REAL ESTATE MARKET UPDATE

RETAIL

Global economic growth continues to be positive but has slowed since mid-2018 as a result of trade tensions and a decline in worldwide manufacturing and investment[1]. Domestically, economic growth has also slowed but is expected to increase marginally as a result of low interest rates, tax cuts and improved confidence in the housing markets. These factors, paired with improved momentum in the labour market, will be key to improving retail spending and consumption over the mid-to-long term.

Institutional owners of retail assets are becoming increasingly conservative in their approach to managing retail assets, as a result of structural changes in the sector affecting the leasing environment. This has had a direct effect on the levels of development activity, with retail supply per capita well below the 20-year historical average[2]. In our opinion, the market is adjusting to the structural changes which are occurring and is positioning for future growth and improved productivity as retail spending increases.

Retail turnover results showed reasonable signs of improvement over the quarter, with annual growth in the major categories converging at around 3% per annum. Food retailing and food catering (e.g. cafes, restaurants and takeaway) continue to be the strongest performing categories, whilst growth in discretionary categories such as department stores and household goods remains more subdued[3]. Pleasingly, the FSREC funds have been outperforming these benchmarks, delivering total sales growth of 5.1% (year-on-year, as at June 2019) across the portfolio. We believe that this is a result of our non-discretionary retail strategy, and our focus on reducing exposure to underperforming discretionary tenants.

As retail turnover growth in Australia stabilises and continues a positive trajectory, it is expected that this will result in rental growth for retail assets in the longer term. Whilst more recently shopping centre rents have been coming under pressure from subdued leasing demand, actively managed centres located in strong catchments, such as those in the FSREC portfolio, have been able to maintain consistent rental levels and deliver growth.

Neighborhood shopping centre yields remained largely unchanged over the quarter and pricing continues to be supported by demand from all investor classes. Whilst the median yield for sub-regional centres also remained unchanged, a further divergence between the lower and upper ends of the yield range occurred, reflective of the potential risk surrounding sub-regional centres. Pricing for quality sub-regional assets with good fundamentals, such as Toormina Gardens in FSREC III and Keilor Central in FSREC IV, continues to be supported by investor demand, particularly from private buyers and syndicators who recognise the pricing differential in comparison to other core sectors (e.g. office and industrial)[4].

In times of uncertainty, we believe that the outlook for the FSREC funds will remain stable due to the strong fundamentals of the assets, and the Investment Manager's active approach to drive income and mitigate against downside risks.

OFFICE

The outlook for office yields continues to be linked to the movement of the risk-free rate. Following the recent interest rate reductions by the Reserve Bank of Australia (RBA), taking the target cash rate to 0.75%, the Australian commercial office market continues to offer investors relatively attractive, risk-adjusted returns[5].

The Sydney and Melbourne office markets have outperformed in the global context since 2013, delivering substantial capital gains and rental growth. However, the outlook for the office sector is now considered to be late cycle and it is expected that going forward there will be a divergence in asset performance between quality assets and those with weaker fundamentals. Further yield compression is forecast for the short-term, with the yield decompression cycle expected to begin in 2022[6].

The Sydney CBD office market has been in the growth phase for 7 years with net effective rents estimated to be up by 91%. The South Sydney market (where FSREC III owns a commercial office asset) therefore provides comparative value, with the average gross effective rent 50-60% below that of the Sydney CBD. We expect the value proposition of the South Sydney market, paired with the low development supply and proximity to major infrastructure, will continue to drive rental growth in the precinct for the medium term.

BIRKDALE FAIR – FUND II

INVESTMENT TEAM MEMBERS

David Rogers – Director, Investments

Jason Hay – Director, Asset Management

Richard Hunt – Chairman, Fort Street Real Estate Capital

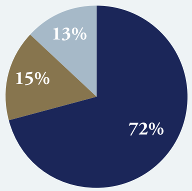
Sources:
[1] JLL Research (2019). [2] JLL Research (2019). [3] CBRE Research (2019). [4] JLL Research (2019). [5] JLL Research (2019). [6] JP Morgan Markets (2019).

