the latest financial statements:

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

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

- 5.4 For the purposes of complying with disclosure principle 2 in RG 46, the Responsible Entity will use the latest audited financial statements to calculate the interest cover ratio of the Fund semi-annually, except where it is aware of material changes since those statements.
- 5.5 For the purpose of monitoring and managing the interest cover at an individual credit facility level, the Responsible Entity will use the latest audited financial statements (where available), or the reviewed management accounts.
- 5.6 The interest cover ratio of an individual credit facility entered into by Fund is calculated in accordance with each credit facility agreement. The interest cover ratio formula used under different individual credit facility agreements may differ, depending on the relevant lender's requirements. For that reason, it is not possible for this policy to prescribe a particular interest cover ratio formula which must be used to calculate the interest cover ratio of all individual credit facilities for the Fund.

Minimum Interest Cover Ratios

- 5.7 As at the date of this summary there are no credit facility agreements in place with respect to the Fund. Having regard to the Fund's investment strategy, the Responsible Entity does not consider it appropriate to maintain a minimum interest cover ratio.
- 5.8 The Responsible Entity will reconsider the appropriateness of implementing a minimum interest cover ratio if and when the Fund enters into a credit facility agreement.

6. Monitoring and Management

- 6.1 The Responsible Entity must calculate the ratios above at least on a 3 monthly basis for each credit facility agreement (and in accordance with each credit facility agreement) to ensure the Fund complies with the Responsible Entity's gearing policy and interest cover policy as stated above. It is responsibility of the Chief Financial Officer, as assisted by the internal financial controller to report on the outcome of these calculations to the Board of the Responsible Entity.
- 6.2 If either the gearing ratio or interest cover ratio of the Fund does not comply with the relevant policy then, within a reasonable period of time, the Responsible Entity must take action to ensure the Fund complies with the policy.

- 6.3 Any action taken in accordance with paragraph 6.2 requires the approval of the Board of the Responsible Entity.
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7. Reporting

- 7.1 The Compliance Officer must confirm to the Board on at least a 3 monthly basis that no material matters have arisen since the last RG 46 disclosures as to the compliance with the gearing ratio or interest cover ratio policies that would require the Responsible Entity to disclose that either benchmark 1 or benchmark 2 is no longer met.
- 7.2 The Compliance Officer must ensure that the RG 46 disclosures on the website in respect of disclosure principle 1 and disclosure principle 2 are updated not less than every 6 months.

Policy Review History

The following Table sets out the history of modifications to this *Gearing Ratio and Interest cover Ratio Policy* as from 23 February 2022.

Version No.	Issue / Review Date	Reviewed by	Synopsis of Review	Board Adoption Date
1.00	23 February 2022	N/A	Original version adopted by the Board of Directors of the Responsible Entity.	23 February 2022
1.00	3 May 2024	Alex Gao	No change required.	N/A