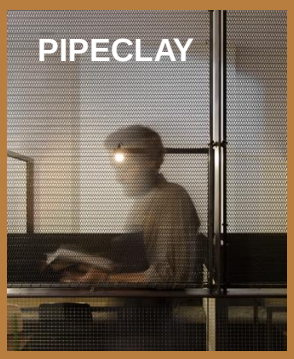



# Emu Plains Property Trust

An opportunity to invest in 128 Russell Street, Emu Plains, NSW, 2750

Information Memorandum
18 December 2013

# Important Notice to Investors

This Information Memorandum is provided by Pipeclay Lawson Ltd.

## Definitions

In this Information Memorandum, unless otherwise defined or the context otherwise requires, capitalised terms have the meaning given to them below:

"**AFSL**" means an Australian financial services licence issued by ASIC under the Corporations Act.

"**ASIC**" means the Australian Securities and Investments Commission.

"**Bank Loan**" means funding to be provided by the CBA to the Trustee as trustee for the Trust to assist in the acquisition of the Property and secured by a first-ranking mortgage registered over the Property and by a fixed and floating charge over all of the assets of the Trust.

"**Bank Loan Facility**" means the facility under which the Bank Loan is drawn down.

**"Bluescope"** means Bluescope Steel Ltd ACN 000 011 058

"**CBA**" means the Commonwealth Bank of Australia.

"**Constitution**" means the constitution of the Trust.

"**Corporations Act**" means the *Corporations Act 2001 (Cth).*

**"FPG Investments Trust"** means the FPG Pipeclay Investment Trust the trustee of which is FPG Pipeclay Investments Pty Ltd (a company owned by interests associated with David Libling and Emil Pahljina).

"**Hurdle IRR**" means a pre-tax equity IRR of 10.00% calculated on monthly rests on all cash flow between the Unitholders and the Trust.

"**IM**" means this Information Memorandum.

"**Investment**" means any proposed investment in Units in the Emu Plains Property Trust as described in this IM.

**"Investment Manager"** means FPG Pipeclay Property Management Pty Ltd as trustee for the FPG Pipeclay Management Trust.

"**Investment Model**" means the financial model, incorporating various assumptions referred to in this IM that has been used to calculate targeted returns to Investors.

"**IRR**" means the annualised return on equity on a compounding monthly basis according to established finance conventions, which results in the net present value of future cash flows having a value of zero.

"**Lessee**" or "**Tenant**" means Bluescope .

"**LVR**" means the ratio of the net Bank Loan to the value of the Property as ascertained by an independent valuer on the CBA's panel.

**"Offer"** means the offer of Units in the Emu Plains Property Trust which is the subject of this IM.

**"Pipeclay**" or "**Trustee**" means Pipeclay Lawson Ltd ACN 163 013 732 holder of ASFL number 437838.

"**Property**" means land and improvements at 128 Russell Street, Emu Plains, NSW, 2750.

"**Property Value**" means the market value of the property as determined by an independent valuer appointed by either the CBA or the Trust.

"**Realisation Event**" means the sale of the Property by the Trust.

"**sqm**" means square metres.

"**Trust**" means the Emu Plains Property Trust.

"**Unit**" means a unit in the Trust.

"**Unitholder**" or "**Investor**" means, as the context requires, a holder of Units or an investor applying for Units in the Trust.

## Purpose of Information

This Information Memorandum ("**IM**") is dated 18 December 2013. This IM does not relate to, and is not relevant for, any purpose other than to assist Investors to decide whether to proceed with a further investigation of an Investment. This IM is for an offer (the "**Offer**") of units in the Emu Plains Property Trust (the "**Trust**"). This IM is a summary of the terms and conditions of the Investment and does not purport to contain all the information that an Investor or an Investor's professional adviser may require in making a decision in relation to an Investment. The definitive terms and conditions of the Investment will be contained in the Constitution. If there is any inconsistency between this IM and the Constitution, the Constitution shall prevail.

This IM has not been, and will not be lodged with ASIC. The Investment contained in this IM is an offer that does not require disclosure to Investors under Part 6D.2 or Part 7.9 of the Corporations Act. This IM is not a Product Disclosure Document as defined by the Corporations Act 2001 and this I< is not an offer to any person who is not a Qualifying Investor.

Investors should read and fully understand the Constitution and this IM before deciding to participate in the Offer.

## Responsibility

Some of the conclusions, opinions and forecasts made in this IM are based on information obtained from third parties. The inclusion in this IM of statements and findings attributable to, or references to or about, certain third parties may not have been consented to by such third parties and those third parties do not take any responsibility for statements and findings attributed to them in this IM.

None of the Trustee, its associates and each of their respective officers, employees, agents or advisers guarantee the success of an Investment or the performance of the Trust or the repayment of capital (including the return of any principal invested in the Trust or income return in respect of any Investment) or the performance of the Property.

This IM is intended to provide information and not advice and it should not be relied upon. This IM has been prepared without taking into account your individual objectives, financial situation, needs or taxation position. The Trustee strongly recommends that you consult with appropriate legal, financial business and taxation advisors in respect of your objectives, financial situation and needs before deciding to participate in the Offer. To the extent permitted by law, the parties mentioned in this IM, their officers, employees and associates exclude all liability in connection with an Investor's reliance on this IM.

As at the date of this IM, the Trust is yet to be established and the terms of the Constitution are yet to be finalised. All expressions about the Trust inferring the present tense are statements of the intention of the Trustee as to how the Trust will operate once it is established. The terms of the Constitution may differ materially from the statements made in the IM. Before applying for any Units, Investors must ensure they obtain a copy of and read the Constitution in its entirety and, if necessary, seek their own independent professional advice.

## Investment Risk

The Investment is subject to substantial investment risk, including possible delays in payment and loss of income and capital invested.

The Trust will be subject to a significant amount of debt. The Trust will initially borrow 65% of the Property purchase price to assist with the acquisition of the Property. Investors should consider the Investment to be speculative and illiquid.

The Trustee does not, in any way, represent that the description of key risks outlined in this IM is exhaustive or a complete description of all possible risks in connection with the Investment. Section 6 sets out some information on the risks associated with an Investment, but is not exhaustive.

## Forward-looking Statements and Target Returns

This IM contains forward-looking statements and target returns and the Trustee, its associates and each of their respective officers, employees, agents or advisers may make additional written or oral forward-looking statements from time to time. Such forward-looking statements may include statements of intention, forecasts, projections of revenues, profits, losses, returns to Investors, capital expenditure, business relationships, financings or investments by third parties, developments and plans for future operations. No guarantee is given that any such forward-looking statements will prove to be correct. Furthermore, forward-looking statements and target returns are based on various assumptions that may prove to be incorrect and may materially affect the accuracy of such forward-looking statements and target returns. No representation or warranty is given as to the achievement or reasonableness of any target returns, plans, forecasts, future projections, management targets or prospects and nothing in this IM is or should be relied upon as a promise or representation as to the future.

## Diagrams and Information

Diagrams used in this IM are illustrative only and may not be drawn to scale. All references to dollars are Australian dollars and are exclusive of GST unless stated otherwise.

## Authorised Material

Without limiting any other disclaimers concerning this IM, no person is authorised to give any information or make any representation that is not contained in this IM and any information or representation not contained in this IM must not be relied upon as having been authorised by the Trustee.

## Wholesale Clients Only

This IM has been prepared on a confidential basis for distribution only in Australia to "wholesale clients" within the meaning of section 761G of the Corporations Act ("**Qualifying Investors**"). This Offer is not intended for, should not be distributed to, and should not be construed as an offer or invitation to, any other person.

A person may not (directly or indirectly) offer or issue an invitation to subscribe for Units, nor distribute this IM in the Commonwealth of Australia, except under circumstances where the offer or invitation does not require disclosure to investors to be made under Part 7.9 of the Corporations Act and complies with any other applicable laws, regulations or directives.

## Distribution

The distribution of this IM and an Investment may be restricted by law in certain jurisdictions. The Trustee does not represent that this IM may be lawfully distributed, or that the Investment may be lawfully offered, in compliance with any requirements in any such jurisdiction, or assumes any responsibility for facilitating any such distribution or offering.

In particular, no action has been taken by the Trustee, which would permit a public offering of Units or distribution of this IM in any jurisdiction. Accordingly, Units may not be offered or sold, directly or indirectly, and neither this IM nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with all applicable laws and regulations. Persons into whose possession this IM comes must inform themselves about, and observe any such restrictions.

## Confidentiality

The information in this IM is strictly confidential and must not be copied, disclosed, used, duplicated or transmitted by any means in whole or in part for any purpose other than the evaluation by the recipient of an Investment. If you do not agree with this condition please return or destroy this document immediately.

## Questions & Contacts

If you have any questions regarding this IM or should you require any further assistance or information, please contact Emil Pahljina at emil@pipeclaylawson.com.au or David Libling at david@pipeclaylawson.com.au or by phone on (02) 9697 0730.

# Contents

# 1. Executive Summary

# Executive Summary

Pipeclay is pleased to present this opportunity to invest in the Emu Plains Property Trust. Subject to the completion of legal documentation associated with the transaction including the Bank Loan Facility, the Trustee will acquire the Property, which will be the primary asset of the Trust.

Some investment highlights in relation to the Property are:

- A 5 hectare industrial property (49,710 sqm) in the Emu Plains industrial area
- The purchase price payable by the Trustee for the Property represents a yield of 8.39%.
- The Property is a steel cutting and fabrication facility for Bluescope Steel Limited. Bluescope have occupied the site for circa 22 years and have 12 years remaining on the current lease term, which expires in January 2026.
- Bluescope has two options to extend the current lease, each option is for a further 5 years and is subject to the provision of 6 months prior written notice to the Trust.
- The Lessee is responsible for all outgoings associated with the Oroperty including capital expenditure. The Lessee is not responsible for any structural repairs.
- An initial rent of $1,743,271 with fixed annual rental increases of 3% and a market review each third year of the initial lease and during the first year of each option term. On each market review the rent is subject to a cap and collar of a 0% minimum and a 5% maximum.
- Forecast initial distribution yield of 10.0% and a target IRR of 13.50% over an investment term of 12 years.

