

TRILOGY

# Cannon Hill Office Trust

BENCHMARKS AND DISCLOSURE PRINCIPLES  
REPORT FOR ASIC REGULATORY GUIDE 46

AS AT 31 OCTOBER 2020

# TRUST



[TRILOGYFUNDS.COM.AU](https://trilogyfunds.com.au)

The following report describes each of the benchmarks and disclosure principles set by ASIC RG 46 – Unlisted Property Schemes – improving disclosure for retail investors against which Trilogy Funds Management Limited ABN 59 080 383 679, AFSL 261425 (Trilogy) as the responsible entity of the Cannon Hill Office Trust ARSN 618 676 074 (Trust) must report on a regular basis.

NOTE THAT ALL FINANCIAL DATA IS CURRENT AS OF 31 OCTOBER 2020 (UNLESS STATED OTHERWISE).

The table refers to each benchmark and explains how and to what extent Trilogy Funds satisfies it, as well as its disclosures against the disclosure principles. This report must be read in conjunction with the information in the product disclosure statement for the Trust dated 22 May 2017 (PDS).

**IMPORTANT NOTE:**

In preparing the information contained in this Benchmarks and Disclosure Principles Report, Trilogy has not taken into account your particular investment objectives, financial situation or needs. You should consider the PDS and consider obtaining advice as to whether investing in the Trust is appropriate for you in light of your particular objectives, situation and needs before making a decision. Investment in the Trust is subject to investment risk as noted in the PDS. Past performance is not a guarantee of future performance.

# Benchmarks

The table below sets out:

- the benchmark; and
- how and to what extent Trilogy complies with the benchmark and if not, why not.

RG PARAGRAPH NUMBER		
	<b>BENCHMARK 1: GEARING POLICY</b>	<b>TRILOGY MEETS THE BENCHMARK</b>
46.31	The responsible entity maintains and complies with a written policy that governs the level of gearing at an individual credit facility level.	Trilogy has and complies with such a Gearing Policy. Its policy is that the level of gearing must not exceed 0.6.
	<b>BENCHMARK 2: INTEREST COVER POLICY</b>	<b>TRILOGY MEETS THE BENCHMARK</b>
46.36	The responsible entity maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level.	Trilogy has such an Interest Cover Policy and it complies with this policy. The key points in this policy are that Trilogy: <ol style="list-style-type: none"> <li>1. Maintain an interest ratio cover of not less than 1.1 times unadjusted EBITDA in accordance with the RG 46.71 formula; and</li> <li>2. Maintain an interest cover ratio of not less than 2.0 times adjusted EBITDA in accordance with the finance facility.</li> </ol>
	<b>BENCHMARK 3: INTEREST CAPITALISATION</b>	<b>TRILOGY MEETS THE BENCHMARK</b>
46.41	The interest expense of the scheme is not capitalised.	The interest expense of the Trust is not capitalised.
	<b>BENCHMARK 4: VALUATION POLICY</b>	<b>TRILOGY MEETS THE BENCHMARK</b>
46.45	The responsible entity maintains and complies with a written valuation policy that requires: <ol style="list-style-type: none"> <li>a. a valuer to:               <ol style="list-style-type: none"> <li>i. 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</li> <li>ii. be independent;</li> </ol> </li> <li>b. procedures to be followed for dealing with any conflicts of interest;</li> <li>c. rotation and diversity of valuers;</li> <li>d. valuations to be obtained in accordance with a set timetable; and</li> <li>e. for each property, an independent valuation to be obtained:               <ol style="list-style-type: none"> <li>i. Before the property is purchased:                   <ol style="list-style-type: none"> <li>a. For development property, on an 'as is' and 'as if complete' basis; and</li> <li>b. For all other property, on an 'as is' basis; and</li> </ol> </li> <li>ii. 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?</li> </ol> </li> </ol>	Trilogy maintains and complies with a written valuation policy that requires: <ol style="list-style-type: none"> <li>a. a valuer be a member of an appropriate professional body in the relevant state or territory in which the property is located, or otherwise be a member of an appropriate professional body in that jurisdiction and be independent;</li> <li>b. procedures to be followed for dealing with any conflicts of interest;</li> <li>c. rotation and diversity of valuers;</li> <li>d. valuations to be obtained in accordance with a set timetable; and</li> <li>e. for each property, an independent valuation be obtained before the property is purchased on an "as is" or "as if complete" basis, as applicable 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.</li> </ol> Trilogy complies with its Valuation Policy. A summary of the key points in the policy is in section 2.7 of the PDS. A copy of the Valuation Policy is available for Unit Holders on the Trilogy website <a href="http://www.trilogyfunds.com.au">www.trilogyfunds.com.au</a> or for a printed copy contact Investor Relations.

