

Real Property Assets – Policy and Procedures

Summary:

Due Diligence process

Prior to the execution of a binding contract to purchase a property by a DomaCom sub-fund, a review of the Real Property Asset is undertaken during the Campaign process, the property Due Diligence. The Due Diligence process has 3 generic areas of focus across all property asset classes. These being categorised into Legal, Value and Physical review. Within each asset class additional reviews may be required. The implementation, or disregard, of any specific external due diligence review is at the discretion of the Property Operations Officer, or other approved representative within DomaCom.

It is important to note that where a Strategy Campaign is being undertaken, the property may not have been identified. The allocation of a property asset to the relevant Strategy Campaign may occur during or after the funds are raised. In these cases, the Due Diligence will NOT commence until either the property is identified subject to the quantum of funds raised at that point being greater than or equal to 30% of the target campaign amount.

The categories of review during the Due Diligence process include:

Legal Review

The legal review will be a review on title available, whether leasehold or freehold, together with any incumbent lease and/or sub-lease proposed.

Valuation

A current market valuation will be undertaken to benchmark the asset against the proposed Campaign amount.

Excluding Development assets, real property assets are valued on an “as if completed basis”.

With regard to Development Assets, they will be valued on the basis of their approval status at the time of acquisition by DomaCom. An authorised DomaCom representative, appropriately skilled, may provide additional valuation instructions at the time of instruction.

An additional requirement for a rural valuation will also consider the carrying capacity for the property, as relating to livestock, or other appropriate Rural Land benchmarks. A rural valuation is considered a “long Form” report and takes into account the condition of any building and pasture improvements. Valuations will also take into account any water licences and aboriginal land rights if applicable.

Building and property condition report

The level and age of infrastructure will dictate the property condition report that will be required. In all cases it will consider the current state of infrastructure and also any proposed or scheduled repairs and maintenance. Proposed capital improvement works will only be considered where appropriate and as required in accordance with the Campaign offering.

Rural valuations are considered a detailed full report type valuation and contain detailed review of the property condition with regard to; building improvements, water licences, aboriginal land rights and pastures. Only where the valuer has identified within the report

that the condition of the building improvements would require further investigation, would an additional building inspector be required to report on their condition.

Aboriginal Land Rights

As part of the Due Diligence process on rural land, the funds appointed conveyancer/legal representative, will review contracts and the relevant land registers to determine if the property is subject to any Aboriginal Land Rights that would have an impact on title.

Sale and Leaseback transactions

In relation to Sale and Leaseback transactions, additional Due Diligence will be undertaken on any proposed Tenant.

The purchase will be considered on the merits of the transaction however the applicant to a lease back will need to demonstrate a sound track record and financial capability to meet the lease obligation on completion of the purchase by DomaCom.

Legal

DomaCom will appoint established conveyancing/legal firms with experience in the relevant property asset class being transacted to review contracts, and any lease agreements, for the purchase of property and effect settlement of purchases in each state.

A national firm, where available, will be appointed as the principle conveyance firm representing DomaCom. In the case of conflicts of interest, a second firm will be engaged in the state where the conflict has arisen.

Conveyancing firms will be appointed on an ongoing basis with performance reviewed not less than annually, where appointment volume is limited, by DomaCom. Any appointment of any conveyancing firm (other than firms appointed on an ad hoc basis in a remote area) must be undertaken in accordance with DomaCom's Outsourcing Policies and Procedures.

Initial Contract Review

The conveyancing firm, or other specialist legal firm as required, will be instructed to undertake a review all purchase and relating agreements to the acquisition once the Campaign has reached in excess of 30% of the target book price at that time.

This initial contract review involves the following tasks.

- Undertake initial property searches to identify any restrictions on title, or within lease (in the case of crown lease property held on leasehold) and confirm property ownership.
- Review any and all lease agreements affecting the property.
- Provide DomaCom with preliminary information about the existence of any easements, covenants or restrictions on title together with any special conditions using a pre-determined report format in a form.
- Provide DomaCom with their recommendations for any additional searches they believe are required.

- If additional searches are obtained, the firm must provide details of their findings together with recommendations for further action using a pre-determined report format in a form capable of reproduction in the SPDS / on screens accessible by prospective investors
- Native title considerations are taken into account in relation to Rural property.
- Water licence and or rights that are attached to the property are also considered in relation to Rural property.

DomaCom may also commission other additional searches at its discretion.

