



Mariner Property Trust No.2 – MSS Moore Park

▶ **Investment Category: Unlisted Closed Property Trust**
Disclosure requirements in terms of RG 46

Gearing Ratio

Disclosure Principle 1

This indicates the extent to which the Fund's assets are funded by external liabilities.

RG 46 defines gearing ratio as:

Total interest bearing liabilities divided by total assets.

ASIC's Description of the Key Risks

ASIC's description of this principle states that "a higher gearing ratio means a higher reliance on external liabilities (primarily borrowings) to fund assets. This exposes the scheme to increased funding costs if interest rates rise. A highly geared scheme has a lower asset buffer to rely upon in times of financial stress."

The Fund's Response and Practical Application of the Disclosure Principles

The responsible entity's response is that it will utilise gearing where possible to maximise potential returns to Unitholders by leveraging against the asset.

At 31 March 2010 the Fund had a gearing ratio of 60%.

In general, it is not uncommon for single property funds to have gearing levels of 60% to 70%.

The Fund does not have any off balance sheet financing as at 31 March 2010.

Interest Cover

Disclosure Principle 2

This indicates the Fund's ability to meet interest payments from earnings.

RG 46 defines interest cover ratio as:

(EBITDA minus unrealised gains plus unrealised losses) divided by interest expense.

ASIC's Description of the Key Risks

ASIC's description of this principle states that "interest cover is a key indicator of financial health. The lower the interest cover, the higher the risk that the scheme will not be able to meet its interest payments. A scheme with a low interest cover only needs a small reduction in earnings (or a small increase in interest rates or other expenses) to be unable to meet its interest payments."

The Fund's Response and Practical Application of the Disclosure Principles

At 31 March 2010 the interest cover ratio was 2.00.

The responsible entity's response is that it will utilise the interest cover ratio to monitor the Fund's overall profitability as a ratio of finance costs. The Fund's ability or inability to meet interest payments depends on a variety of factors. Interest rate hedges that are in place can largely mitigate the risk of interest rate movements.

The Fund is able to meet its current interest rate commitments.

Scheme Borrowing

Disclosure Principle 3

This principle requires information on the Fund's borrowing maturity and credit facility expiry and any associated risks.

ASIC's Description of the Key Risks

ASIC's description of this principle states that "relatively short-term borrowings and credit facilities with short expiry dates are a risk factor if they are used to fund assets intended to be held long term. If the scheme has a significant proportion of its borrowings that mature within a short timeframe, it will need to refinance. There is a risk that the refinancing will be on less favourable terms or not available at all. If the fund cannot refinance, it may need to sell assets on a forced sale basis with the risk that it may realise a capital loss. Breach of a loan covenant may result in penalties being applied, or the loan becoming repayable immediately. This means that the fund may need to refinance on less favourable terms or sell assets. Termination of critical financing could also mean the scheme is no longer viable."

The Fund's Response and Practical Application of the Disclosure Principles

The responsible entity's response is that the intention is always to try and match long-term debt with capital assets. The debt is due to expire on 30 June 2010 and management are reviewing various options to ensure that the debt can be rolled.

Portfolio Diversification

Disclosure Principle 4

This information addresses the Fund's investment practices and direct property investment portfolio risk.

ASIC's Description of the Key Risks

ASIC's description of this principle states that "generally, the more diversified a portfolio is, the lower the risk that an adverse event affecting one property or one lease will put the overall portfolio at risk."

The Fund's Response and Practical Application of the Disclosure Principles

The responsible entity's response is that the Fund was set up as a single property fund and the investors were aware of the fundamental risk of investing in the Fund.

Valuation Policy

Disclosure Principle 5

This relates to how key aspects of the Fund's valuation policy for real property assets should be disclosed.

ASIC's Description of the Key Risks

ASIC's description of this principle states that "investing in a property scheme exposes investors to movements in the value of the fund's assets. Investors therefore need information to assess the reliability of valuations. The more reliable a valuation, the more likely the asset will return that amount when it is sold. However, any forced sale may still result in a shortfall compared to the valuation."

The Fund's Response and Practical Application of the Disclosure Principles

The responsible entity ensures that internal valuations are done at every reporting period which is every six months. External valuations will be done at least every three years or sooner when times are volatile and a more accurate valuation is required. The responsible entity would ensure that the valuations are in accordance with relevant industry standards.

Related Party Transactions

Disclosure Principle 6

This relates to information that should be disclosed on the responsible entity's approach to related party transactions.

ASIC's Description of the Key Risks

ASIC's description of this principle states that "a conflict of interest may arise when property schemes invest in, make loans or provide guarantees to related parties."

The Fund's Response and Practical Application of the Disclosure Principles

There are no related party transactions in the Fund.

Distribution Practices

Disclosure Principle 7

This relates to information on the Fund's distribution practices.

ASIC's Description of the Key Risks

ASIC's description of this principle states that "some property schemes make distributions partly or wholly from unrealised revaluation gains and/or capital rather than solely from realised income. This may not be commercially sustainable over the longer term, particularly where property values are not increasing."

The Fund's Response and Practical Application of the Disclosure Principles

The Fund distributes surplus cash generated less any retentions for capital and maintenance expenditure not recoverable from the tenant.

The responsible entity ensures that any material issues related to the Fund's distribution practices are notified to investors through ongoing disclosure.

Withdrawal Arrangements

Disclosure Principle 8

This relates to investors' withdrawal rights from the Fund.

ASIC's Description of the Key Risks

ASIC's description of this principle states that "unlisted property schemes often have limited or no withdrawal rights. This means they are usually difficult to exit."

The Fund's Response and Practical Application of the Disclosure Principles

This is an illiquid fund and withdrawals are only applicable when the Fund disposes of its property asset and surplus proceeds are distributed to the Unitholders. The disposal of the property asset will result in the wind up of the Fund.

To find out more about the Mariner Property Trust No.2, speak to your financial adviser. Alternatively, call our Investor Services Team on 1800 009 963 or visit us at <www.marinerfunds.com.au>.

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