

Unlisted Property Fund Report

SCA Unlisted Retail Fund 3 (SURF3)

May 2018

A portfolio of regional retail properties forecasting 7.1% distributions with Woolworths and Target tenancies

SCA Unlisted Retail Fund 3 (SURF3)

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About Core Property Research

Core Property Research Pty Ltd was established in July 2017 to provide market leading and insightful research on the property funds sector for its clients and investors. Our ratings and research covers sector level research, ratings and recommendations on listed and unlisted property funds, and is built upon the extensive research experience of its staff.

The Core Property team collectively, has over 50 years' experience across property, financial services and investment markets. The team has also evaluated over 500 different funds across multiple sectors and a range of investment structures over the last decade.

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SCA Unlisted Retail Fund 3 (SURF3)

May 2018

The SCA Unlisted Retail Fund 3 ("SURF3", "the Fund") is a closed ended unlisted property fund with an initial term of six and a half years to November/December 2024. The Fund is seeking to raise \$35.0M through the issue of 35.0M units at \$1.00 per unit, which will be used in conjunction with bank debt to acquire four retail properties for a total of \$57.9M.

The Fund Manager (Shopping Centres Australasia Property Operations Pty Limited, "the Manager") and Responsible Entity (SCA Unlisted Retail Fund RE Limited, "the RE") are part of SCA Property Group (ASX: SCP) which currently manages over \$2.6B of retail properties across Australia. The Fund is acquiring the properties from SCP at prices based on independent valuations. SCP will retain a minimum 20% share of units in the Fund.

The portfolio consists of four retail properties in regional locations on the eastern seaboard of Australia: Moama Marketplace (NSW), Swansea Woolworths (NSW), Warrnambool Target (VIC), and Woodford Woolworths (QLD).

The Fund's portfolio metrics are attractive: (1) 99% portfolio occupancy by income (or 100% after including a rental guarantee) (2) approximately 71% of income is secure by anchor tenants- Woolworths and Target; (3) a long portfolio Weighted Average Lease Expiry (WALE) of 10.3 years, which is well beyond the initial six-and-a-half-year term of the Fund; (4) low capital requirements with the majority of the capex spend incurred by Woolworths Group Limited as the tenant; and (5) a rental guarantee provided by SCA Property Group for up to \$0.4M for the first two years of the Fund.

The properties are in regional locations with lower income and growth rates than the national average, however the properties have historically strong occupancy levels. The Warrnambool Target lease will be expiring near the end of the initial term of the Fund, and we expect the Manager will be reviewing the property's options in order to maintain the value of the site.

The Fund has established a three-and-a-half-year debt facility with a major bank for \$28.9M with an initial drawn down of \$26.6M. The interest rate is 90% hedged for the first two years to June 2020 at an average all-in cost of debt of 4.2% providing a high level of certainty for investors during the first two years. The initial Loan to Valuation Ratio (LVR) is 45.4% against a bank covenant of 55%.

Essentially, the Fund's income would need to drop by around 30% for the Fund to breach the Fund's bank-imposed Interest Cover Ratio (ICR) covenant. Similarly, the Fund's asset value would need to fall by around 16% to breach the bank's Loan-to-Valuation (LVR) covenant of 55%. As such, Core Property believes there is a good cushion against any adverse market conditions.

The Manager is forecasting the Fund to deliver a 7.1% p.a. distribution yield for FY19 and FY20. Based on the Manager's forecasts, Core Property estimates the Fund to deliver an Internal Rate of Return (IRR) of between 6.1% - 9.7% (midpoint 7.9%) over the initial six and half year term. The analysis includes the potential that investors may receive a capital gain or loss, based on market conditions.

Investor Suitability

Core Property considers the Fund will appeal to investors seeking a predictable and sustainable income quarterly distribution. This is supported by a well-regarded major retail tenants such as Woolworths and Wesfarmers and a long-term tenancy agreement in place. The investment structure is straightforward, offering a low risk income yield over the term of the fund. The Fund should be considered as part of a core investment strategy. The Fund is illiquid, and investors should expect to remain invested for the minimum initial term of six and a half years.

Recommended

See the Appendix for a description of our ratings. The above rating must be viewed in the context of comparable Funds and not across all products

Fund Details

Offer Open: 1 May 2018

Offer Close: When fully subscribed¹

Min. Investment: \$25,000

Initial NTA: \$0.91

Liquidity: Illiquid

FY19 Forecast Distributions: 7.1 cpu

FY20 Forecast Distributions: 7.1 cpu

Distribution Frequency: Quarterly

Fund Investment Period: 6.5 years²

1. The Offer under the Product Disclosure Statement is valid for a maximum period of 12 months.
2. Initial term is six and a half years to November/December 2024. The Fund may be extended where certain conditions are met (see "Liquidity/exit strategy" section).

Fund Contact Details

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Note: This report is based on the SCA Unlisted Retail Fund 3 – (SURF 3) Product Disclosure Statement dated 30 April 2018, together with other information provided by SCA Property.

Key Considerations

Management Experience: Experienced property manager with a solid track record of managing retail assets. The ASX listed SCA Property Group (ASX: SCP) was demerged from the Woolworths property operations and has a good track record of managing retail properties with the Woolworths and Wesfarmers retail brands.

Fund Term: The Fund will have an initial term of six and a half years (initial term), which may be extended by way of Special Resolution by at least 75% of votes cast, by investors entitled to vote.

SCP co-investment: SCP will own a minimum of 20% of the equity being raised under the offer, which provides a good degree of alignment with other investors.

Portfolio: The property portfolio metrics are attractive: 1) four retail properties valued at \$57.9M in total, located in Moama NSW, Swansea NSW, Warrnambool Vic and Woodford Qld; 2) 99% occupancy by income (increasing to 100% after including the rental guarantee provided by the vendor); 3) anchor tenants Woolworths Group and Target Australia account for 71% of income; and 4) a portfolio WALE of 10.3 years.

The Properties are located in regional centres, which typically have lower income and population growth than metropolitan locations. The properties have had strong occupancy levels, averaging around 98.4% for the past 4.5 years. A key tenant, Target Warrnambool (17% of income), must provide notice in January 2024 if it intends to vacate at lease expiry in January 2025. We expect the Manager will undertake discussions with the tenant well in advance of these dates, in order to maintain the value of the property at the end of the initial term of the Fund in November 2024.

Rental Guarantee: A Rental Guarantee of \$0.4M has been provided by SCA Property Group for up to \$0.4M during the first two years to cover any vacancy, fit-out, or tenant incentives.

Debt Profile: The Fund has established a three-and-a-half-year debt facility with a major bank for \$28.9M with an initial drawn down of \$26.6M. The interest rate is 90% hedged for the first two years to June 2020 at an average all-in cost of debt of 4.20%. The initial LVR is expected to be 45.4% and expected to peak at 46% against a bank covenant of 55%. The RE will need to renew or establish new debt facilities beyond June 2020.

Capex: The financial forecasts allow for \$0.5M of capex equating to 0.8% of the initial valuation of the property and is in line with the independent valuer's estimates.

