



# EXPLANATORY MEMORANDUM

ACCOMPANYING A NOTICE OF MEETING SENT TO STAPLED  
SECURITYHOLDERS IN THE FSREC PROPERTY FUND DATED  
17 DECEMBER 2021



# IMPORTANT NOTICE

This document:

- is issued by E&P Investments Limited (ACN 152 367 649 | AFSL 410 433) (“**E&PIL**” or “**Responsible Entity**”) in its capacity as responsible entity of:
  - Fort Street Real Estate Capital Fund I (ARSN 163 688 346);
  - Fort Street Real Estate Capital Fund II (ARSN 169 190 498); and
  - Fort Street Real Estate Capital Fund III (ARSN 605 335 957),(each, a “**Trust**” and collectively the “**FSREC Property Fund**” or “**Fund**”). Each unit in each Trust is stapled to one unit in each of the other Trusts to form a “**Stapled Security**”. Holders of Stapled Securities are referred to in this Explanatory Memorandum as “**Stapled Securityholders**”.

## PURPOSE

This Explanatory Memorandum provides you with information about the proposed Resolution to amend the Trusts’ constitutions contained in the attached Notice of Meeting, the proposed investment into the Fund by ISPT Pty Ltd (ACN 064 041 283) (“**ISPT**”) in its capacity as trustee for the ISPT Retail Australia Property Trust (FSREC Fund) and Tarawa Pty Ltd (ACN 117 800 736) (“**Tarawa**”), and the proposed withdrawal offer by the Responsible Entity to existing Stapled Securityholders, using the funds from those investments (together, the “**Proposal**”).

E&PIL recommends that you read in full the Explanatory Memorandum and the Notice of Meeting and promptly obtain professional or financial advice from a licensed financial adviser before you determine how to exercise your vote on the proposed Resolution set out in the Notice of Meeting. This Explanatory Memorandum provides information about the objectives of the Proposal and the benefits and risks of the Proposal to Stapled Securityholders.

## FORWARD LOOKING STATEMENTS

To the extent that this Explanatory Memorandum contains any statements which may be considered to be forward-looking, those statements reflect the reasonably held and current expectations of E&PIL and its directors concerning future results and events as at the date of this Explanatory Memorandum. Forward looking statements involve subjective judgment and analysis and are subject to uncertainties, risks and contingencies, many of which are outside the control of, and are unknown to, E&PIL (and its officers, employees, agents or associates). In particular, the uncertainty and risks created by the COVID-19 pandemic increase the difficulty of making such judgements and analysis. Unforeseen or unpredictable events and various risks could affect future results of the Fund following the implementation of the Proposal, causing results to differ from those which are expressed, implied or projected in any forward-looking statements. Any forward-looking statements are provided for information purposes only in order to assist Stapled Securityholders to make decisions about whether to vote in favour of the Resolution set out in the Notice of Meeting. Given these uncertainties, you are cautioned not to place undue reliance on such forward-looking statements.

## DISCLAIMER

The information in this Explanatory Memorandum does not take into account your investment objectives, financial situation, tax position or needs. It is important that you read the Explanatory Memorandum before making any voting decision. The audited or reviewed financial results for the financial year ended 30 June 2021 for the Fund are available from our website, [www.fsrec.com.au](http://www.fsrec.com.au), or by calling the Investor Relations team on 1300 454 801 (local call free within Australia). In assessing any historical information about the Fund, you should be aware that past performance is no indication of future performance. No representation or warranty, express or implied, is made as to the fairness, accuracy, completeness or correctness of any information, opinion or conclusion contained in this Explanatory Memorandum. To the maximum extent permitted by law, neither E&PIL nor any of its directors, officers, employees, agents or advisers accepts any liability for any loss arising from the use of this Explanatory Memorandum or its contents or otherwise arising in connection with it. The information in this Explanatory Memorandum remains subject to change. E&PIL may vary the timetable for implementing the Proposal. We will notify you of any material changes in relation to this Explanatory Memorandum on our website at [www.fsrec.com.au](http://www.fsrec.com.au). The information in this Explanatory Memorandum is current as at 17 December 2021 unless otherwise stated.

## PRIVACY

E&PIL may collect personal information in the process of implementing the Proposal. Such information may include the names, contact details and stapled security holdings of Stapled Securityholders and the names of persons appointed to act as a proxy, corporate representative or attorney at the Meeting applicable to the Fund. The primary purpose of the collection of personal information is to assist E&PIL to conduct the Meeting and implement the Proposal. Personal information of the type described above may be disclosed to the print and mail service providers, authorised securities brokers and related bodies corporate of E&PIL. Stapled Securityholders have a right to access their personal information and should contact E&PIL if they wish to do so. Stapled Securityholders who appoint a named person to act as their proxy, corporate representative or attorney should ensure they inform that person of these matters. For further information on our privacy policy, please visit <https://www.eap.com.au/ep-funds-privacy-policy/>.

## ADDITIONAL INFORMATION

If after reading this Explanatory Memorandum you have any further questions, please contact your financial adviser or E&PIL on 1300 454 801 (local call free within Australia).

