



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.

Accordingly, we have commenced the winding up and termination of SURF 1<sup>1</sup>.

### **Winding up and Termination of SURF 1 and Distribution of 13.5 cents per unit in April 2020**

On 28 January 2020 we distributed to unit holders an amount of \$1.021 per unit. This is comprised of \$1.00 on account of a return of capital invested and 2.1 cents on account of a quarterly distribution.

We expect to be in a position to make a further distribution of 13.5 cents per unit on or about 22 April 2020. This amount is comprised of capital appreciation or profit on the sale of the assets of the Fund.

A final distribution will be made once all of the costs and expenses of the Fund have been finalised which is expected to occur later this calendar year.

Below is the expected timeframe for the distribution of the Net Proceeds:

1. Payment of expenses associated with the sales – 28 January 2020
2. Payment of January Distribution (including capital return) – 28 January 2020
3. Further Interim Distribution to Unitholders – 22 April 2020
4. Payment of fees to Fund Manager – 29 June 2020
5. Completion of the Fund accounts for year ended June 2020 – September 2020
6. Final possible small distribution to Unitholders – October 2020
7. Wind up and de-registration of SURF 1 fund – October to December 2020

This process is expected to be completed in 2020.

The Constitution provides that all Units in the Fund will be cancelled and taken to be redeemed from the date the final distribution of the Net Proceeds is made.

### **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, follows.

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<sup>1</sup> As outlined in the PDS, and in accordance with the Fund's Constitution and with the Corporations Act 2001 (Cth), the Responsible Entity may decide to wind up the Fund at any time (such a decision being a Termination Event).

	PDS	Actual / Expected
Term of Fund	5 years	5 years
NTA	\$0.96	\$1.135 (18% increase on initial NTA). The \$1.135 includes the \$1.00 return of capital distributed in January 2020 and the 13.5 cents being distributed on or about 22 April 2020.
Annual Distribution	8.00%	8.40% (8.40% is an increase of 5% above the initial PDS forecast distribution of 8.00%)
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	<b>\$12.00m</b>	<b>39%</b>
Fairfield Heights Woolworths	\$18.00m	\$23.80m	<b>\$23.80m</b>	<b>32%</b>
Griffith North Woolworths	\$9.20m	\$11.90m	<b>\$11.25m</b>	<b>22%</b>
Inverell Big W	\$18.40m	\$14.00m	<b>\$15.00m</b>	<b>(18%)</b>
Katoomba Dan Murphy's	\$6.70m	\$7.70m	<b>\$7.25m</b>	<b>8%</b>
<b>Total</b>	<b>\$60.90m</b>	<b>\$68.40m</b>	<b>\$69.30m</b>	<b>14%</b>

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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