

FSREC Property Fund
Portfolio Update and Fund Distribution

E&P Investments Limited as the responsible entity for the FSREC Property Fund (Fund), is pleased to provide the following portfolio update and Q3 FY21 distribution announcement.

Portfolio Update

Portfolio performance continues to stabilise at pre-pandemic levels as State Governments work to ease restrictions and eliminate community transmission of COVID-19. Whilst there were a few localised lockdowns during the March quarter, the portfolio was largely unaffected, and the majority of tenants maintained consistent trade. Tenant rent relief requests continue to decline significantly, which can be directly correlated to the improvements seen in the operating environment.

The Federal Government's National Code of Conduct and JobKeeper scheme expired on 31 March 2021, and as such rent relief is no longer governed by law and will be at the manager's discretion going forward. Whilst there is some uncertainty surrounding the expiry of JobKeeper and the performance of the economy, we believe that the portfolio will continue to perform well given its high weighting to non-discretionary retail and services.

Occupancy and weighted average lease expiry (WALE) at 31 March 2021 was stable at 98% and 4.5 years respectively. Thirteen leases were negotiated over the quarter and six tenant fitout upgrades completed.

Several projects were completed across the portfolio during the quarter. At Oxford Village a comprehensive signage upgrade was completed, improving tenant presence from street level as well as the overall presentation of the asset. A project to install a 200kW solar power system at Keilor Central was also completed during the quarter, aiding a reduction in operational costs and improving the environmental impact of the asset. The key highlight of the quarter was planning approval for a padsite development at Birkdale Fair. Construction is due to commence shortly with a pre-lease in place with McDonalds. Once completed, the padsite will improve the food offer of the centre as well as contributing to capital growth.

Market Outlook

The Australian economic recovery has been strong over the quarter, exceeding many growth expectations and forecasts. The unemployment rate fell to 6.4% and retail spending has been strong, with GDP forecast to be 3.5% for 2021.

On 2 March, The Reserve Bank of Australia (RBA) announced that there would be no change to current monetary policy, holding the cash interest rate at 0.1% and indicating that this is unlikely to increase until inflation is sustainably within the target range, and real wage growth occurs.

The low interest rate environment continues to underpin the performance of the commercial property market, with many investors able to borrow at attractive rates and seeking to place capital into commercial property. Investor demand for defensive retail assets, such as neighbourhood and convenience-based retail centres, and commercial office with strong fundamentals, continues to be strong with several assets transacting during the quarter.

Disclaimer: Past performance is not a reliable indicator for future performance

Capital Management

During the quarter, a debt refinance of the Fund's four debt facilities was completed. The facilities were restructured into one single facility secured against the assets of the merged Fund. Pleasingly, management were able to negotiate a term of four years, with the debt facility extending to April 2025, and an initial facility limit of \$315m. The initial facility limit of \$315m will reduce to \$300m at the earlier of an asset being sold or 12 months.

The facility agreement has been signed with financial close expected before the end of April. Once implemented the new arrangement will result in reduced borrowing expenses for the Fund. All other terms of the debt facility are generally consistent with the prior facilities, and fund gearing will remain unchanged at 36%.

Fund Distribution

E&P Investments Limited is pleased to announce the following distribution for the quarter ending 31 March 2021.

Distribution	1.91 cents
Record Date	21 April 2021
Expected Payment/Distribution Date	On or around 7 May 2021

This is the second distribution from the recently merged Fund and represents a 14% increase on the prior quarter distribution and an annualised distribution yield of 4.8% on net tangible assets (as at 31 December 2020). The increase in securityholder distributions is as a result of continued improvement in portfolio operating conditions, and less onerous rent relief obligations as tenant performance has improved.

As with the previous quarters, the responsible entity board will continue to assess distribution payments with a degree of caution while the risks of the COVID-19 pandemic are still prevalent. However, the improvement of tenant performance, paired with a reduction in borrowing expenses from the debt refinance, provides us with confidence in the continued growth in earnings and distributions for the Fund.

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