



Enhanced Income Fund No.1

(Arrowfield Property Group Pty Ltd ATF Enhanced Income Fund No.1)

Q1 FY 2022
Quarterly Update
(1 July 2021 – 30 September 2021)

We proudly use nationwide management operator StoreLocal



INTRODUCTION AND TRUST RESTRUCTURE UPDATE

StoreInvest Pty Ltd (SIPL), as Manager for Enhanced Income Fund No.1 (EIF1) (*Trust*) is pleased to provide you with this quarterly update for the three months ended 30 September 2021 on behalf of Arrowfield Property Group Pty Ltd (*Trustee*).

SUMMARY

We are pleased to report the initial quarter's results for the newly established EIF1. Since completing the first phase of the trust formation in June 2021, we have been focussed on executing on the stated value-add investment strategy through operational management and development management. We have also been working our way through a variety of somewhat complex legal and structuring steps to optimise stamp duty and return outcomes.

Trading results are pleasing with escalating revenues although we are behind early overall budgets due largely to the unexpectedly elongated NSW and Victorian lockdowns which have muted short term trading growth in these markets. We have also continued to incur abnormal expenses related to the finalising of restructuring steps and the like. We have undertaken revaluations as part of expansion works and to inform the equity redemption facility, and we are pleased to report material lifts in asset values due primarily to strength in trading performance.

Lastly, we are working closely on the purchase of APGSS5 & APGSS7 which constitutes the second stage of the restructure as flagged in the EIF1 Explanatory Memorandum (*EM*), and we will be able to report with more certainty on timing shortly.

HIGHLIGHTS FOR THE THREE MONTHS ENDED 30 SEPTEMBER 2021

- Reported distributions per unit of 0.327 cents per unit (1.5% per annum annualised). Note that the distributions normalised for expenses related to the finalising of restructuring steps, and interest expenses related to the pre-approved funding for the inclusion of APGSS5 & APGSS7 would be reported at 0.692 per unit (3.1% per annum annualised).
- The EIF1 Net Asset Value (*NAV*), following recent revaluations, has returned to the issue price of \$1.00 per unit. In the Explanatory Memorandum the *NAV* was anticipated to return to \$1.00 by the end of FY23, so we are pleased to deliver this growth for investors well ahead of time.
- Self storage rental revenue increased 2% in this quarter. Occupancies at the Melbourne based stores and Tweed (NSW border) stores were impacted by COVID-19 related lockdowns, however, net-yield was protected by minimising discounts offered to tenants. Strong occupancy results were otherwise achieved over the quarter.
- Expansion works commenced at StoreLocal Kawana (Rockhampton).
- A development approval extension was achieved for StoreLocal Noosa and works are due to commence in November (this has required the removal of some of the lettable area and temporarily reduced earnings).

TRUST RESTRUCTURE MATTERS

There are several matters to which the Trustee is attending to finalise the Trust restructure, including the equity redemption facility. The Trustee will advise of these in a separate note to be issued shortly to follow this update.

In accordance with the strategy outlined in the EIF1 EM, the Trustee is continuing to work on the Trust Restructure Proposal whereby APGSS5 and APGSS7 may, subject to certain safeguards, including APGSS5 and APGSS7 unitholder votes, be acquired by or rolled into, EIF1 at independent valuation values. The Trustee will provide unitholders with further updates on this shortly.

The Trustee will continue to be in contact with all investors to discuss any queries arising from the above.

TRUST FINANCIAL PERFORMANCE

Income Distributions

Quarterly income distributions to investors will be distributed for first quarter earnings.

The YTD accounting profit supports an annualised distribution rate of 1.306 cents per unit. The Manager has elected to make this payment in full for the quarter, equating to a distribution rate of 0.327 cents per unit for the period 1 July 2021 to 30 September 2021. It is worth noting that several abnormal items have been incurred in this initial formation period:

- Consultants costs related to stamp duty lodgements and advices, and tax structuring;
- Interest costs carried for the pre-approved funding which was secured for the inclusion of the APGSS5 and APGSS7 trusts; and
- Revenue growth has been impacted by the unexpected lockdowns of the Melbourne and Tweed areas for effectively the entire quarter.

The Trust's cash at bank is \$1,601,956 as at 30 September 2021.

The Trust is currently leveraged at a 49% Loan to Value Ratio. Current interest costs are as follows:

- Facility A – investment facility of \$75 million (including pre-approved funding of \$17.5 million which was secured for the inclusion of the APGSS5 and APGSS7 trusts which carries a line fee of 110 bp and usage fee of 110bp) – 2.2% over floating BBSY; and
- Facility B - working capital facility of \$21 million for expansion works – 2.4% over floating BBSY.

The Trustee has engaged an external advisor during the quarter to investigate interest rate hedging options in order to de-risk funding costs.

The Net Asset Value of the Trust is 1.00 per unit as at 30 September 2021 (*this includes revaluations formally received in October but based on September data*).