**RG PARAGRAPH  
NUMBER**

46.53

## **BENCHMARK 5: RELATED PARTY TRANSACTIONS**

The responsible entity 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.

## **TRILOGY MEETS THE BENCHMARK**

Trilogy maintains and complies with its written policy on related party transactions. The key points are as follows:

- Any transaction involving a related party shall be on terms and conditions no more favourable to the related party than those which it is reasonably expected would be the case if the benefit directly or indirectly was paid to a third party dealing at arm's length in the same circumstances and on commercial terms.
- Before any related party transaction is entered into, the Board will satisfy itself that the fees to be paid to the related party are approximately equivalent to what would be paid to a third party at arm's length for the same goods or services.
- The Board will also satisfy itself, and obtain legal advice if there is any doubt, that all the relevant factors in determining whether the proposed related party transaction falls within the 'arm's length' exception in the Corporations Act have been taken into account.
- The Board and the Compliance Committee for the Trust monitor Trilogy's compliance with its related party transactions policy and procedures.

Please contact Investor Relations for more detail on Trilogy's related party transactions policy and procedures.

## **BENCHMARK 6: DISTRIBUTION PRACTICES**

46.57

The scheme will only pay distributions from its cash from operations (excluding borrowings) available for distributions.

## **TRILOGY MEETS THE BENCHMARK**

The Trust only pays distributions from its cash from operations (excluding borrowings) available for distributions.

# Disclosure Principles

The table below sets out:

- the disclosure principles; and
- the relevant disclosures of Trilogy.

RG PARAGRAPH NUMBER	DISCLOSURE PRINCIPLE 1: GEARING RATIO	TRILOGY'S DISCLOSURE										
46.62	<p>Disclose the gearing ratio for the scheme calculated using the following formula:</p> $\text{Gearing ratio} = \text{total interest-bearing liabilities} / \text{total assets}$ <p>The liabilities and assets used to calculate the gearing ratio are based on the scheme's latest board-reviewed management board-reviewed management financial statements which in this case is 31 October 2020.</p>	<p>The Trust's gearing ratio is calculated as follows:</p> <table><tr><td>Total interest-bearing liabilities</td><td>\$10,450,000</td></tr><tr><td>÷ Total assets</td><td>\$19,980,310</td></tr><tr><td><b>Ratio</b></td><td><b>0.52</b></td></tr></table> <p>Please note that interest bearing liabilities exclude capitalised borrowing costs.</p>	Total interest-bearing liabilities	\$10,450,000	÷ Total assets	\$19,980,310	<b>Ratio</b>	<b>0.52</b>				
Total interest-bearing liabilities	\$10,450,000											
÷ Total assets	\$19,980,310											
<b>Ratio</b>	<b>0.52</b>											
46.65	<p>What does the ratio mean in practical terms and how can investors use the ratio to determine the scheme's level of risk?</p>	<p>The gearing ratio is also known as the 'Debt Asset Ratio'. The ratio measures the extent to which the acquisition of assets has been financed by creditors. If the ratio is less than 0.5, then the majority of a scheme's assets are financed using investor's equity. If the ratio is greater than 0.5, the majority of a scheme's assets are financed using debt. It gives an indication of the potential risks the Trust faces in terms of its level of debt.</p>										
	DISCLOSURE PRINCIPLE 2: INTEREST COVER RATIO	TRILOGY'S DISCLOSURE										
46.71	<p>Disclose the scheme's interest cover calculated using the following formula which is based on the latest board-reviewed board-reviewed management financial statements which in this case is 31 October 2020:</p> $\text{Interest cover} = \text{EBITDA}^* - \text{unrealised gains} + \text{unrealised losses} / \text{interest expense}$ <p>*EBITDA (earnings before interest, tax, depreciation and amortisation)</p>	<p>When using the formula prescribed by RG46 and unadjusted EBITDA, the Trust's interest cover ratio is 2.53.</p> <p>The Trust's finance facility requires EBITDA to be adjusted for fair value movement of the interest rate swap associated with the finance facility.</p> <p>The Trust's finance facility allows interest expense to be adjusted by fair value movements in respect of any derivative transaction payable by the borrower.</p> <p>The interest cover ratio calculated in accordance with the finance facility is as follows:</p> <table><tr><td>Adjusted EBITDA</td><td>\$446,635</td></tr><tr><td>+/- Unrealised (gains) / losses</td><td>-\$47,750</td></tr><tr><td></td><td><b>\$398,885</b></td></tr><tr><td>÷ Interest expense</td><td>\$176,292</td></tr><tr><td><b>Coverage</b></td><td><b>2.26</b></td></tr></table>	Adjusted EBITDA	\$446,635	+/- Unrealised (gains) / losses	-\$47,750		<b>\$398,885</b>	÷ Interest expense	\$176,292	<b>Coverage</b>	<b>2.26</b>
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	<b>\$398,885</b>											
÷ Interest expense	\$176,292											
<b>Coverage</b>	<b>2.26</b>											