# CONTENTS

1. KEY DATES FOR THE PROPOSAL	3
2. CHAIRMAN'S LETTER	4
3. CONSIDERATIONS RELEVANT TO YOUR VOTE	6
4. TRANSACTION OVERVIEW	8
5. TAX	12
6. WHAT YOU NEED TO DO	13

# 1. KEY DATES FOR THE PROPOSAL

EVENT	DATE
Notice of Meeting and Explanatory Memorandum issue date	17 December 2021
Withdrawal Offer Open	20 December 2021
Deadline for lodgement of Voting Form and Withdrawal Offer Acceptance Form	9.00am, 2 February 2022
Withdrawal Offer Close Date <sup>1</sup>	9.00am, 2 February 2022
Record Date for voting (the register of stapled securityholders will be closed from this time until the Meeting)	7.00pm, 2 February 2022
<b>Meeting of Stapled Securityholders</b>	<b>9.00am, 4 February 2022</b>
<b>If the Resolution for the Proposal is approved by the Stapled Securityholders at the Meeting and the minimum acceptance condition of the Withdrawal Offer has been met<sup>2</sup>, the following key dates apply.</b>	
<b>Expected Placement Date</b>	16 February 2022
<b>Last Possible Payment Date for Withdrawal Offer proceeds</b>	23 February 2022

All dates following the issue date of this Explanatory Memorandum are indicative only and may be subject to change.

The Responsible Entity will notify Stapled Securityholders of any change to this timetable via its website at [www.fsrec.com.au](http://www.fsrec.com.au).

## Notes:

- <sup>1</sup> The Responsible Entity may postpone the Withdrawal Offer Close Date to a date no later than 17 March 2022 if it considers an extension of time is in the best interests of Fund members, for example because by 2 February there has been a substantial level of acceptance of the Withdrawal Offer but the total falls just short of the minimum \$240 million for the Withdrawal Offer to proceed. If the Withdrawal Offer period is extended, that will also be notified on the website.
- <sup>2</sup> See Section 4.4 for further details of these conditions.
- <sup>3</sup> For a Withdrawal Offer Close Date later than 8 February (see note 1 above) the expected payment date would be within 21 days of that postponed Withdrawal Offer Close Date.



## 2. CHAIRMAN'S LETTER

Dear Stapled Securityholder,

As Chairman of E&P Investments Limited, the responsible entity of each registered scheme that comprises the FSREC Property Fund (**Fund**), and on behalf of the Board, I am pleased to provide you with a Proposal comprising:

- an investment in the Fund by ISPT as trustee for the ISPT Retail Australia Property Trust (FSREC Fund) ("**IRAPT**") of a minimum of \$240 million and a maximum of \$320 million ("**Placement**");
- a withdrawal offer for a minimum of \$240 million and a maximum of approximately \$330 million, funded primarily by the proceeds of the Placement and an investment by Tarawa of a maximum of \$10 million, ("**Withdrawal Offer**"); and
- amendment of the constitutions of the Trusts that comprise the Fund by special resolution of members ("**Resolution**") as outlined below ("**Constitution Amendments**").

### PLACEMENT

This Proposal is the next step in the strategic initiatives announced at the time of the merger of the Trusts that comprise the Fund in December 2020, aimed at:

- maximising returns to Stapled Securityholders;
- focusing the portfolio on convenience-based retail assets; and
- providing Stapled Securityholders with liquidity.

The previous withdrawal offer in July 2021 was over-subscribed. The Board has sought to deal with the unmet demand by progressing additional liquidity initiatives with its fundraising adviser, Jones Lang Lasalle Property Fund Advisors Limited ("**JLL**"). JLL has conducted a process to identify an institutional partner who could provide liquidity for Stapled Securityholders who wished to exit the Fund, while also allowing Stapled Securityholders the option to remain invested and enhancing the ability of the Fund to grow going forward.

The Responsible Entity has entered into conditional placement agreements with ISPT and Tarawa in respect of the proposed Placement. ISPT is an Australian unlisted property fund manager investing on behalf of some of Australia's largest industry superannuation funds. ISPT has a \$19.6 billion portfolio invested in commercial, retail, logistics, warehousing and residential property in Australia. Tarawa is a company owned by Richard Hunt, Chairman and part owner of Fort Street Real Estate Capital Pty Ltd (ACN 164 101 731) ("**FSREC**"), the investment manager and property manager of the Fund.

FSREC will continue to be the investment manager and property manager for the Fund, but a controlling interest in FSREC is to be sold to ISPT as trustee for ISPT Retail Australia Property Trust No.2.

The price per Stapled Security for the Placement is \$1.71, a fixed price to be set by way of the Constitutional Amendments. This price is based on the Fund's net asset value as at 30 November 2021 with appropriate adjustments for property revaluations as at 31 December, the quarterly distribution and the costs of arranging liquidity for the Withdrawal Offer. See section 4.1(g) for a detailed breakdown.

### WITHDRAWAL OFFER

The Withdrawal Offer will provide each Stapled Securityholder the opportunity to request the redemption of some or all of their holdings in the Fund. The redemption price will be \$1.66 per Stapled Security. This is also a fixed price to be set by way of the Constitution Amendments. It has been calculated in the same way as the price for the Placement, except that, in line with the existing formula in the Constitutions, the redemption price is 97% of the application price for the Placement. The Withdrawal Offer will be for a maximum withdrawal amount of approximately \$330 million ("**Maximum Withdrawal Amount**"). However, the Withdrawal Offer is conditional, and will only proceed if the Resolution to approve the Constitution Amendments is passed by special resolution of the Stapled Securityholders and there is a minimum total acceptance of the Withdrawal Offer of \$240 million, or the Responsible Entity and ISPT agree to proceed based on a slightly lower minimum level of acceptance ("**Minimum Acceptance Amount**"). All Stapled Securityholders are entitled to participate in the Withdrawal Offer. Should the acceptances of the Withdrawal Offer received from Stapled Securityholders exceed the Maximum Withdrawal Amount, it is proposed to scale them back on a pro-rata basis.