Entering into binding purchase contract

Once the commercial terms have been agreed for the purchase of the property the conveyance firm will be instructed to proceed to prepare contracts for DomaCom. Any recommended changes to the contract will be confirmed and incorporated into the contract to purchase.

An Exchange checklist will be prepared by DomaCom that will include, but not be limited to, the following:

- Property Address
- Purchase price
- Deposit amount
- Bank cheque to be provided
- Vendor details
- Property Insurance
- If DomaCom is required to place insurance cover over the property before exchange, detail cover note number to be included.
- Confirmation from Client Services that all participants have accepted the SPDS.
- Copy of Legal signoff of confirmation.
- Detail of party required to execute contract on behalf of DomaCom

Once binding contracts to proceed have been entered into between the vendor and DomaCom the conveyance firm will proceed to settlement.

Prior to settlement, the conveyance firm will prepare the Settlement Statement for the final purchase of the property that will be provided to DomaCom. This statement will be used to confirm the funds required for the final settlement of the purchase of the property. The property department will also have prepared a settlement checklist during the settlement period that will cover, but not be limited to, the following:

- Property and Landlord Insurance confirmation
- If required prior to exchange – cover note number:
- Confirmation of policy – policy number:
- Diary entry into DomaCom system of expiry of policy

- The annual review of the insurance policy for each property will also need to consider any substantial works that have been undertaken on the property that may have a positive impact on its replacement value for insurance purposes.
- Confirmation of the current rental must also be compared to the level of Landlord insurance cover in place.
- Property management appointment
- Agreement on asking rental and promotion where property is not tenanted at the time of settlement.
- Confirmation of any agreed works to the property as part of the purchase

While DomaCom has agreed a set, base scale of fees with the Conveyance firm for each stage of the legal purchase process, variations will occur on a property by property basis and geographical location. DomaCom reserves the right to instruct the Conveyance firm as required to protect the interests of the investor.

Valuation

The DomaCom policy in relation to property Valuation's aims to ensure that the DomaCom Fund assets are valued in an appropriate and timely manner and that there are appropriate processes in place to minimise risks arising in relation to the acquisition of property. All valuations performed on Real Property Assets of the fund will be undertaken by external firms.

Requirement for Valuations

DomaCom Fund is required to undertake valuations of the Fund's property assets in accordance with requirements under the:

- Corporations Act;
- Financial Statement and accounting standards;
- The Fund Constitution and Compliance Plan;
- Laws relating to mergers and acquisitions (including Takeover / Scheme of Arrangement / Court Order);
- Regulatory Guide 46 of the Corporations Act; and
- Clause 4.2(n) of the Investment Management Agreement between DomaCom Limited and Melbourne Securities Corporation Ltd. who is the Trustee of the Fund

Types of Valuations

The initial Campaign will require an assessment of valuation to determine as to whether the proposed Campaign target is within the acceptable range and, as required, to advise participants in the initial Campaign if the target amount is outside the acceptable range.

The types of valuations used by DomaCom as summarised as follows:

- Pre-Purchase Valuations

Pre-Purchase Valuations for Real Property are undertaken once sufficient investor commitments to purchase units in a proposed Sub-Fund have been obtained. The instructions to the valuer

will be dependent on the real property asset being valued. The Prepurchase valuation in all cases will require a Full Report. Such a valuation will require a physical inspection of the property by a qualified, independent Valuer and produces either a valuation number “high-low” range, or a set value, depending on the asset and its development status.

Valuations of rural assets will take into account the current use of the property together with market risk in relation to the type of activity undertaken. It also provides additional detail on the condition of the improvements on the property.

The Valuation of development assets will consider the purpose to which the asset is being purchased by the DomaCom sub-fund. Additional valuations can be obtained when specific milestones have been achieved. These valuations can occur outside the normal annual valuation cycle.

DomaCom uses the value determined from the external valuation to determine whether the Campaign targets are within or outside the acceptable range.

- **Updated Market Valuations**

Updated Market Valuations are based on the immediate past Valuation, either Pre-Purchase or Market, and are updated by a Desktop valuation performed by an Independent Valuer. This type of valuation produces a single valuation price (not a range).

Updated Market Valuations do not include a physical property inspection, unless specifically requested. For any particular property however, DomaCom may order a Market Valuation instead of an Updated Market Valuation if, in its view it believes there has been a significant change in the value of a property or that the initial pre-purchase valuation assumed the construction of a dwelling, whether residential or non-residential, upon the real property asset.