Pursuant to this IM, the Trustee is seeking to raise $8,850,000 of subscriptions through the issue of 9,071 Units to facilitate the acquisition of the Property. Pipeclay has obtained an offer of debt finance from the CBA to provide the remaining funds required to complete the purchase. The key terms of the CBA's offer are set out in Section 5 of this IM.

Qualifying Investors are invited to apply for Units. Pipeclay requires each applicant to subscribe for a minimum of $250,000 worth of Units. However, Pipeclay reserves the right to accept smaller subscriptions at its discretion. Investors must send the relevant Application for Units form to the Trustee at GPO Box 5355, Sydney, NSW, 2001. Applications must be accompanied with a cheque payable to Pipeclay Lawson ATF the Emu Plains Property Trust for the subscription amount no later than 12 February 2014 in order to facilitate settlement of the acquisition of the Property, currently expected to be 14 February 2014. The Trustee may, acting in its sole discretion, extend the time for payment of any subscription amounts by Investors.

FPG Investment**s** Trust will subscribe for 1,106 of the Units being offered in the Trust. Under the terms of the Constitution, the FPG Investment Trust will receive a $221,000 discount on the total subscription price of the Units it subscribes for, being equal to 1% of the total acquisition cost of the Property.

Distributions will be paid monthly in arrears. The first distribution will be paid 6 March 2014.

## The Property

The Property is in the Emu Plains industrial area and is approximately 1.5 kilometres from the on/off ramp (in both directions) for the M4 Motorway. It has a frontage of approximately 130 metres to Russell Street, which is the principal road through the Emu Plains industrial area. The land area is 49,710 sqm. Improvements on the site consist principally of two buildings.

Building 1 was completed in the early 1990's. It consists of:

- Circa 9,458 sqm of manufacturing warehouse with a 6.5 metre clearance and 100% overhead crane coverage. It is steel framed with non-load bearing curtain walls.
- Circa 351 sqm maintenance facility
- Circa 756 sqm of office which was completely refurbished last year.
- Awning coverage of circa 606 sqm.

Building 2 was completed in January 2011. It consists of;

- Circa 8,119 sqm of manufacturing warehouse with a minimum clearance of 9 metres with overhead crane coverage for the entire floor area.
- Office and amenities of 108 sqm.
- Awning coverage of circa 465 sqm which has recently been enclosed on 2 sides.

In addition the Property has;

- Two one storey buildings one serving as a production office (circa 162 sqm) and one as a lunch room and related amenities for employees (circa 218 sqm).
- Circa 26,000 sqm of concrete hardstand and driveways designed to accommodate heavy-load traffic.

The gross lettable area for the property is circa 19,171 sqm and the total awnings are circa 1,071 sqm giving the total property a total gross building area of circa 20,242 sqm.

Both buildings have generous drive-round access for semi-trailers and multiple roller doors on 3 sides. Building 1 has drive-through capability a key requirement for unloading heavy goods such as coils of steel.

## Investment Strategy

The Trustee believes that the Property offers an attractive risk reward proposition for investors.

The Property offers a long term, secure income stream. Bluescope, the tenant, is an ASX top 100 company with a market capitalisation of circa $3 billion. The steel cutting business conducted on site is substantial and appears resilient to import competition. The business requires heavily engineered buildings including a heavy duty concrete slab and a structural steel frame capable of supporting heavy haulage cranes. The operations on site also require an above average number of roller doors, drive-through capability, extensive concrete hardstand and relatively low site coverage to facilitate drive-round access, external storage and extensive truck parking.

The Property provides Bluescope with all of its business' specialist requirements but at a current rent which is attractive for an ordinary industrial site lacking these costly additional features.

The current lease has circa 12 years to run and provides for annual rent increases/reviews. The Trustee believes that holding the Property until Bluescope has determined whether to exercise its renewal option will maximize the long-term return to Unitholders. Typically long leases present twin challenges:

I. As the remaining lease term shortens, then all other things being equal, the capitalisation rate used to determine the property's value tends to increase which has a negative impact on value, and

II. The risk of vacancy at the end of the lease term.

The Trustee currently believes that Bluescope are more likely to exercise its renewal option because sourcing a replacement facility with the same utility to its business at a comparative cost to its renewal option will become increasingly difficult. If the option is exercised, Bluescope will have freshly demonstrated its commitment to the site, which, it has occupied since the early 1990's, and any degradation in the capitalisation rate will be restored.

If Bluescope does not exercise its option, the Trust has the opportunity to relet the Property's at the prevailing market rent. The current terms of the Bluescope lease caps annual rental growth to 3.67% (on average). Alternatively the Trustee could sell the Property to a purchaser who values the potential to improve the sites utiisation from the current 38% to the more common standard of 60%. The Trustee believes that industrial land in Emu Plains will generally outperform other industrial land in greater Sydney due to its location, improving transport once the recently announced enhancements to the M4 have been constructed and the opportunities presented by the areas relatively large and underdeveloped parcels of land.

The Trustee intends to take advantage of capital management opportunities if they arise and would seek to make a partial return of capital when it next refinances the Bank loan.

## Forecast Returns to Investors

Forecast distributions for the Trust are based on the assumptions set out in Section 5, which the Trustee currently believes are appropriate and reasonable.

### Forecast Distributions:

| | | |
|---|---|---|
| Period to 30 June 2014 | : | 10.0% |
| Year to 30 June 2015 | : | 10.0% |
| Year to 30 June 2016 | : | 10.3% |
| Year to 30 June 2017 | : | 10.6% |
| Year to 30 June 2018 | : | 11.1% |

Percentages are on a per annum basis and represent the monthly distributions which are paid in arrears, divided by percentage of capital invested in the Trust. The distribution yield quoted for the period from settlement to 30 June 2014 has been annualised.

### Target Investor IRR:

Approximately 13.50% p.a., based on a 12 year term.

## Investment Manager

The Trustee will enter into an investment management agreement with the Investment Manager, who will be responsible for management of the Property and the administration of the Trust.

David Libling and the Flower Property Group have been successful investors in industrial property for 28 years. The Investment Manager will adopt their investment approach which is based on the following core values:

- To only buy industrial properties, which it believes have better than average prospects for value growth and to only buy when investment yields are attractive and the risk return proposition favours the purchaser.
- To develop an understanding of each tenant's business, be in frequent and senior contact and therefore be in a position to appropriately respond to each tenant requirement and to endeavour to anticipate and solve the tenant's property's operational problems.
- To address all repairs and maintenance so as to protect the value of each property whilst minimising the impact on each Lessee's operations and over the long term minimising outgoings expense to the tenant.
- To constantly assess the market and to sell the property if the market conditions or property specific opportunity is unlikely to be maintained in the future.

It is a policy of Pipeclay that its principals (and or their related entities) provide 10% of the equity in each of its managed property investments. The Trustee believes that this provides investors with a fully aligned Trustee and a significant point of difference to alternate investment opportunities.


# 2. Investment Terms

# Investment Terms

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|---|---|
| **Trustee** | Pipeclay Lawson Limited (ACN 163 013 732) (AFSL 437838). |
| **The Investment Manager** | The Trustee will engage FPG Pipeclay Property Management Pty Ltd under an investment management agreement to provide certain management services in respect of the Trust. |
| **Legal Structure** | The Emu Plains Property Trust will be an unlisted unregistered wholesale managed investment scheme. |
| **Property** | The Trust's primary asset will be the land and improvements located at 128 Russell Street, Emu Plains, NSW, 2750. |
| **Purchase Price of Property** | $20,781,000<br>A breakdown of total acquisition costs and the proposed split between debt and equity funding of such costs is shown below. These numbers are exclusive of GST (where GST is applicable). |

| **Acquisition Cost** | $ |
|---|---|
| Purchase Price | 20,781,000 |
| Transfer Duty | 1,128,445 |
| Mortgage Duty | 54,028 |
| Due Diligence & Legal Costs | 150,000 |
| Debt Establishment Fee | 41,171 |
| Equity Underwriting Fees | 199,125 |
| Working Capital | 3,231 |
| **Total** | **22,357,000** |
| Bank Loan | -13,507,000 |
| **Total Equity Required** | **8,850,000** |

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| **Offering of Units** | Units in the Trust are being offered under this IM to wholesale clients (as defined under section 761G of the Corporations Act) in Australia ("Qualifying Investor"). These offers are made to an individual on a non-transferable basis to fund the Total Equity Required.<br>The Trustee expects to issue 9,071 Units in total. The FPG Investments Trust will subscribe for 1,106 Units. This Offer relates to the issue of 7,965 Units each fully paid to $1,000 per Unit. |
| **Minimum Investment** | The minimum investment is $250,000. A lesser amount may be accepted at the discretion of the Trustee. |
| **Key Documents** | The Trust will be established by the Trust Constitution. The Constitution will set out the rights and entitlements of all Unitholders and will govern the responsibilities, activities and fees payable to the Trustee. Each applicant will be required to execute an Application Form and by doing so they will acknowledge that they have reviewed the Constitution and will agree to be bound by its terms.<br>A copy of the Trust Constitution will be made available to you or your adviser at your request. |
| **Distributions to Unitholders** | Target distribution for the financial years to 30 June 2014 and 30 June 2015 is 10.0%. Distributions will be paid monthly in arrears. Settlement of the acquisition is currently scheduled for 14 February 2014. The first distribution is expected to be paid 6 March 2014.<br>Distributions will be funded from the rental payment received monthly in advance an after appropriate provision has been made for future payments and expenses, many of which are payable periodically in arrears. The Trusts distribution policy is to maintain an even monthly distribution with stepped annual increases over time, whilst maintaining prudent levels of cash reserves. The Trustee will have the discretion to defer the payment of distributions or not to pay distributions if required to meet the terms of the Bank Loan Facility or to prudently manage Trust cash needs. |