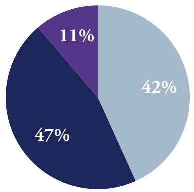
SERIES OVERVIEW

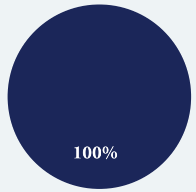
DISTRIBUTIONS ANNOUNCED (LAST 12 MONTHS)	FUND I	FUND II	FUND III	FUND IV
September 2019	1.84 cents per unit	2.10 cents per unit	1.90 cents per unit	1.60 cents per unit
June 2019	1.74 cents per unit	2.10 cents per unit	1.90 cents per unit	1.60 cents per unit
March 2019	1.74 cents per unit	2.10 cents per unit	1.90 cents per unit	1.60 cents per unit
December 2018	1.74 cents per unit	2.10 cents per unit	1.90 cents per unit	N/A
QUARTER HIGHLIGHTS				
NTA per unit (unaudited estimate)	$1.58	$1.60	$1.52	$1.51
Gross assets (unaudited estimate)	$261.9 million	$181.7 million	$241.3 million	$123.0 million
Weighted lease expiry	8.0 years	5.5 years	3.8 years	4.5 years
Gearing ratio (based on unaudited estimates)	36.7%	38.8%	32.3%	38.3%
KEY FUND DETAILS				
Inception	June 2013	June 2014	December 2016	June 2018
Structure	Unlisted unit trust	Unlisted unit trust	Unlisted unit trust	Unlisted unit trust
Sector	Australian commercial property	Australian commercial property	Australian commercial property	Australian commercial property
Currency	AUD (unhedged)	AUD (unhedged)	AUD (unhedged)	AUD (unhedged)

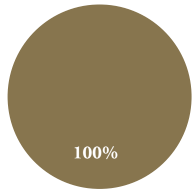
GEOGRAPHIC DIVERSIFICATION (BY CURRENT VALUE)

NSW VIC QLD SA



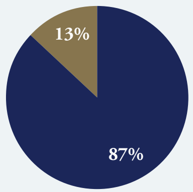


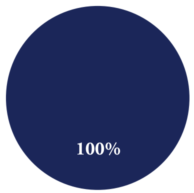


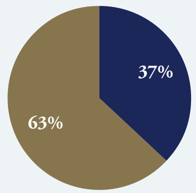


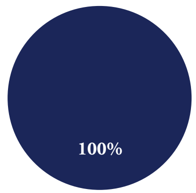
SECTOR DIVERSIFICATION (BY CURRENT VALUE)

