



FORT STREET
REAL ESTATE CAPITAL

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



FSREC PROPERTY FUND HALF-YEAR FINANCIAL REPORT 31 DECEMBER 2022



RESPONSIBLE ENTITY

EQUITY TRUSTEES LIMITED
(ACN 004 031 298) (AFSL 240 975)

FSREC Property Fund

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31 December 2022

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FSREC Property Fund
Funds from operations
31 December 2022

Funds From Operations (**FFO**) is a non-International Financial Reporting Standards (**IFRS**) 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 FSREC Property 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.

	31 December 2022	31 December 2021
	\$	\$
Profit after tax for the period	5,516,943	26,225,990
Adjustments:		
Fair value movement of investment properties	3,457,141	(15,062,497)
Straight-lining of rental revenue and incentive amortisation	893,548	(114,280)
Other items and amortisation of capitalised lease costs	719,593	503,646
One-off professional fees	-	22,686
FFO	10,587,225	11,575,545
Distributions for the period	9,134,289	10,108,956
	Cents per stapled security	Cents per stapled security
FFO	4.29	4.58
Distributions	3.70	4.00

Distributions for the period represented a payout ratio of 86% of FFO (31 December 2021: 87%).

FSREC Property Fund
Directors' report
31 December 2022

Introduction

The directors of Equity Trustees Limited, as Responsible Entity of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III (together, **the Schemes**), present their report on the Schemes and their respective controlled entities (collectively referred to as **FSREC Property Fund** or **the Fund**) for the half-year ended 31 December 2022.

The half-year financial report of FSREC Property Fund comprises Fort Street Real Estate Capital Fund I and its controlled entities. The controlled entities of Fort Street Real Estate Capital Fund I include subsidiaries by way of ownership interests (collectively, **FSREC Fund I**) and other members of the Fund, being Fort Street Real Estate Capital Fund II and its controlled entities (collectively, **FSREC Fund II**) and Fort Street Real Estate Capital Fund III and its controlled entities (collectively, **FSREC Fund III**).

Principal activities

The Fund invests in Australian commercial properties for the purposes of deriving rental income and capital growth.

The Fund did not have any employees during the half-year ended 31 December 2022 (31 December 2021: nil).

There were no significant changes in the nature of the Fund's activities during the half-year ended 31 December 2022 (31 December 2021: nil).

The various service providers for the Fund are detailed below.

Service

Responsible Entity
Investment Manager & Property Manager
Fund Administrator
Custodian
Statutory Auditor
Unit Registry

Provider

Equity Trustees Limited
Fort Street Real Estate Capital Pty Ltd
Fort Street Real Estate Capital Pty Ltd
The Trust Company (Australia) Limited
Deloitte Touche Tohmatsu
Boardroom Pty Limited

Directors

The following persons held office as directors of the Responsible Entity during or since the end of the half-year and up to the date of this report:

E&P Investments Limited

(resigned effective 21 December 2022)

Stuart Nisbett
Warwick Keneally
Peter Shear

Equity Trustees Limited

(appointed effective 21 December 2022)

Philip Gentry Chairman
Michael O'Brien
Russell Beasley
Mary O'Connor

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

Following a final withdrawal offer that closed on 8 July 2022, the Fund redeemed 48,083,783 stapled securities at a redemption price of \$1.78 and issued 48,045,278 stapled securities to ISPT Retail Australia Property Trust (FSREC Fund) (**IRAPT**) at an application price of \$1.84 on 20 July 2022.

The performance of the Fund, as represented by the results of its operations, was as follows:

	31 December 2022	31 December 2021
Profit for the half-year	5,516,943	26,225,990
Distributions paid and payable	9,134,289	10,108,956
Distributions (cents per stapled security)	3.70	4.00

FSREC Property Fund
Directors' report
31 December 2022

Distributions

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

	31 December 2022
	\$
1.85 cents per stapled security for the period ended 30 September 2022 paid on 4 November 2022	4,567,144
1.85 cents per stapled security for the period ended 31 December 2022 paid on 3 February 2023	4,567,145
	<u>9,134,289</u>

Significant changes in the state of affairs

Effective 21 December 2022, Equity Trustees Limited replaced E&P Investments Limited as Responsible Entity of the Schemes pursuant to an extraordinary resolution passed on 19 December 2022.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Fund that occurred during the half-year ended 31 December 2022.

Application of ASIC Order

The financial report of FSREC Property Fund is presented in accordance with an ASIC Order 21-0740 issued on 14 September 2021 (**Relief Instrument**). The Relief Instrument allows the Fund to present the consolidated financial statements of the relevant entity, FSREC Fund I and its controlled entities, in one section and all other reporting group members (**FSREC Fund II** and **FSREC Fund III**) in a separate section in adjacent columns.

The Relief Instrument granted is subject to a condition to present a combined income statement aggregating the financial results of FSREC Fund I, FSREC Fund II and FSREC Fund III when the relevant period is less than two years after the Schemes were stapled. As the Schemes were stapled on 23 December 2020, a combined income statement is no longer required for the half-year ended 31 December 2022.

Matters subsequent to the end of the financial half-year

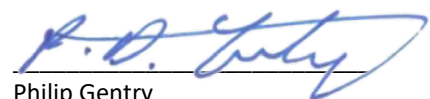
No matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the Fund's operations, the results of those operations, or the Fund's state of affairs in future financial years.

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 the directors of Equity Trustees Limited through a delegated authority given by Equity Trustees Limited's Board.

On behalf of the directors



Philip Gentry
Chairman

6 March 2023

The Board of Directors
Equity Trustees Limited as Responsible Entity for:
Fort Street Real Estate Capital Fund I
Fort Street Real Estate Capital Fund II and
Fort Street Real Estate Capital Fund III
Level 1, 575 Bourke Street
Melbourne VIC 3000

6 March 2023

Dear Board Members

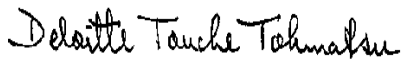
Auditor's Independence Declaration to Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III

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 I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III.

As lead audit partner for the review of the half year financial report of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III for the half year ended 31 December 2022, 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 2022

		Consolidated	
	Note	31 December 2022	31 December 2021
		\$	\$
Revenue			
Rental income		23,947,006	24,218,624
Other property income		5,879,635	5,818,205
Finance income		55,080	1,047
Fair value movement of investment properties	3	(3,457,141)	15,062,497
Total revenue		<u>26,424,580</u>	<u>45,100,373</u>
Expenses			
Investment property expenses		11,234,794	10,485,564
Finance expenses		5,244,901	3,793,361
Responsible Entity and trustee fees	10	867,533	890,207
Management fees	10	2,862,224	2,826,772
Accounting and audit fees		222,062	236,741
Other expenses		476,123	641,738
Total expenses		<u>20,907,637</u>	<u>18,874,383</u>
Profit before income tax expense		5,516,943	26,225,990
Income tax expense		-	-
Profit after income tax expense for the half-year		5,516,943	26,225,990
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash flow hedge		<u>415,665</u>	<u>3,021,815</u>
Other comprehensive income for the half-year, net of tax		<u>415,665</u>	<u>3,021,815</u>
Total comprehensive income for the half-year		<u><u>5,932,608</u></u>	<u><u>29,247,805</u></u>

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 profit or loss and other comprehensive income
For the half-year ended 31 December 2022**

