



Milton Office Trust

Benchmarks and disclosure principles
report for ASIC Regulatory Guide 46
as at 30 September 2023

 **Trilogy Funds**



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 Funds) as the responsible entity of the Milton Office Trust ARSN 612 052 490 (Trust) must report on a regular basis.

Please note that all financial data is current as of 30 September 2023 (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 most recent product disclosure statement for the trust dated 24 September 2018 (PDS).

Important note:

In preparing the information contained in this Benchmarks and Disclosure Principles Report, Trilogy Funds has not considered 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.



Benchmark 1: Gearing Policy

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 Funds meets the benchmark

46.31

Trilogy Funds maintains and complies with a written policy that governs the level of gearing at an individual credit facility level. Further detail is available within Disclosure Principle 1.

Benchmark 2: Interest Cover Policy

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 Funds meets the benchmark

46.36

Trilogy Funds maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level. Further information is available with Disclosure Principle 2.

Benchmark 3: Interest Capitalisation

46.41

The interest expense of the scheme is not capitalised.

Trilogy Funds meets the benchmark

46.41

The interest expense of the Trust is not capitalised.

Benchmark 4: Valuation Policy

46.45

The responsible entity maintains and complies with a written valuation policy that requires:

- a. a valuer to:
 - 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
 - ii. be independent;
- b. procedures to be followed for dealing with any conflicts of interest;
- c. rotation and diversity of valuers;
- d. valuations to be obtained in accordance with a set timetable; and
- e. for each property, an independent valuation to be obtained:
 - i. before the property is purchased:
 - A. for development property, on an 'as is' and 'as if complete' basis; and
 - B. for all other property, on an 'as is' basis; and
 - 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.

Trilogy Funds meets the benchmark

46.45

Trilogy Funds maintains and complies with a written valuation policy that requires:

- 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;
- b. procedures to be followed for dealing with any conflicts of interest;
- c. rotation and diversity of valuers;
- d. valuations to be obtained in accordance with a set timetable; and
- 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.

Trilogy Funds complies with its Valuation Policy. A summary of the key points in the policy is in section 3.6 of the PDS. A copy of the Valuation Policy is available on the Trilogy Funds website www.trilogyfunds.com.au or for a printed copy contact Investor Relations.



Benchmark 5: Related Party Transactions

46.53

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 Funds meets the benchmark

46.53

Trilogy Funds 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 Funds' compliance with its related party transactions policy and procedures.

Please contact Investor Relations for more detail on Trilogy Funds' related party transactions policy and procedures. Further information is also available within Disclosure Principle 5.

Benchmark 6: Distribution Practices

46.57

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

Trilogy Funds meets the benchmark

46.57

The Trust only pays distributions from its cash from operations (excluding borrowings) available for distributions. Further information is available in Disclosure Principle 6.

The following section of this report sets out the disclosure principle from ASIC's RG 46 and the relevant disclosures of Trilogy Funds

Disclosure Principle 1: Gearing Ratio

46.62

Disclose the gearing ratio for the scheme calculated using the following formula:

$$\text{Gearing ratio} = \text{total interest-bearing liabilities} / \text{total assets}$$

46.65

What does the ratio mean in practical terms and how can investors use the ratio to determine the scheme's level of risk.

Trilogy Funds' disclosure

46.62

The Trust's gearing ratio is calculated as follows:

Total interest-bearing liabilities	\$12,750,000
÷ Total assets	\$20,701,150
Ratio	0.62

Please note that interest bearing liabilities exclude capitalised borrowing costs.

The gearing ratio noted above is based on the Trust's management accounts for 30 September 2023. It should be noted that the value of total assets is based on historical cost accounting (i.e. does not account for any uplift in asset value since acquisition). Investors may wish to consider whether to review this disclosure in line with the LVR in disclosure principle 3, which does account for uplifts in asset value.

46.65

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 a scheme faces in terms of its level of debt.



Disclosure Principle 2: Interest Cover Ratio

46.71

Disclose the scheme's interest cover calculated using the following formula:

$$\text{Interest cover} = \text{EBITDA}^* - \text{unrealised gains} + \text{unrealised losses} / \text{interest expense}$$

*EBITDA (earnings before interest, tax, depreciation and amortisation)

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?

Trilogy Funds' Disclosure

46.71

The interest cover ratio based on data as at 30 September 2023, is calculated as follows:

Adjusted EBITDA	\$280,064
÷ Interest Expense	\$149,804
Interest Cover Ratio	1.87

The above interest cover ratio is calculated on the basis of the ASIC Disclosure Principle definition of EBITDA (earnings before interest, tax, depreciation and amortization). Please refer to Disclosure Principle 3 for further information.

46.74

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. Conversely, 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

- for each borrowing that will mature in 5 years or less – the aggregate amount owing and the maturity profile in increments of not more than 12 months;
- for borrowings that mature in more than 5 years – the total amount owing;
- 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;
- for each credit facility –
 - the aggregate undrawn amount;
 - the assets to which the facility relates;
 - the loan-to-valuation (LVR) and interest cover covenants under the terms of the facility;
 - the interest rate of the facility; and
 - 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; and
- the fact that amounts owing to lenders and other creditors of the scheme rank before an investor's interests in the scheme.