Retail Office





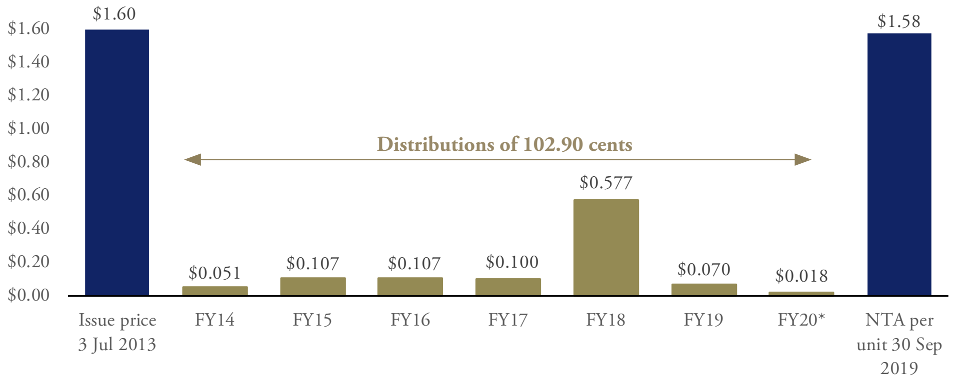




FUND PERFORMANCE

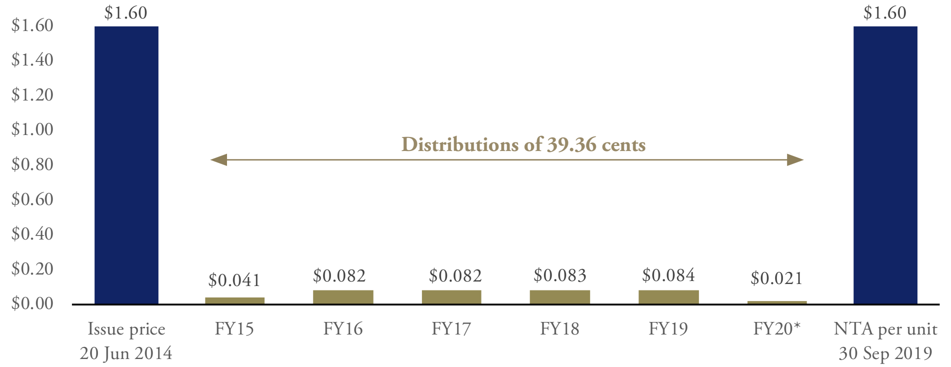
FSREC I

	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a.
NTA Total Return[1]	1.2%	2.3%	4.5%	14.4%	13.1%	10.6%
Growth	0.0%	0.0%	0.0%	-0.6%	0.8%	0.3%
Income	1.2%	2.3%	4.5%	15.0%	12.3%	10.3%



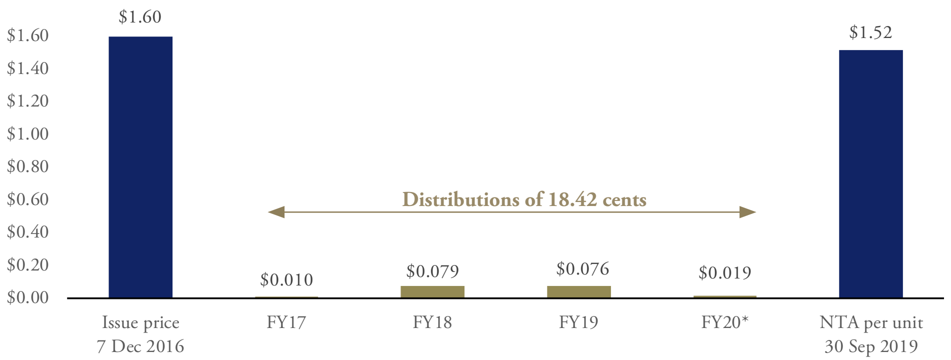
FSREC II

	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a.
NTA Total Return[1]	1.3%	2.0%	2.8%	7.8%	5.8%	5.5%
Growth	0.0%	-0.6%	-2.4%	2.4%	0.6%	0.6%
Income	1.3%	2.6%	5.2%	5.4%	5.1%	4.9%



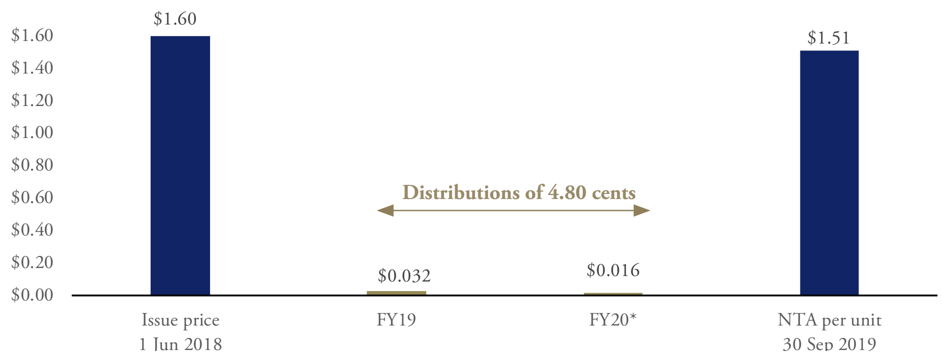
FSREC III

	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a.
NTA Total Return[1]	1.3%	9.7%	6.7%	-	-	3.7%
Growth	0.0%	7.0%	1.3%	-	-	-0.7%
Income	1.3%	2.7%	5.3%	-	-	4.4%



FSREC IV

	3 Months	6 Months	1 Year	3 Years p.a.	5 Years p.a.	Inception p.a.
NTA Total Return[1]	1.1%	1.5%	0.5%	-	-	0.4%
Growth	0.0%	-0.7%	-2.6%	-	-	-1.9%
Income	1.1%	2.1%	3.1%	-	-	2.4%



Note: [1] Performance is calculated on a total return NTA basis, inclusive of distributions and net of fees and costs, using audited and unaudited NTA per unit on a quarterly basis. The initial NTA used is the proforma NTA, or issue price net of issue costs. Historical performance is not a reliable indicator of future performance. * Year to date.