	Note	Consolidated	
		31 December 2022	31 December 2021
		\$	\$
Profit for the half-year is attributable to:			
Ordinary securityholders of the Fund			
- Unitholders of FSREC Fund I		2,887,135	21,206,198
- Unitholders of FSREC Fund II and FSREC Fund III		2,629,148	5,017,873
Other non-controlling interest		660	1,919
		<u>5,516,943</u>	<u>26,225,990</u>
Total comprehensive income for the half-year is attributable to:			
Ordinary securityholders of the Fund			
- Unitholders of FSREC Fund I		3,302,800	24,117,049
- Unitholders of FSREC Fund II and FSREC Fund III		2,629,148	5,128,837
Other non-controlling interest		660	1,919
		<u>5,932,608</u>	<u>29,247,805</u>
		Cents	Cents
Basic earnings per stapled security	2	2.23	9.93
Diluted earnings per stapled security	2	2.23	9.93

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 2022

		Consolidated	
	Note	31 December 2022	30 June 2022
		\$	\$
Assets			
Current assets			
Cash and cash equivalents		10,607,934	9,767,945
Trade and other receivables		2,799,675	2,036,951
Derivative financial instruments		2,776,972	1,627,246
Prepayments		1,090,865	1,225,509
Total current assets		<u>17,275,446</u>	<u>14,657,651</u>
Non-current assets			
Investment properties	3	704,250,000	703,700,000
Derivative financial instruments		3,125,298	4,084,695
Total non-current assets		<u>707,375,298</u>	<u>707,784,695</u>
Total assets		<u>724,650,744</u>	<u>722,442,346</u>
Liabilities			
Current liabilities			
Trade and other payables	4	10,310,970	8,354,319
Distribution payable		4,574,506	4,945,835
Total current liabilities		<u>14,885,476</u>	<u>13,300,154</u>
Non-current liabilities			
Borrowings	5	256,766,403	255,605,363
Total non-current liabilities		<u>256,766,403</u>	<u>255,605,363</u>
Total liabilities		<u>271,651,879</u>	<u>268,905,517</u>
Net assets		<u>452,998,865</u>	<u>453,536,829</u>
Equity			
Issued capital	6	178,376,432	176,925,327
Cash flow hedge reserve	7	6,583,812	6,168,147
Retained profits		48,463,625	51,340,436
Equity attributable to the unitholders of FSREC Fund I		<u>233,423,869</u>	<u>234,433,910</u>
Total equity attributable to other member of the Fund - FSREC Fund II and FSREC Fund III		219,551,390	219,079,609
Other non-controlling interest		23,606	23,310
Total equity		<u>452,998,865</u>	<u>453,536,829</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 2022

Consolidated	Issued capital \$	Cash flow hedge reserve \$	Retained profits \$	Equity attributable to other members - FSREC Fund II and FSREC Fund III \$	Other non- controlling interest \$	Total equity \$
Balance at 1 July 2022	176,925,327	6,168,147	51,340,436	219,079,609	23,310	453,536,829
Profit after income tax expense for the half-year	-	-	2,887,135	2,629,148	660	5,516,943
Other comprehensive income for the half-year, net of tax	-	415,665	-	-	-	415,665
Total comprehensive income for the half-year	-	415,665	2,887,135	2,629,148	660	5,932,608
Distributions paid to other non- controlling interest	-	-	-	-	(364)	(364)
<i>Transactions with securityholders in their capacity as securityholders:</i>						
Issue of stapled securities	45,698,747	-	-	42,704,565	-	88,403,312
Redemption of stapled securities	(44,170,165)	-	-	(41,418,969)	-	(85,589,134)
Redemption costs	(77,477)	-	-	(72,620)	-	(150,097)
Distributions declared	-	-	(5,763,946)	(3,370,343)	-	(9,134,289)
Balance at 31 December 2022	<u>178,376,432</u>	<u>6,583,812</u>	<u>48,463,625</u>	<u>219,551,390</u>	<u>23,606</u>	<u>452,998,865</u>

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 changes in equity
For the half-year ended 31 December 2022

Consolidated	Issued capital \$	Cash flow hedge reserve \$	Retained profits \$	Equity attributable to other members - FSREC Fund II and FSREC Fund III \$	Other non- controlling interest \$	Total equity \$
Balance at 1 July 2021	224,950,867	(2,676,427)	28,648,973	260,971,018	23,126	511,917,557
Profit after income tax expense for the half-year	-	-	21,206,198	5,017,873	1,919	26,225,990
Other comprehensive income for the half-year, net of tax	-	2,910,851	-	110,964	-	3,021,815
Total comprehensive income for the half-year	-	2,910,851	21,206,198	5,128,837	1,919	29,247,805
Distributions paid to other non- controlling interest	-	-	-	-	(608)	(608)
<i>Transactions with securityholders in their capacity as securityholders:</i>						
Redemption of stapled securities	(46,138,350)	-	-	(49,115,751)	-	(95,254,101)
Redemption costs	(65,782)	-	-	(67,274)	-	(133,056)
Distributions declared	-	-	(5,276,876)	(4,832,080)	-	(10,108,956)
Balance at 31 December 2021	178,746,735	234,424	44,578,295	212,084,750	24,437	435,668,641

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 2022

	Consolidated	
	31 December	31 December
	2022	2021
	\$	\$
Cash flows from operating activities		
Rental and other income received	32,569,852	27,130,358
Interest income received	55,080	1,012
Finance costs	(3,720,406)	(2,814,779)
Payments to suppliers	(19,851,273)	(15,404,576)
Net cash from operating activities	<u>9,053,253</u>	<u>8,912,015</u>
Cash flows from investing activities		
Receipt of insurance proceeds	13,263,867	-
Proceeds from disposal of investment property	-	145,850,000
Payments for capital expenditure	(15,435,230)	(3,639,010)
Net cash from/(used in) investing activities	<u>(2,171,363)</u>	<u>142,210,990</u>
Cash flows from financing activities		
Gross proceeds from borrowings	800,000	9,300,000
Issue of stapled securities	88,403,312	-
Payments of transaction costs relating to borrowings	-	(56,448)
Redemption costs	(150,097)	(133,056)
Payment of early termination of swap contract	-	(2,390,738)
Distributions paid	(9,505,982)	(11,323,604)
Repayment of borrowings	-	(47,500,000)
Payment of redemption of stapled securities	(85,589,134)	(95,254,101)
Net cash used in financing activities	<u>(6,041,901)</u>	<u>(147,357,947)</u>
Net increase in cash and cash equivalents	839,989	3,765,058
Cash and cash equivalents at the beginning of the financial half-year	<u>9,767,945</u>	<u>5,225,226</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>10,607,934</u></u>	<u><u>8,990,284</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 2022

1. General information

Fort Street Real Estate Capital Fund I is an unlisted managed investment scheme registered and domiciled in Australia. The financial statements of FSREC Property Fund comprise of Fort Street Real Estate Capital Fund I and its controlled entities (collectively, **the Fund**). The controlled entities of Fort Street Real Estate Fund I include subsidiaries by way of ownership interests (collectively, **FSREC Fund I**) and other members of the Fund, being Fort Street Real Estate Capital Fund II and its controlled entities (collectively, **FSREC Fund II**) and Fort Street Real Estate Capital Fund III and its controlled entities (collectively, **FSREC Fund III**). The principal activity of the Fund is to invest in Australian commercial property.