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| **Term** | The intended term of the Trust is circa 12 years. Subject to the qualifications set out below, the Trustee is obliged to use its best endeavours to enter into a contract for the sale for the Property no earlier than 1 January 2025 and no later than December 31, 2026. The Trustee's present intention is to endeavour to sell the property in the second half of 2025.<br>The Investment Manager will continuously assess the market and may make recommendations to the Trustee concerning the realisation and/or the holding of the Property.<br>If at any time the Investment Manager recommends that the Trustee should sell the Property prior to 2025, the Trustee will call a meeting of Unitholders. If at the meeting, the Unitholders, holding the majority of Units being voted at that meeting, resolve to sell the Property in accordance with the Investment Manager's recommendation, then the Trustee shall be obliged to use its best endeavours to effect a sale in accordance with the resolution.<br>If at any time the Investment Manager recommends that the Trustee should hold the Property beyond 2026, the Trustee will call a meeting of Unitholders. If at that meeting, the Unitholders, holding the majority of Units being voted at that meeting, resolve to hold the Property in accordance with the Investment Manager's recommendation, then the Trustee shall be obliged to continue to hold the Property in accordance with the resolution and then at the time specified in the resolution to use its best endeavours to sell the Property.<br>If at any time Unitholders holding no less than 25% of the Units request in writing that the period of the Trust be altered then the Trustee will call a meeting of Unitholders. If at that meeting, the Unitholders, holding no fewer than 75% of the Units being voted at that meeting, resolve to alter the period of the Trust, the Trustee shall hold the Property in accordance with that resolution and shall endeavour to sell the Property at the time specified in the resolution.<br>Upon completion of the sale of the Property, the Trustee will promptly wind-up the Trust |
| **Withdrawal Rights** | Unitholders will not have a right to withdraw from the Trust. The Trustee may, at its discretion, offer Unitholders a right to withdraw such as by way of redemption of Units. |
| **Sale of Units** | Unitholders will only be entitled to sell or transfer their Units in the Trust to a Qualifying Investor with the approval of the Trustee which will not be unreasonably withheld or delayed.<br>Transfers of Units to related parties of existing Unit Holders will only be permitted where the transferee is a Qualifying Investor. |
| **Stamp Duty on Subsequent Sale** | Where an investor hold less than 50% of the units in the Trust there is generally no stamp duty payable by them in respect of a subsequent sale of the units in the Trust.<br>Should an investor (and any associated persons) acquire 50% or more of the units in the Trust or an entitlement to 50% or more of the distribution of Trust Property then that person and any associated persons, which is broadly defined, may be liable for stamp duty at the approximate rate of 5.5% on the unencumbered value of the Property. Investors should seek their own advice on whether stamp duty liability may be triggered. |
| **Unitholders Consents** | The Trustee will generally exercise its powers to act in its discretion but in certain circumstances is required to seek approval from Unit Holders.<br>○ Any variation to the rights and entitlements of Unitholders will require the consent of a special majority of Unitholders (75%) present and voting on the relevant resolution. The Trustee will have the ability to amend the Trust Constitution without the approval of the Unitholders but only where there is no adverse effect on any Unitholder.<br>○ The Trustee may only issue additional units in the Trust with the approval of a special majority of Unitholders (75%) unless the issue of further Units is required to prevent or cure an event of default under the Bank Loan Facility, in which case the approval of a simple majority of Unitholders required. |
| **Investment Risks** | An Investment in the Trust is expected to be illiquid and will involve investment risks. A non-exhaustive list of these risks is outlined in Section 6 of this Information Memorandum. |
| **Trust Management Fees[1]** | Pipeclay will be entitled to an annual management fee of 0.75% (plus GST) of the value of the Property. The management fee is to be paid monthly in arrears during the Trust term. |

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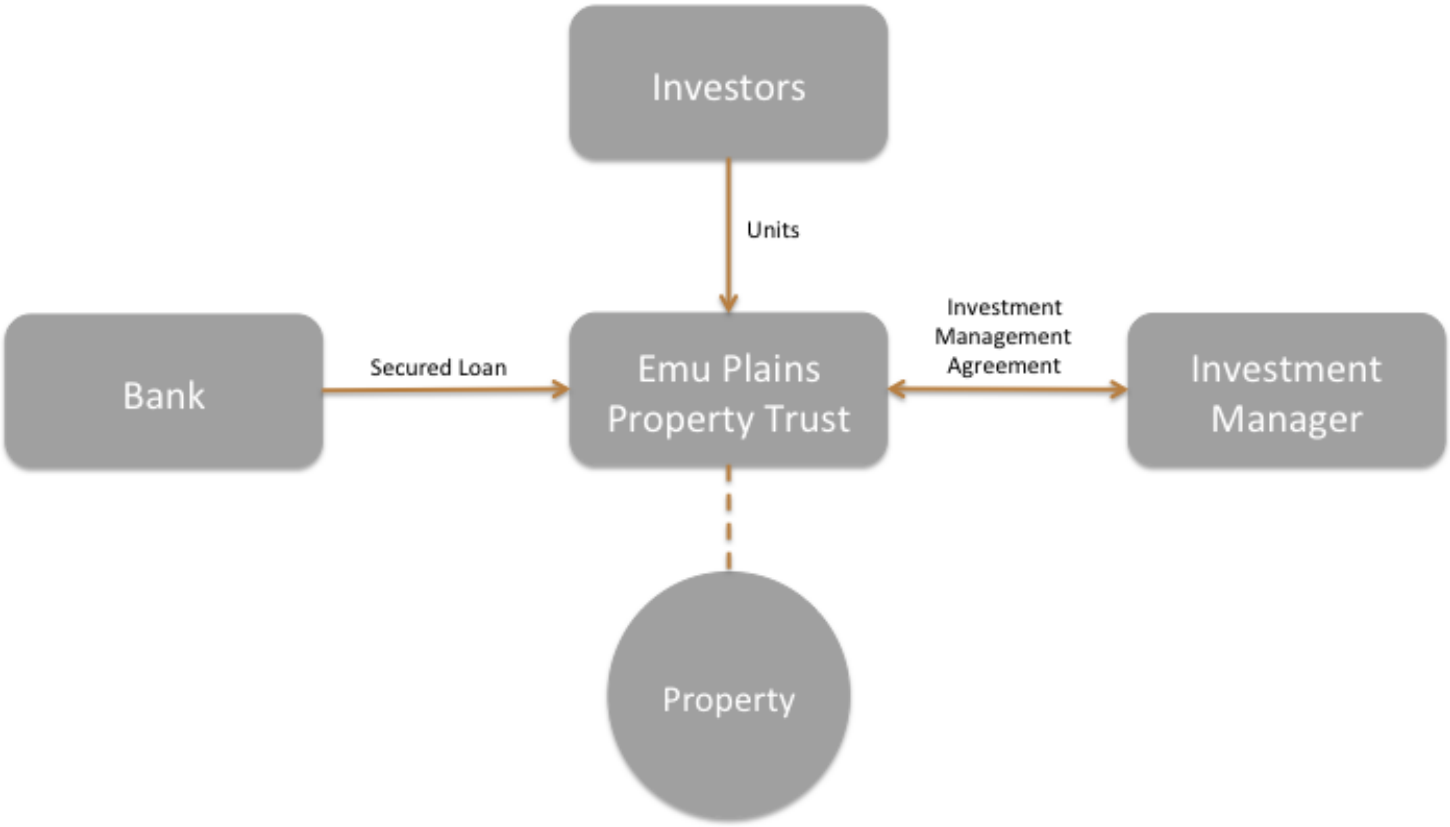
| **Property Management Fee** | Pipeclay will be entitled to a Property Management Fee, which is paid by the Tenant as part of its outgoings obligations under the Lease. This fee is anticipated to approximate 2% of net rent. |
| **Trust Expenses** | Pipeclay will be entitled to recover all expenses reasonably incurred by it in relation to the establishment of the Trust, the acquisition of the Property and the activities of the Trust provided the expenses are payable to unrelated third parties. An estimate of the relevant formation and acquisition costs is included on page 10 of this Information Memorandum.<br>The Trustee will not be entitled to recover any travel expenses incurred by it or the Investment Manager in providing their services.<br>Pipeclay will be responsible for all expenses incurred in the day to day administration of the Trust other than external accounting costs associated with preparation of the Trust's annual financial statements and tax returns, statutory costs, costs associated with the Bank Loan Facility or any replacement loan facility and costs associated with maintaining the bank accounts of the Trust. |
| **Equity Underwriting Fee** | The Trustee has entered into certain underwriting and sub-underwriting arrangements with respect to this capital raising with various parties including related parties of the Trustee ("Underwriters"). The Trustee has agreed to pay the Underwriters a fee of $199,125 (being 2.5% of the amount of Total Equity Required less the amount being subscribed for by the FPG Investments Trust) as consideration for this underwriting commitment. |
| **Acquisition[1]** | The Trustee's associate, the FPG Investments Trust, will be will be entitled to a discount equal to 1% of the total acquisition cost of the Property on the total subscription price paid by it for units in the Trust. The FPG Investment Trust will subscribe for 1,106 units in the Trust. |
| **Outperformance Fee[1]** | Upon the sale of the Property by the Trust ("**Realisation Event**"), Pipeclay will be entitled to a performance fee equal to 15% (plus GST) of Unitholders' returns in excess of the Hurdle IRR ("**Performance Fee**").<br>The Hurdle IRR is a pre-tax equity IRR of 10% per annum. When calculating this IRR all cash flows between the Unitholders and the Trust will be factored in. |
| **Application for Units** | Investors in Australia who are "wholesale clients" (as defined under section 761G of the Corporations Act) may apply for Units in the Trust. Units in the Trust are offered on an individual and non-transferable basis. The Trustee reserves the right to reject, in full or in part, any application for Units. |
| **Taxation** | The taxation consequences of any investment in the Trust are dependent on each individuals circumstances. Investors are responsible for seeking the advice appropriate to their circumstances. The Trustee has commissioned a depreciation schedule to be prepared by Napier & Blakeley after settlement of the purchase. A copy of the schedule will be made available to the Unitholders. |
| **Subscription Payment** | Subject to the Trustee exercising its discretion to extend the time for payment, the Trustee will require each Investor's subscription for Units to be paid on or before 12 February 2014 in order to facilitate settlement of the acquisition of the Property currently expected to be 14 February 2014. |
| **How to Apply** | Section 8 of this IM details the steps to apply for Units in the Trust. Investors are invited to register their interest only based on this IM. |
| **No Cooling Off Period** | Applications to invest in the Trust are not subject to a cooling off period. |
| **Offer Period** | An Investor may apply for Units until 3.00pm (AEST) Wednesday, 12 February 2014 (subject to the Trustee, acting in its sole discretion, extending the time for such applications to be made) unless this IM is otherwise withdrawn. |

Note 1 - Fees are fully outlined in Section 4 of this IM.