All data as at 30 September 2019 unless stated otherwise.

FUND I

PORTFOLIO SUMMARY

	PURCHASE DATE	OCCUPANCY (%)	COST (INCL. CAPEX) ($m)	VALUE ($m)
Oxford Village, NSW	Oct-13	100%	74.3	96.00
Windsor Riverview, NSW	Jul-14	99%	54.2	56.25
Lynbrook Village, VIC	Nov-13	97%	33.2	39.00
Noosa Village, QLD	Nov-14	97%	28.5	33.10
Lake Innes, NSW	Nov-13	100%	18.8	31.70
Total		**99%**	**209.0**	**256.05**

Note – all figures are unaudited estimates, as at quarter end.

PORTFOLIO UPDATE

Fund highlights

- Distribution of $0.0184 per unit
- Portfolio occupancy was maintained at 99%
- Strategic projects progressing to improve assets and energy efficiency.

Asset management

Occupancy remained steady at 97% at **Noosa Village** during the quarter. Sales performance was consistently strong with Woolworths continuing to outperform supermarket benchmarks achieving MAT (moving annual turnover) growth of 6.3% as at 30 September 2019. The car park civil works and external refurbishment works, including new signage and painting, are now complete, modernising the centre and adding further convenience and appeal for customers and prospective tenants. The new 250kW rooftop solar system is performing well, generating clean energy for the centre and improving operational efficiencies for tenants and investors. Council approval was granted during the quarter for a possible supermarket expansion in the future. The development planning is progressing with the team focussed on bringing the centre to full occupancy.

Lake Innes maintained full occupancy and delivered strong sales results. In particular specialty sales are up an impressive 12.7% over the year as a result of continued growth in the neighbouring university campus as well as in the local catchment area. Coles also achieved consistent sales growth, reporting an increase in MAT of 12.1%. Placemaking works to the centre entrance commenced during the quarter and were completed in late October, ahead of a new small-format supermarket opening in the wider trade area later this year – although the sales impact on Lake Innes from this supermarket is expected to be limited. The centre team continue to work closely with Port Macquarie-Hastings Council on the precinct masterplan which surrounds the centre and offers the potential to unlock further value for investors.

Oxford Village also maintained full occupancy, with the latest tenants to join the centre, a Japanese Bento operator and a Turkish food operator, having completed their fit outs. Speciality retail sales performance was strong during the quarter with several retailers, including JB Hi-Fi, Sushi Train, Poke Bowl and the nail salon, reporting positive sales growth. The entry upgrade project, designed to create a better connection to the refurbished mall, is well progressed and is now in the final stages of completion. Works include the refurbishment of the bulkhead which will contribute further to the visual appeal of the centre, as well as supporting leasing activities and rental growth.

At **Windsor Riverview** occupancy remained at 99% with the remaining vacancies being proactively marketed. Management are reviewing master plan options to expand the carpark and increase retail and additional revenue opportunities. Investigations are also underway to explore the feasibility of expanding the roof top solar power system to further increase the clean energy output for the centre, driving further environmental improvements and cost efficiencies to deliver tenant, and ultimately, investor benefits.

