

**FORT STREET**  
REAL ESTATE CAPITAL

(ARSN Fund I: 163 688 346 Fund II: 169 190 498 Fund III: 605 335 957)



# HALF-YEAR FINANCIAL REPORT

## 31 DECEMBER 2020



**E&P**

(ACN 152 367 649) (AFSL 410 433)

**FSREC Property Fund**  
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**31 December 2020**

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**FSREC Property Fund**  
**Chairman's letter**  
**31 December 2020**

Dear Securityholders,

As Chairman of the responsible entity for the FSREC Property Fund (**Group or FPF**), I am pleased to present the report for the half-year ended 31 December 2020 which includes the implementation of the FSREC Fund merger on 23 December 2020. The financial statements enclosed in this report are relevant to the merged fund as at 31 December 2020. In addition, securityholders will also be provided with financial statements for the individual funds in the FSREC Fund Series for the period to 31 December 2020.

**Overview**

Following the implementation of the merger, securityholders now have exposure to a well-diversified portfolio of 13 assets, located in prime areas across the east coast of Australia.

The Group's Investment and Property Manager, Fort Street Real Estate Capital (**FSREC**), has actively managed the assets during the first half, and as a result, delivered impressive leasing results. The ongoing COVID-19 pandemic continues to reinforce the Group's strategy to invest in convenience-based retail assets, with the portfolio providing essential services even during periods of imposed restrictions.

In January 2021, the first distribution payment for the FSREC Property Fund was announced at 1.67 cents per security, representing an increase on the September 2020 distribution for all securityholders. Whilst the Responsible Entity board will continue to manage distribution payments prudently, the portfolio has rebounded strongly and rent collections are returning to historic averages.

The Group's net asset value (**NAV**) at 31 December 2020 is \$1.61 per security which includes the cash for the December 2020 distribution payment. Excluding the December 2020 distribution, the underlying NAV is \$1.60 per security comparable to prior periods and represents an increase of 2.5% on the 30 June 2020 proforma NAV stated in the explanatory memorandum.

All the assets in the portfolio were independently valued at 31 December 2020, resulting in an increase of 1.2% over the half-year. The total value of investment properties increased by \$9.7 million to \$795.8 million during this period, with the weighted average capitalisation rate reducing by 4bps to 6.06%. The increase in asset valuations is attributable to both the reduction of capitalisation rates and income growth from the positive leasing results over the half-year.

As at 31 December 2020, the gearing ratio of the Group remained steady at 36% and within the target range of 30-50%.

**Portfolio Highlights**

The Group's assets have continued to demonstrate resilience during the half-year, given the high weighting to essential services. The occupancy of the portfolio at 31 December 2020 was 98%, and the weighted average lease expiry (**WALE**) 4.6 years.

The overall performance of the portfolio continues to be strong and the key asset management highlights for the half are as follows:

- 50 new leases negotiated during the half-year period, an all time high in comparison to prior periods. This strong leasing activity has translated into several tenancy upgrades which will ultimately improve customer experience at the assets.
- Of the leases negotiated, a major lease renewal was agreed with AbbVie, a global pharmaceuticals company and a key tenant at 241 O'Riordan Street, Mascot. A new five-year lease was executed with a rental increase of 3.5%, providing good income growth for securityholders.
- Annual turnover growth for supermarkets grew strongly at 6.5%. The retail assets in the portfolio are all anchored by major supermarkets, of which 58% have exceeded their turnover thresholds and pay additional rent to the Group
- Despite the impacts of COVID-19 and the lockdowns that have ensued, specialty retail tenant performance has remained stable, with the performance metrics provided unadjusted for closure periods.
- Customer foot traffic exceeded pre-pandemic levels as Victoria emerged from lockdown and visitations to the assets increased during the Christmas period

Looking ahead to the rest of the financial year 2021, we remain optimistic about Group performance and securityholder returns. Our key strategies for the FSREC Property Fund are active asset management, prudent capital management, and advancing liquidity initiatives; and we will also continue to progress value-add opportunities across the portfolio in order to provide long-term growth for securityholders.

**FSREC Property Fund**  
**Chairman's letter**  
**31 December 2020**

On behalf of the Responsible Entity board and the wider FSREC team, I would like to take this opportunity to thank securityholders for their support in the Group.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Stuart Nisbett', with a stylized, flowing script.

**Stuart Nisbett**

Independent Chairman of E&P Investments Limited, Responsible Entity

12 March 2021

**FSREC Property Fund****Pro forma consolidated statement of profit or loss and other comprehensive income****31 December 2020**

On 23 December 2020, the FSREC Funds were restructured as described on page 6. For the purposes of financial reporting, FSREC Fund I is deemed to be the **parent** entity. The restructure is effective from 31 December 2020 as the impact of consolidating the results between 23 December 2020 until 31 December 2020 is not material. As such, the aggregated financial performance of the stapled Group is being taken on from 1 January 2021.

The condensed consolidated statement of financial position (page 10) reflects the net asset position of the Group at 31 December 2020, whereas the condensed consolidated statement of the profit or loss (page 9) reflects only the results of FSREC Fund I (the parent entity) in the half-year to 31 December 2020.

The proforma consolidated statement of profit or loss and other comprehensive income below sets out the aggregated financial results of the four Funds for the half-year to 31 December 2020 had the restructure occurred at the start of the half-year period on 1 July 2020:

	<b>Pro Forma Consolidated 31 December 2020 \$</b>
<b>Revenue</b>	
Rental income	26,896,945
Other property income	6,399,453
Finance income	2,326
Fair value movement of investment properties	6,472,027
Gains on derivative financial instruments	-
Total revenue	<u>39,770,751</u>
<b>Expenses</b>	
Finance expenses	(5,647,842)
Investment property expenses	(12,222,706)
Responsible entity and trustee fees	(739,720)
Management fees	(3,751,827)
Accounting and audit fees	(216,057)
Other expenses	<u>(1,791,623)</u>
Total expenses	<u>(24,369,775)</u>
<b>Profit before income tax expense</b>	15,400,976
Income tax expense	-
<b>Profit after income tax expense for the half-year</b>	<u>15,400,976</u>
Basic earnings per security	<b>Cents</b>
Diluted earnings per security	4.93
	4.93

Earnings per unit is calculated by dividing net profit by the number of stapled securities (\$15,400,976 / 312,632,131).

**FSREC Property Fund**  
**Pro forma funds from operations**  
**31 December 2020**

Funds From Operations (**FFO**) is a non-International Financial Reporting Standards financial measure. FFO is a market accepted measure of a real estate investment fund's operating performance. FFO is used to facilitate understanding of a fund's performance. The Property Council of Australia provides best practice guidelines for the calculation of FFO, which have been followed by the Group.

FFO is determined by adjusting statutory net profit or loss after tax for certain non-cash items such as depreciation, impairment and amortisation. Other one-off items may also be adjusted to provide a clearer indication of the Group's half-year FFO.

The table below sets out the aggregated FFO for the half-year to 31 December 2020 had the Restructure occurred on 1 July 2020.

	<b>31 December 2020</b>
	<b>\$</b>
<b>Profit after tax for the period</b>	<b>15,400,976</b>
<b>Adjustments:</b>	
Fair value movement of investment properties	(6,472,027)
Straight-lining of rental revenue and incentives amortisation	1,176,140
Other items and amortisation of capitalised lease costs	546,795
One-off professional fees	1,417,789
<b>FFO</b>	<b>12,069,673</b>
<b>Distributions for the period</b>	<b>3,746,401</b>
	<b>Cents per security</b>
<b>FFO</b>	<b>3.86</b>
<b>Distributions</b>	<b>1.20</b>

Distributions for the period represented a payout ratio of 31% of FFO.<sup>1</sup>

<sup>1</sup> For the 31 December 2020 quarter, the FSREC Property Fund announced a distribution of 1.67 cents per stapled unit which was accrued on 20 January 2021 and paid on 10 February 2021. Including the 31 December 2020 quarter distribution, the payout ratio would be 74% of FFO.

**FSREC Property Fund**  
**Directors' report**  
**31 December 2020**

**Introduction**

The directors of E&P Investments Limited (formerly known as Walsh & Company Investments Limited), as Responsible Entity of Fort Street Real Estate Capital Fund I (**Fund**), present their report together with the half-year financial report for the Fund and the entities it controlled, (collectively referred to as the **Group or FPF**) for the half-year ended 31 December 2020.

**Directors**

The directors of the Responsible Entity at any time during or since the end of the half-year are listed below:

Stuart Nisbett  
Mike Adams  
Warwick Keneally  
Peter Shear

Directors were in office from the start of the half-year to the date of this report, unless otherwise stated.

**Review of financial results and operations**

On 23 December 2020, the Responsible Entity implemented the Proposal for Fort Street Real Estate Capital (**FSREC**) Funds I, II, III and IV as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020.

The implementation involved the acquisition of all units in FSREC Fund IV by FSREC Fund I by way of a trust scheme of arrangement, and the subsequent Restructure of FSREC Funds I, II and III to form a stapled group, the FSREC Property Fund (**Restructure**). The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

As a result of the restructure discussed above, FSREC Fund I issued new units totalling 45,483,257 to acquire FSREC Fund IV and new units totalling 166,642,836 in connection with the stapling of FSREC Fund II and FSREC Fund III.

In accounting for the restructure described above, FSREC Fund I was determined to be the accounting acquirer and therefore deemed to be the parent in the consolidated financial statements. The accounting for the restructure has been accounted for as been effective from 31 December 2020 and therefore the condensed consolidated balance sheet incorporates the condensed consolidated balance sheets of Fund I, II and III at 31 December 2020 whereas the financial results for the period reflected in the condensed consolidated profit or loss represent the condensed consolidated profit or loss of Fund I for the 6 months ended 31 December 2020.

The Group's net asset value (**NAV**) at 31 December 2020 is \$1.61 per unit which includes the cash for the December 2020 distribution payment. Excluding the December 2020 distribution, the underlying NAV is \$1.60 per unit comparable to prior periods and represents an increase of 2.5% on the 30 June 2020 proforma NAV stated in the explanatory memorandum.

**Distributions**

Distributions paid by the Fund during the financial half-year were as follows:

	2020 \$
1.29 cents per unit for the period ended 30 September 2020 paid on 3 November 2020	<u>1,296,530</u>

**Matters subsequent to the end of the financial half-year**

On 20 January 2021, the FSREC Property Fund announced a 31 December 2020 quarter distribution of 1.67 cents per stapled security which was paid on 10 February 2021.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

**FSREC Property Fund**  
**Directors' report**  
**31 December 2020**

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'A. Nisbett', is written over a horizontal line.

Stuart Nisbett  
Chairman of E&P Investments Limited, Responsible Entity

12 March 2021



12 March 2021

The Board of Directors  
E & P Investments Limited as Responsible Entity for:  
FSREC Property Fund  
Level 15, 100 Pacific Highway  
North Sydney NSW 2060

Dear Board Members

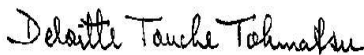
## Auditor's Independence Declaration

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of the Responsible Entity of FSREC Property Fund.

As lead audit partner for the review of the financial statements of FSREC Property Fund (the stapled entity which comprises Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II, Fort Street Real Estate Capital Fund III and the entities they controlled at the end of the half-year or from time to time during the half-year) for the financial half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Weng W Ching  
Partner  
Chartered Accountants

**FSREC Property Fund**  
**Condensed consolidated statement of profit or loss and other comprehensive income**  
**For the half-year ended 31 December 2020**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue</b>			
Rental income		9,576,974	9,991,228
Other property income		1,857,005	1,760,356
Finance income		397	6,121
Fair value movement of investment properties	4	8,197,529	3,372,587
Gains on derivative financial instruments		-	163,456
Total revenue		<u>19,631,905</u>	<u>15,293,748</u>
<b>Expenses</b>			
Finance expenses		(1,972,237)	(2,336,543)
Investment property expenses		(4,257,068)	(3,797,066)
Responsible entity and trustee fees	12	(239,553)	(237,116)
Management fees	12	(1,229,838)	(1,247,928)
Accounting and audit fees		(55,318)	(80,606)
Other expenses		(536,036)	(243,516)
Total expenses		<u>(8,290,050)</u>	<u>(7,942,775)</u>
<b>Profit before income tax expense</b>		11,341,855	7,350,973
Income tax expense		-	-
<b>Profit after income tax expense for the half-year</b>		11,341,855	7,350,973
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedge		738,468	552,951
Other comprehensive income for the half-year, net of tax		738,468	552,951
<b>Total comprehensive income for the half-year</b>		<u>12,080,323</u>	<u>7,903,924</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per unit	3	11.28	7.31
Diluted earnings per unit	3	11.28	7.31

*The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**FSREC Property Fund**  
**Condensed consolidated statement of financial position**  
**As at 31 December 2020**

		<b>Consolidated</b>	
		<b>31 December</b>	
	<b>Note</b>	<b>2020</b>	<b>30 June 2020</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		10,568,607	2,592,429
Trade and other receivables		2,817,176	1,628,835
Prepayments		972,804	533,207
Total current assets		<u>14,358,587</u>	<u>4,754,471</u>
<b>Non-current assets</b>			
Investment properties	4	<u>795,800,000</u>	<u>256,250,000</u>
Total non-current assets		<u>795,800,000</u>	<u>256,250,000</u>
<b>Total assets</b>		<u>810,158,587</u>	<u>261,004,471</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	5	9,587,028	2,753,295
Borrowings	6	288,976,870	-
Derivative financial instruments		7,533,961	1,916,165
Distribution payable		-	1,111,705
Total current liabilities		<u>306,097,859</u>	<u>5,781,165</u>
<b>Non-current liabilities</b>			
Borrowings	6	-	93,941,923
Derivative financial instruments		-	3,058,555
Total non-current liabilities		<u>-</u>	<u>97,000,478</u>
<b>Total liabilities</b>		<u>306,097,859</u>	<u>102,781,643</u>
<b>Net assets</b>		<u>504,060,728</u>	<u>158,222,828</u>
<b>Equity</b>			
Issued capital	7	224,965,599	154,216,469
Cash flow hedge reserve	8	(4,236,252)	(4,974,720)
Retained profits		19,026,404	8,981,079
Equity attributable to the unitholders of FSREC Fund I		<u>239,755,751</u>	<u>158,222,828</u>
Total equity attributable to unitholders of FSREC Fund II	1,11	107,120,664	
Total equity attributable to unitholders of FSREC Fund III	1,11	157,184,313	-
<b>Total equity</b>		<u>504,060,728</u>	<u>158,222,828</u>

*The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes*

**FSREC Property Fund**  
**Condensed consolidated statement of changes in equity**  
**For the half-year ended 31 December 2020**

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Cash flow hedge reserve \$</b>	<b>Retained profits \$</b>	<b>Other unitholders' equity* \$</b>	<b>Total equity \$</b>
Balance at 1 July 2019	154,216,469	(4,608,731)	9,591,228	-	159,198,966
Profit after income tax expense for the half-year	-	-	7,350,973	-	7,350,973
Other comprehensive income for the half-year, net of tax	-	552,951	-	-	552,951
Total comprehensive income for the half-year	-	552,951	7,350,973	-	7,903,924
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Distributions paid/declared	-	-	(3,698,622)	-	(3,698,622)
Balance at 31 December 2019	<u>154,216,469</u>	<u>(4,055,780)</u>	<u>13,243,579</u>	<u>-</u>	<u>163,404,268</u>

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Cash flow hedge reserve \$</b>	<b>Retained profits \$</b>	<b>Other unitholders' equity* \$</b>	<b>Total equity \$</b>
Balance at 1 July 2020	154,216,469	(4,974,720)	8,981,079	-	158,222,828
Profit after income tax expense for the half-year	-	-	11,341,855	-	11,341,855
Other comprehensive income for the half-year, net of tax	-	738,468	-	-	738,468
Total comprehensive income for the half-year	-	738,468	11,341,855	-	12,080,323
Issue of units in relation to the acquisition of FSREC Fund IV (note 11)	70,749,130	-	-	-	70,749,130
Stapling with FSREC Fund II (note 11)	-	-	-	107,120,664	107,120,664
Stapling with FSREC Fund III (note 11)	-	-	-	157,184,313	157,184,313
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Distributions paid	-	-	(1,296,530)	-	(1,296,530)
Balance at 31 December 2020	<u>224,965,599</u>	<u>(4,236,252)</u>	<u>19,026,404</u>	<u>264,304,977</u>	<u>504,060,728</u>

\* On 23 December 2020, the issued units of FSREC Fund I were stapled with the issued units of FSREC Fund II and FSREC Fund III. The unitholders' interest in the equity of FSREC Fund II and FSREC Fund III is presented as "Other unitholders' equity". Refer to note 1.

*The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes*

**FSREC Property Fund**  
**Condensed consolidated statement of cash flows**  
**For the half-year ended 31 December 2020**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>31 December</b>
	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Rental and other income received	13,138,510	13,591,224
Interest income received	397	6,348
Finance costs	(1,865,609)	(2,218,241)
Payments to suppliers	(7,561,157)	(6,760,974)
Net cash from operating activities	<u>3,712,141</u>	<u>4,618,357</u>
<b>Cash flows from investing activities</b>		
Payments for capital expenditure	(320,725)	(1,241,862)
Acquisition of units in FSREC Fund IV, net of cash acquired (note 11)	1,578,888	-
Cash acquired on stapling with FSREC Fund II (note 11)	2,316,301	-
Cash acquired on stapling with FSREC Fund III (note 11)	3,092,192	-
Net cash from/(used in) investing activities	<u>6,666,656</u>	<u>(1,241,862)</u>
<b>Cash flows from financing activities</b>		
Payments for transaction costs related to loans and borrowings	-	(263,044)
Distributions paid	(2,402,619)	(3,598,322)
Net cash used in financing activities	<u>(2,402,619)</u>	<u>(3,861,366)</u>
Net increase/(decrease) in cash and cash equivalents	7,976,178	(484,871)
Cash and cash equivalents at the beginning of the financial half-year	<u>2,592,429</u>	<u>4,674,148</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>10,568,607</u></u>	<u><u>4,189,277</u></u>

*The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes*

**FSREC Property Fund**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**1. General information**

Fort Street Real Estate Capital Fund I (**Fund**) is an unlisted managed investment scheme registered and domiciled in Australia. The financial statements comprise the Fund and entities controlled by the Fund (collectively referred to as the **Group**). On 23 December 2020, the issued units of FSREC Fund I were stapled with the issued units of FSREC Fund II and FSREC Fund III. The principal activity of the Group is to invest in Australian commercial property.

This half-year financial report is intended to provide users with an update on the latest annual financial statements of the Group. The half-year financial report does not include notes of the type normally included in an annual financial report and it is therefore recommended that this half-year financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2020, together with any public announcements made during the half-year.

**Statement of compliance**

These condensed consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards (**IFRS**) IAS 34 Interim Financial Reporting.

For the purposes of preparing the condensed consolidated financial statements, the Group is a for-profit entity.

The condensed consolidated financial statements were authorised for issue by the board of directors of the Responsible Entity, E&P Investments Limited, on 12 March 2021.

**Basis of preparation**

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's Annual financial report for the year ended 30 June 2020.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to its operations and effective for the current half-year.

**Restructure of the Funds**

*Background*

On 23 December 2020, the Responsible Entity implemented the Proposal for the restructure of Fort Street Real Estate Capital (**FSREC**) Funds I, II, III and IV (**Restructure**) as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020. The Restructure was approved by FSREC Funds I, II, III and IV unitholders on 30 October 2020.

The Restructure comprised:

- FSREC Fund I's acquisition of all of the units in FSREC Fund IV by way of a trust scheme of arrangement. Refer to note 11 for further information.
- A restructure of the remaining funds, FSREC Fund I, FSREC Fund II and FSREC Fund III, to form a stapled group, resulting in the formation of the FSREC Property Fund. In forming the stapled group, the issued units of FSREC Fund I were stapled with the issued units of FSREC Fund II and FSREC Fund III.

The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

**FSREC Property Fund**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**1. General information (continued)**

*Accounting for the FSREC Property Fund*

FSREC Property Fund was established through the restructure and stapling as outlined above.

In accordance with the Australian Accounting Standards, the stapling of the issued units of FSREC Fund I with FSREC Fund II and FSREC Fund III is accounted for as a business combination. FSREC Fund I has been determined as the accounting acquirer and is therefore deemed to be the parent in the consolidated financial statements. In accounting for this business combination, the assets and liabilities of FSREC Fund II and FSREC Fund III have been recognised at their fair values at the date of acquisition with the corresponding recognition of the unitholders' equity in FSREC Fund II and FSREC Fund III in "Other unitholders' equity" in the consolidated statement of changes in equity. "Other unitholders' equity" in the consolidated statement of changes in equity represents the interest of the unitholders of FSREC Fund II and FSREC Fund III in FSREC Property Fund by virtue of the stapling arrangement.

The acquisition of issued units in FSREC Fund IV by FSREC Fund I and the simultaneous stapling with FSREC Fund II and FSREC Fund III has been accounted for as been effective from 31 December 2020 as the impact of consolidating the results between 23 December 2020 (the date of stapling) until 31 December 2020 would not be material.

Refer to note 11 for further details regarding the above business combinations.

**2. Working capital**

As at 31 December 2020, the Group had total current assets of \$14,358,587 (30 June 2020: \$4,754,471) and finance facilities available for drawdown totalling \$43,448,263 (30 June 2020: \$8,774,425) against total current liabilities of \$306,097,859 (30 June 2020: \$5,781,165).

At the date of this report, management are in discussions to refinance the current facilities by the repayment dates in December 2021, and the Board's reasonable expectation is a refinance on acceptable terms will be successful.