Initial NTA: The initial NTA of the Fund is \$0.91 after writing off stamp duty costs, fund set-up costs, and fees payable to the Manager. This is consistent with Core Property's view of writing off initial costs to ensure that all funds are assessed on the same basis.

Distributions: The Manager is forecasting distributions to be 7.1% p.a. in FY19 and FY20 respectively.

Fees: Core Property considers the Fund's fees to be in line with comparable peers.

Total Return: The Fund is estimated to deliver an Internal Rate of Return (IRR) of 6.1% - 9.7% based Core Property's sensitivity analysis (see the *Financial Analysis* section). Investors may receive a potential capital gain or loss, depending on market conditions.

Liquidity: Investors must accept that by their very nature, unlisted property funds are illiquid. The Manager does not provide any withdrawal facility during the initial term of the Fund and Investors should expect to remain fully invested during this period.

Investment Scorecard

Management Quality	★★★★★
Governance	★★★★☆
Portfolio	★★★★☆
Income Return	★★★★☆
Total Return	★★★☆☆
Gearing	★★☆☆☆
Liquidity	★☆☆☆☆
Fees	★★★★☆

Fund Structure		Fees Paid	
An unlisted property fund investing in retail assets located in NSW, QLD and VIC		Fees paid by the Fund are consistent with what Core Property has seen in the market (see Figure 5: Fees in Perspective).	
Management		Entry Fees:	Nil
Experienced Australian retail property manager with established track record managing Woolworths and Wesfarmers anchored properties.		Exit Fees:	Nil
Property Portfolio		Property Acquisition Fee:	1.5% of independent valuation price
No of Properties:	4	Property Disposal Fee:	1.0% of sale price
Property Valuation:	\$57.9M	Ongoing Management Fees:	0.90% p.a. of the Gross Asset Value (GAV) of the Fund, consisting of Management Fees (0.25% of GAV), investment management fee (0.45% of GAV) and estimated expenses (0.20% of GAV).
Property Location:	Moama and Swansea in NSW, Woodford in QLD and Warrnambool in VIC.	Performance Fee:	20% of the outperformance of the Fund over an equity IRR of 10.0% (pre-tax, net of fees).
Property Sector:	Retail	Debt Metrics	
Key Tenants:	Woolworths Group Limited – 54% of income Target Australia Pty Ltd – 17% of income	Initial Debt / Facility Limit:	\$26.6M / \$28.9M
Occupancy:	100% (including rental guarantee) 99% (excluding rental guarantee)	Loan Period:	3.5 Years to Oct 2021
WALE:	10.3 years	Initial LVR / Peak LVR / Loan Covenant:	45.4% / 46.0% / 55.0%
Return Profile		Initial ICR / ICR Covenant:	3.40x / 1.75x
Forecast Distribution:	FY19: 7.1 cents per unit FY20: 7.1 cents per unit	Legal	
Distribution Frequency:	Quarterly, in arrears	Offer Document:	Product Disclosure Statement, 30 April 2018
Tax advantage:	Approx. 30% tax deferred in FY19 and FY20	Wrapper:	Unlisted Property Fund
Estimated Levered IRR (pre-tax, net of fees):	6.1% - 9.7% (midpoint 7.9%)	Fund Manager:	Shopping Centres Australasia Property Operations Pty Limited (ACN 160 890 433)
Investment Period:	Six and a half years to November 2024	Responsible Entity:	SCA Unlisted Retail Fund RE Limited (ACN 604 416 284, AFSL 473459)
Risk Profile		Significant Investor Visa (SIV):	The Fund meets the requirements for a "Balancing investment" under the SIV framework.
Property/Market Risk:	Capital at risk will depend on a portfolio of four retail properties in NSW, Qld and Vic. Investors will be exposed to a potential capital gain or loss, based on market conditions.		
Interest Rate Movements:	Interest rates have been 90% hedged for the first two years of the Fund. Any change in the cost of borrowings may impact the distributable income in the remaining term of the Fund.		
Property Specific Risks:	Property investments are exposed to a change in vacancy rates, prevailing market rents, and economic supply and demand.		
For a more detailed list of the key risks, refer to the Risks section (Section 9) of the Product Disclosure Statement.			

Fund Overview

The SCA Unlisted Retail Fund 3 (“SURF3”, or “the Fund”) is a closed-ended unlisted property fund that is seeking to raise \$35.0M through the issuance of 35.0M units at \$1.00 per unit. The funds will be used, along with debt, to purchase a portfolio of four retail properties for a total of \$57.9M. The Fund is managed by Shopping Centres Australasia Property Operations Pty Limited (“the Manager”) and SCA Unlisted Retail Fund RE Limited is the Responsible Entity (“the RE”). The Manager and RE are part of SCA Property Group (ASX: SCP) which currently manages over \$2.6B of retail properties across Australia.

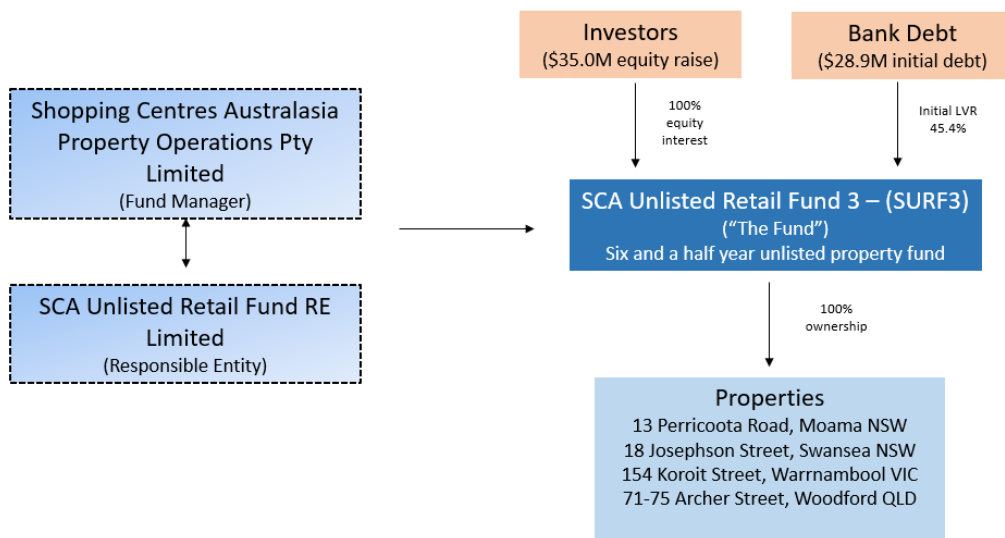
The Fund will have an initial investment term of six and a half years to /December 2024 and may be extended by way of a Special Resolution (75% of votes cast by Investors entitled to vote). The four retail properties consist of the Moama Marketplace at Moama, NSW, the Woolworths at Swansea NSW, Target Warrnambool at Warrnambool VIC, and the Woodford Shopping Centre at Woodford, QLD. Anchor tenants are Woolworths Group Limited and Target Australia Pty Ltd which occupy a combined 81% of the Gross Lettable Area (GLA) and contribute 71% of the gross rental income. The properties are 99% occupied (increasing to 100% after including a rental guarantee provided by SCA Property for 2 years) with a portfolio Weighted Average Lease Expiry (WALE) of 10.3 years, which is well beyond the initial six-and-a-half-year term of the Fund.