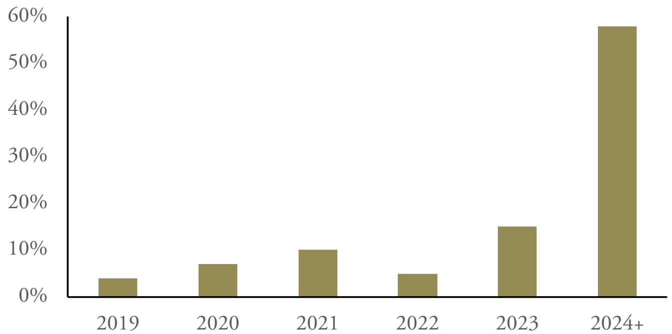
Occupancy remained steady at 97% at **Lynbrook Village** during the quarter. The laneway rejuvenation works have resulted in an increase in tenant enquiries, which the centre management team are proactively working with interested parties to fill the remaining vacancies and activate the rear of the centre. The hairdresser and bakery are currently undergoing refurbishments of their respective premises following their recent lease renewals which will help the centre remain competitive through enhanced store presentation and customer experience. The management team are also working with Coles to install the popular Click and Collect facility, which is expected to improve sales and customer traffic at the centre. From a sustainability perspective, management are exploring the feasibility of improving water usage and efficiency by redirecting water from the recommissioned rainwater tanks to service the centre bathrooms.

Capital management

The Fund announced a distribution of $0.0184 per unit representing an annualised distribution yield of 4.7%.

NOOSA VILLAGE – FUND I

WEIGHTED AVERAGE LEASE EXPIRY (BY GROSS INCOME)



TOP TENANTS (BY GROSS INCOME)

Coles Group Limited	47%
Study Group	10%
Fitness First	4%
Woolworths Group	3%
Aldi Group	2%

All data as at 30 September 2019 unless stated otherwise.

FUND II

PORTFOLIO SUMMARY

	PURCHASE DATE	OCCUPANCY (%)	COST (INCL. CAPEX) ($m)	VALUE ($m)
Marketfair, NSW	Aug-16	99%	52.5	53.00
Northpoint, QLD	Sep-14	93%	39.5	46.00
Newtown Central, NSW	Apr-15	97%	29.0	31.00
Birkdale Fair, QLD	Mar-15	96%	28.1	28.65
Hilton Plaza, SA	Aug-16	95%	21.3*	20.35
Total		**96%**	**170.4**	**179.00**

*Includes capital expenditure incurred in 2019 of $0.9 million, not reflected in the asset value.
Note – all figures are unaudited estimates, as at quarter end.

PORTFOLIO UPDATE

Fund highlights

- Distribution of $0.0210 per unit
- Portfolio occupancy remained strong at 96%
- Four new leasing deals executed and one tenant renewal completed
- Newly implemented sustainability initiatives are delivering results, contributing to improved environment performance and operational efficiencies.

Asset management

Birkdale Fair maintained stable occupancy during the quarter at 96%. Retailer sales have been consistently strong with Woolworths achieving an annual sales growth of 10% and reaching their turnover rent threshold, demonstrating the success of their recent store refurbishment. As part of their lease renewals, Flight Centre, the hairdresser and tobacconist have completed their new look fit outs, further enhancing centre presentation and appeal to customers which follow the recent completion of repositioning works in the centre. Management focus continues to be on securing a new café operator and leasing out the remaining speciality vacancy. The centre is now benefiting from the recently installed solar panels which are already delivering electricity savings to tenants, as well as improved environmental performance, income and returns for investors through greater operational efficiencies.

Occupancy at **Northpoint** declined to 93% during the quarter, however this was offset by further progress achieved in the leasing pipeline. A new lease was executed to backfill the previous mobile phone operator, adding a new tenant and service offer to the centre, whilst advanced leasing discussions are progressing with a new food operator. The leasing market remains challenging in Toowoomba as a result of increased competition and severe drought conditions. Despite this, the centre continues to deliver positive sales growth with 'Food Lane' specialties reporting annual sales growth of 3% and Coles reporting an annual sales growth of 4.4%. Management are focusing on activities to further cement Northpoint's position as the convenience shopping centre of choice for customers including hosting the Northpoint Festival with a community day of family activities and market stalls featuring local producers.

Occupancy at **Newtown Central** increased to 97% over the quarter as a result of the massage tenant relocating to an alternative tenancy, as part of our strategy to create defined precincts. Foodworks is undertaking a refurbishment to introduce its latest store format, further enhancing the food retail offering at the centre and complementing new fitouts such as the recently refurbished 24-hour Fitness First. Works are continuing on the presentation of the centre to enhance the positioning including improving the internal ambience. Combined with the Foodworks redevelopment and recently completed exterior works, this will further add to the centre's appeal for customers in this busy and vibrant metro suburb of Sydney. These works are also expected to drive further leasing momentum for the remaining vacancies and attract additional customer foot traffic.