**3. Earnings per unit of FSREC Fund I**

	<b>Consolidated</b>	
	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>\$</b>	<b>\$</b>
Profit after income tax	<u>11,341,855</u>	<u>7,350,973</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary units used in calculating basic earnings per unit	<u>100,506,038</u>	<u>100,506,038</u>
Weighted average number of ordinary units used in calculating diluted earnings per unit	<u>100,506,038</u>	<u>100,506,038</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per unit	11.28	7.31
Diluted earnings per unit	11.28	7.31

**FSREC Property Fund**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**4. Investment properties**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2020</b>
	<b>2020</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<i>Non-current assets</i>		
Investment properties - at fair value	<u>795,800,000</u>	<u>256,250,000</u>
<i>Movement in investment properties</i>		
Carrying amount of investment properties at beginning of period	256,250,000	256,050,000
Additions through acquisition of FSREC Fund IV (note 11)	117,300,000	-
Additions through stapling with FSREC Fund II (note 11)	178,100,000	-
Additions through stapling with FSREC Fund III (note 11)	235,000,000	-
Capital expenditure	501,126	1,792,408
Rental straight-lining, tenant incentives and other adjustments	451,345	(451,655)
Fair value movement of investment properties in FSREC Fund I	<u>8,197,529</u>	<u>(1,140,753)</u>
Carrying amount of investment properties at end of period	<u>795,800,000</u>	<u>256,250,000</u>

*Fair value*

At reporting date, the Group's investment properties consist of thirteen commercial properties in Australia which are carried at fair value.

The 31 December 2020 fair value amounts were determined by way of independent valuation on all investment properties using a combination of discounted cash flow (**DCF**) and capitalisation rate methods based on market conditions existing at balance date. In determining the fair value of investment properties, assumptions related to the impacts of COVID-19 have been taken into account. However, there are increased uncertainties around these assumptions due to the unknown impact from this pandemic on the operational and financial performance of the investment properties in the future.

Consequently, the independent valuers have included a statement in their valuation reports highlighting a "material valuation uncertainty". This statement serves as a precaution and does not invalidate the valuation and does not mean the valuation cannot be relied upon. It is intended to highlight that due to the current extraordinary circumstances, less certainty can be attached to the valuation. The Directors of the Responsible Entity have concluded that notwithstanding these factors, the valuation report represents the best estimate of the fair value of investment properties for financial reporting as at 31 December 2020.

The valuation techniques utilise inputs categorised as level 3 in the fair value hierarchy, being based on unobservable market inputs. The key unobservable inputs include the maintainable earnings and capitalisation rate (5.75% - 6.75%) applied in the capitalisation rate method and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates (range 6.50% - 7.50%) applied in the DCF method. A reduction in capitalisation and discount rates and an increase in maintainable earnings and rental growth rates would result in an increase in fair value, and vice versa.

Refer to note 9 for further information on fair value measurement.



**FSREC Property Fund**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**5. Trade and other payables**

	Consolidated 31 December 2020 \$	Consolidated 30 June 2020 \$
<i>Current liabilities</i>		
Trade payables	2,545,109	211,426
Accrued liabilities	3,500,428	1,064,681
Contract liabilities (deferred income)	2,832,377	712,991
Other liabilities - accrued investment manager performance fees	-	475,042
GST payable	689,571	282,827
Other liabilities	19,543	6,328
	<u>9,587,028</u>	<u>2,753,295</u>

**6. Borrowings**

	Consolidated 31 December 2020 \$	Consolidated 30 June 2020 \$
<i>Current liabilities</i>		
Secured bank loan - net of borrowing costs	288,976,870	-
<i>Non-current liabilities</i>		
Secured bank loan - net of borrowing costs	-	93,941,923
	<u>288,976,870</u>	<u>93,941,923</u>

*Financing arrangements*

As at 31 December 2020, the Group had a total loan facility of \$333.2 million loan facility (30 June 2020: \$103 million) with National Australia Bank Limited at a variable interest rate with reference to the Bank Bill Swap Rate (**BBSY**). Of this total loan facility, \$278.6 million is repayable on 31 December 2021, and \$54.6 million is repayable on 20 December 2021.

	Consolidated 31 December 2020 \$	Consolidated 30 June 2020 \$
Total facilities		
Secured bank loan facilities	333,215,000	103,000,000
Used at the reporting date		
Secured bank loan facilities	289,766,737	94,225,575
Unused at the reporting date		
Secured bank loan facilities	43,448,263	8,774,425

To take advantage of the low interest rate environment, the Group has entered into a series of interest rate swap contracts with a notional amount of \$184.2 million (30 June 2020: \$77.2 million) whereby it pays a fixed rate of interest and receives a variable rate based on BBSY (1 and 3 month) on the notional amount. At 31 December 2020 after taking into account the interest rate swap, 64% (30 June 2020: 82%) of the Group's borrowings are hedged. The Group's average cost of drawn debt is approximately 3.67% (30 June 2020: 4.57%) (excluding costs relating to undrawn debt).

**FSREC Property Fund**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**6. Borrowings (continued)**

The drawdown amount is secured against investment properties held by the Group with a carrying value of \$795.8 million at balance date and is subject to compliance with specified covenants and other requirements.

At the date of this report, management are in discussions to refinance the four existing debt facilities maturing in December 2021, into a single debt facility with longer tenure.

There were no defaults or covenant breaches with respect to the loan during half-year.

**7. Issued capital**

*Movement in issued units*

	Consolidated 31 December 2020 Units	Consolidated 30 June 2020 Units	Consolidated 31 December 2020 \$	Consolidated 30 June 2020 \$
Balance at 1 July 2020	100,506,038	100,506,038	154,216,469	154,216,469
Issue of units in relation to the acquisition of FSREC Fund IV	45,483,257	-	70,749,130	-
Issue of units in relation to the stapling of FSREC Fund II	68,326,036	-	-	-
Issue of units in relation to the stapling of FSREC Fund III	98,316,800	-	-	-
Balance at 31 December 2020	<u>312,632,131</u>	<u>100,506,038</u>	<u>224,965,599</u>	<u>154,216,469</u>

As disclosed in note 1, as a result of the restructure of the Funds during the period, the issued units of FSREC Fund I are stapled with the issued units of FSREC II and FSREC Fund III. The total number of stapled units at 31 December 2020 was 312,632,131 and are fully paid. The holders of stapled units are entitled to receive distributions as declared from time to time by the Responsible Entity and are entitled to one vote per unit at the meetings of the Fund. The units in FSREC Fund I, FSREC Fund II and FSREC Fund III cannot be disposed or transferred separately and can only be disposed or transferred as stapled securities.

The contributed equity of FSREC Fund II and FSREC Fund III are included in "Other unitholders' equity" in the consolidated statement of changes in equity.

**8. Cash flow hedge reserve**

	<b>Consolidated</b>	
	<b>31 December</b>	
	<b>2020</b>	<b>30 June 2020</b>
	<b>\$</b>	<b>\$</b>
Cash flow hedge reserve	<u>(4,236,252)</u>	<u>(4,974,720)</u>

The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of the interest rate swap held by the Group.

**FSREC Property Fund**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**8. Cash flow hedge reserve (continued)**

*Movements in reserves*

Movements in each class of reserve during the current financial period are set out below:

	Cash flow hedge reserve \$
<b>Consolidated</b>	
Balance at 1 July 2020	(4,974,720)
- Unrealised gains on cash flow hedge reserve	(275,633)
- Realised losses transferred to profit or loss as finance expense	<u>1,014,101</u>
Balance at 31 December 2020	<u><u>(4,236,252)</u></u>

**9. Fair value measurement**

**Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis**

The Group measures fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

**Level 1:** quoted prices (unadjusted) in active markets for identical financial assets and liabilities that the entity can access at the measurement date

**Level 2:** inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly (as price) or indirectly (derived from prices)

**Level 3:** unobservable inputs for the financial asset or liability.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Consolidated - 31 December 2020</b>				
<i>Assets</i>				
Investment properties	-	-	795,800,000	795,800,000
Total assets	<u>-</u>	<u>-</u>	<u>795,800,000</u>	<u>795,800,000</u>
<i>Liabilities</i>				
Cash flow hedge	-	7,533,961	-	7,533,961
Total liabilities	<u>-</u>	<u>7,533,961</u>	<u>-</u>	<u>7,533,961</u>
<b>Consolidated - 30 June 2020</b>				
<i>Assets</i>				
Investment properties	-	-	256,250,000	256,250,000
Total assets	<u>-</u>	<u>-</u>	<u>256,250,000</u>	<u>256,250,000</u>
<i>Liabilities</i>				
Cash flow hedge	-	4,974,720	-	4,974,720
Total liabilities	<u>-</u>	<u>4,974,720</u>	<u>-</u>	<u>4,974,720</u>

**FSREC Property Fund**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**9. Fair value measurement (continued)**

An interest rate swap contract has been entered into by the Group to hedge the exposure to the variable interest rate payments on the variable secured bank loan (refer to note 6 for details). The loan and interest rate swap have the same critical terms. Cash flows are recognised through profit or loss.

The aggregate fair value of the interest rate swap at the reporting date was a liability of \$7,533,961 (30 June 2020: \$4,974,720).

The valuation technique applied to fair value the swap derivative includes traditional swap models, using present value calculations.

The Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no transfers between fair value hierarchy levels during the financial half-year.

**Fair value of the Group's assets and liabilities that are not measured at fair value on a recurring basis**

The fair value of financial assets and financial liabilities which are not measured at fair value on a recurring basis approximate their carrying amounts at the reporting date.

**10. Controlled entities**

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2020 %	30 June 2020 %
Australian Property Opportunities Trust	Australia	100.00%	100.00%
Fort Street Real Estate Capital Fund II	Australia	100.00%	-
Australian Property Opportunities Trust II	Australia	100.00%	-
APOT II No. 1	Australia	100.00%	-
Fort Street Real Estate Capital Fund III	Australia	100.00%	-
Australian Property Opportunities Trust III	Australia	99.98%	-
APOT III No. 1 Trust	Australia	100.00%	-
Fort Street Real Estate Capital Fund IV	Australia	100.00%	-
Fort Street Real Estate Capital Trust IV	Australia	99.97%	-
FSREC IV No. 1 Trust	Australia	100.00%	-

**11. Business combinations including stapling arrangements**

As a result of the Restructure on 23 December 2020, FSREC Fund I acquired all of FSREC Fund IV's units followed by the subsequent stapling of its units with the units of FSREC Fund II and FSREC Fund III. The Parent entity, being FSREC Fund I, has been identified as the acquirer. The stapling transaction between FSREC Funds I, II and III has been accounted for as a business combination. No purchase consideration was transferred for the acquisitions. Refer to note 1 for further details.

**FSREC Property Fund**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**11. Business combinations including stapling arrangements (continued)**

**FSREC Fund IV**

The fair value of the identifiable assets and liabilities of FSREC Fund IV as at the date of acquisition were:

	2020 \$
<b>Assets</b>	
Cash and cash equivalents	1,578,888
Trade and other receivables	317,699
Prepayments	344,126
Investment properties	<u>117,300,000</u>
	<u>119,540,713</u>
<b>Liabilities</b>	
Trade and other payables	(1,685,625)
Derivative financial liability	(1,554,102)
Borrowings	<u>(45,551,856)</u>
	<u>(48,791,583)</u>
Total identifiable net assets at fair value	<u><u>70,749,130</u></u>

The fair value of trade receivables acquired approximates the gross amount of trade receivables acquired. No receivables and payables existed between FSREC Fund I and FSREC Fund IV prior to the acquisition date. Although the business combination occurred on 23 December 2020, it has been accounted for as been effective 31 December 2020, therefore the half-year financial report includes the acquired assets and liabilities of FSREC Fund IV at the acquisition date. The trading results and cash flows between 23 December 2020 and 31 December 2020 were not material, therefore the trading results and cash flows of FSREC Fund IV have not been included in the Consolidated Statements of Profit or Loss and Cash Flows.

FSREC Fund IV reported \$4.2 million of revenue and \$0.5 million of loss after tax for the half-year ended 31 December 2020.

**FSREC Fund II**

The fair value of the identifiable assets and liabilities of FSREC Fund II as at the date of stapling were:

	2020 \$
<b>Assets</b>	
Cash and cash equivalents	2,316,301
Trade and other receivables	691,326
Prepayments	213,760
Investment properties	<u>178,100,000</u>
	<u>181,321,387</u>
<b>Liabilities</b>	
Trade and other payables	(2,395,838)
Derivative financial liability	(372,706)
Borrowings	<u>(71,432,179)</u>
	<u>(74,200,723)</u>
	<u><u>107,120,664</u></u>

**FSREC Property Fund**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**11. Business combinations including stapling arrangements (continued)**

The unitholders of FSREC Fund II's equity interest in the net assets of FSREC Fund II totalling \$107,120,664 is included in "Other unitholders' equity" in the consolidated statement of changes in equity.

The fair value of trade receivables acquired approximates the gross amount of trade receivables acquired. No receivables and payables existed between FSREC Fund I and FSREC Fund II prior to the stapling date. Although the business combination occurred on 23 December 2020, it has been accounted for as been effective 31 December 2020, therefore the half year financial report includes the acquired assets and liabilities of FSREC Fund II at the stapling date. The trading results and cash flows between 23 December 2020 and 31 December 2020 were not material, therefore the trading results and cash flows of FSREC Fund II have not been included in the Consolidated Statements of Profit or Loss and Cash Flows.

FSREC Fund II reported \$5.9 million of revenue and \$0.6 million of profit after tax for the half-year ended 31 December 2020.

**FSREC Fund III**

The fair value of the identifiable assets and liabilities of FSREC Fund III as at the date of stapling were:

	2020 \$
<b>Assets</b>	
Cash and cash equivalents	3,092,192
Trade and other receivables	814,679
Prepayments	139,700
Investment properties	<u>235,000,000</u>
	<u>239,046,571</u>
<b>Liabilities</b>	
Trade and other payables	(2,537,267)
Derivative financial liability	(1,370,901)
Borrowings	<u>(77,954,090)</u>
	<u>(81,862,258)</u>
	<u><u>157,184,313</u></u>

The unitholders of FSREC Fund III's equity interest in the net assets of FSREC Fund III totalling \$157,184,313 is included in "Other unitholders' equity" in the consolidated statement of changes in equity.

The fair value of trade receivables acquired approximates the gross amount of trade receivables acquired. No receivables and payables existed between FSREC Fund I and FSREC Fund III prior to the stapling date. As the business combination occurred on 23 December 2020, it has been accounted for as been effective 31 December 2020, therefore the half year financial report includes the acquired assets and liabilities of FSREC Fund III at the stapling date. The trading results and cash flows between 23 December 2020 and 31 December 2020 were not material, therefore the trading results and cash flows of FSREC Fund III have not been included in the Consolidated Statements of Profit or Loss and Cash Flows.

FSREC Fund III reported \$10.0 million of revenue and \$3.9 million of profit after tax for the half-year ended 31 December 2020.

**12. Related party disclosures**

**Key management personnel**

Stuart Nisbett, Mike Adams, Warwick Keneally and Peter Shear are directors of the Responsible Entity of the Fund, E&P Investments Limited, and are deemed to be key management personnel.

**FSREC Property Fund**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**12. Related party disclosures (continued)**

Warwick Keneally is also a director of the Trustee of Australian Property Opportunities Trust (**Trust**), E&P Investment Services Pty Limited (formerly known as Walsh & Company Investment Services Pty Limited).

Key management personnel are not compensated by the Fund or by the Responsible Entity directly for the management function provided to the Fund.

**Related party investments in the Fund**

As at 31 December 2020, the Responsible Entity or its associates held 625,000 stapled units (30 June 2020: 625,000 units), representing 0.20% interest in the FSREC Property Fund (30 June 2020: 0.62% interest in the Fund).

Distributions paid or payable by the Fund to the Responsible Entity or its associates in the period ended 31 December 2020 was \$8,063 (30 June 2020: \$32,750).

**Responsible Entity fee and other transactions**

*Responsible Entity fee*

E&P Investments Limited, as Responsible Entity of the Fund, receives a fee for the performance of its duties under the constitution of the Fund. The Responsible Entity fee is 0.08% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. Effective upon implementation of the Restructure, the Fund's Constitution was amended which resulted in an increase to the Responsible Entity fee to 0.24% per annum.

For the period ended 31 December 2020, \$113,163 (31 December 2019: \$103,293), exclusive of GST, was paid or payable to the Responsible Entity.

*Trustee fee*

E&P Investment Services Pty Limited in its capacity as Trustee of Australian Property Opportunities Trust, a wholly owned subsidiary of the Fund, receives 0.10% per annum (exclusive of GST) for services provided under the terms of the Trust's trust deed. The Trustee fee is calculated on the gross asset value of the Trust, payable monthly. Effective upon implementation of the Restructure, the Trust Deed was amended to remove the Trustee fee.

For the period ended 31 December 2020, \$122,405 (31 December 2019: \$129,075), exclusive of GST, was paid or payable to the Trustee.

*Fund Administration fee*

E&P Funds Management Pty Limited (formerly known as Walsh & Company Asset Management Pty Limited), as Fund Manager of the Fund, receives a fee of 0.15% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. Effective upon implementation of the Restructure, the Fund Management Agreement was amended to remove the Fund Administration fee.

For the period ended 31 December 2020, \$183,739 (31 December 2019: \$193,773), exclusive of GST, was paid or payable to the Fund Manager.

*Investment Manager fee*

Fort Street Real Estate Capital Pty Limited (**Fort Street**), a related party of the Responsible Entity, is engaged as the Group's Investment Manager and receives a fee of 0.54% per annum (exclusive of GST) calculated on the gross assets of the Fund being payable monthly. Effective upon implementation of the Restructure, the Investment Management Agreement was amended which resulted in a reduction of the Investment Management fee to 0.54% per annum.

For the period 31 December 2020, \$695,627 (31 December 2019: \$695,637), exclusive of GST, was paid or payable to the Investment Manager.

**FSREC Property Fund**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**12. Related party disclosures (continued)**

*Property Manager fee*

Fort Street acts as Property Manager of the Trust and is responsible for managing and maintaining the property portfolio of the Trust, optimising tenancy profile and maximising returns. The Property Manager receives a fee of 3% per annum, payable monthly (exclusive of GST) calculated on the gross income of the Trust.

For the period ended 31 December 2020, \$345,871 (31 December 2019: \$350,870), exclusive of GST, was paid or payable to the Property Manager.

*Development Manager fee*

Fort Street Real Estate Development Pty Ltd (**Development Manager**), a related party of the Responsible Entity, provides development management services to the Group where appropriate and on a non-exclusive basis. Services include scoping the design and construction for the development, retail design management, management of key consultants, budgeting, financial analysis, risk analysis, procurement and management of design services and procurement and management of construction services. For these services, the Development Manager receives a fee of 5% of the total development costs incurred in connection with a development.

For the period ended 31 December 2020, \$2,857 (31 December 2019: \$46,133), exclusive of GST, was paid or payable to the Development Manager.

*Leasing Services fee*

Fort Street Real Estate Leasing Pty Ltd (**Leasing Agent**), a related party of the Responsible Entity, provides tenant leasing services to the Fund where appropriate and on a non-exclusive basis. Services include recommendation on new leases, lease renewals, rental negotiations, arrangement of lease agreements, collection of security under a lease, and preparation of disclosure statements for prospective tenants. For these services, the Leasing Manager receives a fee of 15% of the gross rent on new retail leases, and a fee of 7.5% of the gross rent on existing retail leases. The fee is capitalised and expensed over the lease period.

For the period ended 31 December 2020, \$341,115 (31 December 2019: \$13,739), exclusive of GST, was paid or payable to the Leasing Agent.

*Legal and consulting services*

The Responsible Entity entered into an agreement with MDA1 Pty Limited, trading as MA Law, to provide legal and consulting services to the Responsible Entity and the investment schemes under its control. Mike Adams, a director of the Responsible Entity, is also a director and shareholder of MDA1 Pty Limited. Mike Adams previously provided similar services as an employee of a non-related entity to the Fund.

For the period ended 31 December 2020, \$7,973 (31 December 2019: nil), exclusive of GST was paid or payable by the Group and included in the other expenses in the statement of profit or loss and other comprehensive income.

*Debt Advisory fee*

Fort Street Capital Pty Ltd, a related party of the Responsible Entity, receives a debt arranging fee for assistance in arranging new debt facility for the Group. For the period ended 31 December 2020, no fee (31 December 2019: \$103,000 exclusive of GST) was paid or payable by the Group. The fee has been capitalised to the costs of borrowings and amortised over the life of the loan.

*Financial Advisory fee*

Evans and Partners Pty Ltd (**Financial Advisor**, a subsidiary of E&P Financial Group Limited, who is the parent entity of the Responsible Entity), provided certain financial advisory services to the Responsible Entity in connection with the Restructure.

For the period ended 31 December 2020, \$323,193 (31 December 2019: nil), exclusive of GST, was paid or payable to the Financial Advisor.



**FSREC Property Fund**

**Notes to the condensed consolidated financial statements**

**31 December 2020**

**13. Capital commitments**

As at 31 December 2020, the Group committed \$3,272,777 as lease incentives arising from lease agreements.

**14. Contingent liability**

The directors of the Responsible Entity are not aware of any potential liabilities or claims against the Group as at the end of the reporting period.

**15. Events after the reporting period**

On 20 January 2021, the FSREC Property Fund announced a 31 December 2020 quarter distribution of 1.67 cents per stapled security which was paid on 10 February 2021.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**FSREC Property Fund**  
**Directors' declaration**  
**31 December 2020**

The directors of the Responsible Entity declare that, in the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, including compliance with the Accounting Standards;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors of the Responsible Entity made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Stuart Nisbett', is written over a horizontal line.

