



10 December 2020

Dear SCA Unlisted Retail Fund 2 Investor,

Since the sale of Mittagong in June 2020 the Fund has received multiple offers from multiple agents to purchase Katoomba Marketplace.

Katoomba Marketplace was independently valued at \$47.0 million in December 2019 and the carrying value of this property at June 2020 was also \$47.0 million.

SURF RE has evaluated the various offers for Katoomba Marketplace and has entered into a conditional contract to sell Katoomba Marketplace to SCA Property Group for a sale value of \$55.1 million (before selling costs). This was considered to be the superior offer after selling costs.

In June 2017, SURF 2 purchased Katoomba Marketplace from SCA Property Group for \$44.7 million. A successful sale at \$55.1 million would be over 17% above the independent valuation at December 2019 and the carrying value at June 2020. After repayment of debt, selling costs and other liabilities this is equivalent to around \$1.20 per unit and an internal rate of return of around 12% per annum.

The Fund's nominal term is five years, ending in mid-2022.

As permitted by the Product Disclosure Statement (PDS), if the Responsible Entity of SURF 2 (SURF RE) considers it in the best interests of investors, SURF RE may sell either one or both properties prior to the conclusion of the Fund's five year term. The PDS also states that the consideration to sell either or both of the properties prior to the conclusion of SURF 2's five year term will include consideration on the total return of SURF 2 to investors.

As noted in previous updates, the SURF 2 shopping centre at Mittagong was sold in June 2020 for \$9.7 million (before selling costs) which was \$0.1 million above the independent valuation at December 2019. 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 47.0% in December 2019 to 35.1% at June 2020.

We believe that the SURF 2 returns have been compelling, taking into account the difficulties faced in the retail industry since SURF 2 was launched in June 2017.

Should the Katoomba Marketplace sale complete, it is expected that the SURF RE board will proceed with the winding up of SURF 2. The sale of Katoomba Marketplace is currently expected to complete by early 2021. An update will be provided by February 2021 on this timing, as well as the possible next steps, including with respect to the anticipated winding up of SURF 2. A delay in the completion of the sale will decrease the internal rate of return.

Thank you for investing in SURF 2.

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