ASIC REGULATORY GUIDE 46
DISCLOSURE UPDATE – 30 JUNE 2023

The Australian Securities and Investment Commission (**ASIC**) requires responsible entities of unlisted property schemes to address six benchmarks and eight disclosure principles set out in Regulatory Guide 46, *Unlisted Property Schemes – Improving Disclosure for Retail Investors* (**RG 46**). The disclosure benchmarks and principles are intended to assist retail investors to understand, compare, and assess unlisted property schemes. Fort Street Real Estate Capital Fund I, Fort Street Real Estate Capital Fund II and Fort Street Real Estate Capital Fund III (each a **Scheme** and collectively **the Schemes**) are unlisted property schemes that are stapled together to form the FSREC Property Fund (**the Stapled Fund**).

Updates on the status of information relating to the disclosure benchmarks and principles will be available on the Stapled Fund's website at: www.fsrec.com.au.

The following is each ASIC disclosure benchmark and principle, and a summary of how each is addressed by the Responsible Entity.

The Schemes will indirectly invest in Australian-based commercial properties through Investment Entities. The Investment Entities can acquire the following types of interests in such properties:

- direct interests – where the Trustee holds the properties directly;
- indirect interests – where a wholly owned entity of the Scheme owns the properties directly or indirectly;
- co-investment interests – where a joint venture entity (such as a trust or special purpose company) established by the Trustee and a joint venture partner owns the properties directly; or
- external trust interests – where the Investment Entities invest in a registered managed investment scheme with at least 20 members or other managed investment scheme which owns the properties directly.

References to the Stapled Fund's property investments in this document should be interpreted as investments made through its controlled entities. Where the context requires, references to the Stapled Fund and its controlled entities include references to the Schemes together with the Investment Entities through which the Schemes invest in properties (**Investment Entities**).

GEARING (BENCHMARK AND PRINCIPLE)

Benchmark — the Responsible Entity maintains and complies with a written policy that governs the level of gearing at an individual credit facility level. The Responsible Entity meets this benchmark.

Principle — it is important to understand how much debt will be used by the Stapled Fund and its underlying investments. The gearing ratio represents the extent to which assets are financed by debt. A higher gearing ratio means a higher reliance on debt to finance scheme assets, and exposes a scheme to additional risks involved with, for example, increases in interest rates or a reduction in property values. A highly geared scheme has a lower asset buffer to rely upon in times of financial stress. You can use the gearing ratio to assess the potential risks a scheme may face in the event interest rates rise or property values decrease, and to compare the risk associated with the scheme's return on investment to other similar products.

The Stapled Fund's gearing ratio will be calculated on a look-through basis in accordance with the following formula:

$$\text{Gearing} = \frac{\text{Total borrowings (of the Stapled Fund and the Investment Entities)}}{\text{Total value of investment properties (of the Stapled Fund and the Investment Entities)}}$$

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The Stapled Fund will typically target a consolidated gearing level of between 30% to 50%. Look-through gearing reflects the ratio of borrowings to the value of investment properties adjusted for the borrowings of investment vehicles in which the Stapled Fund invests (i.e. the Investment Entities). The Stapled Fund has not directly entered into debt financing.

Refer to Appendix A for the Stapled Fund's current look-through gearing ratio.

INTEREST COVER RATIO (BENCHMARK AND PRINCIPLE)

Benchmark — the Responsible Entity maintains and complies with a written policy that governs the level of interest cover at an individual credit facility level. The Responsible Entity meets this benchmark.

Principle — Investors can use an interest cover ratio to assess a scheme's ability to meet ongoing interest payments from earnings, and therefore service debt as it shows how many times a scheme's earnings can meet the scheme's interest expenses each year. The lower the interest cover, the higher the risk the scheme will not be able to meet its interest payments. A scheme with a low interest cover only needs a small reduction in earnings (or a small increase in interest rates or other expenses) to be unable to meet its interest payments.