Stuart Nisbett  
Chairman of E&P Investments Limited, Responsible Entity

12 March 2021

## **Independent Auditor's Review Report to the Stapled Security Holders of FSREC Property Fund**

### *Conclusion*

We have reviewed the half-year financial report of FSREC Property Fund ('the Fund'), which comprises the condensed consolidated statement of financial position as at 31 December 2020, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated stapled entity. The consolidated stapled entity comprises Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II, Fort Street Real Estate Capital Fund III and the entities they controlled at the end of the half-year or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Fund is not in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Fund's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### *Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Fund in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of E&P Investments Limited (the 'Responsible Entity'), would be in the same terms if given to the directors as at the time of this auditor's review report.

### *Directors' Responsibilities for the Half-year Financial Report*

The directors of the responsible entity (the 'Directors') are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

## *Auditor's Responsibilities for the Review of the Half-year Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Fund's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



DELOITTE TOUCHE TOHMATSU



Weng W Ching  
Partner  
Chartered Accountants

Sydney, 12 March 2021

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Directory  
31 December 2020**

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Mike Adams  
Warwick Keneally  
Peter Shear

**Secretaries**

Hannah Chan  
Caroline Purtell

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## RESPONSIBLE ENTITY

E&P Investments Limited  
(ACN 152 367 649) (AFSL 410 433)





# HALF-YEAR FINANCIAL REPORT

## 31 DECEMBER 2020



## **Fort Street Real Estate Capital Fund I**

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**31 December 2020**

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**Fort Street Real Estate Capital Fund I**  
**Funds from operations**  
**31 December 2020**

Funds From Operations (**FFO**) is a non-International Financial Reporting Standards financial measure. FFO is a market accepted measure of a real estate investment fund's operating performance. FFO is used to facilitate understanding of a fund's performance. The Property Council of Australia provides best practice guidelines for the calculation of FFO, which have been followed by the Fund.

FFO is determined by adjusting statutory net profit or loss after tax for certain non-cash items such as depreciation, impairment and amortisation. Other one-off items may also be adjusted to provide a clearer indication of the Fund's half-year FFO.

The FFO calculation set out below is based on the condensed consolidated statement of the profit or loss (page 6) which reflects only the results of FSREC Fund I (the parent entity) in the half-year to 31 December 2020. The acquisition of issued units in FSREC Fund IV by FSREC Fund I has been accounted for as been effective from 31 December 2020 as the impact of consolidating the results between 23 December 2020 until 31 December 2020 would not be material.

	31 December 2020	31 December 2019
	\$	\$
<b>Profit after tax for the period</b>	<b>11,341,855</b>	<b>7,350,973</b>
<b>Adjustments:</b>		
Fair value movement of investment properties	(8,197,529)	(3,372,587)
Straight-lining of rental revenue and incentives amortisation	255,920	156,188
Amortisation of capitalised lease costs	245,054	183,087
Fair value movement of derivative financial instruments	-	(163,456)
Other items	88,168	82,784
One-off professional fees	436,127	-
<b>FFO</b>	<b>4,169,595</b>	<b>4,236,989</b>
<b>Distributions for the period</b>	<b>1,296,530</b>	<b>3,698,622</b>

**Fort Street Real Estate Capital Fund I**  
**Directors' report**  
**31 December 2020**

**Introduction**

The directors of E&P Investments Limited (formerly known as Walsh & Company Investments Limited), as Responsible Entity of Fort Street Real Estate Capital Fund I (**Fund**), present their report together with the half-year financial report for the Fund and the entities it controlled, (collectively referred to as the **Group**) for the half-year ended 31 December 2020.

**Directors**

The directors of the Responsible Entity at any time during or since the end of the half-year are listed below:

Stuart Nisbett  
Mike Adams  
Warwick Keneally  
Peter Shear

Directors were in office from the start of the half-year to the date of this report, unless otherwise stated.

**Review of financial results and operations**

On 23 December 2020, the Responsible Entity implemented the Proposal for Fort Street Real Estate Capital (**FSREC**) Funds I, II, III and IV as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020.

The implementation involved the acquisition of all units in FSREC Fund IV by FSREC Fund I by way of a trust scheme of arrangement, and the subsequent Restructure of FSREC Funds I, II and III to form a stapled group, the FSREC Property Fund (**Restructure**). The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

As a result of the restructure discussed above, FSREC Fund I issued new units totalling 45,483,257 to acquire FSREC Fund IV and new units totalling 166,642,836 in connection with the stapling of FSREC Fund II and FSREC Fund III.

In accounting for the restructure described above, FSREC Fund I was determined to be the accounting acquirer and therefore deemed to be the parent in the consolidated financial statements. The accounting for the restructure has been accounted for as being effective from 31 December 2020 and therefore the condensed consolidated balance sheet incorporates the condensed consolidated balance sheets of Fund I and IV at 31 December 2020 whereas the financial results for the period reflected in the condensed consolidated profit or loss represent the condensed consolidated profit or loss of Fund I for the 6 months ended 31 December 2020.

**a) Financial results for the period**

As noted above, the accounting for the restructure has been accounted for as being effective from 31 December 2020. Accordingly, the performance of Fund I, as represented by the results of its operations for the respective period ended 31 December, was as follows:

	2020	2019
<b>Results</b>		
Total income (\$)	19,631,905	15,293,748
Total expense (\$)	(8,290,050)	(7,942,775)
Net operating profit (\$)	<u>11,341,855</u>	<u>7,350,973</u>

**b) Performance returns**

The performance returns shown in the table below are for the six and twelve months ended 31 December 2020, and have been calculated using the net asset value per unit for the Fund, which is after fees and expenses.

**Fort Street Real Estate Capital Fund I**  
**Directors' report**  
**31 December 2020**

	6 months to 31 December 2020 %	12 months to 31 December 2020 %
<b>Performance returns</b>		
Growth return (a)	4.46	0.61
Distribution return (b)	0.82	1.75
Total return (c)	<u>5.28</u>	<u>2.36</u>

(a) The Growth return is calculated as a percentage by dividing the end of period net asset value per unit by the net asset value per unit at the start of the period minus 1. The end of period net asset value includes FSREC Fund I and FSREC Fund IV.

(b) The Distribution return is calculated as a percentage by subtracting the Growth return from the Total return.

(c) The Total return is calculated as a percentage by dividing the end of period net asset value per unit (cum-distribution) by the net asset value per unit at the start of the period minus 1.

**Distributions**

Distributions paid during the financial half-year were as follows:

	2020 \$
1.29 cents per unit for the period ended 30 September 2020 paid on 3 November 2020	<u>1,296,530</u>

**Matters subsequent to the end of the financial half-year**

On 20 January 2021, the FSREC Property Fund announced a 31 December 2020 quarter distribution of 1.67 cents per stapled security which was paid on 10 February 2021. The Fund's portion of this distribution was 0.78 cents per unit.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Stuart Nisbett  
Chairman of E&P Investments Limited, Responsible Entity

12 March 2021

12 March 2021

The Board of Directors  
E&P Investments Limited as Responsible Entity for:  
Fort Street Real Estate Capital Fund I  
Level 15, 100 Pacific Highway  
North Sydney NSW 2060

Dear Board Members

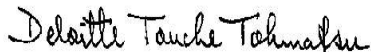
## **Auditor's Independence Declaration to Fort Street Real Estate Capital Fund I**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of the Responsible Entity of Fort Street Real Estate Capital Fund I.

As lead audit partner for the review of the financial statements of Fort Street Real Estate Capital Fund I for the financial half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Weng W Ching  
Partner  
Chartered Accountants

**Fort Street Real Estate Capital Fund I**  
**Condensed consolidated statement of profit or loss and other comprehensive income**  
**For the half-year ended 31 December 2020**

	<b>Note</b>	<b>31 December 2020 \$</b>	<b>31 December 2019 \$</b>
<b>Revenue</b>			
Rental income		9,576,974	9,991,228
Other property income		1,857,005	1,760,356
Finance income		397	6,121
Fair value movement of investment properties	4	8,197,529	3,372,587
Gains on derivative financial instruments		-	163,456
Total revenue		<u>19,631,905</u>	<u>15,293,748</u>
<b>Expenses</b>			
Finance expenses		(1,972,237)	(2,336,543)
Investment property expenses		(4,257,068)	(3,797,066)
Responsible entity and trustee fees	12	(239,553)	(237,116)
Management fees	12	(1,229,838)	(1,247,928)
Accounting and audit fees		(55,318)	(80,606)
Other expenses		(536,036)	(243,516)
Total expenses		<u>(8,290,050)</u>	<u>(7,942,775)</u>
<b>Profit before income tax expense</b>		11,341,855	7,350,973
Income tax expense		-	-
<b>Profit after income tax expense for the half-year</b>		11,341,855	7,350,973
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedge		738,468	552,951
Other comprehensive income for the half-year, net of tax		738,468	552,951
<b>Total comprehensive income for the half-year</b>		<u>12,080,323</u>	<u>7,903,924</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per unit	3	11.28	7.31
Diluted earnings per unit	3	11.28	7.31

*The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Fort Street Real Estate Capital Fund I**  
**Condensed consolidated statement of financial position**  
**As at 31 December 2020**

		<b>31 December</b>	
	<b>Note</b>	<b>2020</b>	<b>30 June 2020</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		5,160,114	2,592,429
Trade and other receivables		1,311,171	1,628,835
Prepayments		619,344	533,207
Total current assets		<u>7,090,629</u>	<u>4,754,471</u>
<b>Non-current assets</b>			
Investment properties	4	382,700,000	256,250,000
Total non-current assets		<u>382,700,000</u>	<u>256,250,000</u>
<b>Total assets</b>		<u>389,790,629</u>	<u>261,004,471</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	5	4,653,923	2,753,295
Borrowings	6	139,590,601	-
Derivative financial instruments		5,790,354	1,916,165
Distribution payable		-	1,111,705
Total current liabilities		<u>150,034,878</u>	<u>5,781,165</u>
<b>Non-current liabilities</b>			
Borrowings	6	-	93,941,923
Derivative financial instruments		-	3,058,555
Total non-current liabilities		<u>-</u>	<u>97,000,478</u>
<b>Total liabilities</b>		<u>150,034,878</u>	<u>102,781,643</u>
<b>Net assets</b>		<u>239,755,751</u>	<u>158,222,828</u>
<b>Equity</b>			
Issued capital	7	224,965,599	154,216,469
Cash flow hedge reserve	8	(4,236,252)	(4,974,720)
Retained profits		19,026,404	8,981,079
<b>Total equity</b>		<u>239,755,751</u>	<u>158,222,828</u>

*The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes*

**Fort Street Real Estate Capital Fund I**  
**Condensed consolidated statement of changes in equity**  
**For the half-year ended 31 December 2020**

	<b>Issued capital \$</b>	<b>Cash flow hedge reserve \$</b>	<b>Retained profits \$</b>	<b>Total equity \$</b>
Balance at 1 July 2019	154,216,469	(4,608,731)	9,591,228	159,198,966
Profit after income tax expense for the half-year	-	-	7,350,973	7,350,973
Other comprehensive income for the half-year, net of tax	-	552,951	-	552,951
Total comprehensive income for the half-year	-	552,951	7,350,973	7,903,924
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Distributions paid/declared	-	-	(3,698,622)	(3,698,622)
Balance at 31 December 2019	<u>154,216,469</u>	<u>(4,055,780)</u>	<u>13,243,579</u>	<u>163,404,268</u>
	<b>Issued capital \$</b>	<b>Cash flow hedge reserve \$</b>	<b>Retained profits \$</b>	<b>Total equity \$</b>
Balance at 1 July 2020	154,216,469	(4,974,720)	8,981,079	158,222,828
Profit after income tax expense for the half-year	-	-	11,341,855	11,341,855
Other comprehensive income for the half-year, net of tax	-	738,468	-	738,468
Total comprehensive income for the half-year	-	738,468	11,341,855	12,080,323
Issue of units in relation to the acquisition of FSREC Fund IV (note 10)	70,749,130	-	-	70,749,130
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Distributions paid	-	-	(1,296,530)	(1,296,530)
Balance at 31 December 2020	<u>224,965,599</u>	<u>(4,236,252)</u>	<u>19,026,404</u>	<u>239,755,751</u>

*The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes*

**Fort Street Real Estate Capital Fund I**  
**Condensed consolidated statement of cash flows**  
**For the half-year ended 31 December 2020**

	<b>31 December 2020 \$</b>	<b>31 December 2019 \$</b>
<b>Cash flows from operating activities</b>		
Rental and other income received	13,138,510	13,591,224
Interest income received	397	6,348
Finance costs	(1,865,609)	(2,218,241)
Payment to suppliers	(7,561,157)	(6,760,974)
Net cash from operating activities	<u>3,712,141</u>	<u>4,618,357</u>
<b>Cash flows from investing activities</b>		
Payments for capital expenditure	(320,725)	(1,241,862)
Acquisition of units in FSREC Fund IV, net of cash acquired (note 10)	<u>1,578,888</u>	<u>-</u>
Net cash from/(used in) investing activities	<u>1,258,163</u>	<u>(1,241,862)</u>
<b>Cash flows from financing activities</b>		
Payments of transaction costs related to loans and borrowings	-	(263,044)
Distributions paid	(2,402,619)	(3,598,322)
Net cash used in financing activities	<u>(2,402,619)</u>	<u>(3,861,366)</u>
Net increase/(decrease) in cash and cash equivalents	2,567,685	(484,871)
Cash and cash equivalents at the beginning of the financial half-year	<u>2,592,429</u>	<u>4,674,148</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>5,160,114</u></u>	<u><u>4,189,277</u></u>

*The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes*



**Fort Street Real Estate Capital Fund I**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**1. General information**

Fort Street Real Estate Capital Fund I (**Fund**) is an unlisted managed investment scheme registered and domiciled in Australia. The financial statements comprise the Fund and entities controlled by the Fund (collectively referred to as the **Group**). On 23 December 2020, the issued units of FSREC Fund I were stapled with the issued units of FSREC Fund II and FSREC Fund III. The principal activity of the Group is to invest in Australian commercial property.

This half-year financial report is intended to provide users with an update on the latest annual financial statements of the Group. The half-year financial report does not include notes of the type normally included in an annual financial report and it is therefore recommended that this half-year financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2020, together with any public announcements made during the half-year.

**Statement of compliance**

These condensed consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards (**IFRS**) IAS 34 Interim Financial Reporting.

For the purposes of preparing the condensed consolidated financial statements, the Group is a for-profit entity.

The condensed consolidated financial statements were authorised for issue by the board of directors of the Responsible Entity, E&P Investments Limited, on 12 March 2021.

**Basis of preparation**

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's Annual financial report for the year ended 30 June 2020.

For accounting purposes, the acquisition of FSREC Fund IV's units by FSREC Fund I in relation to the restructure noted below resulted in the Parent Company, being FSREC Fund I gaining control of FSREC Fund IV and therefore has consolidated FSREC Fund IV from the implementation date of 23 December 2020.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to its operations and effective for the current half-year.

**Restructure of the Funds**

*Background*

On 23 December 2020, the Responsible Entity implemented the Proposal for the restructure of Fort Street Real Estate Capital (**FSREC**) Funds I, II, III and IV (**Restructure**) as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020. The Restructure was approved by FSREC Funds I, II, III and IV unitholders on 30 October 2020.

The Restructure comprised:

- FSREC Fund I's acquisition of all of the units in FSREC Fund IV by way of a trust scheme of arrangement. Refer to note 10 for further information.
- A restructure of the remaining funds, FSREC Fund I, FSREC Fund II and FSREC Fund III, to form a stapled group, resulting in the formation of the FSREC Property Fund. In forming the stapled group, the issued units of FSREC Fund I were stapled with the issued units of FSREC Fund II and FSREC Fund III.

The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

**Fort Street Real Estate Capital Fund I**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**1. General information (continued)**

*Accounting for the FSREC Property Fund*

FSREC Property Fund was established through the restructure and stapling as outlined above.

In accordance with the Australian Accounting Standards, the stapling of the issued units of FSREC Fund I with FSREC Fund II and FSREC Fund III is accounted for as a business combination. FSREC Fund I has been determined as the accounting acquirer and is therefore deemed to be the parent in the consolidated financial statements. In accounting for this business combination, the assets and liabilities of FSREC Fund II and FSREC Fund III have been recognised at their fair values at the date of acquisition with the corresponding recognition of the unitholders' equity in FSREC Fund II and FSREC Fund III in "Other unitholders' equity" in the consolidated statement of changes in equity. "Other unitholders' equity" in the consolidated statement of changes in equity represents the interest of the unitholders of FSREC Fund II and FSREC Fund III in FSREC Property Fund by virtue of the stapling arrangement.

The acquisition of issued units in FSREC Fund IV by FSREC Fund I and the simultaneous stapling with FSREC Fund II and FSREC Fund III has been accounted for as been effective from 31 December 2020 as the impact of consolidating the results between 23 December 2020 (the date of stapling) until 31 December 2020 would not be material.

Refer to note 10 for further details regarding the above business combinations.

**2. Working capital**

As at 31 December 2020, the Group had total current assets of \$7,090,629 (30 June 2020: \$4,754,471) and finance facilities available for drawdown totalling \$17,674,425 (30 June 2020: \$8,774,425) against total current liabilities of \$150,034,878 (30 June 2020: \$5,781,165).

At the date of this report, management are in discussions to refinance the current facilities by the repayment dates in December 2021, and the Board's reasonable expectation is a refinance on acceptable terms will be successful.

**3. Earnings per unit of FSREC Fund I**

	<b>31 December 2020 \$</b>	<b>31 December 2019 \$</b>
Profit after income tax	<u>11,341,855</u>	<u>7,350,973</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary units used in calculating basic earnings per unit	<u>100,506,038</u>	<u>100,506,038</u>
Weighted average number of ordinary units used in calculating diluted earnings per unit	<u>100,506,038</u>	<u>100,506,038</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per unit	11.28	7.31
Diluted earnings per unit	11.28	7.31

**Fort Street Real Estate Capital Fund I**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**4. Investment properties**

	<b>31 December 2020 \$</b>	<b>30 June 2020 \$</b>
<i>Non-current assets</i>		
Investment properties - at fair value	<u>382,700,000</u>	<u>256,250,000</u>
<i>Movement in investment properties</i>		
Carrying amount of investment properties at beginning of period	256,250,000	256,050,000
Additions through acquisition of FSREC Fund IV (note 10)	117,300,000	-
Capital expenditure	501,126	1,792,408
Rental straight-lining, tenant incentives and other adjustments	451,345	(451,655)
Fair value movement of investment properties in FSREC Fund I	<u>8,197,529</u>	<u>(1,140,753)</u>
Carrying amount of investment properties at end of period	<u>382,700,000</u>	<u>256,250,000</u>

*Fair value*

At reporting date, the Group's investment properties consist of six commercial properties in Australia which are carried at fair value.

The 31 December 2020 fair value amounts were determined by way of independent valuation on all investment properties using a combination of discounted cash flow (**DCF**) and capitalisation rate methods based on market conditions existing at balance date. In determining the fair value of investment properties, assumptions related to the impacts of COVID-19 have been taken into account. However, there are increased uncertainties around these assumptions due to the unknown impact from this pandemic on the operational and financial performance of the investment properties in the future.

Consequently, the independent valuers have included a statement in their valuation reports highlighting a "material valuation uncertainty". This statement serves as a precaution and does not invalidate the valuation and does not mean the valuation cannot be relied upon. It is intended to highlight that due to the current extraordinary circumstances, less certainty can be attached to the valuation. The Directors of the Responsible Entity have concluded that notwithstanding these factors, the valuation report represents the best estimate of the fair value of investment properties for financial reporting as at 31 December 2020.

The valuation techniques utilise inputs categorised as level 3 in the fair value hierarchy, being based on unobservable market inputs. The key unobservable inputs include the maintainable earnings and capitalisation rate (6.00% - 6.25%) applied in the capitalisation rate method and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates (range 6.75% - 7.50%) applied in the DCF method. A reduction in capitalisation and discount rates and an increase in maintainable earnings and rental growth rates would result in an increase in fair value, and vice versa.

Refer to note 9 for further information on fair value measurement.

**Fort Street Real Estate Capital Fund I**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**5. Trade and other payables**

	<b>31 December 2020 \$</b>	<b>30 June 2020 \$</b>
<i>Current liabilities</i>		
Trade payables	1,332,398	211,426
Accrued liabilities	1,813,742	1,064,681
Contract liabilities (deferred income)	1,151,510	712,991
Other liabilities - accrued investment manager performance fees	-	475,042
GST payable	344,977	282,827
Other liabilities	11,296	6,328
	<u>4,653,923</u>	<u>2,753,295</u>

**6. Borrowings**

	<b>31 December 2020 \$</b>	<b>30 June 2020 \$</b>
<i>Current liabilities</i>		
Secured bank loan - net of borrowing costs	139,590,601	-
<i>Non-current liabilities</i>		
Secured bank loan - net of borrowing costs	-	93,941,923
	<u>139,590,601</u>	<u>93,941,923</u>

*Financing arrangements*

As at 31 December 2020, the Group had a total loan facility of \$157.6 million loan facility (30 June 2020: \$103 million) with National Australia Bank Limited at a variable interest rate with reference to the Bank Bill Swap Rate (**BBSY**). Of this total loan facility, \$103 million is repayable on 31 December 2021, and \$54.6 million is repayable on 20 December 2021.