Pursuant to a resolution approved on 19 December 2022, Equity Trustees Limited (**Responsible Entity**) replaced E&P Investments Limited (**former Responsible Entity**) as responsible entity of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III (together, **the Schemes**) effective 21 December 2022.

The Responsible Entity of the Schemes takes responsibility for the financial reports of the Schemes. The condensed consolidated financial statements were authorised for issue by the board of directors on the date the directors' declaration was signed. The directors of the Responsible Entity have the power to amend and reissue the condensed consolidated financial statements.

Basis of preparation

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 Australian Accounting Standards Board (**AASB**) AASB 134 ensures compliance with IFRS IAS 34 *Interim Financial Reporting*.

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

This half-year financial report is intended to provide users with an update on the latest annual financial statements of the Fund. 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 Fund for the year ended 30 June 2022, together with any public announcements made during the half-year.

FSREC Property Fund was established through the restructure of FSREC Fund I, FSREC Fund II, FSREC Fund III and FSREC Fund IV (**Restructure**) on 23 December 2020. The Restructure comprised of FSREC Fund I's acquisition of all units in FSREC Fund IV and the subsequent stapling of FSREC Fund I, FSREC Fund II and FSREC Fund III. FSREC Property Fund operates as a single coordinated economic entity with a common board of directors and management team.

In accordance with the Australian Accounting Standards, the stapling of the issued units of FSREC Fund I, 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 "Equity attributable to other members" in the consolidated statement of changes in equity. "Equity attributable to other members" 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 financial statements of the Fund have been prepared in accordance with an ASIC Order 21-0740 issued on 14 September 2021. The Relief Instrument allows the Fund to present the consolidated financial statements of the relevant entity (FSREC Fund I) in one section and all other reporting group members (FSREC Fund II and FSREC Fund III) in a separate section in adjacent columns.

Significant accounting policies

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 Fund's annual financial report for the year ended 30 June 2022.

The Fund has adopted all of the new and revised Standards and Interpretations issued by the AASB that are relevant to its operations and effective for the current half-year.

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2022

2. Earnings per stapled security

	Consolidated	
	31 December 2022	31 December 2021
	\$	\$
Profit after income tax	5,516,943	26,225,990
Other non-controlling interest	(660)	(1,919)
Profit after income tax attributable to the securityholders of FSREC Property Fund	<u>5,516,283</u>	<u>26,224,071</u>
	Number	Number
Weighted average number of securities used in calculating basic earnings per stapled security	<u>246,876,848</u>	<u>264,119,480</u>
Weighted average number of securities used in calculating diluted earnings per stapled security	<u>246,876,848</u>	<u>264,119,480</u>
	Cents	Cents
Basic earnings per stapled security	2.23	9.93
Diluted earnings per stapled security	2.23	9.93

3. Investment properties

	Consolidated	
	31 December 2022	30 June 2022
	\$	\$
Disclosed in Condensed Consolidated Statement of Financial Position as:		
<i>Non-current assets</i>		
Investment properties - at fair value	<u>704,250,000</u>	<u>703,700,000</u>
<i>Movement in investment properties - at fair value</i>		
Carrying amount of investment properties at beginning of period	703,700,000	666,050,000
Capital expenditure	2,305,739	5,894,034
Rental straight-lining, tenant incentives and other adjustments	1,701,402	3,328,009
Fair value movement	<u>(3,457,141)</u>	<u>28,427,957</u>
Carrying amount of investment properties at end of period	<u>704,250,000</u>	<u>703,700,000</u>

Fair value

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

The 31 December 2022 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.

FSREC Property Fund**Notes to the condensed consolidated financial statements****31 December 2022****3. Investment properties (continued)**

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 5.25% - 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 6.00%-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.

The fair value of investment properties takes into account the impact of the significant hailstorm, which substantially damaged the roof and air conditioning equipment of one of the Fund's investment properties, Toormina Gardens, in late October 2021. The fair value of Toormina Gardens which is based on an independent valuation is on the basis that the property is reinstated to at least the same standard as it was prior to the hailstorm damage and rectification works are covered by insurance. As at 31 December 2022, the Fund has spent \$17.7 million in total for rectification works for Toormina Gardens, of which \$17.4 million in progress payments had been received from insurers. Rectification works covered from insurers are not capitalised as investment property.

Refer to Note 8 for further information on fair value measurement.

4. Trade and other payables

	Consolidated	
	31 December	30 June
	2022	2022
	\$	\$
<i>Current liabilities</i>		
Trade payables	1,843,658	1,518,224
Accrued liabilities	5,965,479	4,422,837
Contract liabilities (deferred income)	1,809,139	1,839,823
GST payable	692,694	573,435
	<u>10,310,970</u>	<u>8,354,319</u>

5. Borrowings

	Consolidated	
	31 December	30 June
	2022	2022
	\$	\$
<i>Non-current liabilities</i>		
Secured bank loan - net of borrowing costs	<u>256,766,403</u>	<u>255,605,363</u>

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2022

5. Borrowings (continued)

Financing arrangements

As at 31 December 2022, the Fund had a \$300 million loan facility (30 June 2022: \$300 million) with National Australia Bank Limited at a variable interest rate with reference to the Bank Bill Swap Rate (**BBSY**) repayable on 19 April 2025.

	Consolidated	
	31 December 2022	30 June 2022
	\$	\$
Total facilities		
Secured bank loan facilities	300,000,000	300,000,000
Used at the reporting date		
Secured bank loan facilities	258,416,000	257,616,000
Unused at the reporting date		
Secured bank loan facilities	41,584,000	42,384,000

To take advantage of the low interest rate environment, the Fund has entered into a series of interest rate swap contracts with a notional amount of \$136.0 million (30 June 2022: \$136.0 million) whereby it pays a fixed rate of interest and receives a variable rate based on BBSY (3 month) on the notional amount. At 31 December 2022, after taking into account the remaining interest rate swaps, 52.6% (30 June 2022: 52.8%) of the Fund's borrowings are hedged. The Fund's average cost of drawn debt is approximately 3.92% (30 June 2022: 3.03%) (excluding costs relating to undrawn debt).

The drawn amount is secured against investment properties held by the Fund with a carrying value of \$704.3 million at balance date and is subject to compliance with specified covenants and other requirements.

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

6. Issued capital

Movement in issued units

	Consolidated	
	31 December 2022	31 December 2022
	Units*	\$
Balance at the beginning of the period	246,911,167	176,925,327
Issue of FSREC Fund I units	48,045,278	45,698,747
Redemption of FSREC Fund I units	(48,083,783)	(44,170,165)
Redemption costs	-	(77,477)
	<u>246,872,662</u>	<u>178,376,432</u>

*Total stapled securities of the Fund at 31 December 2022 are 246,872,662 with each stapled security representing one unit in FSREC Fund I, FSREC Fund II and FSREC Fund III.

Following a final withdrawal offer that closed on 8 July 2022, the Fund redeemed 48,083,783 stapled securities at a redemption price of \$1.78 and issued 48,045,278 stapled securities to IRAPT at an application price of \$1.84 on 20 July 2022.

The contributed equity of FSREC Fund II and FSREC Fund III are included in "Equity attributable to other members" in the consolidated statement of changes in equity.