The interest cover ratio of the Stapled Fund and the Investment Entities will be calculated in accordance with the following formula:

$$\textbf{Interest cover} = \frac{\textbf{EBITDA – unrealised gains + unrealised losses}}{\textbf{Interest expense}}$$

EBITDA is the consolidated earnings before interest, tax, depreciation and amortisation.

Under the Stapled Fund's gearing and interest cover policy, the minimum interest cover ratio for the Stapled Fund will be 1.5 times.

Refer to Appendix A for the Schemes' current interest cover ratio calculated on a consolidated basis.

INTEREST CAPITALISATION (BENCHMARK ONLY)

Benchmark — the interest expense of the Stapled Fund will not be capitalised.

The Responsible Entity meets this benchmark. The interest expense of the Stapled Fund is not capitalised.

Interest capitalisation means the Stapled Fund is not required to make interest payments until an agreed point in time and that is added to the amount owing by the Stapled Fund.

SCHEME BORROWING (PRINCIPLE ONLY)

Principle — investors should consider information about borrowings of a property trust such as the Stapled Fund as there are risks associated, particularly in relation to the scheme's borrowing maturity profile and any breaches of loan covenants.

The Stapled Fund does not currently have any direct borrowings. The Responsible Entity does not intend to borrow directly. If the Responsible Entity does borrow in connection with the Stapled Fund, then any amounts owing to the financiers and other creditors of the Responsible Entity will rank before an investor's interests in the Stapled Fund. The Stapled Fund's controlled entities have borrowed money. The Stapled Fund's interest in the controlled entities ranks behind any amounts owed to financiers and other creditors of the controlled entities. All covenants attached to the debt facility are only applicable to the Investment Entities.

PORTFOLIO DIVERSIFICATION (PRINCIPLE ONLY)

Principle — Investors should understand the Responsible Entity's approach to portfolio diversification. Generally, the more diversified a portfolio, the lower the risk that an adverse event affecting one property or one lease will put the overall portfolio at risk.

The Stapled Fund will invest in the Investment Entities, which in turn, own a current portfolio of 12 assets which are all convenience-based retail centres (predominantly in major metropolitan locations across Australia's east coast).

VALUATION POLICY (BENCHMARK ONLY)

Benchmark — the Responsible Entity maintains and complies with a written valuation policy.

The Responsible Entity does not meet this benchmark as the valuation policy required is suitable only for schemes which directly hold real property. The Stapled Fund's only assets will be cash equivalents and units in the Investment Entities.

However, the Responsible Entity has established a written valuation policy, to which the Trustee is subject.

The policy requires that for each real property asset of the Investment Entities, the Trustee will obtain an independent valuation:

a) before a property is purchased:

  i) for a development property, on an 'as is' and 'as if complete' basis; and

  ii) for all other property, on an 'as is' basis; and

b) within two months after the Trustee or directors of the Responsible Entity forms the view that there is a likelihood that there has been a material change in the value of the real property.

The Responsible Entity believes that the above policy adequately reduces the risks in connection with this benchmark not being met.

When obtaining a valuation of a real property asset, the Trustee and Responsible Entity are required to use valuers that are independent and registered or licensed in the relevant jurisdiction in which the property is located (where a registration or licensing regime exists), or, are otherwise members of an appropriate professional body in that jurisdiction. Prior to appointing an independent valuer, the Trustee and the Responsible Entity must ensure that the independent valuer has no conflict of interest and is rotated such that the same independent valuer cannot value a real property asset of the Investment Entities for more than two consecutive years.

RELATED PARTY TRANSACTIONS (BENCHMARK AND PRINCIPLE)

Benchmark — the Responsible Entity maintains and complies with a written policy on related party transactions, including the assessment and approval processes for such transactions, and arrangements to manage conflicts of interest.