	<b>31 December 2020 \$</b>	<b>30 June 2020 \$</b>
Total facilities		
Secured bank loan facilities	157,600,000	103,000,000
Used at the reporting date		
Secured bank loan facilities	139,925,575	94,225,575
Unused at the reporting date		
Secured bank loan facilities	17,674,425	8,774,425

To take advantage of the low interest rate environment, the Group has entered into a series of interest rate swap contracts with a notional amount of \$102.2 million (30 June 2020: \$77.2 million) whereby it pays a fixed rate of interest and receives a variable rate based on BBSY (1 and 3 month) on the notional amount. At 31 December 2020 after taking into account the interest rate swap, 73% (30 June 2020: 82%) of the Group's borrowings are hedged. The Group's average cost of drawn debt is approximately 3.87% (30 June 2020: 4.57%) (excluding costs relating to undrawn debt).

**Fort Street Real Estate Capital Fund I**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**6. Borrowings (continued)**

The drawdown amount is secured against investment properties held by the Group with a carrying value of \$382.7 million at balance date and is subject to compliance with specified covenants and other requirements.

At the date of this report, management are in discussions to refinance the four existing debt facilities maturing in December 2021, into a single debt facility with longer tenure.

There were no defaults or covenant breaches with respect to the loan during half-year.

**7. Issued capital**

	<b>31 December 2020 Units</b>	<b>30 June 2020 Units</b>	<b>31 December 2020 \$</b>	<b>30 June 2020 \$</b>
Balance at the beginning of the period	100,506,038	100,506,038	154,216,469	154,216,469
Issue of units in relation to the acquisition of FSREC Fund IV	45,483,257	-	70,749,130	-
Issue of units in relation to the stapling of FSREC Fund II	68,326,036	-	-	-
Issue of units in relation to the stapling of FSREC Fund III	98,316,800	-	-	-
	<u>312,632,131</u>	<u>100,506,038</u>	<u>224,965,599</u>	<u>154,216,469</u>

As disclosed in note 1, as a result of the restructure of the Funds during the period, the issued units of FSREC Fund I are stapled with the issued units of FSREC Fund II and FSREC Fund III. The total number of stapled units at 31 December 2020 was 312,632,131 and are fully paid. The holders of stapled units are entitled to receive distributions as declared from time to time by the Responsible Entity and are entitled to one vote per unit at the meetings of the Fund. The units in FSREC Fund I, FSREC Fund II and FSREC Fund III cannot be disposed or transferred separately and can only be disposed or transferred as stapled securities.

**8. Cash flow hedge reserve**

	<b>31 December 2020 \$</b>	<b>30 June 2020 \$</b>
Cash flow hedge reserve	<u>(4,236,252)</u>	<u>(4,974,720)</u>

The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of the interest rate swap held by the Group.

*Movements in reserves*

Movements in each class of reserve during the current financial period are set out below:

	<b>Cash flow hedge reserve \$</b>
Balance at 1 July 2020	(4,974,720)
- Unrealised gains on cash flow hedge reserve	(275,633)
- Realised losses transferred to profit or loss as finance expense	<u>1,014,101</u>
Balance at 31 December 2020	<u>(4,236,252)</u>

**Fort Street Real Estate Capital Fund I**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**9. Fair value measurement**

**Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis**

The Group measures fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

**Level 1:** quoted prices (unadjusted) in active markets for identical financial assets and liabilities that the entity can access at the measurement date

**Level 2:** inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly (as price) or indirectly (derived from prices)

**Level 3:** unobservable inputs for the financial asset or liability.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>31 December 2020</b>				
<i>Assets</i>				
Investment properties	-	-	382,700,000	382,700,000
Total assets	-	-	382,700,000	382,700,000
<i>Liabilities</i>				
Cash flow hedge	-	5,790,354	-	5,790,354
Total liabilities	-	5,790,354	-	5,790,354
<b>30 June 2020</b>				
<i>Assets</i>				
Investment properties	-	-	256,250,000	256,250,000
Total assets	-	-	256,250,000	256,250,000
<i>Liabilities</i>				
Cash flow hedge	-	4,974,720	-	4,974,720
Total liabilities	-	4,974,720	-	4,974,720

An interest rate swap contract has been entered into by the Group to hedge the exposure to the variable interest rate payments on the variable secured bank loan (refer to note 6 for details). The loan and interest rate swap have the same critical terms. Cash flows are recognised through profit or loss.

The aggregate fair value of the interest rate swap at the reporting date was a liability of \$5,790,354 (30 June 2020: \$4,974,720).

The valuation technique applied to fair value the swap derivative includes traditional swap models, using present value calculations.

The Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no transfers between fair value hierarchy levels during the financial half-year.

**Fair value of the Group's assets and liabilities that are not measured at fair value on a recurring basis**

The fair value of financial assets and financial liabilities which are not measured at fair value on a recurring basis approximate their carrying amounts at the reporting date.

**Fort Street Real Estate Capital Fund I**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**10. Business combinations**

As a result of the Restructure on 23 December 2020, FSREC Fund I acquired all of FSREC Fund IV's units. The Parent entity, being FSREC Fund I, has been identified as the acquirer. This transaction has been accounted for as a business combination in accordance with the requirements of *AASB 3 Business Combination*.

The fair value of the identifiable assets and liabilities of FSREC Fund IV as at the date of acquisition were:

	2020 \$
<b>Assets</b>	
Cash and cash equivalents	1,578,888
Trade and other receivables	317,699
Prepayments	344,126
Investment properties	117,300,000
	<u>119,540,713</u>
<b>Liabilities</b>	
Trade and other payables	(1,685,625)
Derivative financial liability	(1,554,102)
Borrowings	(45,551,856)
	<u>(48,791,583)</u>
 Total identifiable net assets at fair value	 <u><u>70,749,130</u></u>

The fair value of trade receivables acquired approximates the gross amount of trade receivables acquired. No receivables and payables existed between FSREC Fund I and FSREC Fund IV prior to the acquisition date. Although the business combination occurred on 23 December 2020, it has been accounted for as been effective 31 December 2020, therefore the half-year financial report includes the acquired assets and liabilities of FSREC Fund IV at the acquisition date. The trading results and cash flows between 23 December 2020 and 31 December 2020 were not material, therefore the trading results and cash flows of FSREC Fund IV have not been included in the Consolidated Statements of Profit or Loss and Cash Flows.

FSREC Fund IV reported \$4.2 million of revenue and \$0.5 million of loss after tax for the half-year ended 31 December 2020.

**11. Controlled entities**

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2020 %	30 June 2020 %
Australian Property Opportunities Trust	Australia	100.00%	100.00%
Fort Street Real Estate Capital Fund IV	Australia	100.00%	-
Fort Street Real Estate Capital Trust IV	Australia	99.97%	-
FSREC IV No. 1 Trust	Australia	100.00%	-

## **12. Related party disclosures**

### **Key management personnel**

Stuart Nisbett, Mike Adams, Warwick Keneally and Peter Shear are directors of the Responsible Entity of the Fund, E&P Investments Limited, and are deemed to be key management personnel.

Warwick Keneally is also a director of the Trustee of Australian Property Opportunities Trust (**Trust**), E&P Investment Services Pty Limited (formerly known as Walsh & Company Investment Services Pty Limited).

Key management personnel are not compensated by the Fund or by the Responsible Entity directly for the management function provided to the Fund.

### **Related party investments in the Fund**

As at 31 December 2020, the Responsible Entity or its associates held 625,000 stapled units (30 June 2020: 625,000 units), representing 0.20% interest in the FSREC Property Fund (30 June 2020: 0.62% interest in the Fund).

Distributions paid or payable by the Fund to the Responsible Entity or its associates in the period ended 31 December 2020 was \$8,063 (30 June 2020: \$32,750).

### **Responsible Entity fee and other transactions**

#### *Responsible Entity fee*

E&P Investments Limited, as Responsible Entity of the Fund, receives a fee for the performance of its duties under the constitution of the Fund. The Responsible Entity fee is 0.08% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. Effective upon implementation of the Restructure, the Fund's Constitution was amended which resulted in an increase to the Responsible Entity fee to 0.24% per annum.

For the period ended 31 December 2020, \$113,163 (31 December 2019: \$103,293), exclusive of GST, was paid or payable to the Responsible Entity.

#### *Trustee fee*

E&P Investment Services Pty Limited in its capacity as Trustee of Australian Property Opportunities Trust, a wholly owned subsidiary of the Fund, receives 0.10% per annum (exclusive of GST) for services provided under the terms of the Trust's trust deed. The Trustee fee is calculated on the gross asset value of the Trust, payable monthly. Effective upon implementation of the Restructure, the Trust Deed was amended to remove the Trustee fee.

For the period ended 31 December 2020, \$122,405 (31 December 2019: \$129,075), exclusive of GST, was paid or payable to the Trustee.

#### *Fund Administration fee*

E&P Funds Management Pty Limited (formerly known as Walsh & Company Asset Management Pty Limited), as Fund Manager of the Fund, receives a fee of 0.15% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. Effective upon implementation of the Restructure, the Fund Management Agreement was amended to remove the Fund Administration fee.

For the period ended 31 December 2020, \$183,739 (31 December 2019: \$193,773), exclusive of GST, was paid or payable to the Fund Manager.

#### *Investment Manager fee*

Fort Street Real Estate Capital Pty Limited (**Fort Street**), a related party of the Responsible Entity, is engaged as the Group's Investment Manager and receives a fee of 0.54% per annum (exclusive of GST) calculated on the gross assets of the Fund being payable monthly. Effective upon implementation of the Restructure, the Investment Management Agreement was amended which resulted in a reduction of the Investment Management fee to 0.54% per annum.



**12. Related party disclosures (continued)**

For the period ended 31 December 2020, \$695,627 (31 December 2019: \$695,637), exclusive of GST, was paid or payable to the Investment Manager.

*Property Manager fee*

Fort Street acts as Property Manager of the Trust and is responsible for managing and maintaining the property portfolio of the Trust, optimising tenancy profile and maximising returns. The Property Manager receives a fee of 3% per annum, payable monthly (exclusive of GST) calculated on the gross income value of the Trust.

For the period ended 31 December 2020, \$345,871 (31 December 2019: \$350,870), exclusive of GST, was paid or payable to the Property Manager.

*Development Manager fee*

Fort Street Real Estate Development Pty Ltd (**Development Manager**), a related party of the Responsible Entity, provides development management services to the Group where appropriate and on a non-exclusive basis. Services include scoping the design and construction for the development, retail design management, management of key consultants, budgeting, financial analysis, risk analysis, procurement and management of design services and procurement and management of construction services. For these services, the Development Manager receives a fee of 5% of the total development costs incurred in connection with a development.

For the period ended 31 December 2020, \$2,857 (31 December 2019: \$46,133), exclusive of GST, was paid or payable to the Development Manager.

*Leasing Services fee*

Fort Street Real Estate Leasing Pty Ltd (**Leasing Agent**), a related party of the Responsible Entity, provides tenant leasing services to the Group where appropriate and on a non-exclusive basis. Services include recommendation on new leases, lease renewals, rental negotiations, arrangement of lease agreements, collection of security under a lease, and preparation of disclosure statements for prospective tenants. For these services, the Leasing Manager receives a fee of 15% of the gross rent on new retail leases, and a fee of 7.5% of the gross rent on existing retail leases. The fee is capitalised and expensed over the lease period.

For the period ended 31 December 2020, \$341,115 (31 December 2019: \$13,739), exclusive of GST, was paid or payable to the Leasing Agent.

*Legal and consulting services*

The Responsible Entity entered into an agreement with MDA1 Pty Limited, trading as MA Law, to provide legal and consulting services to the Responsible Entity and the investment schemes under its control. Mike Adams, a director of the Responsible Entity, is also a director and shareholder of MDA1 Pty Limited. Mike Adams previously provided similar services as an employee of a non-related entity to the Fund.

For the period ended 31 December 2020, \$7,973 (31 December 2019: nil), exclusive of GST was paid or payable by the Group and included in the other expenses in the statement of profit or loss and other comprehensive income.

*Debt Advisory fee*

Fort Street Capital Pty Ltd, a related party of the Responsible Entity, receives a debt arranging fee for assistance in arranging new debt facility for the Group. For the period ended 31 December 2020, no fee (31 December 2019: \$103,000 exclusive of GST) was paid or payable by the Group. The fee has been capitalised to the costs of borrowings and amortised over the life of the loan.

*Financial Advisory fee*

Evans and Partners Pty Ltd (**Financial Advisor**, a subsidiary of E&P Financial Group Limited, who is the parent entity of the Responsible Entity), provided certain financial advisory services to the Responsible Entity in connection with the Restructure.

For the period ended 31 December 2020, \$323,193 (31 December 2019: nil), exclusive of GST, was paid or payable to the Financial Advisor.

**Fort Street Real Estate Capital Fund I**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**13. Capital commitments**

As at 31 December 2020, the Group committed \$1,933,737 (30 June 2020: \$545,442) as lease incentives arising from lease agreements.

**14. Contingent liability**

The directors of the Responsible Entity are not aware of any potential liabilities or claims against the Group as at the end of the reporting period.

**15. Events after the reporting period**

On 20 January 2021, the FSREC Property Fund announced a 31 December 2020 quarter distribution of 1.67 cents per stapled security which was paid on 10 February 2021. The Fund's portion of this distribution was 0.78 cents per unit.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Fort Street Real Estate Capital Fund I**  
**Directors' declaration**  
**31 December 2020**

The directors of the Responsible Entity declare that, in the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, including compliance with the Accounting Standards;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors of the Responsible Entity made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Stuart Nisbett', is written over a horizontal line.

Stuart Nisbett  
Chairman of E&P Investments Limited, Responsible Entity

12 March 2021

## **Independent Auditor's Review Report to the Unitholders of Fort Street Real Estate Capital Fund I**

### *Conclusion*

We have reviewed the half-year financial report of Fort Street Real Estate Capital Fund I ('the Fund'), which comprises the condensed consolidated statement of financial position as at 31 December 2020, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Fund and the entities it controlled at the end of the half-year or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Fund is not in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Fund's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### *Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Fund in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of E&P Investments Limited (the 'Responsible Entity'), would be in the same terms if given to the directors as at the time of this auditor's review report.

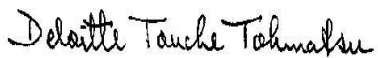
### *Directors' Responsibilities for the Half-year Financial Report*

The directors of the responsible entity (the 'Directors') are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

## *Auditor's Responsibilities for the Review of the Half-year Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Fund's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



DELOITTE TOUCHE TOHMATSU



Weng W Ching  
Partner  
Chartered Accountants

Sydney, 12 March 2021

**Fort Street Real Estate Capital Fund I  
Directory  
31 December 2020**

**Fort Street Real Estate Capital Fund I**

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**Directors**

Stuart Nisbett  
Mike Adams  
Warwick Keneally  
Peter Shear

**Secretaries**

Hannah Chan  
Caroline Purtell

**Investment Manager & Property Manager**

Fort Street Real Estate Capital Pty Limited  
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**Unit Registry**

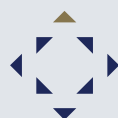
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T: +61 2 9290 9600 (International)  
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[boardroomlimited.com.au](http://boardroomlimited.com.au)

## RESPONSIBLE ENTITY

E&P Investments Limited  
(ACN 152 367 649) (AFSL 410 433)



E&P



# FORT STREET REAL ESTATE CAPITAL FUND II

(ARSN 169 190 498)



## HALF-YEAR FINANCIAL REPORT 31 DECEMBER 2020



E&P

(ACN 152 367 649) (AFSL 410 433)



## **Fort Street Real Estate Capital Fund II**

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**31 December 2020**

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**Fort Street Real Estate Capital Fund II**  
**Funds from operations**  
**31 December 2020**

Funds From Operations (**FFO**) is a non-International Financial Reporting Standards financial measure. FFO is a market accepted measure of a real estate investment fund's operating performance. FFO is used to facilitate understanding of a fund's performance. The Property Council of Australia provides best practice guidelines for the calculation of FFO, which have been followed by the Fund.

FFO is determined by adjusting statutory net profit or loss after tax for certain non-cash items such as depreciation, impairment and amortisation. Other one-off items may also be adjusted to provide a clearer indication of the Fund's half-year FFO.

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Profit after tax for the period</b>	<b>645,853</b>	<b>4,324,335</b>
<b>Adjustments:</b>		
Fair value movement of investment properties	1,643,251	(2,097,326)
Straight-lining of rental revenue and incentives amortisation	296,667	200,643
Other items and amortisation of capitalised lease costs	147,377	100,418
One-off professional fees	301,064	-
<b>FFO</b>	<b>3,034,212</b>	<b>2,528,070</b>
 <b>Distributions for the period</b>	 <b>864,926</b>	 <b>2,883,084</b>

**Fort Street Real Estate Capital Fund II**  
**Directors' report**  
**31 December 2020**

**Introduction**

The directors of E&P Investments Limited (formerly known as Walsh & Company Investments Limited), as Responsible Entity of Fort Street Real Estate Capital Fund II (**Fund**), present their report together with the half-year financial report for the Fund and the entities it controlled, (collectively referred to as the **Group**) for the half-year ended 31 December 2020.

**Directors**

The directors of the Responsible Entity at any time during or since the end of the half-year are listed below:

Stuart Nisbett  
Mike Adams  
Warwick Keneally  
Peter Shear

Directors were in office from the start of the half-year to the date of this report, unless otherwise stated.

**Review of financial results and operations**

On 23 December 2020, the Responsible Entity implemented the Proposal for Fort Street Real Estate Capital (**FSREC**) Funds I, II, III and IV as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020.

The implementation involved the acquisition of all the units in FSREC Fund IV by FSREC Fund I by way of a trust scheme of arrangement, and the subsequent Restructure of FSREC Funds I, II and III to form a stapled group, the FSREC Property Fund (**Restructure**). The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

**a) Financial results for the period**

The performance of the Group, as represented by the results of their operations for the respective period ended 31 December, was as follows:

	2020	2019
<b>Results</b>		
Total income (\$)	5,927,939	9,476,187
Total expense (\$)	(5,282,086)	(5,151,852)
Net operating profit (\$)	<u>645,853</u>	<u>4,324,335</u>

**b) Performance returns**

The performance returns shown in the table below are for the six and twelve months ended 31 December 2020, and have been calculated using the net asset value per unit for the Fund, which is after fees and expenses.

	6 months to 31 December 2020 %	12 months to 31 December 2020 %
<b>Performance returns</b>		
Growth return (a)	-	(4.29)
Distribution return (b)	0.81	1.74
Total return (c)	<u>0.81</u>	<u>(2.55)</u>

**Fort Street Real Estate Capital Fund II**  
**Directors' report**  
**31 December 2020**

- (a) The Growth return is calculated as a percentage by dividing the end of period net asset value per unit by the net asset value per unit at the start of the period minus 1.
- (b) The Distribution return is calculated as a percentage by subtracting the Growth return from the Total return.
- (c) The Total return is calculated as a percentage by dividing the end of period net asset value per unit (cum-distribution) by the net asset value per unit at the start of the period minus 1.

**Distributions**

Distributions paid during the financial half-year were as follows:

	2020 \$
1.26 cents per unit for the period ended 30 September 2020 paid on 3 November 2020	<u>864,926</u>

**Matters subsequent to the end of the financial half-year**

On 20 January 2021, the FSREC Property Fund announced a 31 December 2020 quarter distribution of 1.67 cents per stapled security which was paid on 10 February 2021. The Fund's portion of this distribution was 0.36 cents per unit.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the directors



Stuart Nisbett  
Chairman of E&P Investments Limited, Responsible Entity

12 March 2021

12 March 2021

The Board of Directors  
E&P Investments Limited as Responsible Entity for:  
Fort Street Real Estate Capital Fund II  
Level 15, 100 Pacific Highway  
NORTH SYDNEY NSW 2060

Dear Board Members

## **Auditor's Independence Declaration to Fort Street Real Estate Capital Fund II**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of the Responsible Entity of Fort Street Real Estate Capital Fund II.