## Investment Structure

The Property will be held in a single asset unlisted unregistered wholesale unit trust. The Trustee will engage FPG Pipeclay Property Management Pty Limited to provide management services in respect to the Property. Pipeclay will procure a secured loan from the CBA to assist with the acquisition of the Property. The diagram below illustrates the ownership and management structure for the Property.




# 3. The Property

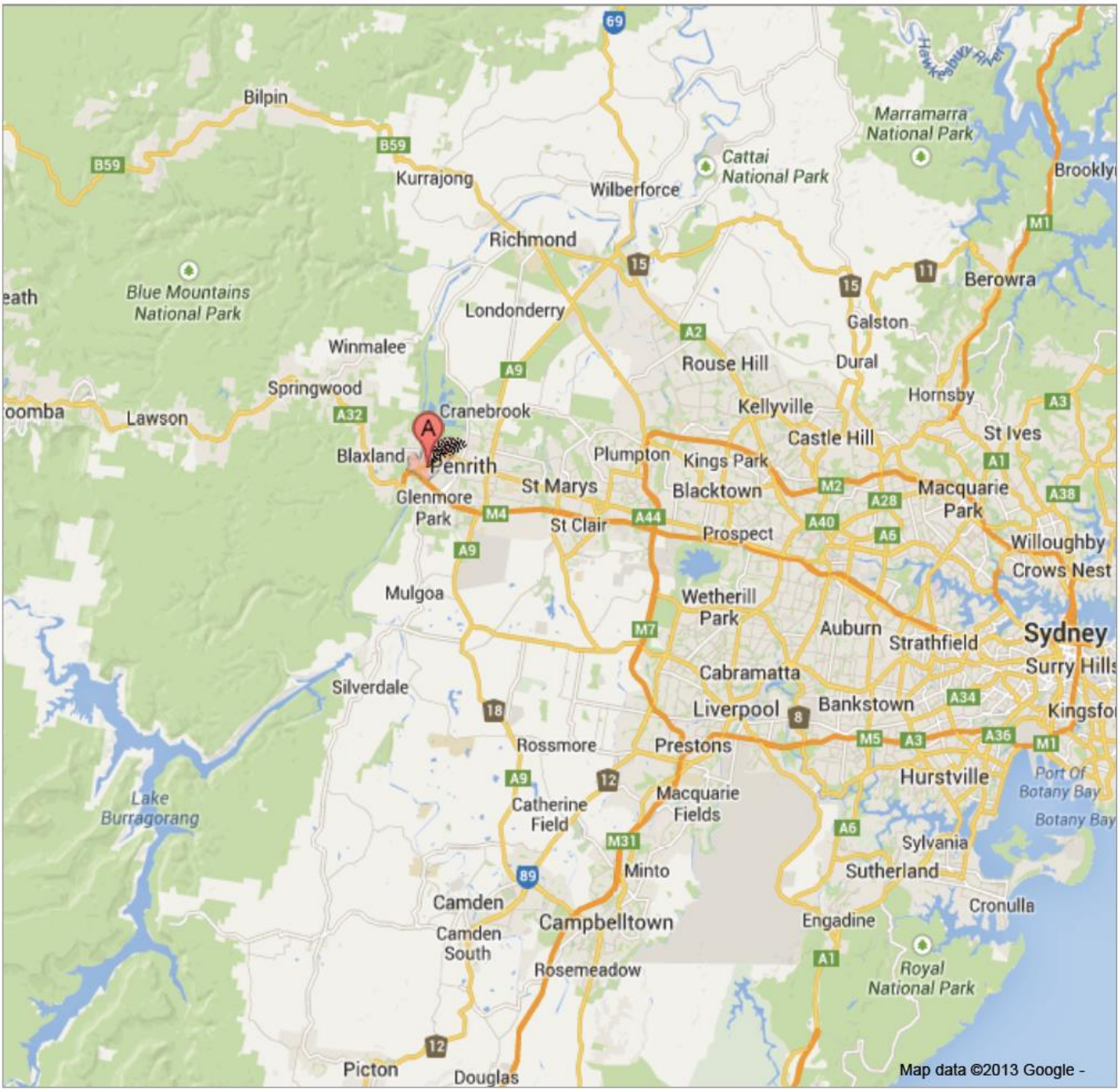
## Location

The Property is in the Emu Plains industrial area and is approximately 1.5 kilometres from the on/off ramp (in both directions) for the M4 Motorway. It has a frontage of approximately 130 metres to Russell Street, which is the principal road through the Emu Plains industrial area.

The Emu Plains industrial area is dominated by large users of land. It is one of the locations of choice in Western Sydney for industries requiring large plots of land (2-20 hectares) and a relatively low ground rent component. At present there are no large vacant blocks of land and no large facility for lease but there are some smaller vacant lots.

There are three factors, which can be expected to drive the above average growth in land values in Emu Plains over the next decade;

- Continued population growth and the general westward spread of Sydney;
- The growing utilisation of industrial land at Eastern Creek; and,
- Most significantly the eastward extension of the M4 motorway. At present, Sydney logistics companies favour the M2 and M5 motorways over the M4 due to the M4 ending/beginning in a traffic treacle on Paramatta Road.



## Property Description

The land area is 49,710 sqm Improvements on the site consist principally of two buildings.

Building 1 was completed in the early 1990's. It consists of:

- Circa 9,458 sq.m of manufacturing warehouse with a 6.5 metre clearance and 100% overhead crane coverage. It is steel framed with non-loadbearing curtain walls.
- Circa 351 sqm maintenance facility
- Circa 756 sqm of office which was completely refurbished last year.
- Awning coverage of circa 606 sqm.

Building 2 was completed in January 2011. It consists of;

- Circa 8,119 sqm of manufacturing warehouse with a minimum clearance of 9 metres with overhead crane coverage for the entire floor area
- Office and amenities of 108 sqm.
- Awning coverage of circa 465 sq.m which has recently been enclosed on 2 sides.

In addition the Property has;

- Two one storey buildings one serving as a production office (circa 162 sqm) and one as a lunch room and related amenities for employees (circa 218 sqm).
- Circa 26,000 sqm of concrete hardstand and driveways designed to accommodate heavy-load traffic.

The gross lettable area for the property is circa 19,171 sqm and the total awnings are circa 1,071 sqm giving the total property a total gross building area of circa 20,242 sqm.

Both buildings have generous drive-round access for semi-trailers and multiple roller doors on 3 sides. Building 1 has drive-through capability a key requirement for unloading heavy goods such as coils of steel.

The Trustee has commissioned various due diligence reports on the Property from the following consultants:

| | |
|---|---|
| Property Condition | Napier & Blakeley Pty Ltd |
| Environmental | Environ Australia P/L |
| Valuation | CBRE |
| Legal | Corrs Chambers Westgarth |

The due diligence is still to be completed. The Trustee will issue Investors a supplemental information memorandum outlining any noteworthy issues, if any emerge and are not resolved prior to an unconditional contract being entered into for the acquisition

Investors are encouraged to review each of the due diligence reports when they are available. Investors interested in obtaining copies of the reports should contact Ailie McKendrick at Ailie@pipeclaylawson.com.au.

## Tenancy Details

The Property is leased to Bluescope. The principal terms of the lease are summarised as follows:

| | |
|---|---|
| **Lessee** | Bluescope Steel Limited |
| **Lease Term** | Circa 12 years to 16 January 2026 |
| **Option** | The Lessee has two additional options to extend the lease for a further 5 years each, subject to providing notice 6 months prior to expiry of the relevant lease term. |
| **Fixed Increases** | Fixed annual increases each July 1 of 3% other than every third year and in the first year of each option term where the rent is subject to market reviews as set out below. |
| **Market Reviews** | Each market review is subject to a cap and floor, the floor being the previous years (i.e. rent cannot fall) and the cap being an increase of 5% of the preceding rent. |
| **Initial Annual Rent** | $1,743,270.88 p.a. plus GST. |
| **Outgoings** | 100% payable by the Lessee and includes all rates, taxes and charges payable to any Government Authority or under any Law, all amounts arising from the Landlord's ownership, management, operation and maintenance of the Property, including insurance and repair costs (including capital costs) but does not include any expenditure which is structural in nature. |
| **Redecoration** | The Tenant has the obligation to recarpet and repaint the Property at the end of its tenancy, |
| **Environment** | The Tenant will bear all the costs of removing any contamination it has caused during its occupation. |

## The Lessee


John Lysaght (now part of Bluescope Steel Limited but then a subsidiary of BHP) was the first industrial occupant of the site. In the early 1990s it moved its operations from Chullora to the Property because land was significantly cheaper and overall occupancy cots were therefore significantly lower. The construction of the new (second) building in 2010 enabled Bluescope to centralise its operations on the Property and to close other sites in NSW.

The existing improvements situated on the Property represent a circa 38% site coverage. If the Property was to be used for conventional warehousing, there is ample land to enable further construction on the site. However, the tenant's operations require a large proportion of surrounding hardstand and for as long as it is in occupation of the Property, the construction of additional buildings is unlikely.

Building 1 is used for cutting and shaping steel coils into gutters, eaves and roofing material. Building 2 is used for cutting steel length into construction products.

Steel can be made domestically or imported. At present the cutting and shaping of steel is predominantly done domestically. The Trustees investigations into these operations suggest that cutting and shaping is an activity best done locally and that significant import substitution is currently impractical and uneconomic.

Bluescope Steel Limited is an ASX listed company with a current market capitalisation of $3 billion. In the financial year to 30 June 2013 the company had revenues of $8.4 billion and earnings before interest and tax of $51.7 million.

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# 4. Investment Strategy

# Investment Strategy

The Trustee will engage the Investment Manager to manage the Property on behalf of the Trust. The Investment Manager will be responsible for management of the Property and implementing the investment strategy as described in this IM. The Investment Manager will also assist the Trustee in management of the Trust.

## Investment Management Approach

David Libling and the Flower Property Group have been successful investors in industrial property for 28 years. The Investment Manager will adopt his investment management approach, which is based on the following core values:

- To only buy industrial properties, which it believes, have better than average prospects for value growth and to only buy when investment yields are attractive and the risk return proposition favours the purchaser.
- To develop an understanding of each tenant's business, be in frequent and senior contact and therefore be in a position to appropriately respond to each tenant requirement and to endeavour to anticipate and solve the tenant's property's operational problems.
- To address all repairs and maintenance so as to protect the value of each property whilst minimising the impact on each Lessee's operations and over the long term minimising outgoings expense to the tenant
- To constantly assess the market and sell the property if market conditions or property specific opportunity is unlikely to be maintained in the future.