## RG PARAGRAPH NUMBER

46.74 What does interest cover mean and how can investors use the interest cover ratio to assess the scheme's ability to meet its interest payments?

Due to a change in interpretation of accounting standards, distributions are no longer included in the calculation of earnings. Earnings are reflected in the EBITDA and adjusted EBITDA.

The interest cover ratio is a measurement of the number of times a scheme could make its interest payments with its earnings before interest and taxes.

A high interest cover ratio means that a scheme is easily able to meet its interest obligations from profits. Similarly, a low value for the interest cover ratio means that a scheme is potentially in danger of not being able to meet its interest obligations.

## DISCLOSURE PRINCIPLE 3: SCHEME BORROWING

46.78

Disclose:

- a. for each debt that will mature in 5 years or less – the aggregate amount owing and the maturity profile in increments of 12 months;
- b. for debts that mature in more than 5 years – the total amount owing;
- c. the amount (expressed as a percentage) by which either the operating cash flow or the value of the asset used as security for the facility must fall before the scheme will breach any covenants in the credit facility;
- d. for each credit facility –
  - i. the aggregate undrawn amount;
  - ii. the assets to which the facility relates;
  - iii. the loan-to-valuation (LVR) and interest cover covenants under the terms of the facility;
  - iv. the interest rate of the facility; and
  - v. whether the facility is hedged;
- e. 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; and
- f. the fact that amounts owing to lenders and other creditors of the scheme rank before an investor's interests in the scheme.

## TRILOGY'S DISCLOSURE

- a. \$10,450,000 (as at 31 October 2020).
- b. Not applicable.
- c. The current LVR of the Trust is 55.00%. If the value of the asset falls in value, the LVR will be in breach of the finance facility covenant. The ICR covenant is 2.00 and the ICR coverage is 2.26. The value of the Trust's EBITDA must fall by 11.61% in order for the Trust to breach its interest cover ratio covenant.
- d. i. An undrawn amount of \$1,650,000.
  - ii. The facility is secured over all the assets of the Trust which includes the property situated at 38 Southgate Avenue, Canon Hill, QLD, 4170.
  - iii.
    - LVR covenant = 55%.
    - LVR = 55% (based on the facility limit and the most recent independent valuation approved by the Trust's financier).
    - Interest Cover covenant = 2.00 times.
    - Interest Cover = 2.26 (refer to paragraph 46.71 for calculation).
- iv. 4.65% (as at 31 October 2020).
- v. The Trust does not have any designated hedging instruments in accordance with AASB 139 Financial Instruments: Recognition and Measurement, however as detailed in paragraph 46.78(a) Trilogy has entered into an interest rate swap arrangement to limit the Trust's exposure to interest rate fluctuations.
- e. Facility Two – \$1,650,000 – undrawn Facility Two is a 5 year variable rate loan, comprised of a 30 day BBSW rate, plus a customer margin of 0.50% p.a. The second loan facility is fully available to draw down upon. It is secured by the same assets, has the same LVR, Interest Cover covenants and interest rate swap arrangements as Facility One.
- f. Not applicable.
- g. The payment obligations to lenders and other creditors of the Trust rank before an investor's interest.



## RG PARAGRAPH NUMBER

46.79 Where debt and credit facilities are to mature within 12 months, disclose the prospects of refinancing or other possible alternative actions (e.g. sales of assets or further fundraising).

