

35 Latitude Development Fund: Investment Summary Report

30th June 2022

The dynamic around the building industry continued to develop through the opening months of 2022. It seems every new week brings news of further building companies moving toward insolvency as escalating material costs and trade shortages continue to bite hard, coupled with the flow through affects to their fixed price contracts. We have seen the effects of these market forces firsthand as projects in construction phase have been subject to lengthy delays for materials, and slow construction timeframes due to a lack of available trades.

We do not expect this situation will change in the short term, with ongoing global issues continuing, coupled with domestic issues that continue to create an uncertain environment. Demand for materials and labour from the recent floods of northern NSW and Queensland will put further strain on supply chains and labour markets for the foreseeable future.

Whilst the election has been won and lost, they will now need to contend with the ongoing economic pressures that have built up. The immediate concern of rising inflation and increasing interest rates are yet to flow through to the market, which adds another layer of uncertainty to the short-term prospects of the market. Already labelled as a “profitless boom”, whilst sales prices achieved across most regions have been strong, the counter side to the equation is the costs to procure sites, and the associated development costs related to construction.

Progress continues at Toronto, which has been subject to significant delays from the market conditions already described in this memo. Forward planning is crucial on this project as we attempt to minimize any further delays on site as the project moves forward.

With the completion (and settlements) of our Blackalls Park townhouse project, we opened a redemption window providing eligible investors with an opportunity to access funds from the settlement proceeds. Whilst we looked to obtain an indication of possible redemption requirements, the result was investors who had not indicated they required funds actually made a redemption request.

One of our many challenges has always been managing required fund cashflows. Originally, we made available \$4,000,000 for the redemption process (based on indicative requests to access approx. \$2.5M), however this has ended up being oversubscribed. This has meant that investors requesting access to funds received a pro-rata amount. Whilst this is outside of our control, we will look to open another redemption request at the completion of the end of year tax return and audit process, which is the earliest we will be able to due to the regulatory reporting requirement of the fund.

Considering the increased redemption requests and further discussions with investors, it has become obvious that many investors are nervous about the current state of the construction market, heavily influenced by the adverse media around house prices and ongoing financial difficulties already discussed. Certainty around future funding arrangements moving forward could become problematic if the current industry issues continue, particularly when it comes construction funding.

Availability of funds has a key influence on property markets, influencing end purchasers (owners and investors) through their capacity to borrow, and also developers around terms and available funding models. This obviously has implications toward our strategy. Based on

our recent redemption oversubscription, it appears that investors' appetite for development opportunities and access to investment capital has shifted.

This raises difficulties in planning subsequent acquisitions and provide funding certainty for projects moving forward. Based on this and the ongoing market uncertainty, as Investment Manager we feel it is prudent to take steps toward unwinding the fund and releasing profits back to investors.

Whilst this process will take a little time, we are fortunate that we divested a number of sites in the portfolio. During the year (for separate reasons) we had successfully sold both the Hamilton and Wangi sites, along with the remaining blocks of land in Dubbo. Additionally, Blackalls Park construction completed along with the subsequent sale of all townhouses.

We are currently in construction at Toronto, which will require us to complete this process to finalise this project, and we retain sufficient capital to this end. All units in this project have been sold, so we have a clear exit strategy on this project.

We have the remaining "master" DA approved unit site in Dubbo on the market and also successfully realized the profits held in the Belmont project in line with our valuation. We will look to open additional redemption windows to return capital to all investors as settlements allow, however this may involve a number of redemptions over the coming months until all properties are fully liquidated, and the Toronto project reaches completion.

As always, we appreciate your support and patience as we now look to liquidate the remaining portfolio and return capital back to all investors in a timely manner.

Kind regards,



BRETT BROOKFIELD
DIRECTOR

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