The Withdrawal Offer will open on Monday, 20 December 2021 and will close on Wednesday, 2 February 2022 at 9.00am AEDT ("**Closing Date**") unless the Responsible Entity decides that it is in the best interests of Stapled Securityholders to extend the Withdrawal Offer period. To accept the Withdrawal Offer and redeem from the Fund, Stapled Securityholders will need to complete, sign and return the Withdrawal Offer Acceptance Form and any required identification documentation to the Fund's unit registry (BoardRoom Pty Limited) by no later than 9.00am AEDT on the Closing Date. Forms received after that time will not be accepted, unless the Withdrawal Offer period is extended.

Full details of the Withdrawal Offer are contained in the Withdrawal Offer Notice that is enclosed with this Explanatory Memorandum and is also available on the Fund's website ([www.fsrec.com.au/placement-offer](http://www.fsrec.com.au/placement-offer)). If the Withdrawal Offer period is extended, that will also be notified on the website.

We recommend that you contact your licensed professional adviser in relation to the Explanatory Memorandum, Notice of Meeting and Withdrawal Offer.

## RESOLUTION – CONSTITUTIONAL AMENDMENTS

The proposed changes to the Fund constitutions for which approval is sought by special resolution are summarised below:

- to provide that if by October 2023 withdrawal offers (including this Withdrawal Offer) have been made totalling an amount which is sufficient, if such offers are accepted in full, to allow all Stapled Securityholders in the Fund as at the date of the Notice of Meeting to withdraw their entire investment, then the Responsible Entity is not required to provide the existing liquidity opportunity of calling a meeting in October 2023 for a vote on winding up the Fund;
- to specify the prices for the Placement and Withdrawal Offer, the price was calculated based on the most recently available valuation information, as described under “Withdrawal Offer” above, and specify that the redemptions under the Withdrawal Offer will occur at the same time as the Placement; and
- minor updates to the constitutions, such as name changes.

Copies of the Supplemental Deed Polls which set out the proposed amendments in full are available on the Fund website, along with the existing Fund constitutions. Refer to 4.1(c) for further information.

In light of recent health guidance on meetings in public venues, the Meeting will be held virtually. There will not be a physical meeting where Stapled Securityholders can attend.

## RECOMMENDATION AND NEXT STEPS

On behalf of the Responsible Entity, I recommend the Proposal to you.

Please complete and return as soon as possible, and no later than 2 February 2022:

- your voting form, indicating your vote on the Resolution; and
- if you wish to Participate in the Withdrawal Offer, your acceptance form specifying the number of Stapled Securities you would like to redeem.

**If the Resolution is not approved by Stapled Securityholders, or a minimum of \$240 million is not accepted under the Withdrawal Offer, the Placement and the Constitution Amendments will not occur, the Withdrawal Offer will not proceed, and the Fund will continue to be managed in the ordinary course under the existing structure.** This will mean that Stapled Securityholders are likely to have limited opportunity to realise their investments in the Fund other than the existing October 2023 liquidity review event.

If you have any questions, please contact us on 1300 454 801 or email us at [info@fsrec.com.au](mailto:info@fsrec.com.au).

Kind regards,



**Stuart Nisbett**  
Chairman

# 3. CONSIDERATIONS RELEVANT TO YOUR VOTE

## 3.1 REASONS YOU SHOULD VOTE IN FAVOUR OF THE PROPOSAL

The board of directors of the Responsible Entity ("**Board**") unanimously recommend that the Stapled Securityholders of the Fund vote in favour of the Resolution at the Meeting. The Board has formed the view that the Proposal is in the best interests of Stapled Securityholders for the following reasons:

### a) Accelerated access to liquidity for Stapled Securityholders

The Proposal provides Stapled Securityholders with accelerated access to liquidity through the Withdrawal Offer as compared to waiting until the Liquidity Review Event in October 2023 and, if approved, the subsequent orderly wind up of the Fund and distribution of proceeds within two years of the Liquidity Review Event. The investment into the Fund by IRAPT and Tarawa will allow the Fund to conduct a Withdrawal Offer now which otherwise would not be possible.

### b) Improved liquidity framework for the Fund

The Proposal is conditional on passing of the Resolution, which would amend the Fund constitutions in a way that encourages the Responsible Entity to provide further withdrawal offers if it wishes to avoid proposing a resolution to wind up the Fund in 2023. Together with the current Withdrawal Offer, the Responsible Entity believes this provides an improved liquidity framework for Stapled Securityholders.

### c) Greater flexibility to manage Stapled Securityholders' investment in the Fund

The Withdrawal Offer is for a minimum of \$240 million and a maximum of approximately \$330 million. This provides both significant liquidity for those Stapled Securityholders seeking to redeem but also greater flexibility to those who wish to remain partially or fully invested in the Fund, which would not be possible under a liquidation of the Fund.

### d) Improved access to capital and growth potential for the Fund

It is anticipated that IRAPT's position as a significant investor in the Fund and ISPT's controlling stake in the Investment Manager may accelerate growth in the Fund in several ways, including:

- greater access to capital to continue to grow and diversify the Fund;
- strong agency network to secure off-market property transactions;
- increased economies of scale to achieve better operational outcomes; and
- access to a wider, combined talent pool.

