

28 August 2012

360 Capital RE Limited
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Dear

**RE: 360 Capital Industrial Fund
Response to Official Complaint Regarding Portfolio Acquisition & Capital Raising**

I refer to your email of ## July 2012 concerning a letter of complaint addressed to me as Independent Chairman of 360 Capital RE Limited ACN 090 939 192 (**360 Capital**) as responsible entity of 360 Capital Industrial Fund ARSN 099 680 252 (**Fund**).

In response to your letter, we make the following key points:

360 Capital's strategy for the Fund

At all times 360 Capital has acted in, and continues to act in, the best interests of members of the Fund (**Members**) and otherwise comply with all relevant legal requirements.

360 Capital formulated its strategy for the Fund (which comprises the recent capital raising, the acquisition of the additional portfolio and the listing of the Fund on the ASX) (**Strategy**) having regard to the best interests of Members. The Strategy allows existing Members the opportunity to liquidate their investment before Christmas and avoids the consequences of the Fund's exit mechanism which is likely to result in the Fund being wound up and Members suffering significant adverse consequences. 360 Capital formulated this Strategy over a significant period of time and, prior to implementing it, sought advice from an independent expert, Lonergan Edwards and Associates Limited, who confirmed that in their opinion the Strategy is the best interests of Members.

As responsible entity of the Fund, it is 360 Capital's duty to continually assess and monitor the performance and situation of the Fund and the industrial property market. You have raised questions as to why 360 Capital's Strategy for the Fund now differs from that set out in a strategic review written in March 2011. The strategy set out in the strategic review is now over 16 months old and was proposed having regard to the market at the time. The economic climate since that time has changed and successful managers need to adapt to such changing market conditions to maximise Member value. This is what 360 Capital believes it has done.

360 Capital also believes that the process by which the Strategy has been executed to date has been in the best interests of Members. This includes the decision to disclose the transaction to Members and the market after completion of the acquisition of the additional portfolio. 360 Capital believes that premature disclosure of the terms of the transaction to the market may have meant that other purchasers may have sought to acquire the portfolio such that the opportunity was lost to the Fund.

Full details of the transaction were set out in the retail offer document which was mailed to all Members. In addition, the 360 Capital website, www.360capital.com.au, contains much information regarding the Strategy 360 Capital has for the Fund.

360 Capital has not been able to provide Members with a copy of 360 Capital's legal opinions or the independent expert's report. 360 Capital is not hiding anything in this regard, but rather, this is for legal privilege and confidentiality reasons. 360 Capital remains confident in these opinions and believes that Members have access to all material information regarding the Strategy.

Alignment of interests

360 Capital, its related entities and their respective affiliates in aggregate hold the largest economic interest in the Fund. As such, 360 Capital is fully aligned with the interests of Members and has no conflict of interest.

This is evidenced by the fact that:

- in implementing the proposal, 360 Capital has agreed to forgo approximately \$7.1 million in fees (comprising the remainder of the initial fee associated with the acquisition of the additional portfolio and the exit mechanism fee); and
- there are no listing fees or other additional fees associated with implementation of the remainder of the Strategy payable to 360 Capital.

Compliance with the law

The directors of 360 Capital are well aware of their obligations under the *Corporations Act 2001* (Cth). 360 Capital has acted and continues to act in accordance with its legal obligations and in the best interests of Members. In particular, in formulating and implementing the Strategy, 360 Capital obtained advice from both Senior Counsel and one of Australia's leading law firms to ensure that the amendments made to the Constitution of the Fund could be made in accordance with all relevant legal requirements.

360 Capital had regard to this advice together with the findings of the independent expert referred to above which opined that implementation of the Strategy was in the best interests of Members.

Notwithstanding the ruling of the Supreme Court of Victoria, 360 Capital maintains the belief that it at all times complied with its legal obligations. 360 Capital has appealed the decision of the Supreme Court of Victoria and, at a directions hearing last week, the Court of Appeal agreed to hear the appeal on an expedited basis. 360 Capital will keep Members updated as to the progress and outcome of that appeal.