Once this Updated Market Valuation is received, and approved, the Property Operations Officer will provide an internal instruction to the Chief Operating Officer or their nominee for updating the unit price for that Sub-Fund.

- **Market Valuations**

Market Valuations include a physical property inspection by a qualified, registered independent valuer and produce a single valuation price. Market valuations may also be undertaken when questions arise regarding the need for repairs and maintenance or for any reason at DomaCom’s discretion. Once this Market Valuation is received, and approved, the Property Operations Officer will provide an internal instruction to the Chief Operating Officer or their nominee for updating the unit price for that Sub-Fund.

Frequency of Valuations (Valuation Timetable)

- Pre-Purchase Valuations occur once the total of Investor commitments reaches 50% of the lowest amount that a potential unit holder has nominated as the maximum price at which, if the acquisition is made, they will invest in the property.
- Updated Market Valuations firstly occur on the 1st annual anniversary following the purchase of a property. Thereafter they occur every 2 years or when DomaCom considers that an additional Market Valuation is required.

- Market Valuations occur 12 months after each Updated Market Valuation (unless DomaCom considers that the circumstances warrant obtaining a Market Valuation instead)

Every effort should be made to ensure that Market Valuations and Updated Market Valuations are undertaken as closely as possible to the anniversary proscribed by this clause, however, the policy will only be breached if the valuations are not arranged within a 2-month range either side of the of the relevant anniversary date.

It is at the discretion of the Property Operations Officer to delay and/or vary the valuation of any real property asset. Such a variation is required to be noted and disclosed to the COO.

Review of Valuations

The Property Operations Officer ensures that the Valuation has been carried out in accordance with the instructions contained within the Valuation Instructions. This process will include the completion of an approved Valuation Review form on issue of the valuation by the valuer.

The Property Team to confirm the information used by the Valuer, such as lease details, capitalisation rates and underlying valuation assumptions. The Property Operations Officer, or their nominee, will be required to review the valuation report and sign off confirmation on the valuations compliance with Instructions, form and format. Any exceptions or additional assumptions that have been incorporated into the valuation will be referred to the Property Operations Officer for confirmation prior to the valuation being accepted and approved.

- **Approval of Valuations**

If the Valuation is within the Valuation Range the Property Operations Officer is authorised to then approve this valuation and to complete a Valuation Review form for signoff. This form is then sent to DomaCom platform services team for updating the unit price for that Sub-Fund, in the case of an existing asset in the fund.

- **Pre-purchase Valuation – Outside DomaCom range**

Should the Pre-purchase Valuation be outside an the acceptable valuation range as it relates to the Campaign value at the time the valuation was received, and DomaCom had allowed the Campaign to proceed, the closing price of the Campaign will be compared to the Pre-purchase Valuation and should it still fall outside the range, investors will be required to acknowledge, and confirm, at the time of acceptance of the Supplementary Product Disclosure Statement [“SPDS”] that they are aware that the valuation is outside the DomaCom range.

- **Market Valuation – Outside DomaCom range**

The Valuation for a property will be compared to the current carrying value of the asset and its performance benchmarked against other indicators, if available, for the location of the property provided by the external Valuer. If the Valuation is outside the Valuation Range, the valuation will be referred back to the external Valuer along with any notes or feedback on their calculations.

Following discussions with the external Valuer, the Property Operations Officer will then make a determination to either accept or reject the Valuation.

If the Valuation is outside the Valuation Range and the Property Operations Officer still forms the view that the Valuation is to be accepted, the Property Operations Officer will refer the

valuation to the Chief Operating Officer (COO) or the Chief Executive Officer (CEO) for approval or rejection. The Property Operations Officer may also recommend (and the COO / CEO may request) that an additional valuation be undertaken from an alternate firm for comparison prior to a final determination being made.

- **Rejection of External Valuations**

If either the Property Operations Officer or the COO/CEO forms the view that a Valuation is to be rejected, the Property Operations Officer will be required to obtain a new Valuation from a different Valuer and/or firm. Once completed, the new Valuation will be checked against the Valuation Range and will proceed to go through the approval process outlined in this document.

Investor Confirmation to proceed

After logging into their account, they will be required to open the email which contains the confirmation request. This email will have attached to it a link to the DomaCom platform allowing access to the Supplementary PDS. This document will contain the proposed purchase price to be offered to the Vendor to buy the property.

Participating Investors will be required to confirm their commitment to proceed with the property acquisition within the platform via an acceptance button.