## 3.2 REASONS YOU MIGHT VOTE AGAINST THE PROPOSAL

Some factors which may lead you to consider voting against the Proposal include the following:

### a) Change of control

Under the Proposal, IRAPT would become the largest investor in the Fund, owning between 56% and 76% of the Fund's outstanding equity. This level of investment would provide IRAPT with effective voting control of the Fund. IRAPT's effective control of the Fund could provide it with the power over whether the Fund is wound up or the responsible entity is changed, and in some circumstances, constitutional amendments. The Constitution Amendments in the Proposal are designed to ensure that those investors who prefer not to be in a fund with this structure have the opportunity to exit in full, either through the existing October 2023 right to vote on winding up, or withdrawal offers up to October 2023. See 3.1(b).

### b) Change in governance and ownership

#### *Governance*

ISPT, through ISPT Retail Australia Property Trust No.1 ("**IRAPT No.1**"), and the Fund both invest in Australian-based convenience-based retail assets. As both IRAPT No.1 and the Fund invest in the same sector with a similar investor focus, there is a potential for conflicts of interest to arise when assessing and bidding on new assets. Refer also to 4.3.

#### *Investment Manager, Property Manager, Leasing Agent and Development Manager*

The Fund's Investment Manager, Property Manager, Leasing Agent and Development Manager will remain the same. ISPT as trustee for ISPT Retail Australia Property Trust No.2. has agreed that it will purchase 50% of the issued shares in each of Fort Street Capital Pty Ltd (ACN 164 101 704), Fort Street Real Estate Services Pty Ltd (ACN 607 609 852) and FSREC. This will provide ISPT with a look through 75% economic interest in the Investment Manager, Property Manager, Leasing Agent and Development Manager. There may be challenges in integrating the Investment Manager into the ISPT group such as resolving any differences in strategy. ISPT and FSREC are both leading specialist real estate investment and asset management companies in the convenience-based retail sector which is expected to reduce any risks associated with the implementation.

#### *Responsible Entity*

See 4.1(d) regarding the potential for change in the Responsible Entity and trustees in the Fund structure.

**c) Reduced future liquidity past 2023**

The withdrawal offers by October 2023 totalling the number of Stapled Securities currently on issue as described under the heading 'Resolution – Constitutional Amendments' in the Chairman's letter, will not necessarily allow all Stapled Securityholders to exit the Fund at a time of their choosing. For example, if withdrawal offers equal to 20% of Stapled Securities are not taken up in the Withdrawal Offer, that portion of the total is not required to be offered again by 2023 for the requirement to provide a right to vote on a winding up at that time to cease. Some Stapled Securityholders who have chosen not to take up each possible withdrawal offer may find that they have no further rights to liquidity and will need to wait until an exit opportunity is voluntarily offered by the Responsible Entity.

**d) Costs of the Proposal**

Upon the satisfactory completion of IRAPT's investment into the Fund, JLL will be paid a fee equal to 1.00% of the equity paid by any investor into the Fund. This fee is payable only if the conditions outlined in 4.4 are satisfied, and the Resolution is passed by the requisite majority. The fee reflects the advisory work undertaken by JLL in relation to the Proposal.

**e) Conflicts of interest**

E&P Financial Group Limited (**E&P Financial Group**) through E&P Private Investments Pty Ltd (ACN 103 604 495) holds approximately 0.23% of the Stapled Securities in the Fund in respect of which they intend to accept the Withdrawal Offer. Richard Hunt, Chairman of FSREC, the Investment Manager of the Fund, has various interests in the Proposal, including an existing holding in the Fund, an agreement to increase that holding, shares in the Investment Manager, and the prospect of an ongoing commercial relationship with ISPT. To manage this conflict, all material decisions of the Responsible Entity in connection with the Proposal have been made by the independent non- executive directors of the Responsible Entity to ensure a clear focus on the best interests of members of the Fund.

**f) Disagreement with the Board**

Notwithstanding the unanimous recommendation of the Board, you may believe that the Proposal is not in your best interests or the best interests of Stapled Securityholders.

### **3.3 BOARD RECOMMENDATION**

The Board considers the Proposal to be in the best interests of the Stapled Securityholders. Accordingly, the Board unanimously recommends that the Stapled Securityholders vote in favour of the Resolution.

In forming its recommendation, the Board has had regard to the benefits and potential disadvantages of the Proposal.



# 4. TRANSACTION OVERVIEW

## 4.1 BACKGROUND TO TRANSACTION

### a) Rationale

On 23 December 2020, the Fund was formed by the merger of the individual funds in the FSREC Fund Series to create a single stapled fund. The merger has allowed the Fund to successfully execute several strategic initiatives during calendar year 2021, including:

- Debt restructure: a restructure of the Fund's four debt facilities into a single facility, resulting in a reduction in the cost of debt for investors;
- Asset sale: the sale of 241 O'Riordan Street, Mascot for \$145.9 million, allowing the group to focus on its portfolio of high-quality convenience-based retail assets; and
- Withdrawal offer: a \$95 million withdrawal offer to provide liquidity to Stapled Securityholders.

The \$95 million withdrawal offer closed on 23 July 2021 and was significantly oversubscribed. As a result, the Responsible Entity determined to progress additional liquidity initiatives with its fundraising advisor, JLL.