46.79

Where borrowings 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).

46.80

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

46.81

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



Trilogy Funds' Disclosure

46.78

- a. The Trust holds a credit facility for \$12,750,000 with Suncorp Bank (Suncorp), which expires in February 2024.
Additionally, the Trust has an unsecured, interest-free, at call loan facility for \$320,000 with SPFM No. 2 Pty Ltd (SPFM), a related party of Trilogy Funds and the Investment Manager of the Trust. SPFM reviews the loan regularly and has advised that it has no intention to call on the loan within the next 12 months.
- b. N/A
- c. For the SPFM facility, there are no LVR or ICR loan covenants.

For the Suncorp facility, please refer to table below.

LVR Actual	LVR Covenant	LVR Headroom	ICR Actual	ICR Covenant	ICR Headroom
56.67%	56.00%	-1.19%	2.19	2.20	-0.56%

The asset was revalued in August 2023 and resulted in a write down in value of \$700,000.

As a result of the write down in value, the Trust has breached the LVR covenant in the credit facility. The Trust has also breached the ICR covenant in the credit facility. Suncorp is currently reviewing the LVR and ICR breaches.

In the table above:

- 'LVR Headroom' refers to the percentage by which the asset values would need to fall in order risk breaching the LVR covenant within the credit facility.
- 'ICR Headroom' refers to the percentage by which the operating cashflows would need to fall in order to risk breaching the ICR covenant within the credit facility.

d. SPFM

- The facility is fully drawn.
- The facility is unsecured but relates to the asset at 16 Marie Street, Milton QLD only.
- N/A
- Nil.
- The facility is not hedged.

Suncorp

- The facility is fully drawn. A separate \$200,000 is available to the Trust under the credit facility to facilitate capital expenditure, if required, and is not included in the above figures.
- The facility relates to the asset at 16 Marie Street, Milton QLD only.
- iv. v. Please refer to the table above.

	Proportion of Debt	Interest Rate	Expiry
Hedged debt	100%	4.64%	13/12/2023
Unhedged debt	0%	Variable – current rate 6.35%	N/A

- e. There are no terms within the facilities that may be invoked as a result of scheme members exercising their rights under the constitution of the scheme.
- f. The Suncorp facility held by the Trust is secured by mortgages over the property. Therefore, in the event of a forced sale of an asset, amounts owing to lenders would rank before an investor's interests in the Trust.

The SPFM facility is unsecured.

46.79

The Suncorp facility expires in February 2024. Suncorp is currently reviewing an extension. If Suncorp does not agree to extend the loan beyond the current term expiry, Trilogy Funds will seek to refinance the credit facility.

The SPFM facility is at call. SPFM reviews the loan regularly and has advised that it has no intention to call on the loan within the next 12 months.

46.80

The Suncorp facility will switch to a variable interest rate prior to the expiry of the current term of the loan in February 2024. If Trilogy Funds is required to refinance the credit facility at the end of the current term, there is a risk that the new terms will be less favourable to the Trust.

The SPFM facility is an interest-free facility. Therefore, it is not hedged.

46.81

As noted at 46.78 above, Suncorp is currently reviewing breaches of the LVR and ICR 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 income; and
- a clear description of any significant non-direct property assets of the scheme, including the value of such assets.

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.

46.89

In relation to any property development, disclose:

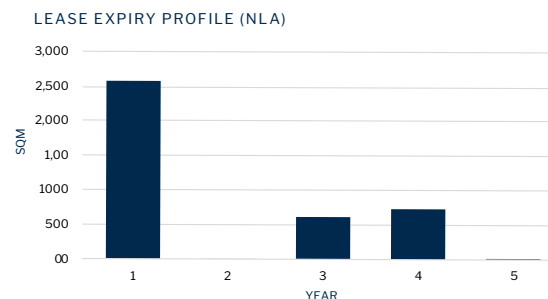
- the development timetable with key milestones;
- a description of the status of the development against the key milestones identified;
- a description of the funding arrangements for the development;
- the total amounts of pre-sale and lease pre-commitments where applicable;
- whether the loan-to-valuation 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.

Trilogy Funds' Disclosure

46.87

- The Trust's property portfolio consists of a single asset which is an investment property located at 16 Marie Street, Milton, QLD.
- The property is a commercial office building.

- The most recent valuation of \$22,500,000 with a capitalisation rate of 6.75% was dated August 2023 and was conducted by an independent valuer.
- The table below shows the lease expiry profile by net lettable area. The weighted average lease expiry (by incomes) is 1.55 years.



- The occupancy rate of the portfolio is 78.8%. Two tenancies are unleased.
- The table below shows the top 5 tenants by income, and the % of the total income of the Trust.

Tenant	% of Income
SMSF Operations Pty Ltd	54.4%
Veris Australia Pty Ltd	11.8%
PMC Property Buyers Pty Ltd	10.7%
Blue Apache Pty Ltd	8.6%
Ridgemill Pty Ltd	7.6%

- There are no significant non-direct property assets held by the scheme.