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2022

7. Cash flow hedge reserve

	Consolidated	
	31 December	30 June
	2022	2022
	\$	\$
Cash flow hedge reserve	6,583,812	6,168,147

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 Fund.

Movements in reserves

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

Consolidated	Cash flow hedge reserve \$
Balance at 1 July 2022	6,168,147
- Unrealised gains on cash flow hedge reserve	389,442
- Realised losses transferred to profit or loss as finance expense	26,223
Balance at 31 December 2022	6,583,812

8. Fair value measurement

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

The Fund 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
	\$	\$	\$	\$
Consolidated - 31 December 2022				
<i>Assets</i>				
Investment properties	-	-	704,250,000	704,250,000
Cash flow hedge	-	5,902,270	-	5,902,270
Total assets	-	5,902,270	704,250,000	710,152,270
Consolidated - 30 June 2022				
<i>Assets</i>				
Investment properties	-	-	703,700,000	703,700,000
Cash flow hedge	-	5,711,941	-	5,711,941
Total assets	-	5,711,941	703,700,000	709,411,941

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2022

8. Fair value measurement (continued)

An interest rate swap contract has been entered into by the Fund to hedge the exposure to the variable interest rate payments on the variable secured bank loan (refer to Note 5 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 an asset of \$5,902,270 (30 June 2022: \$5,711,941 asset).

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

The Fund 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 Fund'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.

9. Controlled entities

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2022 %	30 June 2022 %
Controlled entities of Fort Street Real Estate Capital Fund I			
Australian Property Opportunities Trust	Australia	100.00%	100.00%
Fort Street Real Estate Capital Fund IV	Australia	100.00%	100.00%
Fort Street Real Estate Capital Trust IV	Australia	99.97%	99.97%
FSREC IV No.1 Trust	Australia	100.00%	100.00%
Fort Street Real Estate Capital Fund II	Australia	-	-
Australian Property Opportunities Trust II	Australia	-	-
APOT II No.1	Australia	-	-
Fort Street Real Estate Capital Fund III	Australia	-	-
Australian Property Opportunities Trust III	Australia	-	-
APOT III No.1 Trust	Australia	-	-

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III and their controlled entities (as disclosed above) are considered, for financial reporting purposes, controlled entities of Fort Street Real Estate Capital Fund I due to the stapling arrangements described in Note 1 even though there are no ownership interests.

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2022

10. Related party disclosures

Parties are considered to be related to the Fund if they have the ability, directly or indirectly, to control or exercise significant influence over the Fund in making financial and operating disclosures. Related parties may be individual or other entities.

The Responsible Entity of the Fund during the period until 21 December 2022 was E&P Investments Limited (**former Responsible Entity**). The Responsible Entity of the Fund from 21 December 2022 is Equity Trustees Limited (**EQT or Responsible Entity**).

The related parties of the Fund with which it had transactions during the financial half-year ended 31 December 2022 are as follows:

Related party	Relationship
E&P Investments Limited (former Responsible Entity) and its associates	Significant influence until 21 December 2022
Equity Trustees Limited (Responsible Entity) and its associates	Significant influence from 21 December 2022
Fort Street Real Estate Capital Pty Ltd	Common ultimate controlling entity
Fort Street Real Estate Development Pty Ltd	Common ultimate controlling entity
Fort Street Real Estate Leasing Pty Ltd	Common ultimate controlling entity
Fort Street Capital Pty Ltd	Common ultimate controlling entity

Key management personnel

Key management personnel include persons who were directors of the responsible entity at any time during or since the end of the half-year and up to the date of this report. The following persons held office as directors of the responsible entity during or since the end of the half-year and up to the date of this report:

E&P Investments Limited (resigned effective 21 December 2022)	Equity Trustees Limited (appointed effective 21 December 2022)
Stuart Nisbett	Philip Gentry Chairman
Warwick Keneally	Michael O'Brien
Peter Shear	Russell Beasley
	Mary O'Connor

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 2022, Fort Street Real Estate Capital Pty Ltd held 873,842 stapled securities (30 June 2022: 873,842 stapled securities), representing 0.35% interest (30 June 2022: 0.35%) in the Fund.

Distributions paid or payable by the Fund to Fort Street Real Estate Capital Pty Ltd in the period ended 31 December 2022 was \$32,332 (31 December 2022: \$34,954).

Responsible Entity fee and other transactions

Responsible Entity fee

E&P Investments Limited, as former Responsible Entity of the Schemes, received a fee for the performance of its duties under the constitutions. The former Responsible Entity fee was 0.24% per annum (exclusive of GST) calculated on the gross asset value of the Fund and payable monthly. For the period ended 31 December 2022, \$827,470 (31 December 2021: \$842,645), exclusive of GST, was paid or payable to the former Responsible Entity.

Following the change of Responsible Entity to EQT on 21 December 2022, the Responsible Entity fee was 0.02% per annum (exclusive of GST) on the gross asset value of the Fund and payable quarterly. For the period ended 31 December 2022, \$4,365, exclusive of GST, was paid or payable to the Responsible Entity.

FSREC Property Fund
Notes to the condensed consolidated financial statements
31 December 2022

10. Related party disclosures (continued)

Trustee fee

The trustees of the Trusts in the Fund are as follows:

Trustee	Trustee up to 21 December 2022 (Former Trustee)	Trustee from 21 December 2022
Australian Properties Opportunities Trust	E&P Investment Services Pty Limited	EQT Australia Pty Ltd
Fort Street Real Estate Capital Fund IV	E&P Investment Services Pty Limited	Equity Trustees Limited
Fort Street Real Estate Capital Trust IV	E&P Funds Management Pty Limited	EQT Structured Finance Services Pty Ltd
FSREC IV No.1 Trust	E&P Investment Services Pty Limited	EQT Australia Pty Ltd
Australian Properties Opportunities Trust II	E&P Investment Services Pty Limited	EQT Responsible Entity Services Limited
APOT II No.1	E&P Investment Services Pty Limited	EQT Australia Pty Ltd
Australian Properties Opportunities Trust III	E&P Funds Management Pty Limited	EQT Responsible Entity Services Limited
APOT III No.1 Trust	E&P Investment Services Pty Limited	EQT Australia Pty Ltd

The Former Trustee of each Trust was entitled to receive a nominal fee out of the assets of the Trust. Following the change of Responsible Entity to EQT on 21 December 2022, the Trustee of each Trust is entitled to a fee of \$7,000 per Trust, increasing by CPI annually.

For the period ended 31 December 2022, \$1,688 was paid or payable to the Trustee, exclusive of GST (31 December 2021: nil).

Investment Manager fee

Fort Street Real Estate Capital Pty Ltd (**FSREC**) is engaged as the Fund'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.

For the period 31 December 2022, \$1,972,163 (31 December 2021: \$1,948,348), exclusive of GST, was paid or payable to the Investment Manager.

FSREC receives Investment Management Fees of 1.25% of the value of the property for acquisitions (exclusive of GST), and 1% of the sale value (as long as the net proceeds exceed the aggregate of the acquisition costs and capital costs for the relevant asset) of the property for disposals (exclusive of GST).

For the period ended 31 December 2022, no disposal fee (31 December 2021: \$1,497,676, exclusive of GST) was paid or payable to the Investment Manager.

Property Manager fee

FSREC, as Property Manager of the Trusts, is responsible for managing and maintaining the property portfolios of the Trusts, 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 Trusts.