### b) Process

The objectives of the fundraising process were to identify an institutional partner who could provide liquidity for Stapled Securityholders who wish to redeem, while also allowing Stapled Securityholders the option to remain invested, and to enhance the ability of the Fund to grow going forward.

Formally commencing in August 2021, JLL launched a targeted and competitive non-binding indicative offer ("NBIO") process whereby a detailed review and selection process was conducted to identify groups for inclusion in the process and, after executing confidentiality agreements, the selected groups were provided with access to information to allow them to develop and put forward non-binding indicative offers.

At the conclusion of the NBIO process, ISPT was selected as the preferred party for final negotiations and granted a 30-business day exclusivity period (which was later extended). It was also agreed that Richard Hunt could invest on the same terms through his company Tarawa, as this would provide an ongoing alignment of interests between the Fund and Richard in his role with FSREC.

### c) Proposal

On or around 16 December 2021, the Responsible Entity entered into conditional placement agreements with each of IRAPT and Tarawa, which include the following features:

- IRAPT to subscribe for a minimum amount of \$240 million and up to \$320 million of Stapled Securities in the Fund, with Stapled Securities acquired at NAV;
- Tarawa to subscribe for a maximum amount of \$10 million of Stapled Securities in the Fund, with Stapled Securities acquired at NAV; and
- Proceeds of the Placement and other Fund cash to be applied to a withdrawal offer with a minimum of \$240 million and a maximum of approximately \$330 million. Redemption requests in excess of the maximum will be scaled back on a pro-rata basis.

Of the \$330 million maximum subscription amount (and equivalent Maximum Withdrawal Amount), IRAPT will commit a maximum amount of \$320 million and Tarawa will commit a maximum amount of \$10 million, with amounts above the Minimum Acceptance Amount to be allocated between IRAPT and Tarawa on a pro rata basis. IRAPT and Tarawa are not related entities, and are acting separately in making their investments. IRAPT's subscription and the Withdrawal Offer proceeding is not dependent on Tarawa's investment.

The Proposal is also conditional on the passing of the Resolution which would amend the constitutions of the Trusts that comprise the Fund to insert conditions that would disapply the existing requirement for a meeting to vote on winding up the Fund ("**Liquidity Window**") if, between December 2021 and October 2023 inclusive, withdrawal offers are made totalling an amount that would allow all Stapled Securityholders on the register at the date of this Explanatory Memorandum to fully withdraw from the Fund if they all chose to do so by October 2023 ("**Liquidity Objective**"). The Responsible Entity may be obliged to sell assets of the Fund or otherwise raise funding to make a withdrawal offers for this purpose.

If and when the Constitution Amendments are approved, the constitutions will provide that IRAPT must not accept any withdrawal offers made to it as a Stapled Securityholder of the Fund until the Liquidity Objective is met or the Liquidity Window is offered, and to abstain from voting on the Liquidity Window wind-up resolution to be put to Stapled Securityholders in October 2023 if the Liquidity Objective is not met.

In short, if Stapled Securityholders approve the Resolution, the Constitution Amendments would provide an alternative to the existing liquidity mechanism of Stapled Securityholders having a right to vote in October 2023 to wind up the Fund.

### d) Sale of the Investment Manager and Potential Change of Responsible Entity & Trustees

#### *Investment Manager*

ISPT's proposal was also conditional on their purchase of E&P Financial Group's effective 75% interest in the Investment Manager, which has now been agreed. Negotiations around the sale and purchase of the Investment Manager were conducted separately between ISPT and E&P Financial Group.

#### *Responsible Entity & Trustees*

If the Proposal proceeds, in 2022 E&PIL plans to consider stepping down from its role as the responsible entity of the Fund. E&PIL will only propose to retire if it is able to be replaced by an external professional responsible entity with suitable qualifications and experience. As part of this transition process, it is contemplated that the trustees of the Investment Entities, E&P Investment Services Pty Limited and E&P Funds Management Pty Limited would also be replaced by a professional trustee entity. E&P Funds Management Pty Limited as Fund Administrator would remain in place during the transition period before the responsible entity and trustee services change. The services provided by the Fund Administrator are expected to be taken on by the Investment Manager or ISPT.

There is the potential for some minor disruption to the operation of the Fund arising from the implementation of the change of responsible entity. In choosing the replacement responsible entity, E&PIL will give consideration to the replacement responsibility entity's ability to take over the role including whether they have an onboarding team which is expected to mitigate any operational disruption from the changeover.

Further details will be provided to Stapled Securityholders in 2022 if the Proposal proceeds and if E&PIL decides to seek to step down and appoint a suitable replacement.

#### e) Withdrawal Offer

IRAPT's investment into the Fund will be dependent on the amount of liquidity requested by Stapled Securityholders as part of the Withdrawal Offer. Withdrawal requests must be at least \$240 million before IRAPT is willing to proceed with its investment into the Fund, although if the total requests fall slightly short of this amount the parties can agree to reduce the minimum.

The Withdrawal Offer will be run concurrently with the voting process for the Resolution. The Withdrawal Offer Close Date will be Wednesday, 2 February 2022, two days before the meeting of Stapled Securityholders, unless the Responsible Entity determines that it is in the best interest of Stapled Securityholders to extend the Withdrawal Offer Close Date.