Listing

360 Capital believes listing on the ASX is the best opportunity for Members to have liquidity. The reasons for this, and the advantages associated with listing the Fund, are detailed in the Notice of Meeting issued by 360 Capital for the Members' meeting scheduled for 14 September 2012.

In particular, the listing will give Members the opportunity to liquidate their investment before Christmas in the fully informed and efficient ASX market and avoid the consequences of the Fund's exit mechanism which is likely to result in the Fund being wound up and Members suffering significant loss.

Many investors have asked for listing, reflected in the fact that 90% of Members voted in favour prior to the postponement of the first meeting.

Costs

Generally, and subject to the terms of the Constitution, costs which 360 Capital properly and reasonably incurs in connection with the Fund are reimbursable from the assets of the Fund. Generally speaking, 360 Capital has recovered the costs it has incurred in connection with formulating and implementing the Strategy for the Fund.

Comparison of Proposals

The benefits of 360 Capital's strategy and listing on the ASX are obvious when compared to the ill-founded and opportunistic proposal by Denison Funds Management Limited (**Denison**) (and its associates, Garnaut Private Wealth Pty Limited (**Garnaut**) and the global hedge fund, Forum Partners (**Forum**)).

On the one hand, 360 Capital is providing Members with the opportunity to access their capital before Christmas through the fully transparent and efficient ASX market.

On the other hand, the Denison / Forum / Garnaut proposal is likely to result in the Fund being wound up and Members suffering significant loss.

The correspondence from Denison / Forum / Garnaut is misleading and deceptive and fails to disclose, amongst other things:

- the high likelihood of the Fund being wound up should the Denison / Forum / Garnaut proposal be approved;
- the substantial execution risks associated with the Denison / Forum / Garnaut proposal;
- that Denison / Forum / Garnaut do not have the support of the Fund's financier and that their proposal will trigger an Event of Default under the Fund's finance facilities;
- the lack of relevant experience of Denison / Forum / Garnaut in the management of a large retail fund comprising an Australian industrial property portfolio;
- the historical performance of Denison managed funds, which demonstrate consistently poor performance (including several funds being placed into receivership and wound up with investors being left with only a fraction (if anything) of their investment);
- details of the association and payments between Denison, Forum and Garnaut. 360 Capital has reason to believe that in connection with the Denison / Forum / Garnaut proposal, Garnaut was seeking an increase in the commissions he would receive in relation to the Fund;
- Denison's strategy for the Fund in any detail;
- what Denison proposes to do in relation to the Notes and the noteholders and what consequences those actions may have for the Fund and its assets;
- how Denison / Forum / Garnaut intend to provide liquidity to Members. Note the last fund that Garnaut secured for his associates has recently offered liquidity at a 37% discount to NTA; and
- how Denison / Forum / Garnaut intend to raise capital in the future. Denison has already disclosed that it intends to raise capital in the Fund. Recently, Forum / Denison injected capital into the Denison Diversified Property Fund where \$19.4 million was loaned at an interest rate of 18% p.a. and warrants (ie. which are effectively structured options) were issued which will dilute existing members of that fund by 30%. This type of capital raising would have a significant adverse effect on Members.

It is important that Members not be deceived by the Denison / Forum / Garnaut proposal.

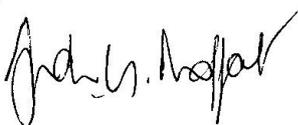
The answers to all of your questions can be found in the above, together with the documentation referred to in this letter and the information regarding the Fund on the 360 Capital website: www.360capital.com.au.

If you are not satisfied with this response, you have the right to raise your concerns with the Financial Ombudsman Service by calling 1300 780 808 or writing to:

Financial Ombudsman Service
GPO Box 3
Melbourne VIC 3001

360 Capital RE Limited is a member of this dispute resolution service.

Yours sincerely



Andrew Moffat
Independent Chairman
360 Capital RE Limited