The Responsible Entity meets this benchmark. The key elements of the Responsible Entity's related party transaction policy include the following:

a) all related party transactions must be immediately notified to the compliance officer through the completion of a conflicts of interest notice, following receipt of which the compliance officer will complete the conflicts of interest register;

b) each related party transaction will be evaluated and assessed as either a minor conflict or a material conflict; and

c) each related party transaction will require approval by members of the Stapled Fund, unless an officer of the Responsible Entity determines it falls within an exception, including the following:

i) the transaction is on arm's length terms or on terms that are more favourable to the Stapled Fund than arm's length terms;

ii) the benefit received by the related party is the payment of expenses or remuneration of an officer or employee of the Responsible Entity and the payment is reasonable in the circumstances; and

iii) financial benefits given under a court order.

Compliance with the policies and procedures set out in the Responsible Entity's related party transaction policy is monitored by the Responsible Entity's compliance officer by, among other things, reviewing the Responsible Entity's conflicts of interest and related party records and reporting any breaches of the policies and procedures in accordance with the reporting procedures of the Responsible Entity. The reporting procedures may involve reporting the breach directly to the board of directors of the Responsible Entity (**Board**) or to ASIC, depending on the seriousness of the breach.

If you require further information on the Responsible Entity's policies and procedures in relation to related party transactions, please contact the Responsible Entity.

Principle — Investors need to understand the way in which the Responsible Entity will deal with related parties so as to manage conflicts of interest. Related party transactions carry a risk that they could be assessed and monitored less rigorously than third party transactions at arm's length. Related party transactions may include commercial contracts for the supply of goods or services with persons that are related parties or larger transactions, such as asset acquisitions or disposals.

At the date of this document, the Responsible Entity has entered into related party transactions with the following entities:

- EQT Australia Pty Ltd, EQT Responsible Entity Services Ltd and EQT Structured Finance Services Pty Ltd in their capacity as Trustee of the Investment Entities

Details in relation to these related party transactions are set out in the table below.

For completeness, other transactions that are not "related party transactions", but which involve the Trustee and other entities with which the Responsible Entity has a close association are listed in the table below.

The Responsible Entity believes that each of the transactions listed below have been entered into in full compliance with the Responsible Entities policies and procedures for entering into related party arrangements. Information about how these transactions are monitored is set out above.

NAME OF ENTITY	NATURE OF RELATIONSHIP WITH THE RESPONSIBLE ENTITY	DESCRIPTION OF THE RELATED PARTY TRANSACTION	VALUE OF BENEFIT	ANY APPLICABLE EXEMPTIONS (E.G. ARM'S LENGTH[1], REASONABLE REMUNERATION)	FUND MEMBER APPROVAL SOUGHT AND IF SO, WHEN	RISKS
EQT Australia Pty Ltd, EQT Responsible Entity Services Ltd and EQT Structured Finance Services Pty Ltd in their capacity as trustee of the Investment Entities (each, a **Trustee**)	The Trustee and Responsible Entity are related parties.	Payment of a Trustee fee out of the Investment Entities' assets.	The Trustee receives a fee under the terms of the trust deed of the Investment Entities.	The Responsible Entity has assessed these related party transactions as being reasonable and on commercial arm's length terms.	Not required.	Risk of conflicts of interest arising from related party transactions. The fee has been communicated to members when seeking approval for the change of Responsible Entity in December 2022.

1. Whether the arrangement is on 'arm's length' terms, is reasonable remuneration, some other exemption applies, or ASIC has granted relief.

DISTRIBUTION PRACTICES (BENCHMARK AND PRINCIPLE)

Benchmark — The Investment Entities will only pay distributions from their cash operations (excluding borrowings) available for distribution.

The Responsible Entity met this benchmark for the most recent distribution payments. Generally, it is not intended for distributions to be sourced other than from cash from operations (excluding borrowings). However, during the acquisition and development of assets, distributions may include a capital component (see below for an explanation of why this may occur and the associated risks).