The Fund has secured a loan facility for \$28.9M with a major Australian bank for the initial three-and-a-half-year term. A 90% interest rate hedge has been placed for the first two years to May 2020 at an average all-in cost of debt of 4.2%. The initial LVR is expected to be 45.4% against a covenant of 55%. The LVR is forecast to peak at 46% against a 55% bank covenant and initial ICR is 3.4x against a 1.75x covenant. The ICR covenant is well supported by rental income from the long duration tenancy agreements with Woolworths and Target.

The Fund intends to pay a distribution for the period to June 2018 equivalent to 7.1% (annualised) if the Fund is fully subscribed prior 29 June 2018. Thereafter, the Manager is forecasting distributions of 7.1% p.a. for both the FY19 and FY20 periods with approximately 30% tax deferred. Distributions are paid quarterly.

An investment in the Fund should be considered illiquid and investors must stay invested for the Fund’s initial term to benefit from potential returns.

Figure 1: Fund structure



Source: Core Property

Debt Facility & Metrics

The Fund has debt facility for \$28.9M with Westpac for 3.5 years with an initial draw down of \$26.6M secured by way of a first ranked mortgage over the properties. In addition, the Fund has hedged \$24.0M, or approximately 90% of the loan amount, via an interest rate swap for the first two years until June 2020 with an all-in cost of debt of 4.2%. As a partially hedged fund, (after the initial first two years) any increase in interest rates will impact investor returns over the life of the Fund.

Both the LVR and ICR are within bank covenants. Based on the Manager's assumptions, Core Property estimates the LVR to be between 45.7% and 46.0% (within the bank covenant of 55.0%) and ICR to be between 3.1 – 3.4x (well above bank ICR covenant of 1.75x).

Figure 2: Debt Metrics

Details	Metric
Bank	Westpac
Security	First ranked mortgage secured against the properties
Debt Facility Limit	\$28.9M
Initial Draw Down	\$26.6M
Initial Loan Period	3.5 years to October 2021
% Hedged	90% (\$24.0M) hedged to June 2020
Assumed all-in cost of Debt – FY18/ FY19/ 3.5 years	4.2%
Initial LVR / Peak LVR	45.4% / 46.0%
LVR Covenant	55%
Initial interest covered ratio / bank covenant	3.4x / 1.75x
Amount by which valuation will have to fall to breach LVR covenant	16.0%
Amount by which income will have to fall to breach ICR covenant	46.9%

Source: Core Property, SCA Property Group

Sources & Application of funds

The PDS sets out the sources and application of funds under the terms of the Offer which is provided below.

Figure 3. Sources and Application of funds

	\$M	% of purchase price	% of total funds
Sources of funds			
Equity subscriptions	35.0	60%	57%
Bank Debt	26.6	46%	43%
Total source of funds	61.6	106%	100%
Application			
Purchase price of property	57.9	100%	94%
Stamp duty	1.6	3%	3%
Debt & Fund establishment costs	1.3	2%	2%
Working Capital & Other	0.7	1%	1%
Total application of funds	61.6	106%	100%

Source: Core Property, SCA Property Group

Liquidity / exit strategy

Investors should view the Fund as illiquid in nature during the initial six-and-a-half-year term of the Fund. Investors may not withdraw from the Fund during this period, however units may be transferred/sold to other Investors. The RE may facilitate this on a best endeavors basis, but it is not obliged to repurchase these units at any point over the term of the Fund.

Prior to the end of the six-and-a-half-year term, the RE expects to initiate an orderly sale process of the properties. The process may extend beyond the life of the Fund if the RE considers this to be in the best interests of investors.

The Fund may be extended by a Special Resolution (more than 75% of eligible votes cast are in favour of the resolution).

Fees Charged by the Fund

Overall, Core Property considers the fees charged to be appropriate and in line with what has been seen in the market (0.7% – 1.1%).

Core Property notes that the performance fee on the Fund is calculated at 20% of the Fund's performance above an IRR of 10%. This is in line with industry averages.

Figure 4: Summary of Fees charged by the Fund

Fee Type	Fee Charged	Core Property Comment
Entry/Establishment Fee	Nil	
Exit Fee	Nil	
Establishment and Placement Fee (Acquisition Fee)	1.5% of the independent valuation price of the property.	The Acquisition Fee is at the low end of the industry average of 1.5% - 2.0%.
Sale Fee (Disposal Fee)	1.0% of the gross sale price of property.	The Disposal Fee is at the lower end of the industry average of around 1.0% - 2.0%
Fees & Expenses - Management Fee, Administration Costs & Expenses, Other Indirect Costs	Total Management Fees estimated at 0.90% p.a. of the Gross Asset Value (GAV) of the Fund, consisting of: <ul style="list-style-type: none"> • 0.25% p.a. of GAV for Base Management Fees; • 0.45% p.a. of GAV for Investment management plus • 0.20% p.a. (est.) of GAV for Cost and expenses. 	We consider the Fees to be within the range of what we have typically seen in the industry (0.7% - 1.1% p.a. of GAV).
Performance Fee	20% (excluding GST) of the Fund's performance above an IRR of 10% p.a. after fees and costs.	Fee is in line with industry expectations and considered appropriate.

Source: SCA Property Group, Core Property

All-in fee analysis

In the table below, Core Property analyses how much of the Fund's cash goes to the fund's in fees, and how much is left over for investors as a percentage of the total fund cash flow. The key assumptions include:

- Calculations assume a 6.5-year Fund term to November/December 2024
- A Performance Fee has not been included;
- Core Property assumes there is no change in the forecast portfolio terminal cap rate at the end of the initial term, which effectively assumes no cap rate compression. A lower terminal cap rate would lead to a higher sale price and performance fees may become payable.

Overall, Core Property estimates that the Manager takes 6.2% of the total cash generated by the fund, which leaves investors with \$1.56 per unit, or approximately 93.8% of the total. Core Property believes the fees paid to the Manager are appropriate and at the low end of the range when compared to similar products, which are typically around 7% - 9%. Core Property stresses that these are estimates of how much investors will receive and not guaranteed amounts. For further details, please refer to the *Financial Analysis* section.

Figure 5: Fees in Perspective

Core Property estimates that for every \$1.00 of equity invested the Fund can return:	Amount per \$1.00 unit
Principal repayment to investors:	\$1.00
Income and capital gains to investors:	\$0.56
Total cash to investors:	\$1.562
Acquisition fee:	\$0.025
Base management fee:	\$0.061
Disposal fee:	\$0.017
Fees for the RE (excluding disposal/admin):	\$0.103
Total cash generated by Fund:	\$1.665
Fees = % of total cash generated (before fees)	6.2%
Fees = % of gains (before fees)	15.5%
Up-front fee vs total fees	24%

Source: Core Property estimates

Property Portfolio

The Fund consists of four retail properties valued at \$57.9M in total, located in Moama and Swansea in New South Wales, Woodford in Queensland and Warrnambool in Victoria. Three properties are anchored by Woolworths supermarkets and one property is anchored by a Target discount department store. The portfolio is currently 99% occupied (increasing to 100% after including a rental guarantee from SCA Property Group) with a WALE of 10.3 years, well above the 6.5-year term of the Fund.