Stapled Securityholders should refer to the Withdrawal Offer Notice for information on how to participate in the Withdrawal Offer. The Withdrawal Offer Notice was sent with this Explanatory Memorandum.

#### f) Costs

There are some costs to the Fund that have been reasonably and properly incurred in seeking this significant opportunity to provide liquidity in the Fund to satisfy investor demand. IRAPT is undertaking due diligence enquiries on the assets of the Fund before investing and has required that up to \$1 million of those costs are repaid to IRAPT if its investment does not proceed because Stapled Securityholders vote against the Proposal. This amount will be paid out of Fund assets. There are also separate costs associated with E&PIL's due diligence incurred as part of the Proposal which are expected to total approximately \$0.4 million (**Transaction Costs**). The Transaction Costs relate to legal and tax services performed in relation to the Proposal by E&PIL's professional advisers (which include fees on commercial arms' length terms for legal services payable to MA Law, a legal practice operated by a former director of the Responsible Entity) and the Fund's registry (**Boardroom Pty Limited**). The Transaction Costs will be incurred by the Fund whether the Proposal proceeds or not and will be paid out of Fund assets. In addition to the Transaction Costs, upon the satisfactory completion of IRAPT's investment into the Fund, JLL will be paid a fee equal to 1.00% of the equity paid by any investor into the Fund. This fee is payable only if the conditions outlined in 4.4 are satisfied, and the Resolution is passed by the requisite majority. The fee reflects the advisory work undertaken by JLL in relation to the Proposal.

#### g) Stapled Security Prices

Because of the nature of the Proposal, it has been necessary to have certainty of the application price for the Placement and the redemption price for the Withdrawal Offer in advance of putting the proposal to Stapled Securityholders. To achieve this certainty, it is proposed that the application and redemption prices be specifically stated in the Fund constitutions rather than calculated according to a formula at the time of issue and redemption. Every effort has been made to use the most up to date valuation and other information as inputs in determining the prices, including the Responsible Entity arranging for out of cycle valuations of the Fund's property portfolio to be updated to December 2021.

In calculating both the application price for the Placement and the redemption price for the Withdrawal Offer, the Responsible Entity has used the unaudited net asset value<sup>4</sup> ("NAV") and the number of Stapled Securities on issue as at 30 November 2021. As noted in the Chairman's letter, the application price is equal to NAV per Stapled Security, and the redemption price is based on 97% of the NAV.

The following table calculates a pro-forma 30 November 2021 NAV, using the latest financial information available, with pro-forma adjustments including valuations of the Fund's properties as at 31 December 2021:

\$'M (UNLESS STATED)	30-JUN-21 (AUDITED)	30-NOV-21 (UNAUDITED)	PRO-FORMA ADJUSTMENTS*	30-NOV-21 PRO-FORMA (UNAUDITED)
Cash	\$5.2	\$5.6	\$0.0	\$5.6
Receivables and other	\$3.7	\$4.0	\$0.0	\$4.0
Investment properties	\$811.9	\$670.2	\$16.3	\$686.5
<b>Total Assets</b>	<b>\$820.8</b>	<b>\$679.8</b>	<b>\$16.3</b>	<b>\$696.1</b>
Borrowings	(\$288.4)	(\$250.5)	\$0.0	(\$250.5)
Payables and other	(\$20.4)	(\$5.2)	(\$7.5)	(\$12.6)
<b>Total Liabilities</b>	<b>(\$308.9)</b>	<b>(\$255.7)</b>	<b>(\$7.5)</b>	<b>(\$263.1)</b>
Net assets	\$511.9	\$424.1	\$8.9	\$433.0
No. of stapled securities (#)	312,632,131	252,723,891	252,723,891	252,723,891
NAV per stapled security (\$/stapled security)	\$1.64	\$1.68	\$0.04	\$1.71
Redemption price (\$/stapled security)				\$1.66

\* Pro-Forma adjustment notes:

- The unaudited pro-forma Net Asset Value per stapled security of \$1.71/stapled security for 30 November 2021 includes the following adjustments as if they took place as at 30 November 2021 to represent a current market valuation:
  - \$5.05 million accrual for the December 2021 quarterly distribution of \$0.02 per stapled security, declared on 9 December 2021 (to be paid on or around 4 February 2022).
  - \$16.3 million increase to reflect property revaluation movement from 30 November 2021 to 30 December 2021, announced on 9 December 2021.
  - \$2.4 million adjustment for the minimum known capital raising costs associated with the Withdrawal Offer.
- Figures have been rounded to the nearest \$100,000. Totals may not sum due to rounding.
- The unaudited summary statements of financial position have been prepared applying the accounting policies set out in the 30 June 2021 Fund's annual reports, which are consistent with Australian Accounting Standards.

Note:

- The NAV of the FSREC Property Fund will be calculated as the sum "net asset value" of each Fund (as such term is defined in the constitutions of each Fund).

## 4.2 OVERVIEW OF ISPT AND IRAPT

### ISPT

ISPT is an Australian unlisted property fund manager investing on behalf of some of Australia's largest industry superannuation funds. Co-founded in 1994 by Australian Super, Cbus and HESTA, ISPT has now grown to 34 investors, representing a diverse base with strong access to capital. ISPT's \$19.6 billion portfolio invests in and develops commercial, retail, logistics and warehousing, education, health and residential property development in Australia.

### IRAPT

IRAPT No.1 has an established portfolio of retail neighbourhood and town centre properties across Australia, with a strong focus on the metropolitan eastern seaboard. Its fund manager is Cameron Gregson.