Principle — It is important for investors to understand the Responsible Entity's distribution practices, as there are risks associated with payment of distributions from capital or unrealised gains where cash is available from either within the Investment Entities or from borrowings.

The Responsible Entity intends to generally only pay distributions from the cash operations (excluding borrowings) of the Stapled Fund. However, during the periods in which the Investment Entities are acquiring or developing assets, the Responsible Entity may determine that it will pay capital to investors. Such returns of capital would occur through the payment of distributions (**Capital Distribution**).

If the Responsible Entity were to pay distributions from capital in those circumstances, the capital return would not be funded from unrealised gains on the Stapled Fund's assets or from borrowings. Instead, it would be a return of the initial capital subscribed for by investors in the Funds.

The risks associated with making such Capital Distributions are that the Investment Entities may subsequently find suitable investments and the Stapled Fund would not be in a position to provide Investment Entities with the capital necessary to acquire the relevant investments. In addition, if Investment Entities breached one of their credit facilities during the period in which it was acquiring investments because it exceeded the required gearing ratio under the credit facility, then the Stapled Fund may not be able to provide additional capital to the Investment Entity to enable it to remedy that breach.

The Responsible Entity currently pays distributions on a quarterly basis and expects these distributions to be sustainable over the next 12 months. However, distributions are not guaranteed, and the amount may be reduced or not paid in circumstances where the cash distribution received from underlying properties held by the Stapled Fund is less than forecast or if other unforeseen events occur. The Responsible Entity does not announce distribution forecasts and continues to ensure that any material changes to the Fund's distribution practices are communicated to securityholders through the ongoing quarterly disclosures.

WITHDRAWAL ARRANGEMENTS (PRINCIPLE ONLY)

Principle — It is important for investors to be aware of withdrawal arrangements so that they may form realistic expectations about their ability to withdraw from the scheme.

Investments in the Stapled Fund should be considered illiquid. Investors have no rights to withdraw from the Stapled Fund, unless the Responsible Entity makes a withdrawal offer. The Responsible Entity will only be obliged to make a withdrawal offer in the event Stapled Securityholders do not vote to wind up the Stapled Fund at the Liquidity Review.

NET TANGIBLE ASSETS (PRINCIPLE ONLY)

Principle — the value of an investment in the Stapled Fund is determined by reference to the net tangible assets ("**NTA**") of the Stapled Fund.

In practical terms, the NTA calculation is a valuation measure of the Stapled Fund, per Stapled Security.

There is a risk that investors will not receive their full capital repayment when exiting the Stapled Fund or on winding up of the Stapled Fund, if the NTA per Stapled Security is less than the price paid per Stapled Security on entry to the Stapled Fund at the relevant time.

The NTA for the Stapled Fund is calculated in accordance with the following formula:

$$\textbf{NTA} = \frac{\textbf{Net assets – intangible assets +/- any other adjustments}}{\textbf{Number of Stapled Securities on issue}}$$

Refer to Appendix A for the Stapled Fund's audited NTA.

FURTHER INFORMATION

For further information in relation to the above, please refer to our website at www.fsrec.com.au or contact us on either 1300 080 333 or on info@fsrec.com.au

Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298), AFSL 240975, is the Responsible Entity for 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), which collectively form a stapled group known as FSREC Property Fund ("the Fund"). Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT).

Appendix A

The below information is current as at 30 June 2023

I. Stapled Fund's current look-through Gearing Ratio: 37.19%

II. Stapled Fund's current Interest Cover Ratio (**ICR**): 4.62x[1]. Note that all borrowings are taken out at the Trust level and, as such, the Stapled Fund's ICR could differ from the ICR calculated for purposes of the debt covenant in section IV.