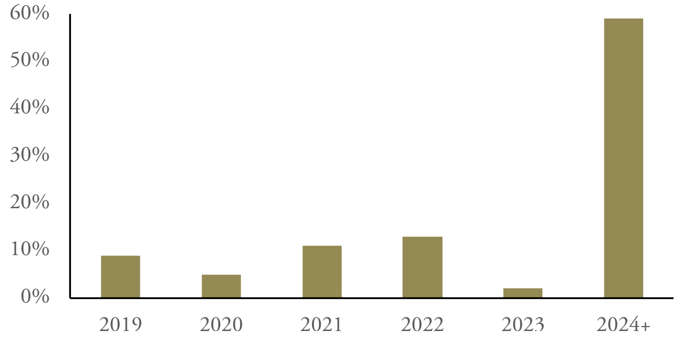
Marketfair Campbelltown occupancy increased to 99% following the execution of two new deals at the centre. Two new operators – an experienced Chinese food outlet and a beautician – have completed their fit outs and are now trading. Following the renewal of their lease, management have been working with the local baker to upgrade their store fitout, whilst the new barber is currently fitting out their store with an opening date scheduled for November. These recent leasing deals further enhance the food and services offer at the centre and are expected to drive additional traffic and sales. We have continued to invest in environmental improvements with the installation of a 100kW rooftop solar system now complete, generating clean energy for the centre and operational efficiencies for tenants and investors.

Occupancy at **Hilton Plaza** remained consistent with the previous quarter at 95%, with the retail component of the centre remaining fully leased and the only vacancy at the centre being marketed for both retail and office uses in order to bring the centre back to full occupancy. Woolworths has performed strongly over the quarter delivering double digit MAT growth at 12.3%, following their store refurbishment last year. Internal bulkhead works to improve sight lines and overall centre presentation were completed in September.

Capital management

During the period, the Fund announced a distribution of $0.0210 per unit, representing a 5.3% annualised yield.

WEIGHTED AVERAGE LEASE EXPIRY (BY GROSS INCOME)



TOP TENANTS (BY GROSS INCOME)

Woolworths Group	21%
Coles Group Limited	9%
Fitness First	6%
TJX Australia	5%
Foodworks	4%

All data as at 30 September 2019 unless stated otherwise.

FUND III

PORTFOLIO SUMMARY

	PURCHASE DATE	OCCUPANCY (%)	COST (INCL. CAPEX) ($m)	VALUE ($m)
Toormina Gardens, Coffs Harbour, NSW	Jan-18	98%	90.7	87.5
241 O'Riordan Street, Mascot, NSW	May-17	97%	145.2	151.0
Total		**98%**	**235.9**	**238.5**

Note – all figures are unaudited estimates, as at quarter end.

PORTFOLIO UPDATE

Fund highlights

- Distribution of $0.0190 per unit
- Portfolio occupancy increased 98%
- One new deal and one renewal executed over the quarter
- Achieved a 5-Star NABERS Energy rating at 241 O'Riordan Street

Asset management

At **Toormina Gardens** occupancy remained high at 98% with the centre welcoming new tenant Bananacoast Credit Union during the quarter, expanding the service offering for customers and further positioning the retail mix towards non-discretionary uses. The new store launch was a success for customers with several promotions on offer including free coffee from our new specialty coffee roaster. The sushi operator opened a new kiosk in the refreshed food precinct and reported a 78% uplift in monthly sales following their relocation. Retailers continued to trade well including the new audiologist, who reported a 220% uplift in monthly sales compared to outgoing shoe retailer, testament to our non-discretionary retail strategy.