Pipeclay has been formed to provide investors with the ability to invest alongside David Libling. Consequently, no property will be the subject of any Pipeclay managed trust unless there has been a prior determination by the principals that they will invest in that property. In the case of the Emu Plains Property Trust, the principals of Pipeclay and their associates have underwritten all of the equity capital that is required to complete the purchase.

## The Investment Strategy for the Property

The Trustee believes that the Property offers an attractive risk reward proposition for investors.

The Property offers a long term, secure income stream. Bluescope, the tenant, is an ASX top 100 company with a market capitalisation of circa $2.5 billion. The steel cutting business conducted on site is substantial and appears resilient to import competition. The business requires heavily engineered buildings including a heavy duty concrete slab and a structural steel frame capable of supporting heavy haulage cranes.

The operations on site also require an above average number of roller doors, drive-through capability, extensive concrete hardstand and relatively low site coverage to facilitate drive-round access, external storage and extensive truck parking.

The Property provides Bluescope with all of its business' specialist requirements but at a current rent which is attractive for an ordinary industrial site lacking these costly additional features.

The current lease has circa 12 years to run and provides for annual rent increases/reviews. The Trustee believes that holding the Property until Bluescope has determined whether to exercise its renewal option will maximize the long-term return to Unitholders. Typically long leases present twin challenges:

I. As the remaining lease term shortens, then all other things being equal, the capitalisation rate used to determine the property's value tends to increase which has a negative impact on value, and

II. The risk of vacancy at the end of the lease term.

The Trustee currently believes that Bluescope are more likely to exercise its renewal option because sourcing a replacement facility with the same utility to its business at a comparative cost to its renewal option will become increasingly difficult. If the option is exercised, Bluescope will have freshly demonstrated its commitment to the site, which, it has occupied since the early 1990's, and any degradation in the capitalisation rate will be restored.

If Bluescope does not exercise its option, the Trust has the opportunity to relet the Property's at the prevailing market rent. The current terms of the Bluescope lease caps annual rental growth to 3.67% (on average). Alternatively the Trustee could sell the Property to a purchaser who values the potential to improve the sites utiisation from the current 38% to the more common standard of 60%. The Trustee believes that industrial land in Emu Plains will generally outperform other industrial land in greater Sydney due to its location, improving transport once the recently announced enhancements to the M4 have been constructed and the opportunities presented by the areas relatively large and underdeveloped parcels of land.

The Trustee intends to take advantage of capital management opportunities if they arise and would seek to make a partial return of capital when it next refinances the Bank loan.

# Managing Investment Capital

## Investment Term

The Trustee currently believes that the optimal term of the investment for this Property is 12 years. It is the Trustees present intention to sell the Property in the second half of 2025 once Bluescope has determined whether it will exercise its option to extend the lease. In any event the Trustee is obliged to use its best endeavours to enter into a contract for sale of the Property no earlier than 1 January 2025 and no later than 31 December 2026

The Investment Manager will continuously assess the market and may make recommendations to the Trustee concerning the realisation and/or the holding of the Property.

If at any time the Investment Manager recommends that the Trustee should sell the Property prior to 2025, the Trustee will call a meeting of Unitholders. If at the meeting, the Unitholders, holding the majority of Units being voted at that meeting, resolve to sell the Property in accordance with the Investment Manager's recommendation, then the Trustee shall be obliged to use its best endeavours to effect a sale in accordance with the resolution.

If at any time the Investment Manager recommends that the Trustee should hold the Property beyond 2026, the Trustee will call a meeting of Unitholders. If at that meeting, the Unitholders, holding the majority of Units being voted at that meeting, resolve to hold the Property in accordance with the Investment Manager's recommendation, then the Trustee shall be obliged to continue to hold the Property in accordance with the resolution and then at the time specified in the resolution to use its best endeavours to sell the Property.

If at any time Unitholders holding no less than 25% of the Units request in writing that the period of the Trust be altered then the Trustee will call a meeting of Unitholders. If at that meeting, the Unitholders, holding no fewer than 75% of the Units being voted at that meeting, resolve to alter the period of the Trust, the Trustee shall hold the Property in accordance with that resolution and shall endeavour to sell the Property at the time specified in the resolution.

## Payment of Distributions

Distributions will be paid monthly in arrears. Settlement of the acquisition is currently scheduled for 14 February 2014. The first distribution is expected to be paid 6 March 2014.

Distributions will be funded from the rental payments received monthly in advance an after appropriate provision has been made for future payments and expenses, many of which are payable periodically in arrears. The Trusts distribution policy is to maintain an even monthly distribution with stepped annual increases over time, whilst maintaining prudent levels of cash reserves.

The Trustee will have the discretion to defer the payment of distributions or not to pay distributions if required to make adequate provision for costs and expenses of the Trust or where the Trustee considers it to be in the best interest of Unitholders.

## Capital Management

The Trustee intends to take advantage of capital management opportunities if they arise and would seek to make a partial return of capital when it next refinances the Bank loan.

# Investment Management Team

## David Libling

**David** was educated at Melbourne and Oxford Universities and has been the Managing Director of the Flower Property Group since its inception. David has been acquiring, managing and divesting of industrial properties for over 28 years. During his career, David has been a director of various subsidiaries of National Mutual, Rothschilds Australia, Bank of America and Westpac Banking Corporation.

David is one of the Responsible Managers for Pipeclay.

## Sandy Libling

**Sandy** was one of the first female Chief Executive Officers of an Australian listed company. She was educated in Philosophy, Politics & Economics at Oxford University. Sandy has considerable industrial property investment experience and has been a Director of companies in the Flower Property Group since its inception. Sandy is primarily responsible for management of all significant capital works undertaken in respect to properties managed by the Group, usually to meet tenant requirements.

## Emil Pahljina

**Emil** has a degree in Economics from Monash University and Bachelor of Law from the University of Melbourne. Emil has 15 years of funds management experience including a range of managed investment schemes in respect of both real estate and infrastructure assets.

Until the end of 2012 Emil was the Chief Executive of the ASX listed Challenger Infrastructure Fund and prior to that Head of Principal Investments and Acquisitions for the Specialised Capital Group at Westpac Banking Corporation.

Emil is one of the Responsible Managers for Pipeclay.

## Ailie McKendrick

**Ailie** has been with the Flower Property Group for a decade and was promoted to Property Manager in 2007. She has experience of managing properties of various ages and the judgement necessary to ensure that preventative maintenance is carried out so as to minimise inconvenience to tenant operations and outgoings over the period of the Lease.

# Fees and Charges

The Trustee is entitled to receive certain fees in consideration for services provided to the Trust. The fees paid to the Trustee will be paid out of the Trust.

The Trustee has agreed to pay a significant proportion of its fees to the Investment Manager.

## Asset Management Fees

The Trustee will be entitled to an annual management fee equal to 0.75% of Property Value. The management fee (plus GST) will be paid monthly in arrears each calendar month or part thereof during the term of the Trust.

The Trustee will have the Property independently valued every three years, or whenever the CBA requires and on any refinance of the Trusts debt facility. The Trustee will adopt the most recent valuation undertaken for these purposes as the Property Value for calculating management fees.

## Property Management Fees

Under the terms of the Lease, the lessee is obliged to meet the cost of "Outgoings". Outgoings include the cost incurred by the property owner in relation to property management but do not include the property owner's internal costs of property management. The Trustee has engaged FPG Pipeclay Property Management Pty Limited, a related company to the Trustee, to provide property management services at a cost not exceeding 2% of rent.

## Trust Expenses and Costs

Pipeclay will be entitled to recover all expenses reasonably incurred by it in relation to the establishment of the Trust, the acquisition of the Property and the activities of the Trust provided the expenses are payable to unrelated third parties.

The Trustee will not be entitled to recover any travel expenses incurred by it or the Investment Manager in providing their services.

Pipeclay will be responsible for all expenses incurred in the administration of the Trust other than external accounting costs associated with preparation of the Trust's annual financial statements and tax returns, statutory costs (including registration fees payable to ASIC) and costs associated with the Bank Loan Facility and maintaining bank accounts of the Trust.

## Acquisition Discount

The FPG Pipeclay Investments Trust will provide 10% of the required equity capital by subscribing for Units ($885,000). The FPG Pipeclay Investment Trust will be entitled to a total discount equal to approximately $221,000 (being 1% of the total acquisition cost of the Property) on the face value of the 1,106 Units it acquires.

## Equity Underwriting Fee

The Trustee has entered into certain underwriting and sub-underwriting arrangements with respect to this capital raising with various parties including related parties of the Trustee ("**Underwriters**"). The Trustee has agreed to pay the Underwriters a fee of approximately $199,125 being 2.5% of the total equity amount being raised, other than from the FPG Investments Trust, as consideration for the underwriting.

## Outperformance Fee

Upon a Realisation Event the Trustee will be entitled to a performance fee equal to 15% (plus GST) of Unitholder returns in excess of the Hurdle IRR.

The Hurdle IRR is a pre-tax equity IRR of 10%. When calculating this IRR, all movements between the Unitholders and the Trustee will be factored in.

## Building Supervision Fee

In the event of capital expenditure in excess of 2% of the value of the Property being undertaken, the Trustee is entitled to a fee equal to 4.5% of the cost of that capital expenditure. The Trustee does not expect this fee to arise during the investment term.

## Refund of Due Diligence and Costs

Upon the acquisition of the Property, the Trustee will be entitled to a refund of Due Diligence and legal costs it has incurred in relation to the Property. They include:

- the cost of obtaining due diligence reports from Napier & Blakeley Pty Ltd and Environ Australia Pty Ltd;
- the cost of the CBA obtaining a valuation report from CBRE;
- the legal cost of negotiating amendments to the contract of purchase and general conveyancing advice from Corrs Chambers Westgarth;
- the legal cost of the initial drafting and subsequent review of the Constitution, settling this IM and legal advice associated with the structure of the transaction and this Offer by Corrs Chambers Westgarth

The total amount expected to be payable by the Trust in respect of the above costs is $150,000.