- **Moama Marketplace, 13 Perricoota Road, Moama NSW (\$14M, 24.1% of portfolio)** is a neighbourhood shopping centre with a Woolworths Supermarket (incorporating a BWS), five specialty tenants, a Woolworths Petrol site and the potential for one kiosk. The large 21,900sqm site in Moama is located on the northern side of the Murray River within NSW and is approximately 230kms north of Melbourne and 800 kms south west of Sydney. The centre has a gross lettable area of 4,514sqm. The property has received a notice from the Roads and Maritime Services (RMS) that it seeks to acquire a small 1,910sqm portion of unused land on the site as part of a project to construct a new bridge over the Murray River at Moama. SCA Property Group are currently in discussions with the RMS however have confirmed that the proposal will not impact on any of the tenant space and rental income at the site will not be impacted. Any payment by RMS for the land will be retained by the Fund and ultimately benefit unitholders.
- **Swansea Woolworths, 18 Josephson Street, Swansea NSW (\$15.3M, 26.4% of portfolio)** is a single level freestanding supermarket with 4 adjoining specialty tenancies (including 1 vacancy), with a gross lettable area of 3,677 sqm. Swansea is located on the NSW Central Coast, approximately 26kms south of Newcastle and 117kms north of Sydney. The property benefits from an easement on the adjoining council land which provides 221 car parking spaces for the shopping centres. The easement cannot be extinguished without the consent of the owner of the shopping centre.
- **Target Warrnambool, 154 Koroit Street, Warrnambool VIC (\$16M, 27.6% of portfolio)** is a part two level retail centre anchored by a Target discount department store with a large format Direct Chemist Outlet and 9 specialty tenants. The gross lettable area is 6,984 sqm and the centre has an undercroft car parking for 93 vehicles. The regional city of Warrnambool is approximately 257kms south west of Melbourne, Victoria.
- **Woolworths Woodford, 71-75 Archer Street, Woodford QLD (\$12.6M, 21.7% of portfolio)** is a single level neighbourhood centre with an open mall as well as an enclosed forecourt/mall area. The property is anchored by a Woolworths supermarket with a chemist plus 2 specialty stores and a kiosk. The centre has a gross lettable area of 3,668sqm with 170 car spaces. Woodford is located approximately 26kms north west of Caboolture and 74kms north west of Brisbane, Queensland.

Figure 6: Moama Marketplace, 13 Perricoota Road, Moama NSW



Figure 7: Swansea Woolworths, 18 Josephson Street, Swansea NSW



Figure 8: Target Warrnambool, 154 Koroit Street, Warrnambool VIC



Figure 9: Woolworths Woodford, 71-75 Archer Street, Woodford QLD



Source: SCA Property

Property Valuations

The key property metrics are presented below. Independent valuations were undertaken by JLL as part of the acquisition of the properties. In addition SURF3 has a policy to undertake an independent valuation of Target Warrnambool every 12 months (in accordance with the terms of the Debt Facility) and an independent valuation of the other properties at least once every three years. All properties will also be valued every 6 months as part of the reporting requirements.

Figure 10: Portfolio summary

	Moama Marketplace 13 Perricoota Rd, Moama NSW	Swansea Woolworths 18 Josephson St, Swansea NSW	Target Warrnambool 154 Koriot St, Warrnambool VIC	Woolworths Woodford 71-75 Archer St, Woodford QLD	Total Property Portfolio
Title	100% Freehold Interest	100% Freehold Interest	100% Freehold Interest	100% Freehold Interest	100% Freehold Interest
Construction Date	2007	2009	1970 (Refurbished 2009)	2010	
Ownership	100%	100%	100%	100%	100%
Site Area	21,900 sqm	3,933 sqm	7,089 sqm	11,900 sqm	44,822 sqm
Gross Lettable Area	4,514 sqm	3,677 sqm	6,983 sqm	3,668 sqm	18,842 sqm
Major Tenant	Woolworths Group (76.5% of income) ¹	Woolworths Group Limited (90.2% of income)	Target (59.5% of income)	Woolworths Group Limited (68.1% of income)	Woolworths Group Ltd (54% of income) Target Australia (17% of income)
Weighted Average Lease Expiry (WALE)	14.4 years	15.8 years	5.8 years	8.4 years	10.3 years
Occupancy	100%	98% (100% including rent guarantee)	99% (100% including rent guarantee)	99% (100% including rent guarantee)	99% (100% including rent guarantee)
Initial net passing income	\$1,014,396 pa	\$918,242 pa	\$1,418,507 pa	\$817,466 pa	\$4,168,611 pa
Net market income (fully leased)	\$1,014,396 pa	\$943,842 pa	\$1,438,507 pa	\$817,466 pa	\$4,214,211 pa
Purchase price	\$14.0M	\$15.3M	\$16.0M	\$12.6M	\$57.9M
Adopted Valuation	\$14.0M	\$15.3M	\$16.0M	\$12.6M	\$57.9M
Passing initial yield	7.25%	6.00%	8.87%	6.49%	7.20%
Cap rate	7.00%	6.00%	8.25%	6.25%	6.92%
Valuer	JLL	JLL	JLL	JLL	JLL
Discount rate	7.25%	6.50%	7.25%	6.25%	6.84%
Value per sqm	\$3,101 per sqm	\$4,161 per sqm	\$2,291 per sqm	\$3,435 per sqm	\$3,072 per sqm
Valuer's unleveraged 10-year IRR	6.96%	5.83%	7.20%	5.97%	6.52%

Source: SCA Property Group, JLL

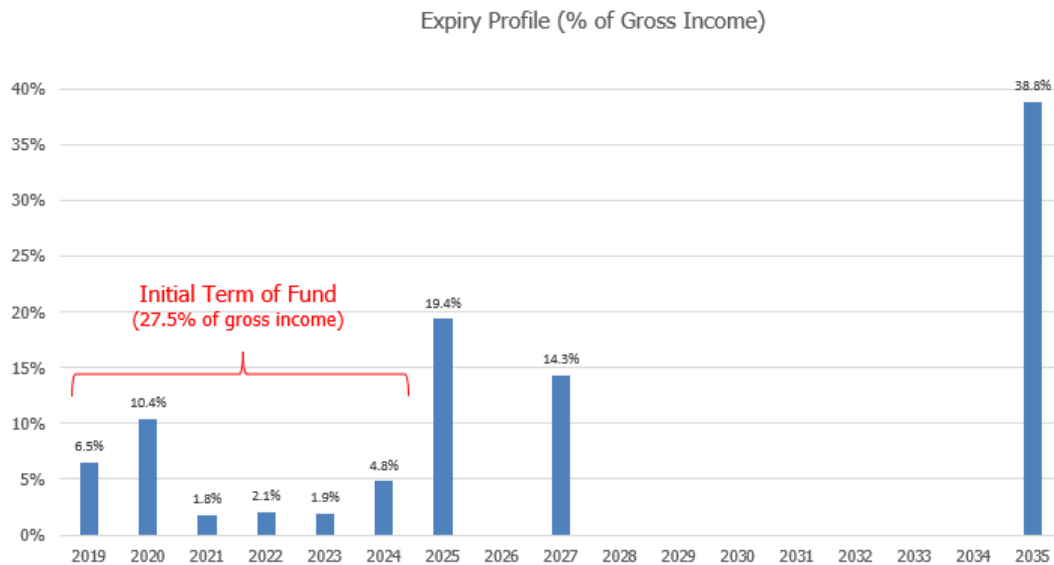
Note 1: Lease is Woolworths Group Limited and includes the supermarket and adjoining BWS liquor outlet.