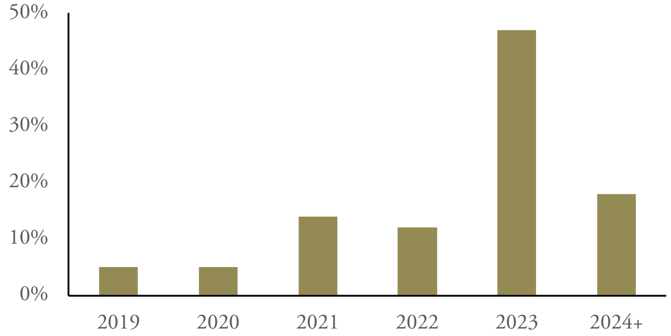
Fit out works are underway for the new butcher and phone accessory kiosk who joined the centre last quarter. Following the relocation of the centre management offices, a purpose-built workspace and meeting room is now available for customers and the local community. The centre has a strong community presence and our marketing efforts continue to focus on building community connections with monthly markets showcasing goods grown, made and crafted in the local community.

At **241 O'Riordan Street, Mascot**, occupancy was maintained at 97%. Two deals were agreed over the quarter, including the relocation of an existing tenant to a larger suite, and the café who exercised their option to renew for an additional term, demonstrating strong levels of tenant satisfaction in the building. The management team continued to collaborate with Roads & Maritime Services and Austrack on local infrastructure projects adjacent to the building which will improve the surrounding road network in the coming years. Our energy efficiency upgrade project is now complete, and we have successfully achieved a 5-star NABERS Energy rating, demonstrating our commitment to reducing the Fund's environmental footprint and delivering savings to tenants and improved returns to investors.

Capital management

During the period, the Fund announced a distribution of $0.0190 per unit, representing a 5.0% annualised yield.

WEIGHTED AVERAGE LEASE EXPIRY (BY GROSS INCOME)



TOP TENANTS (BY GROSS INCOME)

NSW Government	24%
AbbVie	10%
Woolworths Group	7%
Landis & Gyr	7%
Coles Group Limited	6%

All data as at 30 September 2019 unless stated otherwise.

TOORMINA GARDENS – FUND III

FUND IV

PORTFOLIO SUMMARY

	PURCHASE DATE	OCCUPANCY (%)	COST (INCL. CAPEX)* ($m)	VALUE ($m)
Keilor Central, VIC	Dec-18	99%	119.4	114.1
Total		**99%**	**119.4**	**114.1**

*Includes acquisition costs and stamp duty.
Note – all figures are unaudited estimates, as at quarter end.

PORTFOLIO UPDATE

Fund highlights

- Distributions of $0.0160 per unit
- Portfolio occupancy remained high at 99%
- Positive leasing activity with two new deals and two renewals agreed.

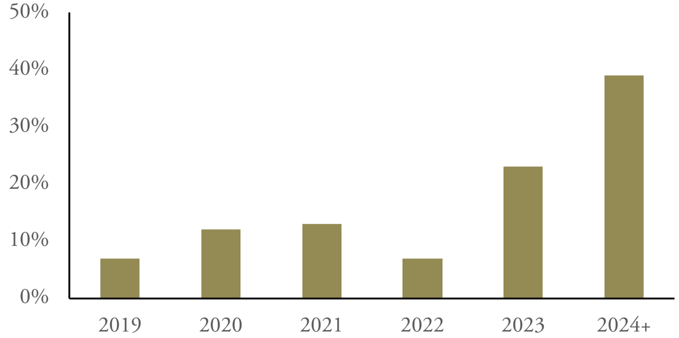
Asset Management

Keilor Central maintained 99% occupancy over the quarter, with leasing momentum remaining strong since acquisition earlier this year. Four renewals were agreed with long-standing tenants in the centre, including a local café and a national bakery. All major tenants reported good sales results for the quarter, with Coles and Kmart both reporting near 20% month-on-month sales growth. The strong performance of the major tenants has continued to underpin the performance of the speciality tenants in the centre, the majority of which reported positive sales results for the month of June. Since taking ownership of the asset, Management has undertaken a rebranding process and has recently launched a new website which was well received by the community. A key priority for Management going forward will be sustainability, with assessments progressing for the installation of an embedded electricity network and solar power system.

Capital management

During the period, the Fund announced a distribution of $0.0160 per unit representing a 4.2% annualised yield.