# 5. Financial Information

# Acquisition Costs and Funding

A breakdown of the total acquisition costs and funding requirements of the Trust are as follows:

| Acquisition Costs | |
|---|---|
| Purchase Price | 20,781,000 |
| Transfer Duty | 1,128,445 |
| Mortgage Duty | 54,028 |
| Due Diligence & Legal Costs | 150,000 |
| Bank Establishment Fee | 41,171 |
| Equity Underwriting Fee | 199,125 |
| Working Capital | 3,231 |
| **Total** | **22,357,000** |
| Secured Loan | -13,507,000 |
| **Total Equity Required** | **8,850,000** |

## Senior Debt Facility

The Trustee has received an offer from the CBA for provision of the Bank Loan Facility. This offer contains terms and conditions that are usual for these types of facilities and include the following key terms:

| | |
|---|---|
| Facility Limit | $13,507,000 |
| LVR | 65% of Purchase Price |
| Term | 3 years from drawdown |
| Interest Margin | 1.90% facility margin above 90 day bank bill rate. The Trustee intends to enter into a 5 year interest rate swap to fix its interest rate cost under this loan facility. |
| Payments | Interest only payable quarterly in arrears |
| Key Covenants | EBITDA / Interest (Interest cover ratio) cover must exceed 1.75 times<br>The Property must be insured on terms acceptable to CBA.<br>The Trustee will not alter the Lease, the Constitution and the management agreement without the CBA's consent |
| Key Event of Default | The LVR to not exceed 65%. CBA may commission an independent valuation whenever circumstances render it reasonable to do so. The Trustee may cure any default by reducing the outstanding loan balance or by providing cash security to the CBA. |

## Interest Rate Management

CBA has also offered to provide the Trust with a 5 year interest rate swap to effectively fix the level of its interest rate payments on the Bank Loan. It is the intention of the Trustee to fix 100% of the interest rate on its secured loan at settlement of the acquisition of the Property.

As time goes by the Trustee will increasingly monitor long term interest rates and where it believes Unitholders interests are best served it will seek to extend some or all of its interest rate swaps to cover the expected interest rate exposure in the period beyond the initial term of the interest rate swap i.e. (year 6 to 12).

In the event that the interest rate swap is terminated earlier than its maturity date (5 years from settlement), then break costs may be payable to or receivable from the CBA.

## Event of Default

The Trust is required to have a LVR no greater than 65%. The LVR will be determined by reference to an independent valuation from a CBA approved valuer. The CBA does not require a periodic valuation of the Property but has a general right to commission a valuation whenever circumstances render it reasonable to do so.

## Debt Refinance

The Trustee will regularly assess the state of debt capital markets and evaluate opportunities to refinance the Bank Loan Facility.

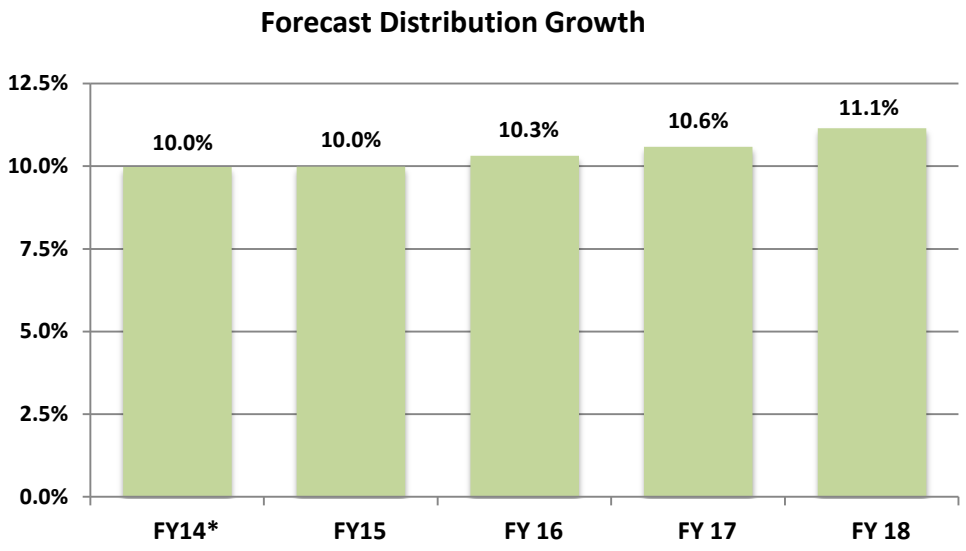
## Target Returns to Investors

Forecast returns to Investor over the first 5 years of the Trust are shown below.

| Period Ending 30 June | FY14* | FY15 | FY 16 | FY 17 | FY 18 |
|---|---|---|---|---|---|
| Rent | 653,727 | 1,795,569 | 1,849,436 | 1,932,661 | 1,990,641 |
| Recoverable Outgoings (estimate) | 125,084 | 348,490 | 362,429 | 376,927 | 392,004 |
| **Income** | **778,810** | **2,144,059** | **2,211,866** | **2,309,587** | **2,382,644** |
| Bank Loan Interest | -277,808 | -745,586 | -788,187 | -799,614 | -799,614 |
| Outgoings (estimate) | -112,069 | -312,230 | -324,719 | -337,708 | -351,216 |
| Property Management Fee | -13,015 | -36,260 | -37,710 | -39,219 | -40,788 |
| Asset Management Fee | -58,180 | -155,858 | -155,858 | -171,473 | -176,678 |
| Trust Expenses | -3,375 | -7,020 | -7,301 | -13,217 | -7,897 |
| **Expenses** | **-464,446** | **-1,256,954** | **-1,313,775** | **-1,361,231** | **-1,376,192** |
| **Net Income (Before Depreciation)** | **314,364** | **887,105** | **898,091** | **948,356** | **1,006,452** |
| Net Movement in Working Capital | 22,700 | 18,562 | 37,054 | 11,829 | 4,562 |
| **Distributions** | **337,064** | **905,667** | **935,145** | **960,186** | **1,011,014** |
| Distributions ($ per Unit) | 37.2 | 99.8 | 103.1 | 105.9 | 111.5 |
| **Running Yield** | **10.0%** | **10.0%** | **10.3%** | **10.6%** | **11.1%** |

* FY14 cash flow relates to the 4.5 months from settlement of the acquisition assumed to be 14 February 2014 to 30 June 2014. Running yield has been annualised

The targeted distributions for investors are illustrated below:




The investment highlights for investors are:

- A forecast distribution of 10.0% p.a for the 16.5 months to 30 June 2015 rising to 11.1% for the year to 30 June 2018.
- Distributions will be paid monthly in arraers.
- The Trustee expects a material portion of the distributions will be tax deferred in the 2014 financial year. Once the Trustee has settled the purchase, it will commission a depreciation schedule.

# Return Assumptions

The forecast returns set out in this IM are based on the Trust completing the acquisition of the Property on 14 February 2014 in accordance at a total acquisition & formation cost of $22.357 million as set out above and the following assumptions, which the Trustee considers to be reasonable and appropriate.

## Rental Income

The Tenant pays all rent and outgoings in accordance with its obligations under the proposed lease:

- Rent of $1,743,271 p.a is paid and received monthly in advance from the settlement date, expected to be 14 February 2014.
- Rent escalates at 3.0% p.a on 1 July each year other than every third year where the rent is subject to market reviews.
- At each market review rent increases by 4.5% p.a.
- Outgoings, including the Property Management Fee are paid monthly as from the settlement date.
- No major structural works arise during the period of the investment.

## Senior Debt Assumptions

The Trustee borrows $13.507 million from the CBA in accordance with its offer of finance:

- The terms of the Bank Loan Facility including establishment fees and facility margins are as set out above.
- The fixed rate payable under the 5 year interest rate swap is 3.62% for years 1 & 2 and 4.02% thereafter.
- There is no event of default during the forecast period.
- The average interest rate after the initial 5 year swap period is 5.62% and the Bank Loan margin remains at 1.90%.

## Tenancy Assumption

The current Tenant continues to occupy the Property until expiry of the initial lease term.

## Management Fees

The fees payable to the Trustee are as set out in Section 4 of this IM.

## Trust Administration Expenses

The Trustee will bear costs and expenses associated with administration of the Trust other than:

- External accounting costs associated with the preparation of annual financial and tax returns.
- Statutory costs associated with the Trust.
- Bank charges and costs associated with the Bank Debt Facility including the costs associated with getting independent valuations of the Property.
- Costs associated with the Trusts bank accounts.

## Capital Expenditure

There will be no material capital expenditures undertaken by the Trust during the forecast investment period. Napier and Blakeley Pty Ltd have not completed their physical inspections of the Property. The Trustee will issue a supplementary information memorandum should Napier & Blakeley identify any material non recoverable capital expenditure as required to be incurred by the Trust.

## Targeted IRR to Investors

The Trustee has prepared an Investment Model, which calculates the overall return to Investors in certain scenarios. The Trustee believes that an acceptable Base Case scenario is as follows:

- The Tenant pays all rent and outgoings when due.
- Rent escalates at 3% each 1 July except at market reviews (every third year) where rent increases by 4.5%.
- The Bank Loan Facility is refinanced on similar terms for the duration of the investment term.
- After the initial 5 year interest rate swap, the Trustee's average interest rate cost is 7.52%.
- The Trust's administration expenses are $6,750 p.a and escalate at 4% p.a. over the investment term.
- Management fees are as set out in Section 4. The Property is revalued at the end of the second year and thereafter every three years.

The Property is sold in 12 years time for net proceeds of $32.50 million. This assumes that Bluescope have exercised its option to extend the lease for 5 years and values the Property on a comparable yield to that paid by the Trust (8.39%). The overall return to Investors in this Base Case scenario is 13.5% p.a after payment of the outperformance fee.

# Tax Deferred Benefits

The targeted annual distributions indicated above may include deferred tax distributions due to building depreciation allowances, and depreciation of plant and equipment. The Trustee will arrange for a schedule of depreciation to be prepared following the acquisition of the Property, which will allow the tax deferred component of the distributions to be determined.

# Sensitivity Analysis

The targeted returns are based on certain assumptions. While these assumptions are currently considered reasonable and appropriate, the nature of the property market and uncertainties and risks involved in predicting future events are such that actual outcomes may vary significantly from anticipated returns set out in this IM.