46.88

The Trust is a closed-end, single property managed investment scheme. Trilogy Funds aims to provide Investors with a predictable and sustainable income stream, which is partially tax deferred.

Trilogy Funds seeks to increase the value of the Trust through hands-on management of the Property. Trilogy Funds is taking an active role with well-credentialed leasing agents in order to minimise vacancy and maximise returns for investors.

There is no current intention to invest in other unlisted property schemes.

46.89

There are no development commitments as at 30 September 2023.



Disclosure Principle 5: Related Party Transactions

46.98

Disclose the following on any related party transaction:

- the value of the financial benefit;
- the nature of the relationship (how the parties are related for the purposes of the *Corporations Act 2001* (Cth));
- whether the arrangement is on 'arm's length' terms, is reasonable remuneration or ASIC have granted relief;
- whether scheme member approval has been sought and, if so, when;
- the risks associated with the related party arrangement; and
- 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.

- Related party transactions and conflicts of interest are addressed by Trilogy Funds in accordance with its Conflicts of Interest Policy and Related Party Transactions Policy. In relation to the loan by SPFM, there is a risk that the repayment of the loan will impact the distributable income of the Trust. SPFM reviews the loan regularly and has advised that it has no intention to call on the loan within the next 12 months.
- Trilogy Funds 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 party.

Trilogy Funds' Disclosure

46.98

- The table below outlines the related party transactions that occurred for the period 1 July 2023 through 30 September 2023. All fees are calculated in accordance with sections 7 of the PDS. Trilogy Funds notes that responsible entity management fees were deferred during the period, however, these fees are included in the table below as they may be charged at a later date.

Item	Financial benefit
Registry Fees	\$5,677
Responsible Entity Management Fees	\$14,501
Total	\$20,177

In addition to the table above, SPFM No. 2 Pty Ltd (**SPFM**), a related party of Trilogy Funds and the Investment Manager of the Trust, has advanced \$320,000 to the Trust pursuant to an unsecured, interest-free, at call loan agreement. The loan is on 'arm's length' terms and, as such, scheme member approval has not been sought.

- The Registry Fees and Responsible Entity Management Fees are paid to Trilogy Funds, as Responsible Entity, in accordance with the PDS.
SPFM is a related party to Trilogy Funds as it is wholly owned by the same controlling entity.
- See (a) and (b) above.
- See (a) and (b) above.



Disclosure Principle 6: Distribution Practices

46.102

Where a scheme has made or forecasts to make distributions to members, disclose:

- a. the sources of the distributions (e.g. from cash from operations available for distribution, capital, unrealised revaluation gains);
- b. the source of any forecast distributions;
- c. whether the current distribution or forecast distributions 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 reason 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 distribution from the scheme from sources other than cash from operations (excluding borrowings) available for distribution.

Trilogy Funds' Disclosure

46.102

- a. Trilogy Funds anticipates that distributions will be made from the earnings of the Trust which include rental income, income from interest, income from other investments, retained earnings and realised revaluation gains. Trilogy Funds will determine the appropriate distribution level based on assessment of operational cash flows, allowances for vacancies, capital expenditure, and the like.
- b. Trilogy Funds has not forecast the amount of any future distributions.
- c. Commencing the month ending 30 November 2023, the distribution rate has been reduced to 0.50% per annum. The distribution rate will be reviewed on a continual basis in consideration of leasing, borrowing costs, market conditions and other factors.
- d. See (a) above.
- e. See (a) above
- f. Risks of payment of distributions from sources other than cash from operations (excluding borrowings) may include impacting the capital value of units if distributions are made from capital. At the date of this document, Trilogy Funds only sources distributions from the cash from operations (excluding borrowings).

Disclosure Principle 7: Withdrawal Rights

46.104

Are investors given the right to withdraw from the scheme? If yes, disclose:

- a. whether the constitution of the scheme allows investors to withdraw from the scheme, 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 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);
- 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, the material terms of this facility including any rights the provider has to suspend or cancel the facility.

Trilogy Funds' Disclosure

46.104

There are no withdrawal rights.



Date of Issue: 21 December 2023

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

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.

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.

Trilogy Funds' Disclosure

46.108

The NTA of the Trust using the prescribed formula is \$0.82/unit, calculated as follows:

Net assets	\$7,364,379
Straight line rental balance	-\$62,038
Accumulated depreciation	\$4,776,424
Stamp duty, property title and legals	-\$1,577,383
Impairment adjustment (held at cost)	\$2,368,516
Swap liability	-\$70,500
Capitalised lease costs	-\$84,917
Adjusted NTA	\$12,714,481
Units Issued	15,555,000
NTA per Unit	\$0.82

46.110

The calculation is made in accordance with accounting standards.

46.111

The NTA reflects an underlying net value of tangible assets within the fund of \$0.82/unit at a particular point in time. The calculation is based on a historical cost method of accounting, and as such revaluation uplifts are not captured in the NTA.





Find out more.

Start a conversation with us today.

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