

ASIC Regulatory Guide 231 – Infrastructure Entities: Improving Disclosure for Retail Investors

“ASIC Regulatory Guide 231 – Infrastructure entities: Improving disclosure for retail investors” has set out the following benchmarks for infrastructure entities. An overview of the benchmarks and the ALX response is set out below.

Benchmark Disclosure Requirement	ALX Statement and Explanation
1. Corporate structure and management Corporate governance policies and practices should conform with the principles and recommendations in ASX Listing Rules Guidance Note 9, Disclosure of Corporate Government Practices.	<p>The benchmark is met.</p> <p>ALX publishes a corporate governance statement on its website which sets out detailed disclosures in respect of compliance with the ASX Corporate Governance Principles and Recommendations.</p>
2. Remuneration of management Incentive-based remuneration paid to management for the infrastructure entity is derived from the performance of the infrastructure entity and not the performance of other entities within its consolidated group, except where the infrastructure entity is the parent of the consolidated group.	<p>The benchmark is met in the case of incentive-based remuneration paid in the form of performance fees to the ALX Manager and is partly met in respect of Macquarie employees involved in ALX’s management.</p> <p>ALX is an externally managed investment vehicle whose staff are Macquarie employees. Those staff provide their services under the ALX Management Agreements. ALX pays management and performance fees to the ALX Manager under the terms of the ALX Management Agreements. However, employee costs (including incentive-based remuneration) are not paid by ALX but are instead paid by Macquarie.</p> <p>The incentive based remuneration of Macquarie employees involved in ALX’s management is driven predominantly by their individual contribution to the performance of ALX, taking into account their management of ALX and its assets and general capital and risk management as well as the overall performance of ALX as a listed entity.</p>

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	<p>Deferral and restriction arrangements, including notional investment in Macquarie managed funds, apply to a portion of incentive based remuneration paid to Macquarie employees involved in ALX management.</p> <p>Performance fees for the ALX responsible entity are payable in the event that the ALX accumulation index outperforms the S&P/ASX 300 Industrials Accumulation Index for the relevant period, having made up for underperformance in previous periods.</p> <p>Refer to the Remuneration Report in the ALX Annual Report for detailed disclosure in respect of the management and performance fees paid to the ALX Manager and an explanation of the remuneration practices for Macquarie staff working for ALX.</p> <p>In May 2018 ALX began the process to transition to internal management, incentive based remuneration disclosure will be made as employees are recruited.</p>
<p>3. Classes of units and shares</p> <p>All units or shares are fully paid and have the same rights.</p>	<p>The benchmark is met.</p>

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<p>3. Substantial related party transactions.</p> <p>Compliance with ASX Listing Rule 10.1 for substantial related party transactions.</p>	<p>The benchmark is met for substantial related party transactions between ALX and entities outside the ALX group. Shareholder approval would be sought as required under Listing Rule 10.1 for substantial transactions with related parties.</p> <p>The benchmark is not met for substantial related party transactions between the stapled entities which comprise ALX and their controlled entities. As is usually the case with stapled entities, ALX has obtained ASIC relief and ASX waivers to permit transactions (without the need to comply with the related party transaction requirements of the ASX listing rules or Corporations Act) between the ALX stapled entities and their controlled entities given that they are part of a self contained economic group with the same shareholders.</p>
<p>4. Cash flow forecast</p> <p>The infrastructure entity has, for the current financial year, prepared and had approved by its directors:</p> <p>(a) a 12-month cash flow forecast for the infrastructure entity and has engaged an independent suitably qualified person or firm to provide, in accordance with the auditing standards:</p> <p>(i) negative assurance on the reasonableness of the assumptions used in the forecast; and</p> <p>(ii) positive assurance that the forecast is properly prepared on the basis of the assumptions and on a basis consistent with the accounting policies adopted by the entity; and</p>	<p>This benchmark is not currently met.</p> <p>However, ALX produces a 5 year cash flow forecast which is reviewed by the boards on a regular basis. This forecast is also reviewed by ALX's auditors in the process of determining the appropriateness of preparing financial statements under the going concern methodology. The directors regard this as adequate in the context of routine operations.</p>

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<p>(b) an internal unaudited cash flow forecast for the remaining life, or the right to operate (if less), for each new significant infrastructure asset acquired by the infrastructure entity.</p>	<p>With regard to paragraph (b), ALX maintains internal unaudited cash flow forecasts for each of its toll road investments.</p>
<p>5. Base-case financial model</p> <p>Before any new material transaction, and at least once every three years, an assurance practitioner performs an agreed-upon procedures check on the infrastructure entity's base-case financial model that:</p> <p>(a) checks the mathematical accuracy of the model, including that:</p> <p>(i) the calculations and functions in the model are in all material respects arithmetically correct; and</p> <p>(ii) the model allows changes in assumptions, for defined sensitivities, to correctly flow through to the results; and</p> <p>(b) includes no findings that would, in the infrastructure entity's opinion, be materially relevant to the infrastructure entity's investment decision.</p>	<p>The benchmark is met.</p> <p>An assurance practitioner is engaged to perform a model audit (which includes an agreed-upon procedures check) on ALX's base-case financial model at least every 3 years.</p>
<p>6. Performance and forecast</p> <p>For any operating asset developed by the infrastructure entity, or completed immediately before the infrastructure entity's ownership, the actual outcome for the first two years of operation equals or exceeds any original publicly disclosed forecasts used to justify the acquisition or development of that asset.</p>	<p>Not applicable to ALX. This is because this benchmark only applies to an infrastructure entity which has operating assets developed by that infrastructure entity, or completed immediately before that infrastructure entity's ownership of the relevant asset, and the operating asset is in the first two years of operation.</p>

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7. Distributions If the infrastructure entity is a unit trust, it will not pay distributions from scheme borrowings.	Not applicable to ALX. This is because this benchmark only applies to unit trusts.
8. Updating unit prices If the infrastructure entity is unlisted and a unit trust, after finalising a new valuation for an infrastructure asset, the infrastructure entity reviews, and updates if appropriate, the unit price before issuing new units or redeeming units.	Not applicable to ALX. This is because this benchmark only applies to unlisted unit trusts.