The following sensitivity analysis seeks to illustrate the susceptibility of Unit Holder returns to variations of certain identified event assumptions. All assumptions other than those identified are held constant in the Investment Model for the purpose of these illustrations.

## Changes to Interest Rates

Currently the Investment Model assumes that the weighted average swap rate entered into by the Trustee at settlement for the next 5 years is 3.86% which is reflective of the 5 year swap rate offered by the CBA at the date this IM was prepared. Changes to the interest rate set on settlement of +/- 25pts have the following impact on Unitholder returns:

| Variance | 5 Year Swap Rate (Yrs 0 – 5) | Equity IRR % p. a | Distributions Per Unit* (FY 14 – 18) |
|---|---|---|---|
| -25pts | 3.61% | 13.7% | 53.8% |
| Base Case | 3.86% | 13.5% | 52.0% |
| +25pts | 4.11% | 13.4% | 50.2% |

* Total distributions forecast to be paid to 30 June 2018 as a % of Unit issue price

In addition the Investment Model assumes that on maturity of the Bank Debt Facility the fixed interest rate for the remainder of the investment term will be 7.52%. Changes to the interest rate for the remainder of the investment term of +/- 100bpts have the following impact on Unitholder returns:

| Variance | Interest Rate (Yrs 6 - 12) | Equity IRR % p. a | Distributions Per Unit* (FY 14 – 18) |
|---|---|---|---|
| -100pts | 6.52% | 13.9% | 52.0% |
| Base Case | 7.52% | 13.5% | 52.0% |
| +100pts | 8.52% | 13.1% | 52.0% |

* Total distributions forecast to be paid to 30 June 2018 as a % of Unit issue price

## Changes in Annual Growth in Land Value

The Investment Model assumes that the realisable value of the Property in 12 years time is $32.5 million, which equates to an average annual growth in value of 3.75%. The following table demonstrates the effect of that growth rate being +/- 50pts over the term of the Investment.

| Variance | Growth Rate % p.a. | Equity IRR % p. a | Distributions Per Unit* (FY 14 – 18) |
|---|---|---|---|
| -100pts | 3.25% | 13.0% | 52.0% |
| Base Case | 3.75% | 13.5% | 52.0% |
| +100pts | 4.25% | 14.0% | 52.0% |

* Total distributions forecast to be paid to 30 June 2018 as a % of Unit issue price

## Higher or Lower Outcomes from Market Reviews

The Investment Model assumes that the rent increase by 4.5% as a result of each triennial market review.

The following table assumes that the outcome of each market rent review is higher or lower than assumed in the base model. The effect of a +/- 0.5% increase in the rent on each market review on Unit Holder returns is as follows:

| Variance | Change in Rent on Mkt Review | Equity IRR % p. a | Distributions Per Unit* (FY 14 – 18) |
|---|---|---|---|
| -50pts | 4.0% | 13.3% | 51.8% |
| Base Case | 4.5% | 13.5% | 52.0% |
| +50pts | 5.0% | 13.7% | 52.2% |

* Total distributions forecast to be paid to 30 June 2018 as a % of Unit issue price

# 6. Risks

# Risks

Investing in the Trust exposes an Investor to a variety of risks. Investors should be aware that the value of future distributions and total returns may be influenced by a number of factors. Investors should only make an investment if they are prepared to accept the risks of that Investment.

Some general and more specific risks are considered below. **The risks identified are not an exhaustive list.** The risks we have set out are considered by us to represent the most significant risks of the Trust. The mitigating factors listed below should not be viewed as eliminating the identified risks but rather as factors to be considered.

## Completion of Acquisition

**RISK:** The acquisition of the Property is subject to the satisfactory completion of the due diligence referred to in section 3 (Property) of this Information Memorandum. The obtaining of satisfactory results of the due diligence is, itself, a condition to finalising the Bank Loan Facility.

## Valuation

**RISK:** The value of the Property may decrease, not meet growth expectations or oscillate. Such changes can have significant negative effects on the Trusts existing financing arrangements, the Trustees ability to refinance the existing bank loan and/or the price realised on sale of the Property. Changes in value of the Property may arise as a result of property specific matters and general market conditions. Some of the major factors which influence the value of an industrial property are the level of general economic activity, the attractiveness for industrial activity of the area in which a property is located, the age of the improvements, the financial quality of the tenant, the remaining period of the lease term, physical requirements for industrial facilities, the level of long term interest rates, supply/availability of industrial land, the actual rent and its relationship to market rents and the site coverage ratio. All of these change over time.

The independent valuations of the Property procured by the Trustee, or the Trust's financiers may not accurately reflect the realisable market value of the Property on disposal, due to assumptions and difficulties in accurately valuing real estate.

The above risks could cause the Trust to breach its loan covenants resulting in loss to the Trust and a decrease in the value of an Investment.

**MITIGANT**: Recent comparable sales and the independent valuer instructed by the CBA appear to support the purchase price as being attractive.

The Lease provides for annual rental growth/review, which, all other things being equal would lead to increases in the value of the property and over time, which provides some buffer against adverse developments in general market conditions.

## Rent Reviews

**RISK**: The Lease provides for triennial reviews to market with a maximum increase of 5% and a floor equal to the previous periods rent. Market conditions could lead to the triennial reviews delivering rental growth below the Trustees expectations. Some of the major factors which influence rental growth are the level of general economic activity, the attractiveness of the location, the road transport network connecting to the property, the physical requirements for industrial facilities, the demand for the particular type of facility and changes in interest rates. All these change over time

**MITIGANT**: The independent valuer instructed by the CBA appears to support the Trustee's view that the current rent is at the bottom of the market range and has potential for upward review.

The State government has announced plans with a timetable for the improvement of the M4 which if realised will improve the relative logistics merits of the property's location.

The population of greater Sydney is growing and projected to continue to grow. Much of that growth is occurring in Western Sydney and results in greater demand for industrial facilities located in Western Sydney.

## Vacancy / Leasing

**RISK:** The Property's income, and value, is dependent on the Tenant's ability and willingness to meet its obligations including its payment obligations. If the Tenant is unable to meet its obligations this would have an adverse effect on the Trust. Distributions would likely be suspended and there could be significant diminution in Unitholder returns and / or losses suffered by investors.

**MITIGANT:** Bluescope is an top 100 ASX listed company with a current market capitalisation of $2.75 billion. In the financial year to 30 June 2013 the company had revenues of $8.4 billion and earnings before interest and tax of $51.7 million.

Bluescope has occupied the site for 22 years and conduct a substantial operation on site that requires heavily engineered buildings, an above average number of roller doors and significant surrounding concrete hardstand. The Trustee believes that alternate premises that offer the same utility as the Property to the Tenant are not readily available at a comparable cost to the current lease.

## Term and Liquidity

**RISK:** The Trust term is expected to be 12 years. The Trust will be illiquid and there will be no established secondary market in which to sell Units.

## Debt Finance

**RISK**: The initial term of the bank facility will be 3 years. Over the expected term of the investment the Trustee will need to refinance the bank loan and expects to do so every three to five years. The availability of credit and the terms on which it is available is a function of the credit markets. Depending on the market conditions prevailing at the time, the terms relating to any replacement loan, including the LVR and interest cover ratio, maybe less favourable to the Trust than the terms of the initial loan provided by the CBA. When the term of the Lease is less than 5 years, all other things being equal one would expect the LVR requirement to tighten.

The Trustee may be required to raise equity to reduce the Trust's LVR so as to avoid a forced sale of the Property. This may result in dilution of Unitholders' investment in the Trust and will negatively affect overall returns to Unitholders.

Unitholders will rank behind all secured and unsecured creditors of the Trust in any winding up of the Trust.

**MITIGANT**: At the end of the initial finance period, the lease will have a remaining term of circa 9 years. That is regarded as a long term and the Trustee expects that in the absence of a meaningful deterioration in credit markets it will be able to refinance the initial bank loan on comparable terms.

All other things being equal, the value of the property is a function of its rent. The 3% fixed annual increases and the triennial market reviews will deliver rental growth which the Trustee anticipates will provide some buffer against potential adverse market developments and shield the investment from tightening credit conditions towards the end of the Lease period.

## Interest Rate Risk and Derivatives

**RISK:** Any increase in the interest rate incurred by the Trust on its bank loan decreases the amount available for distribution to Unitholders. A sufficiently large increase in interest rates payable by the Trust could result in a breach of the covenant relating to the Interest Coverage Ratio. This could result in the Trust being forced to sell the Property at a disadvantageous time or manner and result in a loss to the Investors.

The Trustee has made arrangements with the CBA to fix the interest rate for 5 years from the date of settlement. The interest rate swap will only fix interest rates on the Bank Loan for the period from settlement to the fifth anniversary of the acquisition of the Property.

Interest rates may increase from the date of this IM to the settlement date, which may have an adverse impact on Unitholders returns.

For the purpose of forecasting the long term return on this investment the Trustee has made an assumption as to the average interest rate in years 6-12 of the currency of this Investment. That assumption may prove to be incorrect and have an adverse impact on Unitholder return

Early termination of the swap arrangement would result in break costs, which equal the difference between the economic value of the swap rate and the economic value of the then swap rates. This could result in a substantial payment to or from the Trust.

**MITIGANT**: The Investment Manager has provided a sensitivity analysis on the potential impact of interest rates being higher or lower than the assumptions made in relation to the forecast period and the target return for Unitholders.

## Single Asset Exposure

**RISK:** The Trust is a single asset investment and is not diversified. The return on investment is dependent solely on the income generated by and value of the Property. If the rental income or the value of the Property decreases, the Trust will have no other assets to minimise the adverse affect on the performance of the Trust.

## Physical Condition and Environmental Risk

**RISK:** In forming its view that the Property is in a physical condition to be an attractive investment for the Trust the Trustee has relied on two expert reports: An environmental investigation" by Environ Australia Pty Ltd and a property condition report by Napier & Blakeley Pty Ltd. The Trustee does not have in-house professional expertise in these fields. If it should transpire that any of these reports are wrong, inaccurate or have failed to uncover some defect or shortcoming (whether latent or otherwise), the Trust could incur substantial expenditure and/or the value of the Property could be substantially diminished. It is possible for these adverse consequence(s) to arise without any fault or negligence on the part of the consultants engaged by Pipeclay.