If the proposed purchase price is outside the Valuation Range for a Pre-Purchase Valuation, and the decision is made to allow the Campaign to proceed, it will be noted within the SPDS that the valuation is outside DomaCom's Valuation Range. Participating Investors will confirm their commitment to proceed at the proposed purchase price at the time of accepting the SPDS.

Even if this commitment is provided by Investors, DomaCom may still choose to exercise its right to withdraw from the purchase transaction at its sole discretion. The decision to withdraw from the transaction will be with the Property Operations Officer, CEO or COO and would be exercised if the transaction was not in the best interest of the Fund, the Investment Manager or the unit holders. Consideration would be given to, but not limited by, the market, property type, tenant, purchase price and property condition.

Definition of "Market Value"

Valuations are to reflect the "Market Value" of the property as adopted by the Australian Property Institute which is defined below.

"Market Value is the estimated amount for which an asset should exchange on the date of the valuation between a willing buyer and a willing seller in an arm's length transaction, after property marketing, wherein the parties had each acted knowledgeably, prudently and without compulsion."¹

Valuer Selection

Valuation firms are appointed by DomaCom to perform independent valuations in accordance with the Valuation Timetable. The Property Operations Officer, or their nominee, is responsible for instructing the Valuers and for ensuring that they receive all information relevant to making a property valuation.

All appointments of Valuers will be undertaken in accordance with the Outsourcing Procedures.

¹ http://realestatedefined.com/html/terms_defined/market_value.html

DomaCom requires that each Valuation Firm undertaking a valuation for the Fund:

- is suitably qualified to carry out a valuation and the Valuer within the firm appointed to conduct the valuation has an appropriate level of senior experience as a professional Valuer;
- is registered or licensed in the relevant State or Territory in which the property is located (where a registration or licensing regime exists);
- be a member of Australian Property Institute and is categorised as a Certified Practising Valuer by that institute;
- has professional indemnity insurance cover of at least \$5mil from a reputable and creditworthy insurer;
- is independent of DomaCom and has no pecuniary interest or other conflict of interest that could reasonably be regarded as being capable of affecting that person's ability to give an unbiased opinion of the market value or that could conflict with a valuation of the interest property;
- is not a company acting for the vendor (i.e. as agent or adviser on the sale of the property interest to the Fund); and
- accepts instructions to value the property only from DomaCom as the investment manager of the DomaCom fund on behalf of the Responsible Entity.

Rotation of Valuer's

A Valuer or valuation company can only value a particular property of the DomaCom Fund on three consecutive occasions (Valuer's Cycle).

Once a Valuer has completed their Cycle on a particular property, a different Valuer from a different valuation company is required to undertake the new valuations. The superseded valuation company may be used again by DomaCom once the cycle has been completed. If the valuation of a property is made prior to the property achieving practical completion (i.e. a property under development), the Valuer will be entitled to undertake two valuations of the property post practical completion prior to the valuation being rotated to a different Valuer from a different valuation company.

DomaCom may, at its discretion elect to rotate Valuer's more frequently.

Instructing Valuer's

The Property Operations Officer typically instructs a Valuer to undertake a valuation on behalf of DomaCom in writing via email. In the absence of the Property Operations Officer, the instruction may be issued by any of DomaCom's senior staff delegated by the Property

Operations Officer who has oversight over the relevant business process and property experience.

The Property Team is responsible for maintaining and updating, as required, the:

- Standard Valuation Instructions to the valuation company to determine;
- Market Value of the property as at the date of the valuation
- An estimate of the replacement value for insurance purpose (on physical inspection valuations only), as required

- Valuation Standard; and
- Valuation Checklist; agreed with each of the Valuers regarding the ways that they will undertake their valuations at the time of their initial appointment.

All instructions to the Valuer must be in writing and the property department must ensure that the Valuer receives all information relevant to making a market valuation of the property interest.

The Property Team will maintain a register of Valuations that will contain, but may not be limited to, the following information:

- Date of instruction
- Valuation firm
- Valuation report requested and format
- Standard Instruction version adopted (if more than one exists)

Valuations are to be undertaken only after the valuation fee has been agreed in writing. Valuation fees will be based on direct market comparison for like services provided by other reputable valuation firms in the market with the capacity to deliver the level of service required under DomaCom's outsourcing policy.