As lead audit partner for the review of the financial statements of Fort Street Real Estate Capital Fund II for the financial half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Weng W Ching  
Partner  
Chartered Accountants

**Fort Street Real Estate Capital Fund II**  
**Condensed consolidated statement of profit or loss and other comprehensive income**  
**For the half-year ended 31 December 2020**

	<b>Note</b>	<b>31 December 2020 \$</b>	<b>31 December 2019 \$</b>
<b>Revenue</b>			
Rental income		6,451,969	6,372,182
Other property income		1,118,694	1,004,345
Finance income		527	2,334
Fair value movement of investment properties	4	(1,643,251)	2,097,326
Total revenue		<u>5,927,939</u>	<u>9,476,187</u>
<b>Expenses</b>			
Investment property expenses		(2,756,250)	(2,687,170)
Finance expense		(1,020,428)	(1,154,645)
Responsible entity and trustee fee	11	(169,576)	(167,847)
Management fees	11	(871,242)	(874,710)
Accounting and audit fees		(67,303)	(43,780)
Other expenses		(397,287)	(223,700)
Total expenses		<u>(5,282,086)</u>	<u>(5,151,852)</u>
<b>Profit before income tax expense</b>		645,853	4,324,335
Income tax expense		-	-
<b>Profit after income tax expense for the half-year</b>		645,853	4,324,335
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedge		214,513	31,794
Other comprehensive income for the half-year, net of tax		214,513	31,794
<b>Total comprehensive income for the half-year</b>		<u>860,366</u>	<u>4,356,129</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per unit	3	0.94	6.30
Diluted earnings per unit	3	0.94	6.30

*The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Fort Street Real Estate Capital Fund II**  
**Condensed consolidated statement of financial position**  
**As at 31 December 2020**

		<b>31 December</b>	
	<b>Note</b>	<b>2020</b>	<b>30 June 2020</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		2,316,301	2,064,790
Trade and other receivables		691,326	1,007,345
Prepayments		213,760	233,905
Total current assets		<u>3,221,387</u>	<u>3,306,040</u>
<b>Non-current assets</b>			
Investment properties	4	<u>178,100,000</u>	<u>178,600,000</u>
Total non-current assets		<u>178,100,000</u>	<u>178,600,000</u>
<b>Total assets</b>		<u>181,321,387</u>	<u>181,906,040</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	5	2,395,838	2,124,560
Borrowings	6	71,432,179	-
Derivative financial instruments		372,706	468,366
Distributions payable		-	729,020
Total current liabilities		<u>74,200,723</u>	<u>3,321,946</u>
<b>Non-current liabilities</b>			
Borrowings	6	-	71,340,017
Derivative financial instruments		-	118,853
Total non-current liabilities		<u>-</u>	<u>71,458,870</u>
<b>Total liabilities</b>		<u>74,200,723</u>	<u>74,780,816</u>
<b>Net assets</b>		<u>107,120,664</u>	<u>107,125,224</u>
<b>Equity</b>			
Issued capital	7	106,200,663	106,200,663
Cash flow hedge reserve	8	(372,706)	(587,219)
Retained profits		<u>1,292,707</u>	<u>1,511,780</u>
<b>Total equity</b>		<u>107,120,664</u>	<u>107,125,224</u>

*The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes*

**Fort Street Real Estate Capital Fund II**  
**Condensed consolidated statement of changes in equity**  
**For the half-year ended 31 December 2020**

	<b>Issued capital</b>	<b>Cash flow hedge reserve</b>	<b>Retained profits</b>	<b>Total equity</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 July 2019	106,200,663	(501,644)	4,416,546	110,115,565
Profit after income tax expense for the half-year	-	-	4,324,335	4,324,335
Other comprehensive income for the half-year, net of tax	-	31,794	-	31,794
Total comprehensive income for the half-year	-	31,794	4,324,335	4,356,129
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Distributions paid/declared	-	-	(2,883,084)	(2,883,084)
Balance at 31 December 2019	<u>106,200,663</u>	<u>(469,850)</u>	<u>5,857,797</u>	<u>111,588,610</u>

	<b>Issued capital</b>	<b>Cash flow hedge reserve</b>	<b>Retained profits</b>	<b>Total equity</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Balance at 1 July 2020	106,200,663	(587,219)	1,511,780	107,125,224
Profit after income tax expense for the half-year	-	-	645,853	645,853
Other comprehensive income for the half-year, net of tax	-	214,513	-	214,513
Total comprehensive income for the half-year	-	214,513	645,853	860,366
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Distributions paid	-	-	(864,926)	(864,926)
Balance at 31 December 2020	<u>106,200,663</u>	<u>(372,706)</u>	<u>1,292,707</u>	<u>107,120,664</u>

*The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes*



**Fort Street Real Estate Capital Fund II**  
**Condensed consolidated statement of cash flows**  
**For the half-year ended 31 December 2020**

	<b>31 December 2020 \$</b>	<b>31 December 2019 \$</b>
<b>Cash flows from operating activities</b>		
Rental and other income received	8,547,449	8,308,422
Interest income received	535	2,414
Payment to suppliers	(5,053,889)	(4,688,065)
Finance costs	(934,060)	(981,569)
Net cash from operating activities	<u>2,560,035</u>	<u>2,641,202</u>
<b>Cash flows from investing activities</b>		
Payments for capital expenditure	<u>(722,825)</u>	<u>(721,368)</u>
Net cash used in investing activities	<u>(722,825)</u>	<u>(721,368)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	-	750,000
Payments of transaction costs relating to loans and borrowings	-	(178,201)
Distributions paid	<u>(1,585,699)</u>	<u>(2,883,084)</u>
Net cash used in financing activities	<u>(1,585,699)</u>	<u>(2,311,285)</u>
Net increase/(decrease) in cash and cash equivalents	251,511	(391,451)
Cash and cash equivalents at the beginning of the financial half-year	<u>2,064,790</u>	<u>2,192,862</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>2,316,301</u></u>	<u><u>1,801,411</u></u>

*The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes*

**Fort Street Real Estate Capital Fund II**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**1. General information**

Fort Street Real Estate Capital Fund II (**Fund**) is an unlisted managed investment scheme registered and domiciled in Australia.

The financial statements comprise the Fund and entities controlled by the Fund (collectively referred to as the **Group**). The principal activity of the Group is to invest in Australian commercial property.

This half-year financial report is intended to provide users with an update on the latest annual financial statements of the Group. The half-year financial report does not include notes of the type normally included in an annual financial report and it is therefore recommended that this half-year financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2020, together with any public announcements made during the half-year.

**Statement of compliance**

These condensed consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards (**IFRS**) IAS 34 Interim Financial Reporting.

For the purposes of preparing the condensed consolidated financial statements, the Group is a for-profit entity.

The condensed consolidated financial statements were authorised for issue by the board of directors of the Responsible Entity, E&P Investments Limited, on 12 March 2021.

**Basis of preparation**

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's Annual financial report for the year ended 30 June 2020.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to its operations and effective for the current half-year.

**Restructure of the Funds**

On 23 December 2020, the Responsible Entity implemented the Proposal for the restructure of Fort Street Real Estate Capital (**FSREC**) Funds I, II, III and IV (**Restructure**) as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020. The Restructure was approved by FSREC Funds I, II, III and IV unitholders on 30 October 2020.

The Restructure comprised:

- FSREC Fund I's acquisition of all of the units in FSREC Fund IV by way of a trust scheme of arrangement.
- A restructure of the remaining funds, FSREC Fund I, FSREC Fund II and FSREC Fund III, to form a stapled group, resulting in the formation of the FSREC Property Fund. In forming the stapled group, the issued units of FSREC Fund I were stapled with the issued units of FSREC Fund II and FSREC Fund III.

The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

**2. Working capital**

As at 31 December 2020, the Group had total current assets of \$3,221,387 (30 June 2020: \$3,306,040) and a finance facility available for drawdown totalling \$4,000,000 (30 June 2020: \$4,000,000) against total current liabilities of \$74,200,723 (30 June 2020: \$3,321,946).

At the date of this report, management are in discussions to refinance the current facility by the repayment date of 31 December 2021, and the Board's reasonable expectation is a refinance on acceptable terms will be successful.

**Fort Street Real Estate Capital Fund II**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**3. Earnings per unit**

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>\$</b>	<b>\$</b>
Profit after income tax	<u>645,853</u>	<u>4,324,335</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary units used in calculating basic earnings per unit	<u>68,644,678</u>	<u>68,644,678</u>
Weighted average number of ordinary units used in calculating diluted earnings per unit	<u>68,644,678</u>	<u>68,644,678</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per unit	0.94	6.30
Diluted earnings per unit	0.94	6.30

**4. Investment properties**

	<b>31 December 2020</b>	<b>30 June 2020</b>
	<b>\$</b>	<b>\$</b>
<i>Non-current assets</i>		
Investment properties - at fair value	<u>178,100,000</u>	<u>178,600,000</u>
<i>Movement in investment properties</i>		
Carrying amount of investment properties at beginning of period	178,600,000	179,000,000
Capital expenditure	852,592	1,585,568
Rental straight-lining, tenant incentives and other adjustments	290,659	1,144,544
Fair value movement of investment properties	<u>(1,643,251)</u>	<u>(3,130,112)</u>
Carrying amount of investment properties at end of period	<u>178,100,000</u>	<u>178,600,000</u>

**Fort Street Real Estate Capital Fund II**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**4. Investment properties (continued)**

*Fair value*

At reporting date, the Group's investment properties consist of five commercial properties in Australia which are carried at fair value.

The 31 December 2020 fair value amounts were determined by way of independent valuation on all investment properties using a combination of discounted cash flow (**DCF**) and capitalisation rate methods based on market conditions existing at balance date. In determining the fair value of investment properties, assumptions related to the impacts of COVID-19 have been taken into account. However, there are increased uncertainties around these assumptions due to the unknown impact from this pandemic on the operational and financial performance of the investment properties in the future.

Consequently, the independent valuers have included a statement in their valuation reports highlighting a "material valuation uncertainty". This statement serves as a precaution and does not invalidate the valuation and does not mean the valuation cannot be relied upon. It is intended to highlight that due to the current extraordinary circumstances, less certainty can be attached to the valuation. The Directors of the Responsible Entity have concluded that notwithstanding these factors, the valuation report represents the best estimate of the fair value of investment properties for financial reporting as at 31 December 2020.

The valuation techniques utilise inputs categorised as level 3 in the fair value hierarchy, being based on unobservable market inputs. The key unobservable inputs include the maintainable earnings and capitalisation rate (range 5.75% - 6.25%) applied in the capitalisation rate method and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates (range 6.50% - 7.50%) applied in the DCF method. A reduction in capitalisation and discount rates and an increase in maintainable earnings and rental growth rates would result in an increase in fair value, and vice versa.

Refer to note 9 for further information on fair value measurement.

**5. Trade and other payables**

	<b>31 December 2020</b>	<b>30 June 2020</b>
	\$	\$
<i>Current liabilities</i>		
Trade payables	666,075	322,253
Accrued liabilities	771,577	930,024
Contract liabilities (deferred income)	809,056	711,286
GST payable	140,883	160,997
Other liabilities	8,247	-
	<u>2,395,838</u>	<u>2,124,560</u>

**6. Borrowings**

	<b>31 December 2020</b>	<b>30 June 2020</b>
	\$	\$
<i>Current liabilities</i>		
Secured bank loan - net of borrowing costs	<u>71,432,179</u>	-
<i>Non-current liabilities</i>		
Secured bank loan - net of borrowing costs	-	<u>71,340,017</u>
	<u>71,432,179</u>	<u>71,340,017</u>

**Fort Street Real Estate Capital Fund II**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**6. Borrowings (continued)**

*Financing arrangements*

As at 31 December 2020, the Group had a \$76 million loan facility (30 June 2020: \$76 million) with National Australia Bank Limited at a variable interest rate with reference to the Bank Bill Swap Rate (**BBSY**) repayable on 31 December 2021.

	<b>31 December 2020 \$</b>	<b>30 June 2020 \$</b>
Total facilities		
Secured bank loan facilities	<u>75,615,000</u>	<u>75,615,000</u>
Used at the reporting date		
Secured bank loan facilities	<u>71,615,000</u>	<u>71,615,000</u>
Unused at the reporting date		
Secured bank loan facilities	<u>4,000,000</u>	<u>4,000,000</u>

To take advantage of the low interest rate environment, the Group has entered into an interest rate swap contract with a notional amount of \$32 million (30 June 2020: \$32 million), whereby the Group pays a fixed rate of interest and receives a variable rate based on BBSY (1 month) on the notional amount. At 31 December 2020, after taking into account the interest rate swap, 45% (30 June 2020: 45%) of the Group's borrowings are fully hedged. The Group's average cost of drawn debt is approximately 2.77% (30 June 2020: 3.18%) (excluding costs relating to undrawn debt).

The drawdown amount is secured against investment properties held by the Group with a carrying value of \$178.1 million at balance date and is subject to compliance with specified covenants and other requirements.

At the date of this report, management are in discussions to refinance the four existing debt facilities maturing in December 2021, into a single debt facility with longer tenure.

There were no defaults or covenant breaches with respect to the loan during half-year.

**7. Issued capital**

	<b>31 December 2020 Units</b>	<b>30 June 2020 Units</b>	<b>31 December 2020 \$</b>	<b>30 June 2020 \$</b>
Balance at the beginning of the period	68,644,678	68,644,678	106,200,663	106,200,663
Conversion of units on issue on a 0.9954 for 1 basis	(318,642)	-	-	-
Issue of units in relation to the stapling with FSREC Fund I	145,989,295	-	-	-
Issue of units in relation to the stapling with FSREC Fund III	<u>98,316,800</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at the end of the period	<u><u>312,632,131</u></u>	<u><u>68,644,678</u></u>	<u><u>106,200,663</u></u>	<u><u>106,200,663</u></u>

As disclosed in Note 1, as a result of the restructure of the Funds during the period, the issued units of FSREC Fund I are stapled with the issued units of FSREC Fund II and FSREC Fund III. The total number of stapled units at 31 December 2020 was 312,632,131 and are fully paid. The holders of stapled units are entitled to receive distributions as declared from time to time by the Responsible Entity and are entitled to one vote per unit at the meetings of the Fund. The units in FSREC Fund I, FSREC Fund II and FSREC Fund III cannot be disposed or transferred separately and can only be disposed or transferred as stapled securities.

**Fort Street Real Estate Capital Fund II**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**8. Cash flow hedge reserve**

	<b>31 December 2020 \$</b>	<b>30 June 2020 \$</b>
Cash flow hedge reserve	<u>(372,706)</u>	<u>(587,219)</u>

The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of the interest rate swap held by the Group.

*Movements in reserves*

Movements in each class of reserve during the current financial period are set out below:

	Cash flow hedge reserve \$
Balance at 1 July 2020	(587,219)
- Unrealised gains on cash flow hedge reserve	(42,285)
- Realised losses transferred to profit or loss as finance expense	<u>256,798</u>
Balance at 31 December 2020	<u><u>(372,706)</u></u>

**9. Fair value measurement**

**Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis**

The Group measures fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

**Level 1:** quoted prices (unadjusted) in active markets for identical financial assets and liabilities that the entity can access at the measurement date

**Level 2:** inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly (as price) or indirectly (derived from prices)

**Level 3:** unobservable inputs for the financial asset or liability.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>31 December 2020</b>				
<i>Assets</i>				
Investment properties	-	-	178,100,000	178,100,000
Total assets	<u>-</u>	<u>-</u>	<u>178,100,000</u>	<u>178,100,000</u>
<i>Liabilities</i>				
Cash flow hedge	-	372,706	-	372,706
Total liabilities	<u>-</u>	<u>372,706</u>	<u>-</u>	<u>372,706</u>

**Fort Street Real Estate Capital Fund II**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**9. Fair value measurement (continued)**

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>30 June 2020</b>				
<i>Assets</i>				
Investment properties	-	-	178,600,000	178,600,000
Total assets	-	-	178,600,000	178,600,000
<i>Liabilities</i>				
Cash flow hedge	-	587,219	-	587,219
Total liabilities	-	587,219	-	587,219

An interest rate swap contract has been entered into by the Group to hedge the exposure to the variable interest rate payments on the variable secured bank loan (refer to note 6 for details). The loan and interest rate swap have the same critical terms. Cash flows are recognised through profit or loss.

The aggregate fair value of the interest rate swap at the reporting date was a liability of \$372,706 (30 June 2020: \$587,219).

The valuation technique applied to fair value the swap derivative includes traditional swap models, using present value calculations.

The Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no transfers between fair value hierarchy levels during the financial half-year.

**Fair value of the Group's assets and liabilities that are not measured at fair value on a recurring basis**

The fair value of financial assets and financial liabilities which are not measured at fair value on a recurring basis approximate their carrying amounts at the reporting date.

**10. Controlled entities**

Name	Principal place of business / Country of incorporation	Ownership interest 31 December	
		2020 %	30 June 2020 %
Australian Property Opportunities Trust II	Australia	100.00%	100.00%
APOTII No.1	Australia	100.00%	100.00%

**11. Related party disclosures**

**Key management personnel**

Stuart Nisbett, Mike Adams, Warwick Keneally and Peter Shear are directors of the Responsible Entity of the Fund, E&P Investments Limited, and are deemed to be key management personnel.

Warwick Keneally is also a director of the Trustee of Australian Property Opportunities Trust II (**Trust**), E&P Investment Services Pty Limited (formerly known as Walsh & Company Investment Services Pty Limited).

Key management personnel are not compensated by the Fund or by the Responsible Entity directly for the management function provided to the Fund.

**Fort Street Real Estate Capital Fund II**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**11. Related party disclosures (continued)**

**Related party investments in the Fund**

As at 31 December 2020, the Responsible Entity or its associates held 248,842 stapled units (30 June 2020: 250,000 units), representing 0.08% interest in the FSREC Property Fund (30 June 2020: 0.36% interest in the Fund).

Distributions paid or payable by the Fund to the Responsible Entity or its associates in the period ended 31 December 2020 was \$3,150 (30 June 2020: \$14,450).

**Responsible Entity fee and other transactions**

*Responsible Entity fee*

E&P Investments Limited, as Responsible Entity of the Fund, receives a fee for the performance of its duties under the constitution of the Fund. The Responsible Entity fee is 0.08% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. Effective upon implementation of the Restructure, the Fund's Constitution was amended which resulted in an increase to the Responsible Entity fee to 0.24% per annum.

For the period ended 31 December 2020, \$80,160 (31 December 2019: \$73,144), exclusive of GST, was paid or payable to the Responsible Entity.

*Trustee fee*

E&P Investment Services Pty Limited in its capacity as Trustee of Australian Property Opportunities Trust II, a wholly owned subsidiary of the Fund, receives a fee of 0.10% per annum (exclusive of GST) for services provided under the terms of the Trust's trust deed. The Trustee fee is calculated on the gross asset value of the Trust, payable monthly. Effective upon implementation of the Restructure, the Trust Deed was amended to remove the Trustee fee.

For the period ended 31 December 2020, \$86,792 (31 December 2019: \$91,331), exclusive of GST, was paid or payable to the Trustee.

*Investment Manager fee*

Fort Street Real Estate Capital Pty Limited (**Fort Street**), a related party of the Responsible Entity, is engaged as the Group's Investment Manager. Effective upon implementation of the Restructure, the Investment Management Agreement was amended which resulted in an Investment Manager fee of 0.54% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly.

For the period ended 31 December 2020, \$24,202 (31 December 2019: \$nil), exclusive of GST, was paid or payable to the Investment Manager.

*Fund Manager fee*

E&P Funds Management Pty Limited (formerly known as Walsh & Company Asset Management Pty Limited), as Fund Manager of the Fund receives a fee of 0.69% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. Effective upon implementation of the Restructure, the Fund Management Agreement was amended to remove the Fund Manager fee.

For the period ended 31 December 2020, \$613,855 (31 December 2019: \$631,238), exclusive of GST, was paid or payable to the Fund Manager.

*Property Manager fee*

Fort Street acts as Property Manager of the Trust and is responsible for managing and maintaining the property portfolio of the Trust, optimising tenancy profile and maximising returns. The Property Manager receives a fee of 3% per annum, payable monthly (exclusive of GST) calculated on the gross income value of the Trust.

For the period ended 31 December 2020, \$233,186 (31 December 2019: \$225,287), exclusive of GST, was paid or payable to the Property Manager.



**Fort Street Real Estate Capital Fund II**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**11. Related party disclosures (continued)**

*Development Manager fee*

Fort Street Real Estate Development Pty Ltd (**Development Manager**), a related party of the Responsible Entity, provides development management services to the Group where appropriate and on a non-exclusive basis. Services include scoping the design and construction for the development, retail design management, management of key consultants, budgeting, financial analysis, risk analysis, procurement and management of design services and procurement and management of construction services. For these services, the Development Manager receives a fee of 5% of the total development costs incurred in connection with a development.

For the period ended 31 December 2020, \$23,879 (31 December 2019: \$28,292), exclusive of GST, was paid or payable to the Development Manager.

*Leasing Services fee*

Fort Street Real Estate Leasing Pty Ltd (**Leasing Agent**), a related party of the Responsible Entity, provides tenant leasing services to the Group where appropriate and on a non-exclusive basis. Services include recommendation on new leases, lease renewals, rental negotiations, arrangement of lease agreements, collection of security under a lease, and preparation of disclosure statements for prospective tenants. For these services, the Leasing Manager receives a fee of 15% of the gross rent on new retail leases, and a fee of 7.5% of the gross rent on existing retail leases. The fee is capitalised and expensed over the lease period.

For the period ended 31 December 2020, \$71,499 (31 December 2019: \$32,662), exclusive of GST, was paid or payable to the Leasing Agent.

*Legal and consulting services*

The Responsible Entity entered into an agreement with MDA1 Pty Limited, trading as MA Law, to provide legal and consulting services to the Responsible Entity and the investment schemes under its control. Mike Adams, a director of the Responsible Entity, is also a director and shareholder of MDA1 Pty Limited. Mike Adams previously provided similar services as an employee of a non-related entity to the Fund.

For the period ended 31 December 2020, \$10,925 (31 December 2019: nil), exclusive of GST was paid or payable by the Group and included in the other expenses in the statement of profit or loss and other comprehensive income.

*Debt Advisory fee*

Fort Street Capital Pty Ltd, a related party of the Responsible Entity, receives a debt arranging fee for assistance in arranging new debt facility for the Group.

For the period ended 31 December 2020, no fee (31 December 2019: \$75,600), exclusive of GST, was paid or payable by the Group. The fee has been capitalised to the costs of borrowings and amortised over the life of the loan.

*Financial Advisory fee*

Evans and Partners Pty Ltd (**Financial Advisor**, a subsidiary of E&P Financial Group Limited, who is the parent entity of the Responsible Entity), provided certain financial advisory services to the Responsible Entity in connection with the Restructure.

For the period ended 31 December 2020, \$218,819 (31 December 2019: nil), exclusive of GST, was paid or payable to the Financial Advisor.

**12. Capital commitments**

As at 31 December 2020, the Group committed \$693,777 (30 June 2020: \$342,562) as lease incentives arising from lease agreements.

**13. Contingent liability**

The directors of the Responsible Entity are not aware of any potential liabilities or claims against the Group as at the end of the reporting period.