Operational Management Activities

Group occupancy was weighed down over the quarter due to COVID-19 related lockdown restrictions imposed in Victoria and New South Wales, affecting our Melbourne and Tweed Heads based stores. On an isolated basis, our Melbourne based stores averaged 76.92% occupancy for the quarter (including the Narre Warren store which had high initial vacancy in its newly expanded area). Comparably, our non-Melbourne stores achieved an average occupancy of 92.50%. The Tweed stores are particularly impacted by State border barriers and fell 5% in occupancy over the quarter (this will continue into the next quarter due to the extended border restrictions). The results of lower occupancy across the Melbourne based stores had a greater impact on the Group Revenue compared to rental rates, as the Melbourne based stores experienced stagnant net yields over the quarter. Net yield was protected because of a reduction in the amount of discounting offered to customers compared to previous lockdown scenarios.

(By way of disclaimer, investors should note that any further COVID-19 shutdowns may negatively impact trading conditions. We cannot anticipate trading conditions with any certainty given the governments' responses to the continuing pandemic to date. Our overall portfolio performance demonstrates once again the benefits of a 'whole of portfolio' diversification).

Trading Results

The property operations for the Trust reflect all financial information since the inception of the Trust, which currently includes financial performance for the three-month period ending 30 September 2021. Property Operations will be reported on a consolidated basis for each property purchased by the Trust and owned for a minimum of one full reporting period.

Quarterly Trading Results

Three Months Ended 30 September 2021	
Revenue:	
Total Revenue (a)	2,120,832
Expenses:	
Total Expenses (b)(c)	1,313,358
Net Operating Income (d)	\$807,474
Average for the period:	
Square metre occupancy (e)	85.00%
Realised annual rental income per:	
Occupied square metre ("net yield") (f)	\$223.14
Available square metre ("REVPAM") (g)	\$184.77
At 30 September 2021:	
Square metre occupancy (e)	85.10%
Net yield (f)	\$223.41

- (a) Includes self storage rental income, RV & parking income, commercial leases, and other income.
- (b) Total Expenses includes a provision for Bad Debt expenses.
- (c) Consultancy and transaction costs related to the trust roll up are included in Total Expenses.
- (d) Does not include the effects of depreciation, amortisation, interest and financing costs.
- (e) Includes self storage area, as well as RV & parking areas; does not include commercial lease area.
- (f) Net yield on self storage units only, excluding RV & Parking, and commercial leases.
- (g) Includes total available area on self storage units only.

CAPITAL WORKS

The Trust rolled in the Initial Properties on 25 June 2021, consisting of the properties included in Appendix 'A' – Trust Property Details. The transaction was funded at a price of \$0.895 which includes 11 facilities on approximately 121,032m² of land.

The Manager has assessed and scoped the expansion program for the Initial Properties and has adopted an expansion program as outlined in Appendix 'B' – EIF No. 1 Expansion Details (note that these specific areas may change as approvals are obtained and amended). As a condition of financing, the CBA has stipulated that no more than three expansions may occur at any one time in the portfolio. Once the first three projects have commenced, the Manager will propose amendments to the financing requirements that will allow more than three expansions at any one time.

The Manager has commenced the expansion at StoreLocal Kawana (Rockhampton). The builder has scraped and levelled the land in preparation for the concrete slab. The civil works started on 30 August 2021 and are anticipated to finish in February 2022. The project is being funded through the CBA expansion facility and is the first project to commence under the EIF No. 1 expansion program. We anticipate that StoreLocal Noosa will be the next expansion project, expected to commence on site in November 2021.

We thank you for your ongoing support of the StoreInvest investment funds. Please contact us if you have any queries.

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Appendix A – Trust Property Details

Address	Suburb	State	Land Area (sqm)	NLA (sqm) (a)	Units (b)	RV & Parking
6 Greenway Dr	Tweed Heads	NSW	4,945	2,200	175	No
18 Rivendell Dr	Tweed Heads	NSW	6,212	2,570	0	Yes
214 Cooper St	Epping	VIC	9,266	4,734	450	Yes
77 High St	Thomastown	VIC	24,900	7,240	376	Yes
1551 Sydney Rd	Campbellfield	VIC	19,400	7,039	472	Yes
13 Chappell St	Kawana	QLD	11,400	3,967	295	No
522 Yaamba Rd	Norman Gardens	QLD	14,400	6,212	518	Yes
17 Laurenceson Rd	Gympie	QLD	12,400	4,207	321	No
2514 Shute Harbour Rd	Jubilee Pocket	QLD	5,273	2,778	233	Yes
64-66 Rene St	Noosaville	QLD	6,146	3,557	404	Yes
275-281 Boundary Rd	Mordialloc	VIC	6,690	4,773	291	Yes
Total			121,032	49,277	3,535	

- (a) Total net lettable area including self storage, mini warehouses, and RV & Parking; does not include commercial lease areas.
- (b) Self storage units only.

Appendix B – EIF1 Expansion Details

Address	Suburb	State	Proposed GFA	Potential NLA	New Total NLA
1. 13 Chappell St	Kawana	QLD	2,100	2,035	6,002
2. 64-66 Rene St	Noosaville	QLD	3,800	2,500	6,057
3. 77 High St (a)	Thomastown	VIC	2,988	2,651	10,228
4. 214 Cooper St	Epping	VIC	4,133	3,043	7,777
5. 17 Laureceson Rd	Gympie	VIC	1,791	1,320	5,527
6. 275-281 Boundary Rd	Mordialloc	VIC	4,067	2,976	7,749
		Total	18,879	14,525	

- (a) Stage 1 expansion only; does not include plans for further expansions at the property until further development approval is received.