WEIGHTED AVERAGE LEASE EXPIRY (BY GROSS INCOME)



TOP TENANTS (BY GROSS INCOME)

Kmart	15%
Coles Group Limited	15%
Aldi Group	6%
Quality Pharmacy	5%
The Reject Shop	3%

All data as at 30 September 2019 unless stated otherwise.

KEILOR CENTRAL SHOPPING CENTRE – FUND IV

ABOUT FORT STREET REAL ESTATE CAPITAL

Fort Street Real Estate Capital is an experienced specialist in property investment and asset management, with the ability to draw upon extensive networks to help access opportunities, as well as manage and reposition assets. The Fort Street Real Estate Capital executives have more than 50 years' combined experience in real estate. Their extensive knowledge in this sector has assisted them to transact more than $2 billion of commercial property in recent years.

Fort Street Real Estate Capital targets real estate opportunities with strong underlying rental income and the potential for long-term capital growth through value-add opportunities or repositioning potential.

ABOUT WALSH & COMPANY

Walsh & Company, part of the Evans Dixon Group, is a multibillion-dollar global funds management firm founded in 2007, with assets under management across global equities, residential and commercial property, private equity, fixed income, and sustainable and social investments. It provides access to unique investment strategies not readily accessible to investors and focuses on building high-quality, diversified portfolios.

NEWTOWN CENTRAL – FUND II

IMPORTANT INFORMATION

This report has been prepared by Fort Street Real Estate Capital Pty Limited (ACN 164 101 731) (Investment Manager), a corporate authorised representative (CAR No. 440307) of Walsh & Company Asset Management Pty Limited (ACN 159 902 708, AFSL 450 257), and investment manager of Fort Street Real Estate Capital Fund I (ARSN 163 688 346) (Fund I), Fort Street Real Estate Capital Fund II (ARSN 169 190 498) (Fund II), Fort Street Real Estate Capital Fund III (ARSN 605 335 957) (Fund III) and Fort Street Real Estate Capital Fund IV (ARSN 623 196 298) (Fund IV), together referred to as either 'Funds' or 'FSREC Fund Series'.

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For further information on the FSREC Fund Series, please visit fsrec.com.au.

FUND CONTACTS

Adam Coughlan – Head of Distribution
T: (02) 8662 9792 M: 0418 653 560
E: adam.coughlan@walshandco.com.au

NSW/QLD

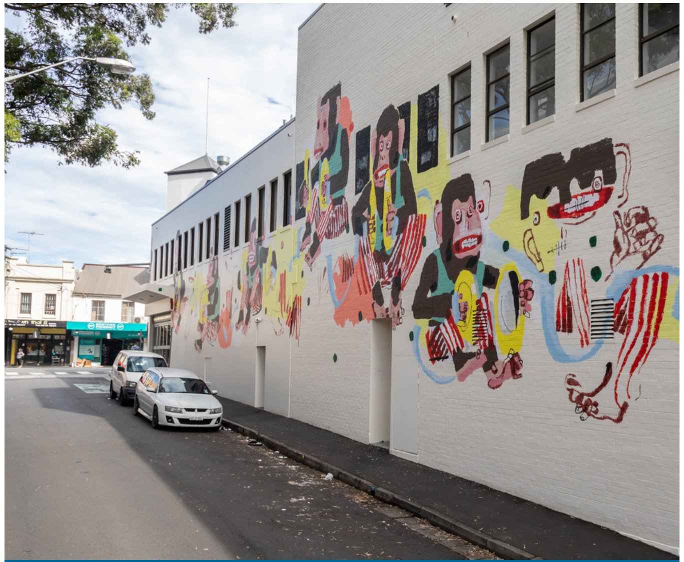
Andrew Fitzpatrick – Business Development Associate
T: (02) 8662 9743 M: 0400 456 570
E: andrew.fitzpatrick@walshandco.com.au

QLD/WA

Emmanuel Vergara – Key Account Manager
T: (07) 3565 9305 M: 0467 773 162
E: emmanuel.vergara@walshandco.com.au

VIC/SA/TAS

Charlie Wapshott – Key Account Manager
T: (03) 9411 4066 M: 0456 040 613
E: charlie.wapshott@walshandco.com.au



NEWTOWN CENTRAL – FUND II