Leases, tenants and income

Key points on the tenancy profile are:

- Anchor tenants Woolworths and Target occupy 81% of the portfolio's gross lettable area and contribute 71% of gross income during the forecast period.
- Properties are 99% occupied, increasing to 100% after including a rental guarantee by SCA Property Group for \$0.4M to cover any loss of rental income from vacancies and any fitout allowance or incentives for vacancies until June 2020.
- The properties have enjoyed strong occupancy levels as part of the SCP listed portfolio with average portfolio occupancy levels of 97.2% - 99.3% (average 98.4%) over the past 4.5 years (June 2013 to December 2017)
- Portfolio WALE is 10.3 years, well above the initial Fund term of 6.5 years.
- Target Australia will occupy 28% of the Property Portfolio GLA and contribute 17% of the portfolio's fully leased gross income from its tenancy at Target Warrnambool, Victoria. The base rent is reviewed every 5 years from the lease commencement date. The lease contains two options to renew, each being for 10 years. The current lease expires on 19 January 2025 and Target must notify its intentions to renew by 19 January 2024, which is near the end of the initial Fund term to November/December 2024. We expect the Manager to undertake negotiations at the Property well in advance in order to assess the options for the property which may include a renewal of the Target lease, new potential tenants, redevelopment options, a sale of the property or other options.
- **Moama Marketplace** currently generates \$1.3M in gross rental income, Woolworths supermarket is the anchor tenant (80.2% of GLA) until 31 March 2035, with 4x10 year options to renew. The remainder of the property is occupied by five specialty tenants – a Newsagency (2.2%), Bakery (2.7%), Homewares (5.1%), Medical Clinic (4.4%), and a Pharmacy (4.5%).
- **Swansea Woolworths** currently generates \$1.1M in gross rental income, Woolworths supermarket is the anchor tenant (92.7% of GLA) until 31 January 2035, with 4x10 year options to renew. The remainder of the property is occupied by four speciality tenants – a Chinese Restaurant (1.9%), Hairdresser (1.8%), Subway (1.7%) and a vacant tenancy (1.7%)
- **Warrnambool Target** currently generates \$1.6M in gross rental income, Target Australia Pty Ltd is the anchor tenant (76.3% of GLA) until 19 January 2025, with 2x10 year options to renew. The remainder of the property is occupied by ten specialty tenants – a Coffee Shop (1.3%), Jeans West (2.8%), Gift Shop (1.4%), Jewellery Shop (1.1%), Women's Fashion (1.6%), Homewares (1.9%), Medical Centre (2.5%), Pharmacy (7.9%), Bakery (1.4%) and a National Hearing Centre (1.2%).
- **Woodford Woolworths** currently generates \$1.0M in gross rental income, Woolworths supermarket is the anchor tenant (78.0% of GLA) until 30 November 2027, with 4x10 year options to renew. The remainder of the property is occupied by four speciality tenants – a Liquor store (3.8%), Bakery (1.6%), Pharmacy/Medical Centre (11.7%) and Raine and Horne Woodford Kiosk (1.2%).

Figure 11: Property portfolio lease expiry (by NLA) – year to 2035



Source: SCA Property Group, Core Property

Figure 12: Lease expiry - Top Two Tenants

Shop	Tenant	Area (sqm)	Lease Commence	Lease Expiry	Lease Options	Base Rent \$
1	Woolworths Supermarket	3,622	1-Nov-12	31-Mar-35	4 x 10	\$1,000,000
4	Newsexpress Moama	101	15-Dec-15	14-Dec-20	3 x 5	\$37,131
13 Perricoota Rd, Moama NSW						
1	Target	5,335	20-Jan-10	20-Jan-25	2 x 10	\$891,479
11	Direct Chemist Outlet	555	14-Mar-15	13-Mar-20	2 x 5	\$227,424
154 Koriot St, Warrnambool VIC						
1	Woolworths	3,412	1-Nov-12	31-Jan-35	4 x 10	\$1,000,000
1a	Swansea Happy Chef	72	25-Feb-18	24-Feb-23		\$40,000
18 Josephson St, Swansea NSW						
1	Woolworths Supermarket	2,864	1-Nov-12	30-Nov-27	2 x 10	\$735,000
1A	Cellarbrations	141	14-Apr-10	13-Apr-20	5	\$89,923
71-75 Archer St, Woodford QLD						

Source: JLL

Capex

The Manager has a small nominal amount of net capital expenditure in its forecasts, equal to around \$0.5M over the six-and-a-half-year term. This is in line with capex assumptions undertaken by the independent valuations. The capex includes general maintenance and tenant incentives to be paid at the time of renewing leases. Over the term of the Fund, the capex amounts to 0.8% of the initial property valuation. We note the Manager expects to have cash and undrawn debt of around \$2.5M over the term of the Fund, which may be used to fund additional capital expenditure if required.

The majority of the capex is funded through debt resulting in the LVR increasing slightly to 45.9%. Core Property estimates the LVR will remain in the range 45% - 46%, below the bank LVR covenant of 55%. Core Property has adopted the Manager's capex assumptions on the basis that they were based on independent technical reports. The inherent assumptions here is that the capital expenditure is likely to improve the value of the building. While this has been the case in recent years, Core Property reminds investors that this may not be the case in adverse market conditions.

Market Sales Evidence

The table below shows the comparable sales transactions for similar sized and quality assets in similar regional locations. The comparable sales transactions provided by the valuer suggests that all four properties are favorably priced on a price per sqm basis.