For the period ended 31 December 2022, \$889,498 (31 December 2021: \$879,449), exclusive of GST, was paid or payable to the Property Manager.

Development Manager fee

Fort Street Real Estate Development Pty Ltd (**Development Manager**) provides development management services to the Fund 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 2022, \$11,246 (31 December 2021: \$114,146), exclusive of GST, was paid or payable to the Development Manager.

10. Related party disclosures (continued)

Leasing Services fee

Fort Street Real Estate Leasing Pty Ltd (**Leasing Agent**) 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 2022, \$413,336 (31 December 2021: \$322,437), exclusive of GST, was paid or payable to the Leasing Agent.

11. Capital commitments

As at 31 December 2022, the Fund did not commit capital commitments for improvements to its existing properties (31 December 2021: \$2,795,000). In addition, \$4,296,641 (31 December 2021: \$1,710,900) was committed for lease incentives arising from lease agreements.

12. Contingent liability

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

13. Events after the reporting period

No matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect the Fund's operations, the results of those operations, or the Fund's state of affairs in future financial years.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Condensed consolidated statements of profit or loss and other comprehensive income
For the half-year ended 31 December 2022

		FSREC Fund II		FSREC Fund III	
	Note	31 December 2022 \$	31 December 2021 \$	31 December 2022 \$	31 December 2021 \$
Revenue					
Rental income		6,603,669	6,620,369	3,212,835	3,060,440
Other property income		1,107,790	1,197,673	885,654	1,210,334
Finance income		16,222	212	6,680	586
Fair value movement of investment properties	4	(569,987)	3,390,390	(13,793)	(2,855,610)
Total revenue		<u>7,157,694</u>	<u>11,208,644</u>	<u>4,091,376</u>	<u>1,415,750</u>
Expenses					
Investment property expenses		3,056,506	3,152,114	1,432,192	1,103,476
Finance expense		1,466,220	680,687	827,146	501,778
Responsible Entity and trustee fees	10	236,152	236,156	110,934	153,969
Management fees	10	769,625	744,307	374,366	484,236
Accounting and audit fees		70,558	68,513	38,362	49,356
Other expenses		139,504	113,547	98,106	318,525
Total expenses		<u>5,738,565</u>	<u>4,995,324</u>	<u>2,881,106</u>	<u>2,611,340</u>
Profit/(loss) before income tax		1,419,129	6,213,320	1,210,270	(1,195,590)
Income tax		-	-	-	-
Profit/(loss) after income tax for the half-year		1,419,129	6,213,320	1,210,270	(1,195,590)
Other comprehensive income					
<i>Items that may be reclassified subsequently to profit or loss</i>					
Effective portion of changes in fair value of cash flow hedge		-	110,964	-	-
Other comprehensive income for the half-year, net of tax		-	110,964	-	-
Total comprehensive income/(loss) for the half-year		<u>1,419,129</u>	<u>6,324,284</u>	<u>1,210,270</u>	<u>(1,195,590)</u>

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Condensed consolidated statements of profit or loss and other comprehensive income
For the half-year ended 31 December 2022

	Note	FSREC Fund II		FSREC Fund III	
		31 December	31 December	31 December	31 December
		2022	2021	2022	2021
		\$	\$	\$	\$
Profit/(loss) for the half-year is attributable to:					
Non-controlling interest		-	-	251	(143)
Unitholders of FSREC Fund II and FSREC Fund III		1,419,129	6,213,320	1,210,019	(1,195,447)
		<u>1,419,129</u>	<u>6,213,320</u>	<u>1,210,270</u>	<u>(1,195,590)</u>
Total comprehensive income/(loss) for the half-year is attributable to:					
Non-controlling interest		-	-	251	(143)
Unitholders of FSREC Fund II and FSREC Fund III		1,419,129	6,324,284	1,210,019	(1,195,447)
		<u>1,419,129</u>	<u>6,324,284</u>	<u>1,210,270</u>	<u>(1,195,590)</u>
		Cents	Cents	Cents	Cents
Basic earnings/(loss) per unit	3	0.57	2.35	0.49	(0.45)
Diluted earnings/(loss) per unit	3	0.57	2.35	0.49	(0.45)

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Condensed consolidated statements of financial position
As at 31 December 2022

		FSREC Fund II		FSREC Fund III	
	Note	31 December 2022 \$	30 June 2022 \$	31 December 2022 \$	30 June 2022 \$
Assets					
Current assets					
Cash and cash equivalents		2,732,874	3,455,262	2,259,501	1,782,970
Trade and other receivables		386,672	422,257	1,365,221	689,395
Prepayments		403,228	248,712	110,380	43,847
Total current assets		<u>3,522,774</u>	<u>4,126,231</u>	<u>3,735,102</u>	<u>2,516,212</u>
Non-current assets					
Investment properties	4	193,750,000	194,000,000	89,000,000	88,500,000
Receivable from other Schemes within the Fund		-	-	65,832,468	67,071,299
Total non-current assets		<u>193,750,000</u>	<u>194,000,000</u>	<u>154,832,468</u>	<u>155,571,299</u>
Total assets		<u>197,272,774</u>	<u>198,126,231</u>	<u>158,567,570</u>	<u>158,087,511</u>
Liabilities					
Current liabilities					
Trade and other payables	5	3,116,326	2,445,927	1,079,717	814,117
Distributions payable		1,096,739	1,564,060	346,755	654,023
Payable to other Schemes within the Fund		19,925,993	20,878,270	68,614	318,820
Total current liabilities		<u>24,139,058</u>	<u>24,888,257</u>	<u>1,495,086</u>	<u>1,786,960</u>
Non-current liabilities					
Borrowings	6	73,350,231	73,270,330	37,296,102	37,180,329
Total non-current liabilities		<u>73,350,231</u>	<u>73,270,330</u>	<u>37,296,102</u>	<u>37,180,329</u>
Total liabilities		<u>97,489,289</u>	<u>98,158,587</u>	<u>38,791,188</u>	<u>38,967,289</u>
Net assets		<u>99,783,485</u>	<u>99,967,644</u>	<u>119,776,382</u>	<u>119,120,222</u>
Equity					
Issued capital	7	85,807,088	85,265,534	131,824,740	131,153,318
Retained profits		13,976,397	14,702,110	(12,056,835)	(12,041,353)
Equity attributable to the unitholders of FSREC Fund II and FSREC Fund III		99,783,485	99,967,644	119,767,905	119,111,965
Non-controlling interest		-	-	8,477	8,257
Total equity		<u>99,783,485</u>	<u>99,967,644</u>	<u>119,776,382</u>	<u>119,120,222</u>

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Condensed consolidated statements of changes in equity
For the half-year ended 31 December 2022

	Issued capital \$	Cash flow hedge reserve \$	Retained profits \$	Non- controlling interest \$	Total equity \$
FSREC Fund II					
Balance at 1 July 2022	85,265,534	-	14,702,110	-	99,967,644
Profit after income tax for the half-year	-	-	1,419,129	-	1,419,129
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	1,419,129	-	1,419,129
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Issue of units	19,485,674	-	-	-	19,485,674
Redemption of units	(18,911,223)	-	-	-	(18,911,223)
Redemption costs	(32,897)	-	-	-	(32,897)
Distributions declared	-	-	(2,144,842)	-	(2,144,842)
Balance at 31 December 2022	85,807,088	-	13,976,397	-	99,783,485