The Trust's finance facility is not due to expire until 8 September 2022.

46.80 Explain any risks associated with the debt maturity profile, including whether borrowings have been hedged and if so, to what extent.

The maturity profile of the Trust's finance facility is considered low risk as the facility does not expire until 8 September 2022.

There are no hedging derivatives.

46.81 Disclose information about breaches of loan covenants that is reasonably required by investors. Update any information about the status of any breaches.

There are no breaches of the Trust's loan covenants.

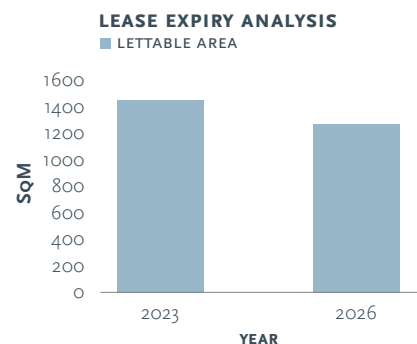
## DISCLOSURE PRINCIPLE 4: PORTFOLIO DIVERSIFICATION

46.87 Disclose the current composition of the scheme's investment portfolio, including:

- properties by geographic location by number and value;
- non-development properties by sector (e.g. development projects, industrial, commercial, retail, 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 rate(s) of the property portfolio;
- for the top 5 tenants that each constitutes 5% or more by income across the investment portfolio, the name of the tenant and percentage of lettable area or
- a clear description of any significant non-direct property assets of the scheme, including the value of such assets.

## TRILOGY'S DISCLOSURE

- The Trust's property portfolio consists of a single asset which is an investment property located at 38 Southgate Avenue, Cannon Hill, QLD, 4170.
- The property is a commercial office building. At 31 October 2020 the property had a carrying value of \$19,622,392, recognised at cost in accordance with AASB 116 Property, Plant and Equipment.
- The most recent valuation of \$20,000,000 with a capitalisation rate of 7.25% was dated July 2020 and was conducted by an independent valuer.
- The lease expiry profile as at 1 December 2019 incorporating the decision made by GM Holden Limited to terminate its lease on 30 November 2019 in yearly periods, calculated on the basis of net lettable area (NLA) is shown as follows:



The Trust's weighted average lease expiry based on NLA is 2.8 years as at 31 November 2020.

**RG PARAGRAPH  
NUMBER**

46.87 *Cont'd*

e. The occupancy rate is 80%. There are 2 tenants.

**f. TOP 5 TENANTS – INCOME**

TENANCY	LESSEE	% OF GROSS INCOME
003	Compass Group Aust Pty Ltd	50.02%
002	Orica Australia Pty Ltd	49.98%
001	Vacant	0.00%

**TOP 5 TENANTS – NET LETTABLE AREA**

TENANCY	LESSEE	% OF NLA
003	Compass Group Aust Pty Ltd	42.72%
002	Orica Australia Pty Ltd	37.46%
001	Vacant	19.82%

g. Trilogy has a re-leasing strategy in place and is currently seeking tenants for this space. Members will be notified of leasing developments.

46.88

Disclose the scheme's investment strategy on the above 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.

The Trust is a closed-end, single property managed investment scheme. Trilogy aims to provide Investors with a predictable and sustainable income stream, which is partially tax deferred. Trilogy fixed the variable base rate of the Trust's finance facility for a period of five years. A loan to valuation ratio of 55% reduces the Trust's exposure to increased funding costs.

Trilogy seeks to increase the value of the Trust through hands-on management of the Property and a well-defined exit strategy aimed at unlocking maximum value.

Trilogy believes that the current tenant profile of the building conforms with the investment strategy described. There is no current intention to invest in other unlisted property schemes.

46.89

In relation to any property development, disclose:

- the project timetable with significant milestones;
- a description of the status of the development against the key milestones identified;
- funding arrangements;
- pre-sale and lease pre-commitments where applicable;
- whether the loan-to-valuation ratio for the asset under development exceeds 70% of the 'as is' valuation of the asset; and
- the risks associated with the property development activities being undertaken.

There are no development commitments at this time.



