

## Quarterly Update as at 30 June 2020

The following information has been prepared for SURF 2 for the purposes of ASIC Regulatory Guide 46.

### Disclosure Principle

Outcome/Comment (as at 30 June 2020 or for the 12-month period ended 30 June 2020).

### Gearing Ratio<sup>1</sup>

Gearing of SURF 2 was 35.1%. This is less than the required maximum of 55%. Gearing also indicates the extent to which SURF 2's assets are funded by interest bearing liabilities.

### Interest Cover Ratio (ICR)

ICR was 3.54 times. This is greater than the required minimum of 1.75 times. ICR measures the ability of SURF 2 to service interest expense.

### Interest Capitalisation Policy

SURF 2 does not capitalise interest.

### SURF 2 Borrowing

SURF 2's borrowings are \$16.5m which is less than the facility limit of \$18.1m.

### Portfolio Diversification

The SURF 2 property including key metrics is included within. This includes that SURF 2's remaining property, Katoomba Marketplace, has a single tenant (Woolworths Limited). SURF 2's valuation policy includes each property to be valued every 6 months. The June 2020 valuation is outlined in this report.

### Related Party Transactions

Related party transactions have been disclosed in the PDS dated 19 April 2017 and in the financial statements for the period ended 30 June 2020. These are available on line at [www.scaproperty.com.au/unlisted/surf2](http://www.scaproperty.com.au/unlisted/surf2).

### Distribution Practices

Distributions are paid with cash from operations. It is anticipated that distributions will continue to be funded by cash from operations.

### Withdrawal Practices

Investors are unable to redeem their units. Subject to conditions, investors may privately arrange to transfer their units to third parties at any time using an off market transfer form. Please contact the registry for further information.

### Net Tangible Assets (NTA)

NTA is \$0.99

## Resumption of Distributions

Following the sale of the SURF 2 shopping centre at Mittagong 100% of the Fund's remaining income from Katoomba Marketplace, the Fund's remaining property, is generated from the anchor tenant Woolworths Limited.

Mittagong was sold at a disposal value (before selling costs) of \$9.7m which was \$0.1m above book value and the external valuation as at December 2019 of \$9.6m. SURF 2's NTA has decreased from \$1.00 per unit as at 31 December 2019 to \$0.99 per unit as at 30 June 2020 due mainly to Mittagong selling costs.

The net proceeds from the sale of Mittagong were used to repay a portion of the secured debt facility. As a result the Fund's gearing has reduced significantly from 47% in December 2019 to 35.1% at June 2020.

As we advised earlier in 2020 the SURF 2 distribution for the quarter ended March 2020 was suspended, however with the sale of Mittagong and the consequent reduction in debt, the Board is pleased to advise that distributions for SURF 2 have been reinstated. The distribution for the quarter ended June 2020 was paid at the end of July 2020. The distribution amount of 3.50 cents per unit included the payment of the suspended distribution for the quarter ended 31 March 2020.

It is also noted that the Fund's interest rate swap has been terminated which will reduce future interest costs if rates remain unchanged. Should interest rates increase, this will increase future interest costs which could potentially reduce distributions, although the risk is considered low. If general economic conditions remain the same and interest rates remain in line with current rates then distributions for FY2021 are expected to be 7.00 cents per unit per annum.

The market disruption caused by COVID-19 has been extreme and it is impossible to predict when market disruption will end. This may also impact property values and future distributions.

As per the PDS the expiry of the Fund is mid 2022. An update will be provided closer to this time on the wind up and termination of the Fund or if an extension or other action is recommended.

### Highlights include:

	Actual	Same Period FY19
FY20 fourth quarter distribution cents per unit (cpu)	3.50 <sup>3</sup>	1.75
FY20 annualised distribution yield (based on Issue Price of \$1.00 and FY20 declared distributions)	7.00% <sup>3</sup>	7.00%
Property valuation (as at 30 June 2020)	\$47.0m <sup>2</sup>	\$56.9m <sup>2</sup>
Net tangible assets per unit (as at 30 June 2020)	\$0.99	\$1.01

### SURF 2 Katoomba Marketplace Valuation

	State	Tenants	Occupancy	Capitalisation Rate June '20	Valuation June '20 \$'m
Katoomba Marketplace	NSW	1	100.0%	6.50%	47.0

1. Gearing and ICR are measured in accordance with the definitions within the Finance Agreement between SURF 2 and the debt provider. Required maximum gearing and minimum ICR are also in accordance with the Finance Agreement.

2. Due to the disposal of Mittagong property values as at 30 June 2020 have decreased (at 30 June 2019 Mittagong was valued at \$10.3m and Katoomba Marketplace at \$46.6m). At 30 June 2020 the remaining property is Katoomba Marketplace valued at \$47.0m.

3. Distribution paid for FY20 year to date totals 3.5 cents per unit and will be 7.0 cents per unit after payment of the fourth quarter distribution.

## CONTACT OUR REGISTRY

Contact our registry, Boardroom Limited, for enquiries regarding your accounts details, banking instructions, distribution payment notices or changing your address or contact details.

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