	Issued capital \$	Cash flow hedge reserve \$	Retained profits \$	Non- controlling interest \$	Total equity \$
FSREC Fund II					
Balance at 1 July 2021	106,200,663	(110,964)	3,697,520	-	109,787,219
Profit after income tax for the half-year	-	-	6,213,320	-	6,213,320
Other comprehensive income for the half-year, net of tax	-	110,964	-	-	110,964
Total comprehensive income for the half-year	-	110,964	6,213,320	-	6,324,284
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Redemption of units	(20,143,474)	-	-	-	(20,143,474)
Redemption costs	(28,658)	-	-	-	(28,658)
Distributions declared	-	-	(2,588,145)	-	(2,588,145)
Balance at 31 December 2021	86,028,531	-	7,322,695	-	93,351,226

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Condensed consolidated statements of changes in equity
For the half-year ended 31 December 2022

	Issued capital \$	Cash flow hedge reserve \$	Retained profits \$	Non- controlling interest \$	Total equity \$
FSREC Fund III					
Balance at 1 July 2022	131,153,318	-	(12,041,353)	8,257	119,120,222
Profit after income tax for the half-year	-	-	1,210,019	251	1,210,270
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	1,210,019	251	1,210,270
Distributions paid to non-controlling interest	-	-	-	(31)	(31)
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Issue of units	23,218,891	-	-	-	23,218,891
Redemption of units	(22,507,746)	-	-	-	(22,507,746)
Redemption costs	(39,723)	-	-	-	(39,723)
Distributions declared	-	-	(1,225,501)	-	(1,225,501)
Balance at 31 December 2022	131,824,740	-	(12,056,835)	8,477	119,776,382
	Issued capital \$	Cash flow hedge reserve \$	Retained profits \$	Non- controlling interest \$	Total equity \$
FSREC Fund III					
Balance at 1 July 2021	161,130,403	-	(9,946,604)	8,673	151,192,472
Loss after income tax for the half-year	-	-	(1,195,447)	(143)	(1,195,590)
Other comprehensive income for the half-year, net of tax	-	-	-	-	-
Total comprehensive income for the half-year	-	-	(1,195,447)	(143)	(1,195,590)
Distributions paid to non-controlling interest	-	-	-	(411)	(411)
<i>Transactions with unitholders in their capacity as unitholders:</i>					
Redemption of units	(28,972,277)	-	-	-	(28,972,277)
Redemption costs	(38,616)	-	-	-	(38,616)
Distributions declared	-	-	(2,243,935)	-	(2,243,935)
Balance at 31 December 2021	132,119,510	-	(13,385,986)	8,119	118,741,643

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Condensed consolidated statements of cash flows
For the half-year ended 31 December 2022

	FSREC Fund II		FSREC Fund III	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
	\$	\$	\$	\$
Cash flows from operating activities				
Rental and other income received	8,637,600	8,675,206	4,480,078	4,802,691
Interest income received	16,222	209	6,680	561
Payments to suppliers	(5,007,211)	(5,558,035)	(3,444,022)	(2,868,710)
Finance costs	(1,118,367)	(624,514)	(574,044)	(446,181)
Net cash from operating activities	2,528,244	2,492,866	468,692	1,488,361
Cash flows from investing activities				
Proceeds from insurance claims	-	-	13,263,867	-
Proceeds from disposal of investments	-	-	-	145,850,000
Payments for capital expenditure	(227,746)	(1,974,547)	(13,383,275)	(463,757)
Net cash (used in)/from investing activities	(227,746)	(1,974,547)	(119,408)	145,386,243
Cash flows from financing activities				
Gross proceeds from borrowings	-	900,000	-	7,100,000
Issue of units	19,485,674	-	23,218,891	-
Payments of transaction costs relating to borrowings	-	(12,118)	-	(18,437)
Payment of redemption costs	(32,897)	(28,658)	(39,723)	(38,616)
Distributions paid	(2,612,163)	(1,088,986)	(1,532,800)	(7,743,356)
Repayment of borrowings	-	-	-	(47,500,000)
Payment of redemption of units	(18,911,223)	(20,143,474)	(22,507,746)	(28,972,277)
(Receipts from)/payments to other Schemes within the Fund	(952,277)	20,256,441	988,625	(67,897,612)
Net cash (used in)/from financing activities	(3,022,886)	(116,795)	127,247	(145,070,298)
Net (decrease)/increase in cash and cash equivalents	(722,388)	401,524	476,531	1,804,306
Cash and cash equivalents at the beginning of the financial half-year	3,455,262	2,180,768	1,782,970	949,670
Cash and cash equivalents at the end of the financial half-year	2,732,874	2,582,292	2,259,501	2,753,976

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2022

1. General information

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III are unlisted managed investment schemes registered and domiciled in Australia.

The financial statements comprise:

- Fort Street Real Estate Capital Fund II and its subsidiaries (**FSREC Fund II**), and
- Fort Street Real Estate Capital Fund III and its subsidiaries (**FSREC Fund III**).

FSREC Fund II and FSREC Fund III form part of FSREC Property Fund (**the Fund**). The principal activity of FSREC Fund II and FSREC Fund III is to invest in Australian commercial property.

2. Working capital

As at 31 December 2022, FSREC Fund II's statement of financial position discloses a deficiency of net current assets of \$20,616,284. The deficiency is primarily attributable to amounts payable to FSREC Fund III of \$19,789,739 disclosed as current liabilities. The directors of the Responsible Entity of FSREC Fund III have confirmed in writing that they will not call for repayment of the amounts payable by FSREC Fund II if such action would cause FSREC Fund II to be unable to pay its debts as and when they fall due and payable.

The directors are satisfied that FSREC Fund II will be able to meet its working capital requirements through the normal cyclical nature of receipts and payments and budgeted cash flows generated from operations. In addition, the Fund which includes FSREC Fund II has long term finance facilities available for drawdown totalling \$41,584,000 as at 31 December 2022.

Accordingly, the directors consider it appropriate to prepare the half-year financial statement of FSREC Fund II on the going concern basis.

3. Earnings per unit

	FSREC Fund II		FSREC Fund III	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
	\$	\$	\$	\$
Profit after income tax	1,419,129	6,213,320	1,210,270	(1,195,590)
Non-controlling interest	-	-	(251)	143
Profit after income tax attributable to the unitholders	<u>1,419,129</u>	<u>6,213,320</u>	<u>1,210,019</u>	<u>(1,195,447)</u>
	FSREC Fund II Number	FSREC Fund II Number	FSREC Fund III Number	FSREC Fund III Number
Weighted average number of units used in calculating basic earnings per stapled unit	246,876,848	264,119,480	246,876,848	264,119,480
Weighted average number of units used in calculating diluted earnings per stapled unit	246,876,848	264,119,480	246,876,848	264,119,480
	Cents	Cents	Cents	Cents
Basic earnings/(loss) per unit	0.57	2.35	0.49	(0.45)
Diluted earnings/(loss) per unit	0.57	2.35	0.49	(0.45)

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2022

4. Investment properties

	FSREC Fund II		FSREC Fund III	
	31 December 2022	30 June 2022	31 December 2022	30 June 2022
	\$	\$	\$	\$
Disclosed in Condensed Consolidated Statement of Financial Position as:				
<i>Non-current assets</i>				
Investment properties - at fair value	<u>193,750,000</u>	<u>194,000,000</u>	<u>89,000,000</u>	<u>88,500,000</u>
<i>Movement in investment properties - at fair value</i>				
Carrying amount of investment properties at beginning of period	194,000,000	181,050,000	88,500,000	90,000,000
Capital expenditure	368,825	2,699,086	277,208	192,994
Rental straight-lining, tenant incentives and other adjustments	(48,838)	223,000	236,585	139,762
Fair value movement of investment properties	<u>(569,987)</u>	<u>10,027,914</u>	<u>(13,793)</u>	<u>(1,832,756)</u>
Carrying amount of investment properties at end of period	<u>193,750,000</u>	<u>194,000,000</u>	<u>89,000,000</u>	<u>88,500,000</u>

Fair value

At reporting date, FSREC Fund II has five commercial properties and FSREC Fund III has one commercial property in Australia which are carried at fair value.