**Fort Street Real Estate Capital Fund II**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**14. Events after the reporting period**

On 20 January 2021, the FSREC Property Fund announced a 31 December 2020 quarter distribution of 1.67 cents per stapled security which was paid on 10 February 2021. The Fund's portion of this distribution was 0.36 cents per unit.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Fort Street Real Estate Capital Fund II**  
**Directors' declaration**  
**31 December 2020**

The directors of the Responsible Entity declare that, in the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, including compliance with the Accounting Standards;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors of the Responsible Entity made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'S. Nisbett', is written over a horizontal line.

Stuart Nisbett  
Chairman of E&P Investments Limited, Responsible Entity

12 March 2021

## **Independent Auditor's Review Report to the Unitholders of Fort Street Real Estate Capital Fund II**

### *Conclusion*

We have reviewed the half-year financial report of Fort Street Real Estate Capital Fund II ('the Fund'), which comprises the condensed consolidated statement of financial position as at 31 December 2020, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Fund and the entities it controlled at the end of the half-year or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Fund is not in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Fund's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### *Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Fund in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of E&P Investments Limited (the 'Responsible Entity'), would be in the same terms if given to the directors as at the time of this auditor's review report.

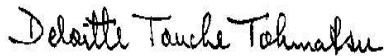
### *Directors' Responsibilities for the Half-year Financial Report*

The directors of the responsible entity (the 'Directors') are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.


## *Auditor's Responsibilities for the Review of the Half-year Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Fund's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



DELOITTE TOUCHE TOHMATSU



Weng W Ching  
Partner  
Chartered Accountants

Sydney, 12 March 2021

**Fort Street Real Estate Capital Fund II  
Directory  
31 December 2020**

**Fort Street Real Estate Capital Fund II**

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**Responsible Entity**

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[deloitte.com.au](http://deloitte.com.au)

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Stuart Nisbett  
Mike Adams  
Warwick Keneally  
Peter Shear

**Unit Registry**

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**Secretaries**

Hannah Chan  
Caroline Purtell

**Investment Manager & Property Manager**

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## RESPONSIBLE ENTITY

E&P Investments Limited  
(ACN 152 367 649) (AFSL 410 433)





# HALF-YEAR FINANCIAL REPORT

## 31 DECEMBER 2020





## **Fort Street Real Estate Capital Fund III**

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**31 December 2020**

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**Fort Street Real Estate Capital Fund III**  
**Funds from operations**  
**31 December 2020**

Funds From Operations (**FFO**) is a non-International Financial Reporting Standards financial measure. FFO is a market accepted measure of a real estate investment fund's operating performance. FFO is used to facilitate understanding of a fund's performance. The Property Council of Australia provides best practice guidelines for the calculation of FFO, which have been followed by the Fund.

FFO is determined by adjusting statutory net profit or loss after tax for certain non-cash items such as depreciation, impairment and amortisation. Other one-off items may also be adjusted to provide a clearer indication of the Fund's half-year FFO.

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Profit after tax for the period</b>	<b>3,929,094</b>	<b>4,549,603</b>
<b>Adjustments:</b>		
Fair value movement of investment properties	(925,388)	(1,142,112)
Straight-lining of rental revenue and incentives amortisation	687,532	696,653
Other Items and amortisation of capitalised lease costs	15,656	41,084
One-off professional fees	459,797	-
<b>FFO</b>	<b>4,166,692</b>	<b>4,145,228</b>
<b>Distributions for the period</b>	<b>1,389,031</b>	<b>3,968,672</b>

## Fort Street Real Estate Capital Fund III

### Directors' report

31 December 2020

#### Introduction

The directors of E&P Investments Limited (formerly known as Walsh & Company Investments Limited), as Responsible Entity of Fort Street Real Estate Capital Fund III (**Fund**), present their report together with the half-year financial report for the Fund and the entities it controlled, (collectively referred to as the **Group**) for the half-year ended 31 December 2020.

#### Directors

The directors of the Responsible Entity at any time during or since the end of the half-year are listed below:

Stuart Nisbett  
Mike Adams  
Warwick Keneally  
Peter Shear

Directors were in office from the start of the half-year to the date of this report, unless otherwise stated.

#### Review of financial results and operations

On 23 December 2020, the Responsible Entity implemented the Proposal for Fort Street Real Estate Capital (**FSREC**) Funds I, II, III and IV as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020.

The implementation involved the acquisition of all the units in FSREC Fund IV by FSREC Fund I by way of a trust scheme of arrangement, and the subsequent Restructure of FSREC Funds I, II and III to form a stapled group, the FSREC Property Fund (**Restructure**). The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

#### a) Financial results for the period

The performance of the Group, as represented by the results of their operations for the respective period ended 31 December, was as follows:

	2020	2019
<b>Results</b>		
Total income (\$)	9,987,687	10,114,613
Total expense (\$)	(6,058,593)	(5,565,010)
Net operating profit (\$)	<u>3,929,094</u>	<u>4,549,603</u>

#### b) Performance returns

The performance returns shown in the table below are for the six and twelve months ended 31 December 2020, and have been calculated using the net asset value per unit for the Fund, which is after fees and expenses.

	6 months to 31 December 2020 %	12 months to 31 December 2020 %
<b>Performance returns</b>		
Growth return (a)	2.03	(1.31)
Distribution return (b)	<u>0.90</u>	<u>1.93</u>
Total return (c)	<u>2.93</u>	<u>0.62</u>

**Fort Street Real Estate Capital Fund III****Directors' report****31 December 2020**

(a) The Growth return is calculated as a percentage by dividing the end of period net asset value per unit by the net asset value per unit at the start of the period minus 1.

(b) The Distribution return is calculated as a percentage by subtracting the Growth return from the Total return.

(c) The Total return is calculated as a percentage by dividing the end of period net asset value per unit (cum-distribution) by the net asset value per unit at the start of the period minus 1.

**Distributions**

Distributions paid during the financial half-year were as follows:

	2020 \$
1.33 cents per unit for the period ended 30 September 2020 paid on 3 November 2020	<u>1,389,031</u>

**Matters subsequent to the end of the financial half-year**

On 20 January 2021, the FSREC Property Fund announced a 31 December 2020 quarter distribution of 1.67 cents per stapled unit which was paid on 10 February 2021. The Fund's portion of this distribution was 0.53 cents per unit.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



Stuart Nisbett  
Chairman of E&P Investments Limited, Responsible Entity

12 March 2021

12 March 2021

The Board of Directors  
E&P Investments Limited as Responsible Entity for:  
Fort Street Real Estate Capital Fund III  
Level 15  
100 Pacific Highway  
NORTH SYDNEY NSW 2060

Dear Board Members

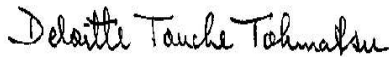
**Auditor's Independence Declaration to Fort Street Real Estate Capital Fund III**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of the Responsible Entity of Fort Street Real Estate Capital Fund III.

As lead audit partner for the review of the financial statements of Fort Street Real Estate Capital Fund III for the financial half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Weng W Ching  
Partner  
Chartered Accountants

**Fort Street Real Estate Capital Fund III**  
**Condensed consolidated statement of profit or loss and other comprehensive income**  
**For the half-year ended 31 December 2020**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue</b>			
Rental income		6,929,699	6,940,119
Other property income		2,131,587	2,030,479
Finance income		1,013	1,903
Fair value movement of investment properties	4	925,388	1,142,112
Total revenue		<u>9,987,687</u>	<u>10,114,613</u>
<b>Expenses</b>			
Responsible entity and trustee fee	11	(219,504)	(218,154)
Management fees	11	(1,097,760)	(1,103,494)
Investment property expense		(2,336,630)	(2,345,419)
Accounting and audit fees		(47,447)	(61,838)
Finance expenses		(1,796,326)	(1,713,646)
Other expenses		(560,926)	(122,459)
Total expenses		<u>(6,058,593)</u>	<u>(5,565,010)</u>
<b>Profit before income tax expense</b>		3,929,094	4,549,603
Income tax expense		<u>-</u>	<u>-</u>
<b>Profit after income tax expense for the half-year</b>		3,929,094	4,549,603
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedge		498,591	216,456
Other comprehensive income for the half-year, net of tax		498,591	216,456
<b>Total comprehensive income for the half-year</b>		<u>4,427,685</u>	<u>4,766,059</u>
Profit for the half-year is attributable to:			
Non-controlling interest		861	763
Unitholders of Fort Street Real Estate Capital Fund III		3,928,233	4,548,840
		<u>3,929,094</u>	<u>4,549,603</u>
Total comprehensive income for the half-year is attributable to:			
Non-controlling interest		861	763
Unitholders of Fort Street Real Estate Capital Fund III		4,426,824	4,765,296
		<u>4,427,685</u>	<u>4,766,059</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per unit	3	3.76	4.36
Diluted earnings per unit	3	3.76	4.36

*The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Fort Street Real Estate Capital Fund III**  
**Condensed consolidated statement of financial position**  
**As at 31 December 2020**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December</b>	<b>30 June 2020</b>
		<b>2020</b>	<b>2020</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		3,092,192	2,672,269
Trade and other receivables		814,679	510,690
Prepayments		139,700	249,968
Total current assets		<u>4,046,571</u>	<u>3,432,927</u>
<b>Non-current assets</b>			
Investment properties	4	<u>235,000,000</u>	<u>233,750,000</u>
Total non-current assets		<u>235,000,000</u>	<u>233,750,000</u>
<b>Total assets</b>		<u>239,046,571</u>	<u>237,182,927</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	5	2,537,267	2,139,284
Borrowings	6	77,954,090	-
Derivative financial instruments		1,370,901	839,548
Distributions payable		-	1,190,803
Total current liabilities		<u>81,862,258</u>	<u>4,169,635</u>
<b>Non-current liabilities</b>			
Borrowings	6	-	77,837,388
Derivative financial instruments		-	1,029,944
Total non-current liabilities		<u>-</u>	<u>78,867,332</u>
<b>Total liabilities</b>		<u>81,862,258</u>	<u>83,036,967</u>
<b>Net assets</b>		<u>157,184,313</u>	<u>154,145,960</u>
<b>Equity</b>			
Issued capital	7	161,130,403	161,130,403
Cash flow hedge reserve	8	(1,370,901)	(1,869,492)
Accumulated losses		(2,600,215)	(5,139,417)
Equity attributable to the Unitholders of Fort Street Real Estate Capital Fund III		<u>157,159,287</u>	<u>154,121,494</u>
Non-controlling interest		<u>25,026</u>	<u>24,466</u>
<b>Total equity</b>		<u>157,184,313</u>	<u>154,145,960</u>

*The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes*

**Fort Street Real Estate Capital Fund III**  
**Condensed consolidated statement of changes in equity**  
**For the half-year ended 31 December 2020**

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Cash flow hedge reserve \$</b>	<b>Accumulated losses/ Retained profits \$</b>	<b>Non- controlling interest (NCI) \$</b>	<b>Total equity \$</b>
Balance at 1 July 2019	161,130,403	(1,878,061)	(241,144)	25,231	159,036,429
Profit after income tax expense for the half-year	-	-	4,548,840	763	4,549,603
Other comprehensive income for the half-year, net of tax	-	216,456	-	-	216,456
Total comprehensive income for the half-year	-	216,456	4,548,840	763	4,766,059
Distributions paid to NCI	-	-	-	(673)	(673)
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Distributions paid/declared	-	-	(3,968,672)	-	(3,968,672)
Balance at 31 December 2019	<u>161,130,403</u>	<u>(1,661,605)</u>	<u>339,024</u>	<u>25,321</u>	<u>159,833,143</u>

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Cash flow hedge reserve \$</b>	<b>Accumulated losses \$</b>	<b>Non- controlling interest (NCI) \$</b>	<b>Total equity \$</b>
Balance at 1 July 2020	161,130,403	(1,869,492)	(5,139,417)	24,466	154,145,960
Profit after income tax expense for the half-year	-	-	3,928,233	861	3,929,094
Other comprehensive income for the half-year, net of tax	-	498,591	-	-	498,591
Total comprehensive income for the half-year	-	498,591	3,928,233	861	4,427,685
Distributions paid to NCI	-	-	-	(301)	(301)
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Distributions paid	-	-	(1,389,031)	-	(1,389,031)
Balance at 31 December 2020	<u>161,130,403</u>	<u>(1,370,901)</u>	<u>(2,600,215)</u>	<u>25,026</u>	<u>157,184,313</u>

*The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes*



**Fort Street Real Estate Capital Fund III**  
**Condensed consolidated statement of cash flows**  
**For the half-year ended 31 December 2020**

	<b>Consolidated</b>	
	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Rental and other income received	10,442,135	10,157,372
Interest income received	1,089	2,194
Payment to suppliers	(5,396,101)	(4,294,685)
Finance costs	(1,646,327)	(1,568,162)
Net cash from operating activities	<u>3,400,796</u>	<u>4,296,719</u>
<b>Cash flows from investing activities</b>		
Payments for capital expenditure	<u>(381,845)</u>	<u>(628,748)</u>
Net cash used in investing activities	<u>(381,845)</u>	<u>(628,748)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	-	850,000
Payments of transaction cost relating to loans and borrowings	(18,893)	-
Distributions paid	<u>(2,580,135)</u>	<u>(3,969,356)</u>
Net cash used in financing activities	<u>(2,599,028)</u>	<u>(3,119,356)</u>
Net increase in cash and cash equivalents	419,923	548,615
Cash and cash equivalents at the beginning of the financial half-year	<u>2,672,269</u>	<u>1,058,963</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>3,092,192</u></u>	<u><u>1,607,578</u></u>

*The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes*

**Fort Street Real Estate Capital Fund III**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**1. General information**

Fort Street Real Estate Capital Fund III (**Fund**) is an unlisted managed investment scheme registered and domiciled in Australia. The financial statements comprise the Fund and entities controlled by the Fund (collectively referred to as the **Group**). The principal activity of the Group is to invest in Australian commercial property.

This half-year financial report is intended to provide users with an update on the latest annual financial statements of the Group. The half-year financial report does not include notes of the type normally included in an annual financial report and it is therefore recommended that this half-year financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2020, together with any public announcements made during the half-year.

**Statement of compliance**

These condensed consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards (**IFRS**) IAS 34 Interim Financial Reporting.

For the purposes of preparing the condensed consolidated financial statements, the Group is a for-profit entity.

The condensed consolidated financial statements were authorised for issue by the board of directors of the Responsible Entity, E&P Investments Limited, on 12 March 2021.

**Basis of preparation**

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's Annual financial report for the year ended 30 June 2020.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to its operations and effective for the current half-year.

**Restructure of the Funds**

On 23 December 2020, the Responsible Entity implemented the Proposal for the restructure of Fort Street Real Estate Capital (**FSREC**) Funds I, II, III and IV (**Restructure**) as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020. The Restructure was approved by FSREC Funds I, II, III and IV unitholders on 30 October 2020.

The Restructure comprised:

- FSREC Fund I's acquisition of all of the units in FSREC Fund IV by way of a trust scheme of arrangement.
- A restructure of the remaining funds, FSREC Fund I, FSREC Fund II and FSREC Fund III, to form a stapled group, resulting in the formation of the FSREC Property Fund. In forming the stapled group, the issued units of FSREC Fund I were stapled with the issued units of FSREC Fund II and FSREC Fund III.

The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

**2. Working capital**

As at 31 December 2020, the Group had total current assets of \$4,046,571 (30 June 2020: \$3,432,927) and a finance facility available for drawdown totalling \$21,773,838 (30 June 2020: \$21,773,838) against total current liabilities of \$81,862,258 (30 June 2020: \$4,169,635).

At the date of this report, management are in discussions to refinance the current facility by the repayment date of 31 December 2021, and the Board's reasonable expectation is a refinance on acceptable terms will be successful.

**Fort Street Real Estate Capital Fund III**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**3. Earnings per unit**

	<b>Consolidated</b>	
	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>\$</b>	<b>\$</b>
Profit after income tax	3,929,094	4,549,603
Non-controlling interest	(861)	(763)
Profit after income tax attributable to the Unitholders of Fort Street Real Estate Capital Fund III	<u>3,928,233</u>	<u>4,548,840</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary units used in calculating basic earnings per unit	104,438,552	104,438,552
Weighted average number of ordinary units used in calculating diluted earnings per unit	<u>104,438,552</u>	<u>104,438,552</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per unit	3.76	4.36
Diluted earnings per unit	3.76	4.36

**4. Investment properties**

	<b>Consolidated</b>	
	<b>31 December 2020</b>	<b>30 June 2020</b>
	<b>\$</b>	<b>\$</b>
<i>Non-current assets</i>		
Investment properties - at fair value	<u>235,000,000</u>	<u>233,750,000</u>
<i>Movement in investment properties</i>		
Carrying amount of investment properties at beginning of period	233,750,000	238,500,000
Capital expenditure	515,263	747,969
Rental straight-lining, tenant incentives and other adjustments	(190,651)	(374,004)
Fair value movement of investment properties	<u>925,388</u>	<u>(5,123,965)</u>
Carrying amount of investment properties at end of period	<u>235,000,000</u>	<u>233,750,000</u>

*Fair value*

At reporting date, the Group's investment properties consist of two commercial properties in Australia which are carried at fair value.

**4. Investment properties (continued)**

The 31 December 2020 fair value amounts were determined by way of independent valuation on all investment properties using a combination of discounted cash flow (**DCF**) and capitalisation rate methods based on market conditions existing at balance date. In determining the fair value of investment properties, assumptions related to the impacts of COVID-19 have been taken into account. However, there are increased uncertainties around these assumptions due to the unknown impact from this pandemic on the operational and financial performance of the investment properties in the future. Consequently, the independent valuers have included a statement in their valuation reports highlighting a "material valuation uncertainty". This statement serves as a precaution and does not invalidate the valuation and does not mean the valuation cannot be relied upon. It is intended to highlight that due to the current extraordinary circumstances, less certainty can be attached to the valuation. The Directors of the Responsible Entity have concluded that notwithstanding these factors, the valuation report represents the best estimate of the fair value of investment properties for financial reporting as at 31 December 2020.

The valuation techniques utilise inputs categorised as level 3 in the fair value hierarchy, being based on unobservable market inputs. The key unobservable inputs include the maintainable earnings and capitalisation rate (range 5.75% - 6.75%) applied in the capitalisation rate method and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates (range 6.50% - 7.25%) applied in the DCF method. A reduction in capitalisation and discount rates and an increase in maintainable earnings and rental growth rates would result in an increase in fair value, and vice versa.

Refer to note 9 for further information on fair value measurement.

**5. Trade and other payables**

	<b>Consolidated</b>	
	<b>31 December</b>	
	<b>2020</b>	<b>30 June 2020</b>
	<b>\$</b>	<b>\$</b>
<i>Current liabilities</i>		
Trade payables	546,636	288,537
Accrued liabilities	915,109	1,025,459
Contract liabilities (deferred income)	871,811	547,995
GST payable	203,711	277,293
	<u>2,537,267</u>	<u>2,139,284</u>

**6. Borrowings**

	<b>Consolidated</b>	
	<b>31 December</b>	
	<b>2020</b>	<b>30 June 2020</b>
	<b>\$</b>	<b>\$</b>
<i>Current liabilities</i>		
Secured bank loan - net of borrowing costs	<u>77,954,090</u>	<u>-</u>
<i>Non-current liabilities</i>		
Secured bank loan - net of borrowing costs	<u>-</u>	<u>77,837,388</u>
	<u>77,954,090</u>	<u>77,837,388</u>

**Fort Street Real Estate Capital Fund III**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**6. Borrowings (continued)**

*Financing arrangements*

As at 31 December 2020, the Group had a \$100 million loan facility (30 June 2020: \$100 million) with National Australia Bank Limited at a variable interest rate with reference to the Bank Bill Swap Rate (**BBSY**) repayable on 31 December 2021.

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2020</b>
	<b>2020</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Total facilities		
Secured bank loan facility	100,000,000	100,000,000
Used at the reporting date		
Secured bank loan facility	78,226,162	78,226,162
Unused at the reporting date		
Secured bank loan facility	21,773,838	21,773,838

To take advantage of the low interest rate environment, the Group has entered into a series of interest rate swap contracts with a notional amount of \$50 million (30 June 2020: \$50 million), whereby the Group pays a fixed rate of interest and receives a variable rate based on BBSY (3 month) on the notional amount. At 31 December 2020, after taking into account the interest rate swap, 64% (30 June 2020: 64%) of the Group's borrowings are hedged. The Group's average cost of drawn debt is approximately 4.17% (30 June 2020: 4.04%) (excluding costs relating to undrawn debt).

The drawdown amount is secured against investment properties held by the Group with a carrying value of \$235.0 million at balance date and is subject to compliance with specified covenants and other requirements.

At the date of this report, management are in discussions to refinance the four existing debt facilities maturing in December 2021, into a single debt facility with longer tenure.

There were no defaults or covenant breaches with respect to the loan during half-year.

**7. Issued capital**

	<b>Consolidated</b>			
	<b>31 December</b>	<b>30 June 2020</b>	<b>31 December</b>	<b>30 June 2020</b>
	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>
	<b>Units</b>	<b>Units</b>	<b>\$</b>	<b>\$</b>
Balance at the beginning of the period	104,438,552	104,438,552	161,130,403	161,130,403
Conversion of units on issue on a 0.9414 for 1 basis	(6,121,752)	-	-	-
Issue of units in relation to the stapling with FSREC Fund I	145,989,295	-	-	-
Issue of units in relation to the stapling with FSREC Fund II	68,326,036	-	-	-
Balance at the end of the period	<u>312,632,131</u>	<u>104,438,552</u>	<u>161,130,403</u>	<u>161,130,403</u>

As disclosed in Note 1, as a result of the restructure of the Funds during the period, the issued units of FSREC Fund I are stapled with the issued units of FSREC Fund II and FSREC Fund III. The total number of stapled units at 31 December 2020 was 312,632,131 and are fully paid. The holders of stapled units are entitled to receive distributions as declared from time to time by the Responsible Entity and are entitled to one vote per unit at the meetings of the Fund. The units in FSREC Fund I, FSREC Fund II and FSREC Fund III cannot be disposed or transferred separately and can only be disposed or transferred as stapled securities.

