



Dear SURF 1 Investor

We refer to our earlier Fund Updates and are pleased to confirm that all of the assets of SURF 1 have been sold with the last two properties settling on 12 December 2019 (Fairfield and Katoomba). Accordingly, we are now in a position to commence the winding up of SURF 1.

Winding up of SURF 1

The total sale prices of all properties sold (before costs of disposal) are nearly 14% above the original purchase price of \$60.9m. We are in the process of distributing the net proceeds of sale (after repaying debt, fees and other expenses) to all SURF 1 Unitholders. We expect to be in a position to distribute the majority of these net proceeds on or about 28 January 2020.

We will be retaining approximately \$4.5m to cover expenses incurred in the final wind up, that could take up to 9-12 months. We will make a further one to two distributions to SURF 1 Unitholders before the fund is wound up.

Key dates for SURF 1 wind up:

1. Repayment of the Westpac debt facility	29 November 2019
2. Receipt of proceeds from all sales	12 December 2019
3. Payment of expenses associated with the sales	28 January 2020
4. Payment of January Distribution (including capital return)	28 January 2020
5. Further Interim Distribution to Unitholders	21 April 2020
6. Payment of fees to Fund Manager	29 June 2020
7. Completion of the Fund accounts for year ended June 2020	late July 2020
8. Final distribution to Unitholders	August 2020
9. Wind up of SURF 1 fund	September to December 2020

After the final distribution is paid to the Unitholders the SURF 1 fund will be formally wound up.

Performance of SURF 1

As you will recall SURF 1 was established on 9 September 2015. As indicated in the PDS, the key reasons for investing were:

- Attractive yield of 8%
- Secure lease covenants backed by Woolworths Limited
- High Quality Retail properties, skewed to non-discretionary categories
- 5 Year Term
- Experienced Manager

We expect that the distribution on completion of the sale of the properties and finalisation of costs associated with their disposal and winding up of the fund will approximate \$1.14 for each \$1.00 invested. Including the income return, it is anticipated that the total internal rate of return on your investment in SURF 1 will be approximately 11%.

Comparison of PDS (at establishment of SURF 1) and Actual Results.

	PDS	Actual / Expected
Term of Fund	5 years	5 years
NTA	\$0.96	\$1.14 (19% increase on initial NTA) The \$1.14 is made up of the \$1.00 capital distribution payable in January 2020 and \$0.14 net tangible assets per unit at 31 December 2019
Annual Distribution	8.00%	8.40% (final year and an increase of 5%)

(continued)	PDS	Actual / Expected
Capital Appreciation	N/A	3% pa
IRR (annual)	8% income	11% total

We believe that the SURF 1 returns (subject to finalisation of expenses) have been compelling taking into account the difficulties faced in the Retail Industry since SURF 1 was launched, particularly by the Discount Department Store sector. While four of the five assets in the fund were sold for a price in excess of their original purchase price, the sale price of Inverell Big W was adversely impacted by the announcement by Woolworths Group Limited that it intended to close a number of its Big W outlets.

The achieved prices for the assets of SURF 1 were:

Property	Purchase Price	June 2019 Book Value	Achieved Sale Price	% increase / (decrease) of sale price compared to Purchase Price
Burwood Dan Murphy's	\$8.60m	\$11.00m	\$12.00m	39%
Fairfield Heights Woolworths	\$18.00m	\$23.80m	\$23.80m	32%
Griffith North Woolworths	\$9.20m	\$11.90m	\$11.25m	22%
Inverell Big W	\$18.40m	\$14.00m	\$15.00m	(18%)
Katoomba Dan Murphy's	\$6.70m	\$7.70m	\$7.25m	8%
Total	\$60.90m	\$68.40m	\$69.30m	14%

As stated in the PDS, SURF 1 is a closed end Fund with a term of 5 years. Several investors have contacted us indicating a preference to extend the Fund rather than sell the assets and wind it up. SCA is obliged to act in the best interest of all Unitholders and as a result of the movement in the market prices for each of the assets and the ongoing risk attached to Big W at Inverell, SCA believed that the best outcome for all of SURF 1 investors was to sell all of the assets and return funds to investors within 5 years as contemplated by the PDS.

Opportunity to Re-invest in SURF 3

If any SURF 1 investors wish to reinvest in a similar product, there is an opportunity for them to acquire units in the SURF 3 Fund from an existing Unitholder that wishes to sell down its units in SURF 3 Fund (Seller).

A copy of the original SCA Unlisted Retail Fund 3 ARSN 623 821 689 (SURF 3) PDS dated April 2018 and updated information about SURF 3, including the latest financial statements as at 31 December 2019 can be found on our website at: <https://www.scasurf.com.au/surf3/>.

All representations made in respect of the PDS and an investment in SURF 3 are made by SCA Unlisted Retail Fund RE Limited in its capacity as responsible entity of SURF 3. The Seller makes no representation in respect of any investment in SURF 3.

To contact the Seller, please contact:

Myles Gunter
Moelis Australia
Level 27, Governor Phillip Tower, 1 Farrer Place, Sydney NSW 2000
Email myles.gunter@moelisaustralia.com
Phone + (02) 8288 5592

Please note that any units acquired from the Seller will be on terms agreed between the parties. No commissions or fees will be payable to or receivable by SURF RE or any member of SCA Property Group in relation to any such transaction.

Thank you for investing in SURF 1. We trust that you will agree that SURF 1 has been a successful investment and we look forward to assisting you with your investment choices in the future.

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