The 31 December 2022 fair value amounts were determined by way of independent valuation on all investment properties using a combination of DCF and capitalisation rate methods based on market conditions existing at balance date.

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 5.25% - 5.75% for FSREC Fund II and 6.25% for FSREC Fund III) applied in the capitalisation rate method, and the estimated rental values, rental growth rates, long term vacancy rates, lease incentives and discount rates (range 6.00% - 6.75% for FSREC Fund II and 6.75% for FSREC Fund III) 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.

The fair value of Toormina Gardens, the investment property of FSREC Fund III, takes into account the impact of the significant hailstorm in late October 2021 which substantially damaged the roof and air conditioning equipment. The fair value of Toormina Gardens which is based on an independent valuation is on the basis that the property is reinstated to at least the same standard as it was prior to the hailstorm damage and rectification works are covered by insurance. As at 31 December 2022, FSREC Fund III has spent \$17.7 million in total for rectification works for Toormina Gardens, of which \$17.4 million in progress payments had been received from insurers. Rectification works covered from insurers are not capitalised as investment property.

Refer to Note 8 for further information on fair value measurement.

5. Trade and other payables

	FSREC Fund II		FSREC Fund III	
	31 December 2022	30 June 2022	31 December 2022	30 June 2022
	\$	\$	\$	\$
Trade payables	357,980	136,665	142,377	86,359
Accrued liabilities	1,912,718	1,352,897	692,053	433,653
Contract liabilities (deferred income)	624,711	720,792	245,287	294,105
GST payable	<u>220,917</u>	<u>235,573</u>	<u>-</u>	<u>-</u>
	<u>3,116,326</u>	<u>2,445,927</u>	<u>1,079,717</u>	<u>814,117</u>

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2022

6. Borrowings

	FSREC Fund II		FSREC Fund III	
	31 December 2022	30 June 2022	31 December 2022	30 June 2022
	\$	\$	\$	\$
Secured bank loan - net of borrowing costs	73,350,231	73,270,330	37,296,102	37,180,329

Financing arrangements

As at 31 December 2022, the Fund had a \$300 million loan facility (30 June 2022: \$300 million) with National Australia Bank Limited at a variable interest rate with reference to the Bank Bill Swap Rate (**BBSY**) repayable on 19 April 2025.

As at 31 December 2022, FSREC Fund II & FSREC Fund III had a combined \$41.6 million (30 June 2022: \$42.4 million) available to be borrowed from the Fund's loan facility.

The average cost of drawn debt is approximately 3.97% for FSREC Fund II and 3.65% for FSREC Fund III (excluding costs relating to undrawn debt) (30 June 2022: 1.80% for FSREC Fund II and 3.22% for FSREC Fund III).

The drawn amount is secured against investment properties held by FSREC Fund II and FSREC Fund III with a carrying value at reporting date of \$193.8 million and \$89.0 million, respectively, and is subject to compliance with specified covenants and other requirements.

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

7. Issued capital

	FSREC Fund II		FSREC Fund III	
	31 December 2022	31 December 2022	31 December 2022	31 December 2022
	Units*	\$	Units*	\$
Balance at the beginning of the period	246,911,167	85,265,534	246,911,167	131,153,318
Issue of units	48,045,278	19,485,674	48,045,278	23,218,891
Redemption of units	(48,083,783)	(18,911,223)	(48,083,783)	(22,507,746)
Redemption costs	-	(32,897)	-	(39,723)
	<u>246,872,662</u>	<u>85,807,088</u>	<u>246,872,662</u>	<u>131,824,740</u>

*Total stapled securities of FSREC Property Fund at 31 December 2022 are 246,872,662 with each stapled security representing one unit in FSREC Fund I, FSREC Fund II and FSREC Fund III.

Following a withdrawal offer that closed on 8 July 2022, FSREC Fund II and FSREC Fund III each redeemed 48,083,783 units on 20 July 2022, and redemptions of \$18,911,223 and \$22,507,746 were paid by FSREC Fund II and FSREC Fund III, respectively.

On 20 July 2022, 48,045,278 units were issued to IRAPT by FSREC Fund II and FSREC Fund III for \$19,485,674 and \$23,218,891, respectively.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2022

8. Fair value measurement

Fair value of FSREC Fund II's and FSREC Fund III's financial assets and liabilities that are measured at fair value on a recurring basis

FSREC Fund II and FSREC Fund III measure 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 \$
FSREC Fund II - 31 December 2022				
<i>Assets</i>				
Investment properties	-	-	193,750,000	193,750,000
Total assets	-	-	193,750,000	193,750,000

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
FSREC Fund II - 30 June 2022				
<i>Assets</i>				
Investment properties	-	-	194,000,000	194,000,000
Total assets	-	-	194,000,000	194,000,000

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
FSREC Fund III - 31 December 2022				
<i>Assets</i>				
Investment property	-	-	89,000,000	89,000,000
Total assets	-	-	89,000,000	89,000,000

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
FSREC Fund III - 30 June 2022				
<i>Assets</i>				
Investment property	-	-	88,500,000	88,500,000
Total assets	-	-	88,500,000	88,500,000

FSREC Fund II and FSREC Fund III recognise 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 FSREC Fund II's and FSREC Fund III's financial 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 II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2022

9. Controlled entities

Name	Principal place of business / Country of incorporation	Ownership interest	
		31 December 2022 %	30 June 2022 %
Controlled entities of FSREC Fund II			
Australian Property Opportunities Trust II	Australia	100.00%	100.00%
APOT II No. 1	Australia	100.00%	100.00%
Controlled entities of FSREC Fund III			
Australian Property Opportunities Trust III	Australia	99.98%	99.98%
APOT III No. 1 Trust	Australia	100.00%	100.00%

10. Related party disclosures

Related party investments in FSREC Fund II and FSREC Fund III

As at 31 December 2022, Fort Street Real Estate Capital Pty Ltd held 248,842 units in FSREC Fund II and FSREC Fund III (30 June 2022: 248,842 units in FSREC Fund II and FSREC Fund III) representing 0.10% interest in FSREC Fund II and FSREC Fund III (30 June 2022: 0.10%).

Distributions paid or payable by FSREC Fund II and FSREC Fund III to Fort Street Real Estate Capital Pty Ltd in the half-year ended 31 December 2022 was \$2,162 from FSREC Fund II and \$1,235 from FSREC Fund III (31 December 2021: \$2,548 from FSREC Fund II and \$2,209 from FSREC Fund III).