**Fort Street Real Estate Capital Fund III**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**8. Cash flow hedge reserve**

	<b>Consolidated</b>	
	<b>31 December</b>	
	<b>2020</b>	<b>30 June 2020</b>
	<b>\$</b>	<b>\$</b>
Cash flow hedge reserves	<u>(1,370,901)</u>	<u>(1,869,492)</u>

The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of the interest rate swap held by the Group.

*Movements in reserves*

Movements in each class of reserve during the current financial period are set out below:

	<b>Cash flow hedge reserve \$</b>
Balance at 1 July 2020	(1,869,492)
- Unrealised gains on cash flow hedge reserve	(96,839)
- Realised losses transferred to profit or loss as finance expense	<u>595,430</u>
Balance at 31 December 2020	<u><u>(1,370,901)</u></u>

**9. Fair value measurement**

**Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis**

The Group measures fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

**Level 1:** quoted prices (unadjusted) in active markets for identical financial assets and liabilities that the entity can access at the measurement date

**Level 2:** inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly (as price) or indirectly (derived from prices)

**Level 3:** unobservable inputs for the financial asset or liability.

	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Consolidated - 31 December 2020</b>				
<i>Assets</i>				
Investment properties	-	-	235,000,000	235,000,000
Total assets	<u>-</u>	<u>-</u>	<u>235,000,000</u>	<u>235,000,000</u>
<i>Liabilities</i>				
Cash flow hedge	-	1,370,901	-	1,370,901
Total liabilities	<u>-</u>	<u>1,370,901</u>	<u>-</u>	<u>1,370,901</u>

**Fort Street Real Estate Capital Fund III**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**9. Fair value measurement (continued)**

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Consolidated - 30 June 2020</b>				
<i>Assets</i>				
Investment properties	-	-	233,750,000	233,750,000
Total assets	-	-	233,750,000	233,750,000
<i>Liabilities</i>				
Cash flow hedge	-	(1,869,492)	-	(1,869,492)
Total liabilities	-	(1,869,492)	-	(1,869,492)

An interest rate swap contract has been entered into by the Group to hedge the exposure to the variable interest rate payments on the variable secured bank loan (refer to note 6 for details). The loan and interest rate swap have the same critical terms. Cash flows are recognised through profit or loss.

The aggregate fair value of the interest rate swap at the reporting date was a liability of \$1,370,901 (30 June 2020: \$1,869,492).

The valuation technique applied to fair value the swap derivative includes traditional swap models, using present value calculations.

The Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no transfers between fair value hierarchy levels during the financial half-year.

**Fair value of the Group's assets and liabilities that are not measured at fair value on a recurring basis**

The fair value of financial assets and financial liabilities which are not measured at fair value on a recurring basis approximate their carrying amounts at the reporting date.

**10. Controlled entities**

Name	Principal place of business / Country of incorporation	Ownership interest 31 December	
		2020 %	30 June 2020 %
Australian Property Opportunities Trust III	Australia	99.98%	99.98%
APOT III No. 1 Trust	Australia	100.00%	100.00%

**11. Related party disclosures**

**Key management personnel**

Stuart Nisbett, Mike Adams, Warwick Keneally and Peter Shear are directors of the Responsible Entity of the Fund, E&P Investments Limited, and are deemed to be key management personnel.

Warwick Keneally is also a director of the Trustee of the APOT III No. 1 Trust (**Sub-Trust**), E&P Investment Services Pty Limited (formerly known as Walsh & Company Investment Services Pty Limited).

Key management personnel are not compensated by the Fund or by the Responsible Entity directly for the management function provided to the Fund.

**11. Related party disclosures (continued)**

**Responsible Entity fee and other transactions**

*Responsible Entity fee*

E&P Investments Limited, as Responsible Entity of the Fund, receives a fee for the performance of its duties under the constitution of the Fund. The Responsible Entity fee is 0.08% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. Effective upon implementation of the Restructure, the Fund's Constitution was amended which resulted in an increase to the Responsible Entity fee to 0.24% per annum.

For the period ended 31 December 2020, \$103,754 (31 December 2019: \$95,188), exclusive of GST, was paid or payable to the Responsible Entity.

*Trustee fee*

E&P Funds Management Pty Limited (formerly known as Walsh & Company Asset Management Pty Limited) in its capacity as Trustee of Australian Property Opportunities Trust III, a majority owned subsidiary of the Fund, receives a fee of 0.10% per annum (exclusive of GST) for services provided under the terms of the Trust's trust deed. The Trustee fee is calculated on the gross asset value of the Trust, payable monthly. Effective upon implementation of the Restructure, the Trust Deed was amended to remove the Trustee fee.

For the period ended 31 December 2020, \$112,298 (31 December 2019: \$120,163), exclusive of GST, was paid or payable to the Trustee.

*Investment Manager fee*

Fort Street Real Estate Capital Pty Limited (**Fort Street**), a related party of the Responsible Entity, is engaged as the Group's Investment Manager and receives a fee of 0.69% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. Effective upon implementation of the Restructure, the Investment Management Agreement was amended which resulted in a reduction of the Investment Management fee to 0.54% per annum.

For the period ended 31 December 2020, \$806,825 (31 December 2019: \$821,316), exclusive of GST, was paid or payable to the Investment Manager.

*Property Manager fee*

Fort Street acts as Property Manager of the Trust and is responsible for managing and maintaining the property portfolio of the Trust, optimising tenancy profile and maximising returns. The Property Manager receives a fee of 3% per annum, payable monthly (exclusive of GST) calculated on the gross income value of the Trust.

For the period ended 31 December 2020, \$290,959 (31 December 2019: \$287,515), exclusive of GST, was paid or payable to the Property Manager.



**Fort Street Real Estate Capital Fund III**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**11. Related party disclosures (continued)**

*Development Manager fee*

Fort Street Real Estate Development Pty Ltd (**Development Manager**), a related party of the Responsible Entity, provides development management services to the Group where appropriate and on a non-exclusive basis. Services include scoping the design and construction for the development, retail design management, management of key consultants, budgeting, financial analysis, risk analysis, procurement and management of design services and procurement and management of construction services. For these services, the Development Manager receives a fee of 5% of the total development costs incurred in connection with a development.

For the period ended 31 December 2020, \$5,659 (31 December 2019: \$19,555), exclusive of GST, was paid or payable to the Development Manager.

*Leasing Services fee*

Fort Street Real Estate Leasing Pty Ltd (Leasing Agent), a related party of the Responsible Entity, provides tenant leasing services to the Group where appropriate and on a non-exclusive basis. Services include recommendation on new leases, lease renewals, rental negotiations, arrangement of lease agreements, collection of security under a lease, and preparation of disclosure statements for prospective tenants. For these services, the Leasing Manager receives a fee of 15% of the gross rent on new retail leases, and a fee of 7.5% of the gross rent on existing retail leases. The fee is capitalised and expensed over the lease period.

For the period ended 31 December 2020, \$27,856 (31 December 2019: nil), exclusive of GST, was paid or payable to the Leasing Agent.

*Legal and consulting services*

The Responsible Entity entered into an agreement with MDA1 Pty Limited, trading as MA Law, to provide legal and consulting services to the Responsible Entity and the investment schemes under its control. Mike Adams, a director of the Responsible Entity, is also a director and shareholder of MDA1 Pty Limited. Mike Adams previously provided similar services as an employee of a non-related entity to the Fund.

For the period ended 31 December 2020, \$7,949 (31 December 2019: nil), exclusive of GST was paid or payable by the Group and included in the other expenses in the statement of profit or loss and other comprehensive income.

*Signage*

E&P Financial Group Limited, E&P Funds Group Pty Limited and New Energy Solar Fund, related parties of the Group have a contractual agreement with the trustee of APOT III no.1, E&P Investment Services Pty Limited, to receive a non-exclusive licence for the use of the signage at the Mascot property as provided under the terms of the signage license agreement.

For the period ended 31 December 2020, \$27,563 (31 December 2019: \$26,250), exclusive of GST was charged by the Group.

*Financial Advisory fee*

Evans and Partners Pty Ltd (**Financial Advisor**, a subsidiary of E&P Financial Group Limited, who is the parent entity of the Responsible Entity), provided certain financial advisory services to the Responsible Entity in connection with the Restructure.

For the period ended 31 December 2020, \$314,866 (31 December 2019: nil), exclusive of GST, was paid or payable to the Financial Advisor.

**12. Capital commitments**

As at 31 December 2020, the Group committed \$645,263 (30 June 2020: \$366,817) as lease incentives arising from lease agreements.

**Fort Street Real Estate Capital Fund III**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**13. Contingent liability**

The directors of the Responsible Entity are not aware of any potential liabilities or claims against the Group as at the end of the reporting period.

**14. Events after the reporting period**

On 20 January 2021, the FSREC Property Fund announced a 31 December 2020 quarter distribution of 1.67 cents per stapled unit which was paid on 10 February 2021. The Fund's portion of this distribution was 0.53 cents per unit.

No other matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Fort Street Real Estate Capital Fund III**

**Directors' declaration**

**31 December 2020**

The directors of the Responsible Entity declare that, in the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, including compliance with the Accounting Standards;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors of the Responsible Entity made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Stuart Nisbett', is written over a horizontal line.

Stuart Nisbett  
Chairman of E&P Investments Limited, Responsible Entity

12 March 2021

## **Independent Auditor's Review Report to the Unitholders of Fort Street Real Estate Capital Fund III**

### *Conclusion*

We have reviewed the half-year financial report of Fort Street Real Estate Capital Fund III ('the Fund'), which comprises the condensed consolidated statement of financial position as at 31 December 2020, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Fund and the entities it controlled at the end of the half-year or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Fund is not in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Fund's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### *Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Fund in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of E&P Investments Limited (the 'Responsible Entity'), would be in the same terms if given to the directors as at the time of this auditor's review report.

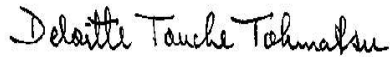
### *Directors' Responsibilities for the Half-year Financial Report*

The directors of the responsible entity (the 'Directors') are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.


## *Auditor's Responsibilities for the Review of the Half-year Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Fund's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



DELOITTE TOUCHE TOHMATSU



Weng W Ching  
Partner  
Chartered Accountants

Sydney, 12 March 2021

**Fort Street Real Estate Capital Fund III  
Directory  
31 December 2020**

**Fort Street Real Estate Capital Fund III**

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NORTH SYDNEY NSW 2060  
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F: 1300 883 159  
E: [info@fsrec.com.au](mailto:info@fsrec.com.au)  
[fsrec.com.au](http://fsrec.com.au)

**Responsible Entity**

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(ACN 152 367 649) (AFSL 410 433)  
Level 15, 100 Pacific Highway  
NORTH SYDNEY NSW 2060  
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W: [eap.com.au](http://eap.com.au)

**Directors**

Stuart Nisbett  
Mike Adams  
Warwick Keneally  
Peter Shear

**Secretaries**

Hannah Chan  
Caroline Purtell

**Investment Manager & Property Manager**

Fort Street Real Estate Capital Pty Limited  
(ACN 164 101 731)  
Level 32, 1 O'Connell Street  
SYDNEY NSW 2000  
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F: +61 2 8241 1333  
E: [info@fsrec.com.au](mailto:info@fsrec.com.au)  
[fsrec.com.au](http://fsrec.com.au)

**Fund Manager**

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NORTH SYDNEY NSW 2060  
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**Auditor**

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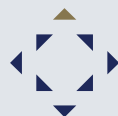
**Unit Registry**

Boardroom Pty Limited  
Level 12, 225 George Street  
SYDNEY NSW 2000  
T: 1300 737 760 (Australia)  
T: +61 2 9290 9600 (International)  
F: 1300 653 459  
[boardroomlimited.com.au](http://boardroomlimited.com.au)

## RESPONSIBLE ENTITY

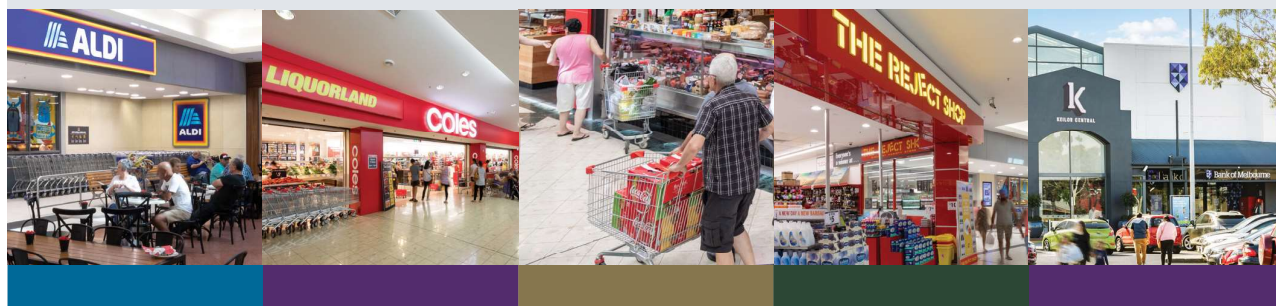
E&P Investments Limited  
(ACN 152 367 649) (AFSL 410 433)





# FORT STREET REAL ESTATE CAPITAL FUND IV

(ARSN 623 196 298)



## HALF-YEAR FINANCIAL REPORT 31 DECEMBER 2020





## **Fort Street Real Estate Capital Fund IV**

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**Fort Street Real Estate Capital Fund IV**  
**Funds from operations**  
**31 December 2020**

Funds From Operations (**FFO**) is a non-International Financial Reporting Standards financial measure. FFO is a market accepted measure of a real estate investment fund's operating performance. FFO is used to facilitate understanding of a fund's performance. The Property Council of Australia provides best practice guidelines for the calculation of FFO, which have been followed by the Fund.

FFO is determined by adjusting statutory net profit or loss after tax for certain non-cash items such as depreciation, impairment and amortisation. Other one-off items may also be adjusted to provide a clearer indication of the Fund's half-year FFO.

	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>\$</b>	<b>\$</b>
<b>(Loss)/Profit after tax for the year</b>	<b>(515,826)</b>	<b>4,273,670</b>
<b>Adjustments:</b>		
Fair value movement of investment property	1,007,639	(1,976,181)
Straight-lining of rental revenue and incentives amortisation	(63,979)	(242,770)
Other Items and amortisation of capitalised lease costs	50,539	(11,161)
One-off professional fees	220,801	-
<b>FFO</b>	<b>699,174</b>	<b>2,043,558</b>
<b>Distributions for the period</b>	<b>195,914</b>	<b>1,567,314</b>

**Fort Street Real Estate Capital Fund IV**  
**Directors' report**  
**31 December 2020**

**Introduction**

The directors of E&P Investments Limited (formerly known as Walsh & Company Investments Limited), as Responsible Entity of Fort Street Real Estate Capital Fund IV (**Fund**), present their report together with the half-year financial report for the Fund and the entities it controlled, (collectively referred to as the **Group**) for the half-year ended 31 December 2020.

**Directors**

The directors of the Responsible Entity at any time during or since the end of the half-year are listed below:

Stuart Nisbett  
Mike Adams  
Warwick Keneally  
Peter Shear

Directors were in office from the start of the half-year to the date of this report, unless otherwise stated.

**Review of financial results and operations**

On 23 December 2020, the Responsible Entity implemented the Proposal for Fort Street Real Estate Capital (**FSREC**) Funds I, II, III and IV as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020.

The implementation involved the acquisition of all the units in FSREC Fund IV by FSREC Fund I by way of a trust scheme of arrangement, and the subsequent Restructure of FSREC Funds I, II and III to form a stapled group, the FSREC Property Fund (**Restructure**). The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

As a result of the restructure discussed above, FSREC Fund I issued new units totalling 45,483,257 to acquire FSREC Fund IV.

**a) Financial results for the period**

The performance of the Group, as represented by the results of their operations for the respective period ended 31 December, was as follows:

	2020	2019
<b>Results</b>		
Total income (\$)	4,223,220	7,976,462
Total expense (\$)	(4,739,046)	(3,702,792)
Net operating profit (\$)	<u>(515,826)</u>	<u>4,273,670</u>

**b) Performance returns**

The performance returns shown in the table below are for the six and twelve months ended 31 December 2020, and have been calculated using the net asset value per unit for the Fund, which is after fees and expenses.

	6 months to 31 December 2020 %	12 months to 31 December 2020 %
<b>Performance returns</b>		
Growth return (a)	(1.37)	(4.64)
Distribution return (b)	<u>0.27</u>	<u>1.17</u>
Total return (c)	<u>(1.10)</u>	<u>(3.47)</u>

**Fort Street Real Estate Capital Fund IV**  
**Directors' report**  
**31 December 2020**

(a) The Growth return is calculated as a percentage by dividing the end of period net asset value per unit by the net asset value per unit at the start of the period minus 1.

(b) The Distribution return is calculated as a percentage by subtracting the Growth return from the Total return.

(c) The Total return is calculated as a percentage by dividing the end of period net asset value per unit (cum-distribution) by the net asset value per unit at the start of the period minus 1.

**Distributions**

Distributions paid during the financial half-year were as follows:

	2020 \$
0.4 cents per unit for the period ended 30 September 2020 paid on 3 November 2020	<u>195,914</u>

**Matters subsequent to the end of the financial half-year**

No matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the directors



Stuart Nisbett  
Chairman of E&P Investments Limited, Responsible Entity

12 March 2021

12 March 2021

The Board of Directors  
E&P Investments Limited as Responsible Entity for:  
Fort Street Real Estate Capital Fund IV  
Level 15  
100 Pacific Highway  
NORTH SYDNEY NSW 2060

Dear Board Members

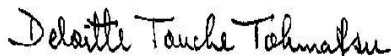
## **Auditor's Independence Declaration to Fort Street Real Estate Capital Fund IV**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of the Responsible Entity of Fort Street Real Estate Capital Fund IV.

As lead audit partner for the review of the financial statements of Fort Street Real Estate Capital Fund IV for the financial half-year ended 31 December 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Weng W Ching  
Partner  
Chartered Accountants

**Fort Street Real Estate Capital Fund IV**  
**Condensed consolidated statement of profit or loss and other comprehensive income**  
**For the half-year ended 31 December 2020**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December 2020</b>	<b>31 December 2019</b>
		<b>\$</b>	<b>\$</b>
<b>Revenue</b>			
Rental income		3,938,303	4,258,997
Other property income		1,292,167	1,737,630
Finance income		389	3,654
Fair value movement of investment properties	4	(1,007,639)	1,976,181
Total revenue		<u>4,223,220</u>	<u>7,976,462</u>
<b>Expenses</b>			
Responsible entity and trustee fee	11	(111,087)	(111,231)
Management fees	11	(552,987)	(581,112)
Investment property expense		(2,872,758)	(1,928,338)
Accounting and audit fees		(45,989)	(30,964)
Finance expenses		(858,851)	(946,689)
Other expenses		(297,374)	(104,458)
Total expenses		<u>(4,739,046)</u>	<u>(3,702,792)</u>
<b>(Loss)/profit before income tax expense</b>		(515,826)	4,273,670
Income tax expense		-	-
<b>(Loss)/profit after income tax expense for the half-year</b>		(515,826)	4,273,670
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedge		150,555	60,848
Other comprehensive income for the half-year, net of tax		150,555	60,848
<b>Total comprehensive (loss)/income for the half-year</b>		<u>(365,271)</u>	<u>4,334,518</u>
(Loss)/profit for the half-year is attributable to:			
Non-controlling interest		(50)	1,455
Unitholders of Fort Street Real Estate Capital Fund IV		(515,776)	4,272,215
		<u>(515,826)</u>	<u>4,273,670</u>
Total comprehensive (loss)/income for the half-year is attributable to:			
Non-controlling interest		(50)	1,455
Unitholders of Fort Street Real Estate Capital Fund IV		(365,221)	4,333,063
		<u>(365,271)</u>	<u>4,334,518</u>
		<b>Cents</b>	<b>Cents</b>
Basic (loss)/earnings per unit	3	(1.05)	8.72
Diluted (loss)/earnings per unit	3	(1.05)	8.72

*The above condensed consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Fort Street Real Estate Capital Fund IV**  
**Condensed consolidated statement of financial position**  
**As at 31 December 2020**

		<b>Consolidated</b>	
	<b>Note</b>	<b>31 December 2020</b>	<b>30 June 2020</b>
		<b>\$</b>	<b>\$</b>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		1,578,888	922,725
Trade and other receivables		317,699	1,391,984
Prepayments		344,126	291,911
Total current assets		<u>2,240,713</u>	<u>2,606,620</u>
<b>Non-current assets</b>			
Investment property	4	<u>117,300,000</u>	<u>117,500,000</u>
Total non-current assets		<u>117,300,000</u>	<u>117,500,000</u>
<b>Total assets</b>		<u>119,540,713</u>	<u>120,106,620</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	6	45,551,856	-
Derivative financial instruments		1,554,102	508,355
Trade and other payables	5	1,685,625	1,146,108
Distributions payable		-	470,423
Total current liabilities		<u>48,791,583</u>	<u>2,124,886</u>
<b>Non-current liabilities</b>			
Borrowings	6	-	45,474,855
Derivative financial instruments		-	1,196,302
Total non-current liabilities		<u>-</u>	<u>46,671,157</u>
<b>Total liabilities</b>		<u>48,791,583</u>	<u>48,796,043</u>
<b>Net assets</b>		<u>70,749,130</u>	<u>71,310,577</u>
<b>Equity</b>			
Issued capital	7	75,854,687	75,854,687
Cash flow hedge reserve	8	(1,554,102)	(1,704,657)
Accumulated losses		(3,566,187)	(2,854,497)
Equity attributable to the unitholders of Fort Street Real Estate Capital Fund IV		<u>70,734,398</u>	<u>71,295,533</u>
Non-controlling interest		<u>14,732</u>	<u>15,044</u>
<b>Total equity</b>		<u>70,749,130</u>	<u>71,310,577</u>