Focusing on non-discretionary retail, the centres are anchored by supermarkets and supported by fresh food, casual dining, health and locally relevant services. Established in May 2013, IRAPT No.1 owns an established portfolio of 36 retail neighbourhood and town centre assets valued at over \$1.74 billion. IRAPT is ultimately investing on behalf of working Australians through the industry super funds, so they strive to take a long-term, stable approach to investing. IRAPT No.1 seeks to establish centres in areas positioned for growth or gentrification, and to tailor its retail offer to the needs of the community.

Further details on ISPT and IRAPT No.1 can be found in ISPT's most recent annual review, available here:

[https://ispt.net.au/pdf/ISPT\\_2021\\_Annual\\_Review.html](https://ispt.net.au/pdf/ISPT_2021_Annual_Review.html).

## 4.3 GOVERNANCE

There are only expected to be limited changes to the way that FSREC and the Fund have historically operated. In the event that there are any potential conflicts, an appropriate conflict management policy will be implemented.

The below table details IRAPT's expected percentage ownership in the Fund under various redemption request amounts.

WITHDRAWAL REQUESTS	SUBSCRIPTION AMOUNT	IRAPT'S PERCENTAGE OWNERSHIP*
\$240 million	\$240 million	56%
\$330 million	\$320 million	76%
\$350 million**	\$320 million	76%

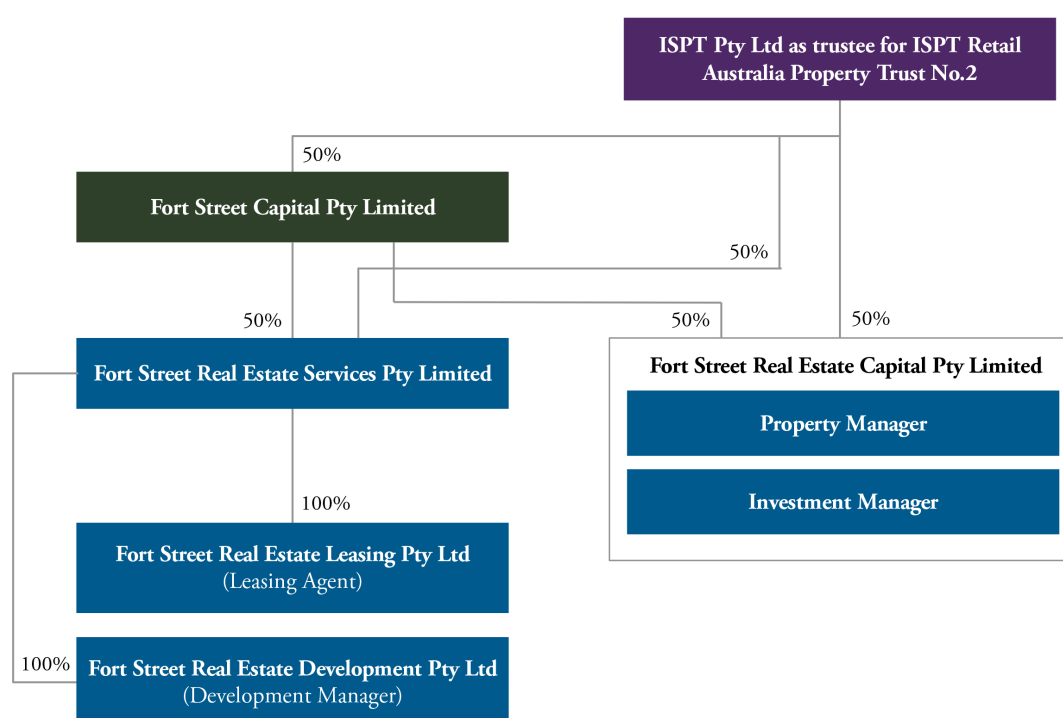
\* Based on NAV (See 4.1(g) above for a breakdown of the NAV of the Fund).

\*\* Redemption requests will be scaled back.

Subject to the size of the withdrawal amount, Tarawa will acquire up to \$10 million of Stapled Securities which, if the Withdrawal Offer is fully accepted will represent a 2% interest in the Fund. All figures in the table and sentence above are approximate and rounded.

### Structure Diagram

The following structuring diagram outlines ISPT as trustee for ISPT Retail Australia Property Trust No.2 interest in the Investment Manager and Property Manager entities following their purchase of a 75% economic interest in the Investment Manager. Entities associated with Richard Hunt will continue to own the remaining 25% interest in the Investment Manager, through their 50% shareholding in Fort Street Capital Pty Limited.



## 4.4 OVERVIEW OF CONDITIONS

IRAPT and Tarawa's obligations to complete on their respective investments into the Fund pursuant to the conditional placement agreements, and the Withdrawal Offer proceeding, are subject to the following two conditions:

- **Constitutional Amendment Resolution**

The Resolution outlined in Section 4.1(c) being passed by at least 75% of the votes cast by Stapled Securityholders entitled to vote (either in person or by proxy).

- **Minimum Withdrawal Offer threshold reached**

The Placement will only be made to allow the Withdrawal Offer to proceed if the Withdrawal Offer receives a minimum acceptance total of at least \$240 million, or such lower amount as the Responsible Entity and ISPT may agree.

If the Resolution is passed by the requisite majority, and the Minimum Withdrawal Offer threshold is reached, the Proposal will proceed even if some Stapled Securityholders have not voted in favour of it.