III. NTA per stapled security: $1.80

IV. Trusts' borrowings maturity within 5 years:

<u>Debt facility with NAB</u>

Aggregate amount owing:	$259.6 million
Aggregate amount undrawn:	$40.4 million
Maturing profile:	Approximately 2 years
Interest rate of the facility:	Average cost of drawn debt is approximately 3.58% (excluding costs relating to undrawn debt)
Is the facility hedged:	Yes, 69.72% of the Trusts' borrowings are hedged

Debt Covenants[2]	Loan to value ratio	Facility ICR	Assets Secured
Actual	37.19%	4.09x	All properties
Covenant	<=55.00%	>=2.00x	
Headroom to Covenant	32.38%[3]	51.15%[4]	

V. Trusts' borrowings maturity after 5 years: None

[1] Interest Cover Ratio: (EBITDA - unrealised gains (non-cash items) + unrealised losses) / Interest expense ($17,320,607 + $3,642,834 + $10,841,220) / $6,889,886 = 4.62x

[2] The calculation of this Debt Covenants is for the Trust and is defined by the Lender. This differs from the ICR calculation stated in Section II Appendix A.

[3] Headroom to covenant indicates the required decrease in asset value before the covenant is breached as at 30 June 2023.

[4] Headroom to covenant indicates the required decrease in EBITDA before the covenant is breached based on the trailing 12 months' period.

VI. Properties currently held by the Trusts include:

Asset	Location	Sector
Oxford Village	Cnr Oxford St & Pelican St, Surry Hills, NSW 2010	Retail/Office
Lynbrook Village Shopping Centre	75 Lynbrook Blvd, Lynbrook VIC 3975	Retail
Lake Innes Village	43 John Oxley Dr, Port Macquarie NSW 2444	Retail
Windsor Riverview Shopping Centre	227 George St, Windsor NSW 2756	Retail
Noosa Village Shopping Centre	Cnr Gibson & Mary Street, Noosaville QLD 4566	Retail
Northpoint Shopping Centre	Cnr Ruthven & Jones Street, Toowoomba QLD 4350	Retail
Birkdale Fair	Cnr Mary Pleasant Drive and Birkdale Road, Birkdale QLD 4159	Retail
Newtown Central	330 King Street, Newtown NSW 2042	Retail
Marketfair Campbelltown	Cnr Kellicar & Narellan Rd, Campbelltown NSW 2560	Retail
Hilton Plaza	160 Sir Donald Bradman Dr, Hilton SA 5033	Retail
Toormina Gardens Shopping Centre	5 Toormina Road, Toormina NSW 2452	Retail
Keilor Central Shopping Centre	80 Taylors Rd, Keilor Downs, VIC 3038	Retail

VII. Most recent valuation for each significant property:

Asset	Valuation	Date of valuation	Independent/ Internal	Capitalisation Rate Adopted
Oxford Village	$110.0 million	30/06/23	Independent	5.75 %
Lynbrook Village	$48.5 million	30/06/23	Independent	5.75%
Windsor Riverview	$58.0 million	30/06/23	Independent	5.63%
Lake Innes Village	$39.5 million	30/06/23	Independent	5.63%
Noosa Village	$40.0 million	30/06/23	Independent	5.50%

Northpoint Shopping Centre	$47.0 million	30/06/23	Independent	6.00%
Birkdale Fair	$37.5 million	30/06/23	Independent	5.50%
Newtown Central	$32.0 million	30/06/23	Independent	5.50%
Marketfair Campbelltown	$49.5 million	30/06/23	Independent	5.50%
Hilton Plaza	$23.5 million	30/06/23	Independent	5.50%
Toormina Gardens Shopping Centre	$89.0 million	30/06/23	Independent	6.50%
Keilor Central Shopping Centre	$123.5 million	30/06/23	Independent	5.63%

VIII. Property portfolio profile:

Portfolio weighted average lease expiry: 4.2 years
Portfolio occupancy rate: 95.88%

IX. Top five by income across the property portfolio:

- Coles Group Ltd: 15.25%
- Woolworths Group Ltd: 10.25%
- Study Group: 7.00%
- Kmart: 4.73%
- Fitness First Australia: 4.36%