**RG PARAGRAPH  
NUMBER**

**DISCLOSURE PRINCIPLE 5: RELATED PARTY TRANSACTIONS TRILOGY'S DISCLOSURE**

46.98	<p>Disclose the following on any related party transaction:</p> <ol style="list-style-type: none"> <li>the value of the financial benefit;</li> <li>the nature of the relationship (how the parties are related for the purposes of the <i>Corporations Act 2001</i>);</li> <li>whether the arrangement is on 'arm's length' terms;</li> <li>whether scheme member approval has been sought and, if so, when;</li> <li>the risks associated with the related party arrangement; and</li> <li>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.</li> </ol>	<ol style="list-style-type: none"> <li>The total amounts of fees and costs paid, in accordance with arrangements, during the period ended 31 October 2020 was \$ 13,778.</li> <li>As set out in Section 10.1(g) of the PDS, Trilogy has engaged the services of related parties.</li> <li>The arrangements Trilogy has with its related parties are on arm's length terms.</li> <li>Not applicable. These arrangements are on arm's length terms and were entered into before the issue of units and as such no member approval was obtained.</li> <li>Related party transactions and conflicts of interest risk are addressed by Trilogy in accordance with its Conflicts of Interest Policy.</li> <li>Trilogy complies with its policies and procedures as to related party transactions and conflicts of interest. The Board and the Compliance Committee monitor this compliance in accordance with the relevant policy.</li> </ol>
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**DISCLOSURE PRINCIPLE 6: DISTRIBUTION PRACTICES**

46.102	<p>Where a scheme has made or forecasts to make distributions to members, disclose:</p> <ol style="list-style-type: none"> <li>the sources of the distributions (e.g. from cash from operations available for distribution, capital, unrealised revaluation gains);</li> <li>the source of any forecast distributions;</li> <li>whether the current distribution or forecast distributions are sustainable over the next 12 months;</li> <li>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 reason for making the distribution from these other sources;</li> <li>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</li> <li>the impact of, and any risks associated with, the payment of distribution from the scheme from sources other than cash from operations (excluding borrowings) available for distribution.</li> </ol>	<p><b>TRILOGY'S DISCLOSURE</b></p> <ol style="list-style-type: none"> <li>Trilogy intends to fund distributions from cash from operations available for distribution for the remaining life of the Trust.</li> <li>Trilogy has not forecast the amount of any future distributions.</li> <li>Trilogy expects the current distribution rate to be sustainable over the next 12 months.</li> <li>See (a) above.</li> <li>See (a) above.</li> <li>The Trust will not pay distributions from sources other than cash from operations.</li> </ol>
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## RG PARAGRAPH NUMBER

### DISCLOSURE PRINCIPLE 7: WITHDRAWAL RIGHTS

- 46.104 Are investors given the right to withdraw from the scheme? If yes, answer the following questions:
- whether the constitution of the scheme allows investors to withdraw from the scheme, with a description of the circumstances in which investors can withdraw;
  - 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);
  - any significant risk factors or limitations that may impact on the ability of investors to withdraw from the scheme (including risk factors that may impact on the ability of the responsible entity to meet a promoted withdrawal period);
  - 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
  - if withdrawals from the Scheme are to be funded from an external liquidity facility, the material terms of this facility including any rights the provider has to suspend or cancel the facility.

### TRILOGY'S DISCLOSURE

There are no withdrawal rights in this Trust.

### DISCLOSURE PRINCIPLE 8: NET TANGIBLE ASSETS

- 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 unit basis in pre-tax dollars.

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

The NTA calculation should be based on the scheme's latest board-reviewed management financial statements which in this case is 31 October 2020.

### TRILOGY'S DISCLOSURE

Net tangible assets per unit is calculated as follows:

Net assets	\$8,964,073
Adjusted for:	
Depreciation	\$251,588
Straight-line	-\$123,737
Swap derivative liability	\$466,350
Amortised selling costs	–
Unamortised acquisition costs	\$466,350
<b>Adjusted NTA</b>	<b>\$11,696,772</b>
÷ No. of units	14,700,000
<b>NTA per unit (i)</b>	<b>\$0.80</b>

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**RG PARAGRAPH  
NUMBER**

46.110	The responsible entity should disclose the methodology for calculating the NTA and details of the adjustments used in the calculation, including the reasons for the adjustments.	Please note that no adjustments have been made to the calculations noted above.
46.111	The responsible entity 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.	It is important to note that the NTA represents an estimate of the per unit value at a particular point in time. The NTA includes estimates of certain costs which may vary.

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***Date of Issue – 22 December 2020***