If the Resolution is not passed, or if the Minimum Withdrawal Offer threshold is not met, the Fund will remain in its current state and ISPT and Tarawa will not invest into the Fund, and the Withdrawal Offer will not proceed.

## 4.5 OVERVIEW OF PROCESS

If the Conditions outlined in Section 4.4 are satisfied:

- E&PIL will sign and lodge with the Australian Securities and Investments Commission (**ASIC**) the amendments to the Fund's constitutions to bring them into effect;
- E&PIL will accept IRAPT's and Tarawa's investments into the Fund;
- E&PIL will give effect to the Withdrawal Offer including the payment to redeeming Stapled Securityholders (subject to any scaling back, if applicable); and
- Following the Withdrawal Offer, new holding statements will be sent to Stapled Securityholders by mail in accordance with the Fund's Unit Registry's requirements. The Fund's Unit Registry is Boardroom Pty Limited.

## 4.6 COMPARISON OF KEY METRICS BEFORE AND AFTER IMPLEMENTATION OF THE PROPOSAL

The table below provides a comparison of key metrics before and after implementation of the Proposal.

METRIC	CURRENT	PROPOSED
<b>Liquidity</b>	<p>E&amp;PIL and the Investment Manager continue to implement the liquidity framework established in 2020.</p> <p>This Proposal is part of that framework.</p> <p>However, the only right to exit the Fund currently available is a right to vote on an ordinary resolution to wind up the Fund, which would be put to Stapled Securityholders in October 2023 and, if passed, implemented over the subsequent two years.</p>	<p>Either the Responsible Entity will make withdrawal offers between December 2021 and October 2023 (including the current Withdrawal Offer) in respect of a total number of Stapled Securities equal to the number on issue at the date of this Explanatory Memorandum (<b>Liquidity Objective</b>), or it will convene the meeting in October 2023 to allow a vote on winding up the Fund.</p> <p>If the Constitution Amendments are approved, the constitutions will provide that IRAPT must not accept any withdrawal offers made to it as a Stapled Securityholder of the Fund until the Liquidity Objective is met, and to abstain from voting on a wind-up resolution, if it is put to Stapled Securityholders in October 2023.</p>
<b>Manager</b>	<p>The Fund is currently managed by Fort Street Real Estate Capital Pty Ltd (<b>FSREC</b>) which is 75% owned by E&amp;P Financial Group.</p>	<p>The Fund will continue to be managed by FSREC, however ISPT as trustee for ISPT Retail Australia Property Trust No.2 will hold a 75% interest in the Investment Manager, Property Manager, Leasing Agent and Development Manager.</p>
<b>Responsible Entity</b>	<p>E&amp;P Investments Limited</p>	<p>E&amp;P Investments Limited is considering retiring as the Responsible Entity in 2022 to be replaced by a new professional external responsible entity.</p>
<b>Investment Objective</b>	<p>The investment objective of the Fund will remain the same. The Fund's investment objective is to seek to provide investors with attractive and secure rental income via exposure to a portfolio of Australian-based convenience-based retail assets with potential for long-term capital growth.</p>	

# 5. TAX AND STAMP DUTY

## 5.1 IRAPT INVESTMENT

The Stapled Securityholders should not be liable for any stamp duty (including landholder duty) as a result of the Placement. If ISPT as trustee for IRAPT and Tarawa's investments result in 20 or fewer unitholders holding 75% of the Fund, the Fund may cease to be a widely held unit trust for Queensland stamp duty purposes and there may be some risk of duty for remaining investors who increase their proportionate holding in the Fund because of a future transaction. There may also be Victorian stamp duty risks for remaining investors who increase their proportionate holding in the Fund because of a future transaction. Investors should seek their own advice on future transactions.

## 5.2 WITHDRAWAL OFFER

All Stapled Securityholders should consider their individual tax and stamp duty circumstances before participating in the Withdrawal Offer. Capital gains tax may be payable.



# 6. WHAT YOU NEED TO DO

## VOTING

The Notice of Meeting and voting form are attached as Appendix 1 to this Explanatory Memorandum. Please refer to the Notice of Meeting for information on how to vote. The Record Date for voting is 7.00pm, Wednesday, 2 February 2022. If Stapled Securityholders do not wish to vote during the meeting the deadline for Voting Forms for the meeting is 9.00am, 2 February 2022, all votes and proxy forms must be received by this time in order to be cast at the Meeting.

The Meeting will be held at 9.00am on Friday, 4 February 2022. The Responsible Entity is closely monitoring and responding to the impact of the COVID-19 pandemic in Australia and is following guidance issued by the federal and state governments. In light of recent health guidance on meetings in public venues, the Meeting will be held virtually.

There will not be a physical meeting where Stapled Securityholders can attend in person. Under this arrangement, Stapled Securityholders will be provided with alternative ways to participate in the Meeting, including the ability to ask questions online. If it becomes necessary to make further alternative arrangements for the Meeting, we will ensure Stapled Securityholders are given as much notice as possible.

Refer to the Notice of Meeting for information on how to vote and attend the Meeting online.

## WITHDRAWAL OFFER

Refer to the Withdrawal Offer Notice for information on how to participate in the Withdrawal Offer. The Withdrawal Offer Notice was sent with this Explanatory Memorandum.

# APPENDIX 1 – NOTICE OF MEETING