Responsible Entity fee and other transactions

Responsible Entity fee

E&P Investments Limited, as former Responsible Entity of the Funds, received a fee for the performance of its duties under the constitution of the Funds. The former Responsible Entity fee was 0.24% per annum (exclusive of GST) calculated on the gross asset value of the Funds and payable monthly. For the period ended 31 December 2022, \$224,681 (31 December 2021: \$225,071) was paid or payable from FSREC Fund II to the former Responsible Entity and \$105,607 (31 December 2021: \$128,850) was paid or payable from FSREC Fund III to the former Responsible Entity, exclusive of GST.

Following the change of Responsible Entity to EQT on 21 December 2022, the Responsible Entity fee was 0.02% per annum (exclusive of GST) on the gross asset value of the Fund and payable quarterly. For the period ended 31 December 2022, \$1,189 was paid or payable from FSREC Fund II to the Responsible Entity and \$559 was paid or payable from FSREC Fund III to the Responsible Entity, exclusive of GST.

Trustee fee

The trustees of the Trusts in the Fund are as follows:

Trust	Trustee up to 21 December 2022 (Former Trustee)	Trustee from 21 December 2022
Australian Properties Opportunities Trust II	E&P Investment Services Pty Limited	EQT Responsible Entity Services Limited
APOT II No.1	E&P Investment Services Pty Limited	EQT Australia Pty Ltd
Australian Properties Opportunities Trust III	E&P Funds Management Pty Limited	EQT Responsible Entity Services Limited
APOT III No.1 Trust	E&P Investment Services Pty Limited	EQT Australia Pty Ltd

The Former Trustee of each Trust was entitled to receive a nominal fee out of the assets of the Trust. Following the change of Responsible Entity to EQT on 21 December 2022, the Trustee of each Trust is entitled to a fee of \$7,000 per Trust, increasing by CPI annually.

For the period ended 31 December 2022, \$422 was paid or payable from FSREC Fund II to the Trustee and \$422 was paid or payable from FSREC Fund III to the Trustee, exclusive of GST (31 December 2021: nil).

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2022

10. Related party disclosures (continued)

Investment Manager fee

Fort Street Real Estate Capital Pty Ltd (**FSREC**) is engaged as the Investment Manager and receives a fee of 0.54% per annum (exclusive of GST) calculated on the gross asset value of the Funds and payable monthly.

For the period ended 31 December 2022, \$538,033 (31 December 2021: \$503,425) was paid or payable from FSREC Fund II to the Investment Manager and \$251,869 (31 December 2021: \$355,994) was paid or payable from FSREC Fund III to the Investment Manager, exclusive of GST.

FSREC receives Investment Management Fees of 1.25% of the value of the property for acquisitions (exclusive of GST), and 1% of the sale value (as long as the net proceeds exceed the aggregate of the acquisition costs and capital costs for the relevant asset) of the property for disposals (exclusive of GST).

For the period ended 31 December 2022, no disposal fee (31 December 2021: \$1,497,676, exclusive of GST), was paid or payable to the Investment Manager.

Property Manager fee

FSREC acts as Property Manager of the Trusts and is responsible for managing and maintaining the property portfolios of the Trusts, 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 Trusts.

For the period ended 31 December 2022, \$231,574 (31 December 2021: \$240,747) was paid or payable from FSREC Fund II to the Property Manager and \$122,497 (31 December 2021: \$128,195) was paid or payable from FSREC Fund III to the Property Manager, exclusive of GST.

Development Manager fee

Fort Street Real Estate Development Pty Ltd (**Development Manager**) provides development management services to the Funds 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 2022, \$7,616 (31 December 2021: \$102,075) was paid or payable from FSREC Fund II to the Development Manager and \$125 (31 December 2021: \$3,942) was paid or payable from FSREC Fund III to the Development Manager, exclusive of GST.

Leasing Services fee

Fort Street Real Estate Leasing Pty Ltd (**Leasing Agent**) provides tenant leasing services to the Funds 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 2022, \$223,763 (31 December 2021: \$39,061) was paid or payable from FSREC Fund II to the Leasing Agent and \$63,597 (31 December 2021: \$19,650) was paid or payable from FSREC Fund III to the Leasing Agent, exclusive of GST.

Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III
Notes to the condensed consolidated financial statements
31 December 2022

11. Capital commitments

As at reporting date, FSREC Fund II (31 December 2021: \$625,000) and FSREC Fund III (31 December 2021: nil) did not commit capital commitments for improvements to its existing properties. In addition, \$1,660,000 (31 December 2021: \$258,000) for FSREC Fund II and \$890,053 (31 December 2021: \$260,000) for FSREC Fund III were committed as lease incentives arising from lease arrangements.

12. Contingent liability

The directors of the Responsible Entity are not aware of any potential liabilities or claims against FSREC Fund II and FSREC Fund III as at the end of the reporting period.

13. Events after the reporting period

No matter or circumstance has arisen since 31 December 2022 that has significantly affected, or may significantly affect FSREC Fund II's and FSREC Fund III's operations, the results of those operations, or FSREC Fund II's and FSREC Fund III's state of affairs in future financial years.

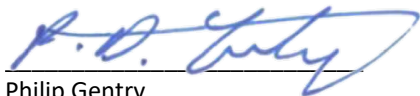
FSREC Property Fund
Directors' declaration
31 December 2022

In the opinion of the directors of the Responsible Entity of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III (together, **the Schemes**):

- a. The condensed financial statements and notes set out on pages 6 to 33 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of the Fund's financial position as at 31 December 2022 and of its performance for the half-year ended on that date.
- b. There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the directors of Equity Trustees Limited through a delegated authority given by Equity Trustees Limited's Board.

On behalf of the directors



Philip Gentry
Chairman

6 March 2023

Independent Auditor's Review Report to the Stapled Security Holders of Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III

Conclusion

We have reviewed the half-year financial report of Fort Street Real Estate Capital Fund I ('FSREC Fund I') and its subsidiaries ('FSREC Property Fund' or the 'Group'), Fort Street Real Estate Capital Fund II and its subsidiaries ('FSREC Fund II') and Fort Street Real Estate Capital Fund III and its subsidiaries ('FSREC Fund III'), which comprises the condensed consolidated statement of financial position as at 31 December 2022, 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.

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 reports of FSREC Property Fund, FSREC Fund II and FSREC Fund III are not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the FSREC Property Fund, FSREC Fund II and FSREC Fund III's financial positions as at 31 December 2022 and of their financial 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 FSREC Property Fund, FSREC Fund II and FSREC Fund III 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 Equity Trustees Limited, the Responsible Entity of FSREC Fund I, FSREC Fund II and FSREC Fund III (the 'Directors'), would be in the same terms if given to the directors as at the time of this auditor's review report.

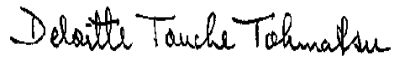
Directors' Responsibilities for the Half-year Financial Report

The directors 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 FSREC Property Fund, FSREC Fund II and FSREC Fund III's financial positions as at 31 December 2022 and their financial 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.

The logo for Deloitte Touche Tohmatsu, featuring the company name in a stylized, handwritten-style script.

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read 'Weng W Ching'.

Weng W Ching
Partner
Chartered Accountants

Sydney, 6 March 2023

RESPONSIBLE ENTITY

Equity Trustees Limited
(ACN 004 031 298) (AFSL 240 975)