**MITIGANT:** The Trustee has employed specialist consultants to investigate the identified risks, which it believes to be reputable and experienced. Persons intending to invest in the Trust are encouraged to contact the Trustee who on request will provide electronic copies of the reports provide by the consultants. Potential investors are encouraged to assess for themselves the thoroughness and likely accuracy of these reports.

The lease to Bluescope provide that non-structural capital repairs and maintenance are to the borne by the Tenant and to that extent reduces areas in which an error in the property condition report would have an adverse effect on the Trust.

## Taxation

**RISK:** The taxation rules governing an investment in the Trust may change during the investment term. These changes may adversely affect Unitholder returns. Each investor is encouraged to seek professional tax advice in connection with any investment in the Trust

## Investment Model Assumptions

**RISK:** The Investment Model used to estimate Unitholder returns on the Investment is subject to numerous assumptions. Whilst, at the date of this IM, these assumptions are considered to be reasonable and appropriate by the Trustee, the assumptions may prove to be incorrect. If any of the assumptions prove to be incorrect, this may materially adversely affect the estimated returns to Unitholders.

## Natural Events

**RISK:** The Property could be affected by fire, flood, earthquake or other event.

The Property will be insured against physical loss or damage to the improvements and consequential loss of rent. However, it is possible, though in the opinion of the Trustee unlikely, that the Property will be affected by an uninsured event (for example any damage resulting from civil unrest). It is also possible, though in the opinion of the Trustee unlikely that the insurance will prove to be inadequate (for example if the period of reinstatement exceeds the period of loss of rent insurance).

If the Property suffers damage or destruction that event may entitle the Tenant to terminate its lease and/or the CBA to demand repayment of its loan. In these circumstances the Trust could suffer substantial financial loss.

## Legal Risk

**RISK:** The Trustee has engaged Corrs, Chambers Westgarth, solicitors, to act for it. The Trustee does not have in-house legal expertise and relies on its solicitors to obtain valid title to the property, a registered valid lease and a well-drafted and valid trust deed under which the trust is administered. If any of these matters were to prove to be incorrect, the Trust could suffer substantial financial detriment.

## Unforseeen and Unlisted Events

**RISK**: Owning and renting an industrial property is a form of business activity. Like all business activities it carries risks, including risks, of rare, unforeseen or overlooked events. Such risks if they materialise can result in a material financial detriment to Unitholders.

## Inadequate Information

**RISK:** The vendor is unable to supply some of the documents customarily made available by vendors of industrial property. The absence of these documents may lead to unforeseen costs to the Trust

**Mitigant:** The Trustee has engaged experienced and reputable consultants to conduct a thorough due diligence in respect to the Property.


# 7. Taxation

The information provided below is a brief summary of some relevant tax considerations and does not constitute advice or the opinion of the Trustee. Pipeclay does not have any in-house taxation expertise and in listing the consideration below has relied on advice and seeks no more than to highlight to the Investors that each Investor should obtain its own advice reflective of his/her circumstances.

It has been prepared on the basis that Investors are Australian residents who hold their Units on capital account. The information may not apply to Investors who are carrying on a business of trading or investing in Units for a profit. The taxation of a unit trust investment such as the Trust can be complex and may change over time. This section is not, and is not intended to be, tax advice. Accordingly, Investors are advised to seek professional tax advice in relation to their own position. The information below is based on existing tax law and practice as at the date of this IM.

## Taxation of the Trust

The Trustee will not generally be liable for Australian income tax, provided that Investors are presently entitled within each income year to all of the distributable income of the Trust for that income year. This is intended to be the case under the Trust Constitution. The taxation liability, in respect of the net income of the Trust, will rest with the Investors.

### Public Trading Trusts

The Trust may, however, be liable for income tax in any year where the requirements to be classed as either a public trading trust or a corporate unit trust are satisfied for that year. Based on the investment strategy of the Trust described in Section 4 of this IM, the Trustee believes that the Trust is not likely to meet these requirements and so should not be taxable as a public trading or corporate unit trust. The requirements are ongoing so that the position of the Trust in any year will depend upon the circumstances of the trust in that year.

### Tax Losses

Where a revenue loss or net capital loss is incurred by the Trust, the loss cannot be passed on to Investors for tax purposes. Instead, revenue tax losses will, provided the relevant trust loss rules are satisfied, be carried forward in the Trust and offset against assessable income derived by the Trust in future years. Net capital losses will be carried forward in the Trust and will be available to offset against future capital gains. The relevant trust loss rules for carrying forward revenue losses include a continuity of more than 50% of the ownership interests in the Trust.

### Managed Investment Trust Rules

For the Trust to qualify as a managed investment trust in relation to an income year, it must satisfy a number of conditions including conditions relating to being widely held by Investors. Based on the anticipated investor base of the Trust, the Trustee does not believe the Trust will satisfy the “widely-held conditions” necessary for the Trust to qualify as a managed investment trust.

The remainder of this section, the investment strategy and the Investment Model assume that the Trust is not a managed investment trust.

## Taxation of Australian Resident Investors

### Taxation of Distributions

Investors should have a present entitlement, within each income year, to all of the distributable income of the Trust for that income year. As such, each Investor will be required to include in their assessable income their share of the Trust’s net income for each income year ending 30 June, at the tax rate applicable to the Investor.

The assessable portion of trust distributions, as advised by the Trustee on an annual basis, should be included in an Investor’s assessable income in the year to which the distribution relates (i.e. the year in which the Trust derives the income, not when it is physically received by the Investor).

Distributions from the Trust may include various components, the taxation treatment of which may differ depending on the status of the Investor. For example, distributions may include tax deferred amounts, CGT concession amounts and net capital gains.

### Tax Deferred Distributions

Tax deferred distributions effectively represent the excess of the income distributed by the Trust over the assessable component of those distributions.

The excess is sheltered from tax because of deductions such as capital works, depreciation on plant and equipment and other tax timing differences. Under current law and administration, tax deferred distributions are not immediately assessable when received by the Investor but will reduce the cost base of their Units. Therefore, tax deferred distributions received affect the Investor’s capital gain/loss on disposal of the Units. If an Investor exhausts their cost base in the Units, the tax deferred component of the distributions will give rise to an immediate capital gain to that Investor.

### CGT Concession Component

The CGT concession component of a distribution represents the component of a capital gain derived by the Trust which is not taxable by virtue of the CGT discount rules. There will be no reduction to the cost base of the Units held by the Investor in respect of the CGT concession component of a distribution by the Trust.

### Net Capital Gain

A realised capital gain distributed by the Trust should be included with an Investor's other capital gains and losses (i.e. calculation of their net capital gain or loss).

Where the distributed capital gain includes a discounted capital gain component, the Investor is required to "gross up" that amount by the discount applied by the Trust (i.e. 50%). The nominal capital gain (i.e. the whole amount of the gain prior to discount) is then included in the calculation of the Investor's net capital gain. The Investor may be entitled in their own right to a CGT discount if it is an individual, a trust or a complying superannuation entity (50% in the case of an individual or trust and 33⅓% in the case of a complying superannuation entity). Companies do not receive a discount on capital gains.

### Disposals of Units and Taxation of Capital Gains

Investors who dispose of their Units must include any realised capital gain or loss on disposal of the Units in the calculation of their net capital gain or loss for the year. A net capital gain will be included in assessable income. A net capital loss may be carried forward until the Investor has realised capital gains against which the net capital loss can be offset (subject to any relevant loss recoupment rules). A net capital loss cannot be deducted against other assessable income for the year.

An Investor's net capital gain or loss is calculated as follows:

- The excess or shortfall of disposal proceeds over the cost base of the Units gives rise to a capital gain or loss on disposal of the Units.
- If the Investor has held the Units for less than 12 months, this amount is the gain or loss included in the Investor's net capital gain calculation.
- If the Investor has held the Units for 12 months or more and there is a loss, this loss is included in the Investor's net capital gain calculation.
- If the Investor has held the Units for 12 months or more and there is a gain, a discount factor may be available to certain Investors. The gain on the Units is initially reduced by any other capital losses of the Investor. If, as a result, a net capital gain arises it may be reduced by the discount factor. The discount factor for individuals and trusts is 50%, whilst a discount factor of 33⅓% applies for complying superannuation entities.

## GST

GST of 10% is generally applicable to the fees, costs, expenses and commissions payable by the Trust, including the base management fees and other fees paid to the Trustee.

Generally the Trust can claim a credit for the GST incurred on expenses related to the underlying Property, so there is no net GST cost to the Trust. Certain costs, such as some of those related to the initial issue of Units and Investor relations will not be eligible for full credit, in which case 75% reduced input tax credits may be available on the ineligible part.

GST is not applicable to Investors in relation to the acquisition or redemption of Units.

## Tax File Numbers and Australian Business Numbers

An Investor need not quote a TFN when applying for Units. However, if a TFN is not quoted, or an appropriate TFN exemption is not provided, tax is required to be deducted from any income distribution entitlement at the highest marginal tax rate plus Medicare levy (currently 46.5%) unless the Investor holds Units in the course of furtherance of an enterprise, in which case an ABN can be quoted instead.


# 8. How to Apply

# How to Apply

Investors who wish to apply for Units must complete and return the attached Application Form.

First, read this IM and the Constitution, and the Application Form, and once signed, return the Application Form together with a cheque for the subscription amount to Pipeclay Lawson Limited at GPO Box 5355, Sydney, NSW, 2001, so it is received by no later than 3.00pm Wednesday, 12 February 2014 in order to facilitate settlement of the acquisition of the Property on 14 February 2014. All cheques should be made out to Pipeclay Lawson ATF The Emu Plains Property Trust. The Trustee may, acting in its sole discretion, extend the time for payment of any subscription amounts by Investors.

Save in the case of those Investors subscribing for, at least, $500,000 worth of Units, all Investors will also be required to provide a Wholesale Client Declaration form certified by a qualified accountant.

ATTENTION IS DRAWN TO THE REPRESENTATIONS CONTAINED IN THE APPLICATION FOR UNITS FORM

INVESTORS WHO SUBSCRIBE AND WHOSE SUBSCRIPTION IS ACCEPTED WILL BE BOUND BY THE CONSTITUTION.