Figure 13: Recent sales evidence – Retail

Property Address	Sale Price	Sale Date	Anchor	Initial Yield (Fully Leased)	IRR	Price per sqm
Torquay Village, Torquay VIC	\$35.0M	Feb-18	Coles	6.28%	6.23%	\$5,164
Horsham Gateway Centre, Horsham VIC	\$14.6M	Nov-17	Target	8.62%	7.19%	\$2,933
Lakeside Village, Pakenham VIC	\$30.4M	Jul-17	Woolworths	6.26%	5.41%	\$4,335
13 Perricoota Rd, Moama NSW	\$14.0M		Woolworths	7.25%	6.96%	\$3,101
Casuarina Village, Casuarina NSW	\$27.4M	Nov-17	Coles	5.70%	5.83%	\$6,886
Terrace Central, Raymond Terrace NSW	\$33.5M	Jun-17	Woolworths	6.76%	7.64%	\$4,633
Rutherford Shopping, Rutherford NSW	\$16.6M	May-17	Coles	6.88%	7.27%	\$3,925
18 Josephson St, Swansea NSW	\$15.3M		Woolworths	6.00%	5.83%	\$4,161
Horsham Gateway Centre, Horsham VIC	\$14.6M	Nov-17	Target	8.62%	7.19%	\$2,933
Wodonga Plaza, Wodonga VIC	\$43.5M	May-17	Target, Coles, Woolworths	9.22%	7.53%	\$2,543
Hastings Central Shopping Centre, Hastings VIC	\$32.1M	Apr-17	Kmart, Aldi	6.04%	6.14%	\$4,005
154 Koriot St, Warrnambool VIC	\$16.0M		Target	8.87%	7.20%	\$2,291
Cooloola Cove Shopping Centre, Cooloola QLD	\$12.8M	Oct-17	Woolworths	6.93%	6.27%	\$3,090
Sugarworld Shopping Centre, Edmonton QLD	\$27.5M	Oct-17	Coles	5.58%	7.09%	\$5,203
Andergrove Central, Mackay QLD	\$18.8M	Aug-17	Woolworths	5.84%	4.38%	\$5,038
71-75 Archer St, Woodford QLD	\$12.6M		Woolworths	6.49%	5.97%	\$3,435

Source: JLL

Portfolio performance and market evidence

The independent valuations by JLL indicate the lease rental terms by the key anchor tenants are below market averages when compared to similar properties. A summary is presented below.

- **Swansea Woolworth NSW**, is leased to Woolworths Group Limited trading as "Woolworths Supermarket with 4 specialty tenants. The independent valuation compared the subjects' specialty tenant gross passing rental of around \$543 per sqm against an estimated market range of \$453 per sqm to \$929 per sqm. JLL's basket of comparable centres averaged \$625 per sqm, the selection of comparable shopping centres in the NSW Central Coast and Hunter regions includes; Belmont Central, Belmont Citi, Lake Munmorah Shopping Centre and Coles Rutherford. On this basis, the independent valuer considers the subjects gross rent of \$543 per sqm to sit just below the average \$625 per sqm (range of \$453 per sqm to \$929 per sqm).
- **Moama Marketplace VIC**, is leased to Woolworths Group Limited trading as "Woolworths Supermarket", "BWS" and "Woolworths Petrol" with 5 specialty tenants. The independent valuation compared the subjects' average specialty gross rent of around \$273 per sqm (excluding tenancies trading less than 12 months) falls well below the Urbis average of \$926 per sqm for Non-Metropolitan neighbourhood centres.
- **Warrnambool Target, Victoria** is leased to a Target Discount Department store with 10 specialty tenants. The independent valuation compared the subjects' average specialty gross rental of \$578 per sqm (excluding tenancies trading less than 12 months) falls well below the Urbis average of \$1,088 per sqm (range of \$799 per sqm to \$1,586 per sqm). In addition, both sales productivity levels of \$6,085 per sqm and specialty gross occupancy cost of 9.1% are below the Urbis benchmarks \$8,368 per sqm and 13.0% respectively.
- **Woodford Shopping Centre, Queensland** is leased to Woolworths Group Limited trading as "Woolworths Supermarket" with 4 specialty tenants. The independent valuation compared the subjects' average gross rental of \$458 per sqm (including the rental guarantees), fall approximately 52.3% below the Urbis Neighbourhood Centre average of \$960 per sqm (range of \$539 per sqm to \$960 per sqm).

Main trade area analysis

The Manager has commissioned a study from Location IQ, one of Australia's leading economic location advising consultancies, to review the demographic profile of the four properties in the portfolio. Core Property summarises some of the findings below.

- The average per capita income, the average household income, and number of persons per household are generally below the Australian average. This is to be expected given the non-metropolitan location of the assets which typically tend to have a lower density of population.
- The estimated resident population in each of the main trade areas of the shopping centres is forecast to grow between 0.6%-1.7% per annum over the next 10 years. Again, this is below the national average but also a function of the non-metropolitan location of the assets.
- The growth in retail spending and in particular the growth in spending on food and liquor is expected to be well above the current pace of inflation. This level of growth should support a thesis of maintaining high occupancy in the centres.

Figure 14: Main trade area analysis of the Fund's assets

Main trade area analysis as at 2016	Moama	Swansea	Warrnambool	Woodford	Australian Average
Average per capita income (\$)	\$33,667	\$35,030	\$33,218	\$32,579	\$38,497
Average household income (\$)	\$76,933	\$83,330	\$77,938	\$91,533	\$98,478
Average household size (persons)	2.3	2.4	2.3	2.8	2.6

Source: Location IQ, SCA Property, Core Property

Figure 15: Expected retail expenditure growth in the main trade of the Fund's assets

Moama Main Trade area retail spend	2016	2026	Avg. growth
Estimated resident population - (persons)	7,970	9,070	1.30%
Retail expenditure per capita (\$)	\$13,802	\$18,026	2.71%
Food & liquor expenditure per capita (\$)	\$6,449	\$8,831	3.19%
Swansea Main Trade area retail spend	2016	2026	Avg. growth
Estimated resident population - (persons)	14,780	16,280	0.97%
Retail expenditure per capita (\$)	\$13,823	\$18,102	2.73%
Food & liquor expenditure per capita (\$)	\$6,367	\$8,741	3.22%
Warrnambool Main Trade area retail spend	2016	2026	Avg. growth
Estimated resident population - (persons)	95,810	101,310	0.56%
Retail expenditure per capita (\$)	\$13,815	\$18,159	2.77%
Food & liquor expenditure per capita (\$)	\$6,410	\$8,831	3.26%
Woodford Main Trade area retail spend	2016	2026	Avg. growth
Estimated resident population - (persons)	13,380	15,880	1.73%
Retail expenditure per capita (\$)	\$12,862	\$16,725	2.66%
Food & liquor expenditure per capita (\$)	\$6,256	\$8,526	3.15%

Source: Location IQ, SCA Property, Core Property

Financial Analysis

Core Property has undertaken a financial forecast of the Fund, based on the Manager's assumptions. Our key observations are:

- Initial distribution of 7.1% p.a. (annualised), for FY18, FY19 and FY20, estimated to remain 7.1% p.a. at the end of the initial term of the Fund.
- Forecasts are based on the Managers assumptions that the portfolio remains fully leased for term of the Fund. This includes the full allocation of the Rental Guarantee of \$0.4M by SCA Property Group to cover any loss of rent and fit-out allowances paid by the Fund in order to reach full occupancy.