Register of Valuations adopted

A register of all appointments of External Valuer's will be maintained by the Property Team within the property register and provided to the Head of Compliance Quarterly. The register will contain the following information:

- Allocated ARSN
- Name of firm;
- Last Valuation type
- Date
- Property address
- Valuation, or Valuation range, (as applicable) provided.
- Difference from last valuation (if applicable) – together with notes on the extent to which the difference is / is not consistent with area trends.
- Rotation date

Investment Manager may arrange additional valuations

If at any point, DomaCom forms a view that there has been a material change in the value of any property, the Property Operations Officer must commission a Market Valuation to be undertaken within two months of the Officer forming that view.

Circumstances that could create the need for an additional valuation to be called could include:

- Significant works being undertaken to the property
- Significant damage to the property that could have a negative effect on the property

- A significant change based on trends seen in property purchases to the platform, based on an analytical comparison, show significant change in value compared to the carrying values of owned properties in those areas.
- A significant change based on trends seen in property transactions as provided by the Core Logic and Australian Property Monitors, based on an analytical comparison, show significant change in value compared to the carrying values of owned properties in those areas. A trend determined over 3 consecutive quarters of reported data.

Building and Property Inspections (as required)

The platform will generate instructions to order Building Inspection reports when the Campaign reaches 50% of the total Campaign target book price. Such building inspections can be arranged at any time during the Campaign process provided approved by the Investors Sponsor and DomaCom and funds are available at this time.

DomaCom will require a certificate of currency of professional indemnity cover to accompany all building inspection reports. This type of report will provide details regarding a property's structural soundness and condition based on a visual inspection. They will also highlight any defect, impediments or other areas of concern that would affect the value and ongoing use of the property. The Building Inspection Report will also identify any potential works to the property that may be required.

Building inspectors will also be required to report on any actual or suspected presence of timber pest at the property and any damage that they might have inflicted on the property. If the building inspector believes an inspection by a timber pest contractor is warranted, they will recommend in their report that one be undertaken.

If such a recommendation is made, DomaCom will commission a timber pest inspection.

Once the Building Inspection Report (and, in some cases the timber pest inspection report) is completed the building report would be uploaded onto DomaCom Property Platform. This report can also be electronically provided to the assigned Valuer, if available at the time of the valuation, for the property who will then use the report's findings to help them form a view as to the market value of the property. If the report was not provided at the time of the valuation, however it noted damage or concern in relation to the structure, the report would then be provided to the valuer to comment on if it has any effect on the value.

At all times, DomaCom reserves the right to terminate any Campaign should the Building Inspection Report identify significant repairs and maintenance are required to be undertaken on a property.

A register of all appointments of building inspectors will be maintained by the Property Team. The register will contain the following information:

- Name of firm;
- Details of each engagement (date, property address, whether purchase proceeded, any issues, concerns or feedback);
- Copy of certificate of currency
- Whether a recommendation was made for timber pest inspections;

- If a timber pest inspection was undertaken, the dates and results of those tests and any follow up action
- Diary notes will be made into DomaCom system for any follow-up once the property has proceeded past exchange.
- Any complaints or issues arising subsequently.

Development assets

Development assets that are being considered by the DomaCom fund may require additional due diligence in relation to a review of the proposed use and/or building/s that is proposed. Such additional reports would include, but not be limited to, the following:

- Town planning
- Financial feasibility
- Geotechnical
- Engineering

The financial viability of a project will be determined through this due diligence process. Investment returns determined through the external due diligence process need to be within DomaCom's DRR² of the proposed projected returns as disclosed by the project sponsor. Should the development returns exceed the DRR, DomaCom will disclose its determination with the Project Sponsor and can, at DomaCom's sole discretion, terminate the campaign or proposed campaign.

Should DomaCom agree to proceed with a development that is outside its DRR, the variation is to be noted within the SPDS being issued to the investors for their acceptance.

If the proposed development return is outside DomaCom's DRR, and the decision is made to allow the Campaign to proceed, it will be noted within the SPDS that the independent feasibility review is outside DomaCom's DRR. Participating Investors will confirm their commitment to proceed at the proposed development returns at the time of accepting the SPDS.

Even if this commitment is provided by Investors, DomaCom may still choose to exercise its right to withdraw from the purchase transaction at its sole discretion. The decision to withdraw from the transaction will be with the Property Operations Officer, CEO or COO and would be exercised if the transaction was not in the best interest of the Fund, the Manager or the unit holders. Consideration would be given to, but not limited by, the market, property type, tenant, purchase price, development returns and property condition.

Dated: August 2018

² Development Return Range ("DRR") - Not more than a -10% variation to the predicted returns