*The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes*

**Fort Street Real Estate Capital Fund IV**  
**Condensed consolidated statement of changes in equity**  
**For the half-year ended 31 December 2020**

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Cash flow hedge reserve \$</b>	<b>Accumulated losses \$</b>	<b>Non- controlling interest \$</b>	<b>Total equity \$</b>
Balance at 1 July 2019 - restated	75,854,687	(1,247,177)	(3,601,323)	14,784	71,020,971
Profit after income tax expense for the half-year	-	-	4,272,215	1,455	4,273,670
Other comprehensive income for the half-year, net of tax	-	60,848	-	-	60,848
Total comprehensive income for the half-year	-	60,848	4,272,215	1,455	4,334,518
Distributions paid to NCI	-	-	-	(617)	(617)
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Distributions paid/declared	-	-	(1,567,314)	-	(1,567,314)
Balance at 31 December 2019	<u>75,854,687</u>	<u>(1,186,329)</u>	<u>(896,422)</u>	<u>15,622</u>	<u>73,787,558</u>

<b>Consolidated</b>	<b>Issued capital \$</b>	<b>Cash flow hedge reserve \$</b>	<b>Accumulated losses \$</b>	<b>Non- controlling interest \$</b>	<b>Total equity \$</b>
Balance at 1 July 2020	75,854,687	(1,704,657)	(2,854,497)	15,044	71,310,577
Loss after income tax expense for the half-year	-	-	(515,776)	(50)	(515,826)
Other comprehensive income for the half-year, net of tax	-	150,555	-	-	150,555
Total comprehensive (loss)/income for the half-year	-	150,555	(515,776)	(50)	(365,271)
Distributions paid to NCI	-	-	-	(262)	(262)
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Distributions paid	-	-	(195,914)	-	(195,914)
Balance at 31 December 2020	<u>75,854,687</u>	<u>(1,554,102)</u>	<u>(3,566,187)</u>	<u>14,732</u>	<u>70,749,130</u>

*The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes*



**Fort Street Real Estate Capital Fund IV**  
**Condensed consolidated statement of cash flows**  
**For the half-year ended 31 December 2020**

	<b>Consolidated</b>	
	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Rental and other income received	6,859,910	5,844,489
Interest income received	384	3,436
Payment to suppliers	(4,631,794)	(3,737,927)
Finance costs	(752,944)	(886,853)
Net cash from operating activities	<u>1,475,556</u>	<u>1,223,145</u>
<b>Cash flows from investing activities</b>		
Payments for capital expenditure	<u>(152,794)</u>	<u>(217,070)</u>
Net cash used in investing activities	<u>(152,794)</u>	<u>(217,070)</u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	-	500,000
Distributions paid	<u>(666,599)</u>	<u>(1,567,931)</u>
Net cash used in financing activities	<u>(666,599)</u>	<u>(1,067,931)</u>
Net increase/(decrease) in cash and cash equivalents	656,163	(61,856)
Cash and cash equivalents at the beginning of the financial half-year	<u>922,725</u>	<u>1,742,512</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>1,578,888</u></u>	<u><u>1,680,656</u></u>

*The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes*

**Fort Street Real Estate Capital Fund IV**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**1. General information**

Fort Street Real Estate Capital Fund IV (**Fund**) is an unlisted managed investment scheme registered and domiciled in Australia. The financial statements comprise the Fund and entities controlled by the Fund (collectively referred to as the **Group**). The principal activity of the Group is to invest in Australian commercial property.

This half-year financial report is intended to provide users with an update on the latest annual financial statements of the Group. The half-year financial report does not include notes of the type normally included in an annual financial report and it is therefore recommended that this half-year financial report be read in conjunction with the annual financial statements of the Group for the year ended 30 June 2020, together with any public announcements made during the half-year.

**Statement of compliance**

These condensed consolidated financial statements are general purpose financial statements which have been prepared in accordance with the *Corporations Act 2001* and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standards (**IFRS**) IAS 34 Interim Financial Reporting.

For the purposes of preparing the condensed consolidated financial statements, the Group is a for-profit entity.

The condensed consolidated financial statements were authorised for issue by the board of directors of the Responsible Entity, E&P Investments Limited, on 12 March 2021.

**Basis of preparation**

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's Annual financial report for the year ended 30 June 2020.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to its operations and effective for the current half-year.

**Restructure of the Funds**

On 23 December 2020, the Responsible Entity implemented the Proposal for the restructure of Fort Street Real Estate Capital (**FSREC**) Funds I, II, III and IV (**Restructure**) as described in the Explanatory Memorandum dated 29 September 2020 and the Supplementary Explanatory Memorandum dated 14 October 2020. The Restructure was approved by FSREC Funds I, II, III and IV unitholders on 30 October 2020.

The Restructure comprised:

- FSREC Fund I's acquisition of all of the units in FSREC Fund IV by way of a trust scheme of arrangement.
- A restructure of the remaining funds, FSREC Fund I, FSREC Fund II and FSREC Fund III, to form a stapled group, resulting in the formation of the FSREC Property Fund. In forming the stapled group, the issued units of FSREC Fund I were stapled with the issued units of FSREC Fund II and FSREC Fund III.

The FSREC Property Fund operates as a single coordinated economic entity, with a common Board of Directors and management team.

**2. Working capital**

As at 31 December 2020, the Group had total current assets of \$2,240,713 (30 June 2020: \$2,606,620) and a finance facility available for drawdown totaling \$8,900,000 (30 June 2020: \$8,900,000) against total current liabilities of \$48,791,583 (30 June 2020: \$2,124,886).

At the date of this report, management are in discussions to refinance the current facility by the repayment date of 20 December 2021, and the Board's reasonable expectation is a refinance on acceptable terms will be successful.

**Fort Street Real Estate Capital Fund IV**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**3. Earnings per unit**

	<b>Consolidated</b>	
	<b>31 December 2020</b>	<b>31 December 2019</b>
	<b>\$</b>	<b>\$</b>
(Loss)/profit after income tax	(515,826)	4,273,670
Non-controlling interest	50	(1,455)
	<u>(515,776)</u>	<u>4,272,215</u>
(Loss)/profit after income tax attributable to the unitholders of Fort Street Real Estate Capital Fund IV		
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary units used in calculating basic earnings per unit	48,978,550	48,978,550
Weighted average number of ordinary units used in calculating diluted earnings per unit	48,978,550	48,978,550
	<b>Cents</b>	<b>Cents</b>
Basic (loss)/earnings per unit	(1.05)	8.72
Diluted (loss)/earnings per unit	(1.05)	8.72

**4. Investment property**

	<b>Consolidated</b>	
	<b>31 December 2020</b>	<b>30 June 2020</b>
	<b>\$</b>	<b>\$</b>
<i>Non-current assets</i>		
Investment property - at fair value	<u>117,300,000</u>	<u>117,500,000</u>
<i>Movement in investment property</i>		
Carrying amount of investment property at beginning of period	117,500,000	117,000,000
Acquisition costs	-	30,422
Capital expenditure	300,739	346,745
Rental straight-lining, tenant incentives and other adjustments	506,900	561,614
Fair value movement of investment property	<u>(1,007,639)</u>	<u>(438,781)</u>
Carrying amount of investment property at end of period	<u>117,300,000</u>	<u>117,500,000</u>

**Fort Street Real Estate Capital Fund IV**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**4. Investment property (continued)**

*Fair value*

At reporting date, the Group's has one commercial property in Australia which is carried at fair value.

The 31 December 2020 fair value amount was determined by way of independent valuation on the investment property using a combination of discounted cash flow (**DCF**) and capitalisation rate methods based on market conditions existing at balance date. In determining the fair value of the investment property, assumptions related to the impacts of COVID-19 have been taken into account. However, there are increased uncertainties around these assumptions due to the unknown impact from this pandemic on the operational and financial performance of the investment property in the future.

Consequently, the independent valuer have included a statement in their valuation reports highlighting a "material valuation uncertainty". This statement serves as a precaution and does not invalidate the valuation and does not mean the valuation cannot be relied upon. It is intended to highlight that due to the current extraordinary circumstances, less certainty can be attached to the valuation. The Directors of the Responsible Entity have concluded that notwithstanding these factors, the valuation report represents the best estimate of the fair value of investment properties for financial reporting as at 31 December 2020.

The valuation techniques utilise inputs categorised as level 3 in the fair value hierarchy, being based on unobservable market inputs. The key unobservable inputs include the maintainable earnings and a capitalisation rate of 6.00% applied in the capitalisation rate method and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates (6.75%) applied in the DCF method. A reduction in capitalisation and discount rates and an increase in maintainable earnings and rental growth rates would result in an increase in fair value, and vice versa.

Refer to note 9 for further information on fair value measurement.

**5. Trade and other payables**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2020</b>
	<b>2020</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<i>Current liabilities</i>		
Trade payables	617,570	118,034
Accrued liabilities	651,616	563,301
Contract liabilities (deferred income)	369,682	244,122
GST payable	46,757	220,651
	<u>1,685,625</u>	<u>1,146,108</u>

**6. Borrowings**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2020</b>
	<b>2020</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
<i>Current liabilities</i>		
Secured bank loan - net of borrowing costs	<u>45,551,856</u>	<u>-</u>
<i>Non-current liabilities</i>		
Secured bank loan - net of borrowing costs	<u>-</u>	<u>45,474,855</u>
	<u>45,551,856</u>	<u>45,474,855</u>

**Fort Street Real Estate Capital Fund IV**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**6. Borrowings (continued)**

*Financing arrangements*

As at 31 December 2020, the Group had a \$54.6 million loan facility (30 June 2020: \$54.6 million) with National Australia Bank Limited at a variable interest rate with reference to the Bank Bill Swap Rate (**BBSY**) repayable on 20 December 2021.

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2020</b>
	<b>2020</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Total facilities		
Secured bank loan facility	54,600,000	54,600,000
Used at the reporting date		
Secured bank loan facility	45,700,000	45,700,000
Unused at the reporting date		
Secured bank loan facility	8,900,000	8,900,000

To take advantage of the low interest rate environment, the Group has entered into an interest rate swap contract with a notional amount of \$25 million (30 June 2020: \$25 million) whereby the Group pays a fixed rate of interest and receives a variable rate based on BBSY (3 month) on the notional amount. At 31 December 2020, after taking into account the interest rate swap, 55% (30 June 2020: 55%) of the Group's borrowings are hedged. The Group's average cost of drawn debt is approximately 3.48% (30 June 2020: 3.81%) (excluding costs relating to undrawn debt).

The drawdown amount is secured against investment properties held by the Group with a carrying value of \$117.3 million at balance date and is subject to compliance with specified covenants and other requirements.

At the date of this report, management are in discussions to refinance the four existing debt facilities maturing in December 2021, into a single debt facility with longer tenure.

There were no defaults or covenant breaches with respect to the loan during half-year.

**7. Issued capital**

	<b>Consolidated</b>			
	<b>31 December</b>	<b>30 June 2020</b>	<b>31 December</b>	<b>30 June 2020</b>
	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>
	<b>Units</b>	<b>Units</b>	<b>\$</b>	<b>\$</b>
Balance at the beginning of the period	48,978,550	48,978,550	75,854,687	75,854,687

All issued units are fully paid. The holders of ordinary units are entitled to receive distributions as declared from time to time by the Responsible Entity and are entitled to one vote per unit at the meetings of the Fund.

Upon implementation of the Restructure, FSREC Fund I acquired all of the ordinary units in FSREC Fund IV. Refer to note 1 for further details.

**Fort Street Real Estate Capital Fund IV**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**8. Cash flow hedge reserve**

	<b>Consolidated</b>	
	<b>31 December</b>	<b>30 June 2020</b>
	<b>2020</b>	
	<b>\$</b>	<b>\$</b>
Cash flow hedge reserve	<u>(1,554,102)</u>	<u>(1,704,657)</u>

The cash flow hedge reserve represents the cumulative effective portion of gains or losses arising on changes in the fair value of the interest rate swap held by the Group.

*Movements in reserves*

Movements in each class of reserve during the current financial period are set out below:

<b>Consolidated</b>	<b>Cash flow hedge reserve \$</b>
Balance at 1 July 2020	(1,704,657)
- Unrealised gains on cash flow hedge reserve	(118,819)
- Realised losses transferred to profit or loss as finance expense	<u>269,374</u>
Balance at 31 December 2020	<u>(1,554,102)</u>

**9. Fair value measurement**

**Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis**

The Group measures fair value using the following fair value hierarchy that reflects the significance of the input used in making the measurements:

**Level 1:** quoted prices (unadjusted) in active markets for identical financial assets and liabilities that the entity can access at the measurement date

**Level 2:** inputs other than quoted prices included within Level 1 that are observable for the financial asset or liability, either directly (as price) or indirectly (derived from prices)

**Level 3:** unobservable inputs for the financial asset or liability.

<b>Consolidated - 31 December 2020</b>	<b>Level 1 \$</b>	<b>Level 2 \$</b>	<b>Level 3 \$</b>	<b>Total \$</b>
<i>Assets</i>				
Investment property	-	-	117,300,000	117,300,000
Total assets	-	-	117,300,000	117,300,000
<i>Liabilities</i>				
Cash flow hedge	-	1,554,102	-	1,554,102
Total liabilities	-	1,554,102	-	1,554,102

**Fort Street Real Estate Capital Fund IV**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**9. Fair value measurement (continued)**

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Consolidated - 30 June 2020</b>				
<i>Assets</i>				
Investment property	-	-	117,500,000	117,500,000
Total assets	-	-	117,500,000	117,500,000
<i>Liabilities</i>				
Cash flow hedge	-	1,704,657	-	1,704,657
Total liabilities	-	1,704,657	-	1,704,657

An interest rate swap contract has been entered into by the Group to hedge the exposure to the variable interest rate payments on the variable secured bank loan (refer to note 6 for details). The loan and interest rate swap have the same critical terms. Cash flows are recognised through profit or loss.

The aggregate fair value of the interest rate swap at the reporting date was a liability of \$1,554,102 (30 June 2020: \$1,704,657).

The valuation technique applied to fair value the swap derivative includes traditional swap models, using present value calculations.

The Group recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the transfer has occurred. There were no transfers between fair value hierarchy levels during the financial half-year.

**Fair value of the Group's assets and liabilities that are not measured at fair value on a recurring basis**

The fair value of financial assets and financial liabilities which are not measured at fair value on a recurring basis approximate their carrying amounts at the reporting date.

**10. Controlled entities**

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2020 %	30 June 2020 %
Fort Street Real Estate Capital Trust IV	Australia	99.97%	99.97%
FSREC IV No. 1 Trust	Australia	100.00%	100.00%

**11. Related party disclosures**

**Key management personnel**

Stuart Nisbett, Mike Adams, Warwick Keneally and Peter Shear are directors of the Responsible Entity of the Fund, E&P Investments Limited, and are deemed to be key management personnel.

Warwick Keneally is also a director of the Trustee of FSREC IV No. 1 Trust (**Sub-Trust**), E&P Investment Services Pty Limited (formerly known as Walsh & Company Investment Services Pty Limited).

Key management personnel are not compensated by the Fund or by the Responsible Entity directly for the management function provided to the Fund.

**11. Related party disclosures (continued)**

**Responsible Entity fee and other transactions**

*Responsible Entity fee*

E&P Investments Limited, as Responsible Entity of the Fund, receives a fee for the performance of its duties under the constitution of the Fund. The Responsible Entity fee is 0.08% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. Effective upon implementation of the Restructure, the Fund's Constitution was amended which resulted in an increase to the Responsible Entity fee to 0.24% per annum.

For the period ended 31 December 2020, \$52,439 (31 December 2019: \$48,918), exclusive of GST, was paid or payable to the Responsible Entity.

*Trustee fee*

E&P Funds Management Pty Limited (formerly known as Walsh & Company Asset Management Pty Limited) in its capacity as Trustee of Fort Street Real Estate Capital Trust IV, a majority owned subsidiary of the Fund, receives a fee of 0.10% per annum (exclusive of GST) for services provided under the terms of the Trust's trust deed. The Trustee fee is calculated on the gross asset value of the Trust, payable monthly. Effective upon implementation of the Restructure, the Trust Deed was amended to remove the Trustee fee.

For the period ended 31 December 2020, \$56,821 (31 December 2019: \$61,102), exclusive of GST, was paid or payable to the Trustee.

*Investment Manager fee*

Fort Street Real Estate Capital Pty Limited (**Fort Street**), a related party of the Responsible Entity, is engaged as the Group's Investment Manager and receives a fee of 0.69% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. Effective upon implementation of the Restructure, the Investment Management Agreement was amended which resulted in a reduction of the Investment Management fee to 0.54% per annum.

For the period ended 31 December 2020, \$407,657 (31 December 2019: \$422,083), exclusive of GST, was paid or payable to the Investment Manager.

*Property Manager fee*

Fort Street acts as Property Manager of the Trust and is responsible for managing and maintaining the property portfolio of the Trust, optimising tenancy profile and maximising returns. The Property Manager receives a fee of 3% per annum, payable monthly (exclusive of GST) calculated on the gross income value of the Trust.

For the period ended 31 December 2020, \$145,330 (31 December 2019: \$170,189), exclusive of GST, was paid or payable to the Property Manager.

*Leasing Services fee*

Fort Street Real Estate Leasing Pty Ltd (**Leasing Agent**), a related party of the Responsible Entity, provides tenant leasing services to the Group where appropriate and on a non-exclusive basis. Services include recommendation on new leases, lease renewals, rental negotiations, arrangement of lease agreements, collection of security under a lease, and preparation of disclosure statements for prospective tenants. For these services, the Leasing Manager receives a fee of 15% of the gross rent on new retail leases, and a fee of 7.5% of the gross rent on existing retail leases. The fee is capitalised and expensed over the lease period.

For the period ended 31 December 2020, \$80,351 (31 December 2019: nil), exclusive of GST, was paid or payable to the Leasing Agent.



**Fort Street Real Estate Capital Fund IV**  
**Notes to the condensed consolidated financial statements**  
**31 December 2020**

**11. Related party disclosures (continued)**

*Legal and consulting services*

The Responsible Entity entered into an agreement with MDA1 Pty Limited, trading as MA Law, to provide legal and consulting services to the Responsible Entity and the investment schemes under its control. Mike Adams, a director of the Responsible Entity, is also a director and shareholder of MDA1 Pty Limited. Mike Adams previously provided similar services as an employee of a non-related entity to the Fund.

For the period ended 31 December 2020, \$6,863 (31 December 2019: nil), exclusive of GST was paid or payable by the Group and included in the other expenses in the statement of profit or loss and other comprehensive income.

*Financial Advisory fee*

Evans and Partners Pty Ltd (**Financial Advisor**, a subsidiary of E&P Financial Group Limited, who is the parent entity of the Responsible Entity), provides certain financial advisory services to the Responsible Entity.

For the period ended 31 December 2020, \$145,662 (31 December 2019: nil), exclusive of GST, was paid or payable to the Financial Advisor.

**12. Capital commitments**

As at 31 December 2020, the Group committed \$591,006 (30 June 2020: \$268,800) as lease incentives arising from lease agreements.

**13. Contingent liability**

The directors of the Responsible Entity are not aware of any potential liabilities or claims against the Group as at the end of the reporting period.

**14. Events after the reporting period**

No matter or circumstance has arisen since 31 December 2020 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

**Fort Street Real Estate Capital Fund IV**

**Directors' declaration**

**31 December 2020**

The directors of the Responsible Entity declare that, in the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, including compliance with the Accounting Standards;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2020 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors of the Responsible Entity made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

A handwritten signature in black ink, appearing to read 'Stuart Nisbett', is written over a horizontal line.

Stuart Nisbett  
Chairman of E&P Investments Limited, Responsible Entity

12 March 2021

## **Independent Auditor's Review Report to the Unitholder of Fort Street Real Estate Capital Fund IV**

### *Conclusion*

We have reviewed the half-year financial report of Fort Street Real Estate Capital Fund IV ('the Fund'), which comprises the condensed consolidated statement of financial position as at 31 December 2020, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Fund and the entities it controlled at the end of the half-year or from time to time during the half-year.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Fund is not in accordance with the *Corporations Act 2001*, including:

- Giving a true and fair view of the Fund's financial position as at 31 December 2020 and of its performance for the half-year ended on that date; and
- Complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### *Basis for Conclusion*

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*. Our responsibilities are further described in the *Auditor's Responsibilities for the Review of the Half-year Financial Report* section of our report. We are independent of the Fund in accordance with the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of E&P Investments Limited (the 'Responsible Entity'), would be in the same terms if given to the directors as at the time of this auditor's review report.

### *Directors' Responsibilities for the Half-year Financial Report*

The directors of the responsible entity (the 'Directors') are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

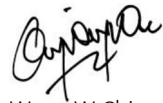
## *Auditor's Responsibilities for the Review of the Half-year Financial Report*

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Fund's financial position as at 31 December 2020 and its performance for the half-year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



DELOITTE TOUCHE TOHMATSU



Weng W Ching  
Partner  
Chartered Accountants

Sydney, 12 March 2021

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## RESPONSIBLE ENTITY

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