A summary of the Manager's forecasts from the PDS is presented in the table below:

Figure 16: Profit & Loss Forecast

Profit & Loss - Forecast \$M	FY18 (1 May – 30 June 2018)	FY19	FY20
Net Property Income	0.7	4.2	4.3
Management expense	-0.1	-0.5	-0.5
Net Finance Costs & Other items	-0.2	-1.2	-1.2
Funds from operations	0.4	2.5	2.6
Cash distribution	0.4	2.4	2.5
Cash distribution per unit (cents)	1.19	7.10	7.10
Annualised distribution yield	7.1%	7.1%	7.1%

Source: SCA Property, Core Property

Balance sheet

Figure 17: Pro Forma Balance Sheet

Balance Sheet – Forecast \$M	FY18
Cash	0.6
Property value	57.9
Other assets	0.1
Total Assets	58.6
Interest-bearing debt	26.6
Debt establishment costs/ other liabilities	0.0
Total Liabilities	26.6
Net Assets	32.0
Paid-up capital	35.0
Equity issue costs	(0.0)
Retained earnings	(3.0)
Total equity	32.0
NTA per unit	\$0.91
Debt/ Total assets	45.4%
Debt/ Property Valuation	46.0%

Source: SCA Property Group, Core Property

Yield Analysis

A notable feature of the Manager's forecasts is that the distribution yield to investors is comparable to the underlying property yield. As the table below highlights, leverage (specifically, the positive spread between the asset yield and debt costs) negates the effects of one-off upfront and ongoing management cost. The overall impact of leverage is calculated to improve the first full year returns of the portfolio to 7.1%, compared to a return of 5.4% if the portfolio was unleveraged.

Investors should note that while leverage increases investor returns when the asset yield exceeds interest rates, it reduces returns when this spread is negative.

Figure 18: Effect of gearing on investor yield

	Yield (%)	Comments
Initial property yield	6.9%	Passing yield
Ongoing MER	-0.9%	Management expense ratio
Unlevered asset yield	6.0%	
Effect of upfront costs	-0.6%	Acquisition Fee and Upfront costs
Unlevered investor yield	5.4%	Pre-gearing return
Effect of gearing	1.7%	+ve spread between asset yield and debt cost
Post-gearing investor yield	7.1%	Available for distribution

Source: Core Property

NTA Analysis

The starting NTA is an important consideration. It should be assessed in the context of statutory costs and fees paid to the Manager, which dilute investors' return over the term of the Fund. In this case, the starting NTA is \$0.91 per unit, with most of the dilution coming from stamp duty costs.

Figure 19: Initial NTA

Amount per unit	\$ per unit
Issue Price	\$1.00
Less:	
Stamp duty	-\$0.05
Debt & Fund Establishment costs	-\$0.06
Other	\$0.00
Add back:	
Acquisition (premium)/ discount to valuation	\$0.00
Working capital	\$0.02
NTA per unit (with capitalised costs)	\$0.91

Source: Core Property

Expected Future Performance (IRR Sensitivity)

The three main performance drivers in a property syndicate are:

1. The property income profile (lease structure);
2. The terminal value upon the sale of the property (asset quality + market conditions); and
3. The cost of debt (depending on leverage).

The table below summarises our expected IRRs.

Based on an assessment of the RE's forecasts, Core Property expects a 6.5-year pre-tax equity Internal Rate of Return (IRR) of approximately 7.9% assuming capitalisation and the cost of debt remains at current levels. Based on a +/- 50bps movement in capitalisation rates and a +/-50bps movement in the cost of debt, the estimated IRR is between 6.1% - 9.7%.

Investors should be aware the sensitivities include the potential for the valuation of the assets to increase or decrease (depending on market conditions at the time of sale) which will result in either a capital gain or loss for investors.

Core Property notes the interest rate on the debt facility has been hedged for two years until June 2020.

Figure 20: Pre-tax, 6.5-year IRR (after fees) sensitivity analysis

Terminal cap rate	Cost of debt				
	3.20%	3.70%	4.20%	4.70%	5.20%
6.42%	9.9%	9.7%	9.5%	9.3%	9.1%
6.67%	9.1%	8.9%	8.7%	8.4%	8.2%
6.92% (base)	8.3%	8.1%	7.9%	7.6%	7.4%
7.17%	7.5%	7.3%	7.1%	6.9%	6.6%
7.42%	6.8%	6.6%	6.3%	6.1%	5.8%

Source: Core Property

Management & Corporate Governance

Background of the Responsible Entity & Manager

The Manager (SCA Operations) and Responsible Entity (SURF RE) are wholly owned subsidiaries of SCA Property Group.

SCA Property Group (ASX: SCP) was demerged out of Woolworths Limited (ASX: WOW) and listed on the ASX in December 2012 as an independent real estate investment trust (A-REIT). SCP owns and manages a portfolio of 79 retail assets in Australia valued at \$2.2B, including shopping centres and freestanding retail properties.

SCP's properties are anchored by either Woolworths Limited or Wesfarmers Limited retail brands, including Woolworths and Coles supermarkets, Big W, Kmart and Target discount department stores and Dan Murphy's liquor stores.

Figure 21: The Board of the Responsible Entity & Manager

Name & Role	Experience
Andrew Stevenson Independent Chairman & Non-Executive Director	Andrew has over 40 years' experience in commercial and business law, and has been a Senior Partner in the Business Division of law firm Corrs Chambers Westgarth. He is a director of two public companies and a number of private companies. Andrew holds a Bachelor of Arts and Bachelor of Laws qualification and is a solicitor and Notary Public.
David Freiman Independent & Non- Executive Director	David has over 30 years' experience in the property and retail sectors. He has held a number of executive roles at Woolworths Limited including Group Financial Controller and Investor Relations Manager, General Manager Finance BIG W Division and General Manager Finance Woolworths Property Division. Prior to joining Woolworths, David was Audit Manager at Kessel Feinstein (now Grant Thornton) in South Africa and Bentley and Co in Australia. David has a Bachelor of Commerce and Bachelor of Accounting qualification and is a Chartered Accountant.
Anthony Mellowes Executive Director (Alternate Director for Anthony Mellowes is Mark Fleming)	Anthony is the Group CEO at SCA Property Group as well as an Executive Director of the SCA Unlisted Retail Fund RE Limited. He has held executive positions with Woolworths Limited, Lend Lease and Westfield and was Head of Asset Management and Group Property Operations Manager at Woolworths prior to the creation of SCA Property Group. Anthony is on the Board of Directors of the Shopping Centres Council of Australia and is a Director of Manly Golf Club. Anthony has a Bachelor of Financial Management from the University of New England and is a qualified Chartered Accountant.

Source: SCA Property

Figure 22: Management Team

Name & Role	Experience
Anthony Mellows Chief Executive Office	<p>Anthony is the Group CEO at SCA Property Group as well as an Executive Director of the SCA Unlisted Retail Fund RE Limited. He has held executive positions with Woolworths Limited, Lend Lease and Westfield and was Head of Asset Management and Group Property Operations Manager at Woolworths prior to the creation of SCA Property Group. Anthony is on the Board of Directors of the Shopping Centres Council of Australia and is a Director of Manly Golf Club. Anthony has a Bachelor of Financial Management from the University of New England and is a qualified Chartered Accountant.</p>
Mark Fleming Chief Financial Officer and Executive Director	<p>Prior to joining SCA Property Group, Mark was the Chief Financial Officer of Treasury Wine Estates. As Chief Financial Officer and Executive Director, Mark is responsible for accounting, finance, treasury, tax and investor relations for SCA. Mark has extensive experience in the property industry with previous roles in senior finance positions with Woolworths Group Limited, investment banking at UBS, Goldman Sachs and Bankers Trusts. Mark holds a Bachelor of Laws and Bachelor of Economics from the University of Sydney and is a member of CPA Australia.</p>
Mark Lamb General Counsel and Company Secretary	<p>Mark has over 30 years' experience as a senior lawyer having been a partner at Corrs Chambers Westgarth and subsequently Herbert Geer. Prior to joining SCA Property Group, Mark was General Counsel of ING Real Estate. Mark has extensive experience in the property industry with exposure to acquisitions, shopping centre developments, sales and major leasing transactions. Mark holds a Bachelor of Laws from the University of Technology Sydney.</p>
Campbell Aitken Chief Investment Officer	<p>Campbell has over 20 years' experience across a range of property sectors. Prior to joining SCA Property Group, Campbell held senior executive positions within the Australian Retail REIT sector, with Charter Hall Group, Macquarie Bank and Westfield. Campbell has experience throughout all aspects of the retail property sector including acquisitions, leasing, asset management and development management. Campbell is an active member of the Property Council of Australia (and has been Chairman of the PCA's Retail Property Committee and a committee member of the Property, Investment & Finance Committee) and is a member of the Royal Institute of Chartered Surveyors. Campbell holds a Bachelor of Science (Estate Management) (Hons) from Napier University, Edinburgh.</p>
Sid Sharma Chief Operating Officer	<p>Sid has over 10 years' property experience. Prior to joining SCA Property Group, Sid held executive roles at DEXUS, Woolworths and Westpac across leasing, asset management and development and has worked at Stockland and Deacon's Lawyers. Sid holds a Bachelor of Laws & Bachelor of Commerce (Economics & Finance) from the University of Western Sydney.</p>
Melissa Kingham Fund Manager	<p>Melissa has over 25 years' experience across a range of property sectors. Prior to joining SCA Property Group, Melissa was an executive at Woolworths Limited for almost 10 years and held positions including Group Property Operations Manager and Group Manager Asset Services Group. In prior roles Melissa has held senior positions in public and private sector companies as well as Commonwealth and State government property departments and has extensive experience in capital transactions, retail planning, acquisition, leasing and property management. Melissa has a Bachelor of Applied Science (Land Economics) from the University of Technology Sydney.</p>

Source: SCA Property

Compliance and Governance

As required by law, the Fund operates under a Compliance Plan that has been lodged with ASIC, which sets out the measures to ensure compliance with the Corporations Act and the Fund's Constitution. The Compliance Plan is audited by the Fund's auditor BDO Corporate Finance.

ASIC Regulatory Guide 46 'Unlisted property schemes: Improving disclosure for retail investors' and Regulatory Guide 198 'Unlisted disclosing entities: continuous disclosure obligations' describe ASIC's preferred benchmarks and principles.

Core Property notes that the Fund complies with the six benchmarks and eight disclosure principles recommended by ASIC under its RG46 guidelines.

Related Party Transactions

The properties are being acquired from SCA Property Group which will retain a minimum 20% interest in SURF3. SCA Property Group receive a fee as Fund Manager and Responsible Entity for SURF3.

The RE has a Related Party Transactions Policy which addresses disclosure of conflicts of interests to unitholders and, if required, steps to manage the conflict in an appropriate manner.

Under this policy, SURF RE may be required to disclose conflicts of interests to investors and to ensure that its disclosure is timely, prominent, specific and meaningful, and contains enough detail to understand and assess the potential impact on the service provided by the RE. All conflicts are to be monitored, assessed and evaluated by the compliance manager for SCA Property Group.

Past Performance

The Manager, SCA Operations, is a wholly owned subsidiary of SCA Property Group (ASX: SCP) which was demerged from Woolworths Group Limited and listed on the ASX in December 2012. Since listing, SCP has increased its market capitalisation to \$1.7B, from \$0.9B and has delivered a total return (capital appreciation plus distributions) in excess of 100% for its investors. As at 31 December 2017, SCA Property Group owned and/or managed over \$2.6B of retail properties in Australia

SURF 1

The Manager, SCA Operations, is also the Manager of the SURF 1, the first unlisted retail property fund launched by SCA Property Group in October 2015, with a 5 year term to October 2020.

SURF 1 consists of 5 retail assets in NSW with an initial value of \$60.9M - Dan Murphy's Burwood, Fairfield Heights Shopping Centre, Dan Murphy's Katoomba, Griffith North Shopping Centre and Big W Inverell. At inception the portfolio had a 13-year WALE, 100% occupancy and 96% of gross income from Woolworths leases. As at December 2017, SURF 1 has delivered an annualised distribution of 8.1% p.a. (against an original forecast of 8.0%) and has increased NTA to \$1.17 per unit (from \$0.95 at inception).

SURF 2

SURF 2, the second unlisted retail property launched by SCA Property Group in April 2017, has a 5-year term to April 2023. SURF2 consists of 2 retail assets in NSW with an initial value of \$55.1M - Katoomba Marketplace, NSW and Mittagong Village, NSW. At inception the Fund has a portfolio WALE of 17.2 years (by Gross Lettable Area) with 100% occupancy and 93.7% (by gross income) leased to Woolworths Limited as anchor tenants. SURF 2 has delivered a 7.0% p.a. (annualised) distribution since inception.

Investors should note that that past performance is not a reliable indicator of future performance as each fund, and its respective underlying property, has its own specific risks and attributes.

Appendix – Ratings Process

Core Property has developed a framework for rating property and property related investment product offerings in Australia. The methodology gives consideration to a number of qualitative and quantitative factors. Essentially, the evaluation process includes the following key factors: product and underlying portfolio construction; strength and depth of management team, product structure, risk management, financial analysis, and likely outcomes.

It is important for financial planners and investors to view the recommendation and rating in the context of comparable products only and not across all products rated by Core Property.

The Ratings

Financial Advisers and investors should note that for all ratings categories, the product may not suit the risk/return profiles of all investors.

Rating	Definition
Highly Recommended	This is the highest rating provided by Core Property and is indicative of the product exceeding the requirements of our review process across a number of parameters.
Recommended	Indicates that the product has an above average grade profile across a number of Core Property's parameters and has the potential to deliver above average risk adjusted total returns.
Approved	Indicates that the product has met the aggregate requirements of Core Property's criteria. The product has an acceptable risk/return trade-off and is potentially able to generate risk-adjusted returns in line with stated investment objectives.
Speculative	Core Property believes this is a product that has a number of positive attributes; however, there are a number of risks that make investing in this product a speculative proposal. While Core Property does not rule out investing in this product, investors should be very aware of, and be comfortable with the specific risks. The product may provide unique diversification opportunities, although concerns over one or more features mean that it may not be suitable for most investors.
Not Approved	Indicates that the product has failed to meet the minimum aggregate requirements of Core Property's criteria. While the product may have some positive attributes, Trusts in this category are considered high risk.

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