ASX Release | Media Release

360 Capital Industrial Fund

26 February 2014

SOLID RESULTS ACHIEVED THROUGH DISCIPLINED MANAGEMENT

360 Capital Investment Management Limited as Responsible Entity for the 360 Capital Industrial Fund ("Fund" or ASX code: "TIX") is pleased to announce the Fund's half year results for the six months ending 31 December 2013.

Key achievements

- Recapitalisation and repositioning complete
- EPU upgrade driven by performance of existing portfolio
- 27.8% total return since listing in December 2012
- 98.7% occupancy and 5.2 year WALE
- Inclusion in the S&P/ASX 300 AREIT index
- Commencing buyback of up to 5% of issued units
- Maintaining disciplined focus on continued EPU and DPU growth

Financial highlights

- Statutory net profit of $8.6m, 11.4% above $7.7m in the prior period
- Operating earnings of $9.8m, significantly above $4.2m in the prior period
- Operating EPU of 10.46cpu was 14.1% above 9.17cpu in the prior period
- DPU of 9.30cpu was 3.3% above 9.00cpu in prior period
- NTA per Unit remained stable at $1.94 with capital structure now addressed
- LVR reduced from 46.9% to 46.0% through asset sales and proceeds from the DRP
- The closing price at 31 December 2013 of $2.06 per Unit reflects:
    - 5.2% premium to NTA per Unit of $1.94
    - 9.0% forecast FY14 DPU yield
    - 10.0% forecast FY14 EPU yield

Operational highlights

- Leased 38,700 sqm in the period and a further 18,546 sqm leased post period
    - all major FY14 and majority of FY15 expiries addressed
- Increased occupancy to 98.7% from 98.4% in the prior period
- Increased WALE to 5.2 years from 5.1 years in the prior period
- Like–for-like NOI growth of 2.9%
- Disposed of $9.3m non-core asset in line with capital recycling strategy
- Portfolio WACR of 8.94%

Level 8, 56 Pitt Street Sydney NSW 2000 | GPO Box 5483, Sydney NSW 2001 Australia
T +61 2 8405 8860 | Fax +61 2 9238 0354 | E investor.relations@360capital.com.au | W www.360capital.com.au
360 Capital Investment Management Limited ABN 38 133 363 185 AFSL 340 304
As responsible entity of the 360 Capital Industrial Fund ARSN 099 680 252

360 Capital Industrial Fund

Financial results

The Fund's recapitalisation and repositioning is now complete after capital raisings and asset sales throughout calendar year 2013. This new platform and strong underlying portfolio performance has given the Fund the ability to provide value to Unitholders in the form of two earnings upgrades in the period.

Period on period statutory earnings was distorted by the March 2013 recapitalisation. This necessary step stabilised the Fund and provided a platform for further growth with operating EPU being up 14.1% primarily driven by underlying performance of the existing portfolio. DPU also grew by 3.3% on the prior period and the Fund's pay-out ratio is now at a level capable of providing sustainable distributions going forward.

NTA per Unit is $1.94 was in line with 30 June 2013.

The Fund's loan to value ratio (LVR) reduced slightly to 46.0% from asset sales and the deployment of DRP proceeds during the period. The debt facility limit was reduced to $180m in order to provide sufficient liquidity whilst incurring costs from holding excess funding capacity (the Fund is currently drawn to $153m). The Fund remains comfortably within its debt facility covenants with the LVR within the current target range of 40% to 50%. LVR will continue to be reduced in a responsible manner as the Fund grows.

The Fund's interest costs are currently fully hedged at an all-in cost of debt of approximately 4.9% with a further two years to expiry on the Fund's debt facility.

The DRP was active for the first half of FY14, raising net proceeds of $1.3m which were used to repay debt.

Capital management and Unit buy-back

Mr Butler, TIX Fund Manager said "Based on the solid performance from its existing portfolio of quality assets and the continued disciplined approach to EPU and DPU growth, we believe TIX is undervalued and provides an appealing investment proposition with EPU and DPU yields well above our peer group average.

As such, we are announcing today an on-market buy-back of up 5% of issued capital, to be undertaken when it's accretive to operating earnings and in the absence of alternative acquisition opportunities".

The buy-back will initially be funded through available cash and drawing down on existing debt with the Fund currently having approximately $27 million in undrawn capacity. During and following the buy-back, LVR is expected to remain within the stated target range of 40% to 50%.

This proposed buy-back does not alter the Fund's strategy of continuing to focus on earnings and distribution growth by pursuing suitable acquisitions and driving the operational performance of its existing portfolio.

The buy-back will commence no earlier than 14 days after the date of this announcement and end no later than 12 months after the date of this announcement, unless extended by the Responsible Entity. The timing and actual number of Units purchased under the buy-back will depend on the prevailing Unit price, market conditions and other considerations including alternative investment opportunities.

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360 Capital has appointed Moelis Australia Securities Pty Limited to act as its broker in respect of the buy-back. The Responsible Entity reserves the right to suspend or terminate the buy-back at any time, and there will be no guarantee that the Fund will repurchase the full 5% of Units on issue.

The Fund's DRP will accordingly be switched off while the buy-back is being undertaken.

Property Portfolio

The Fund's property portfolio maintained a high occupancy of 98.7% due to an active period of leasing.

Lease renewals of 38,794sqm to GM Holden, Linfox, Ceva Logistics and Allpower Industries lifted portfolio weighted average lease expiry (WALE) to 5.2 years from 5.1 years in the prior period with post period leases of 18,546 sqm to DKSH and Hugo Boss lifting the current WALE further to 5.3 years.

The Fund has strong cashflow certainty over the next 24 months due to its manageable lease expiry profile. As a result of the leasing activity over the six months to December 2013, all major FY14 and FY15 expiries have been addressed.

Portfolio vacancy as at 31 December 2013 was limited to 5,722 sqm within three properties, with the largest of these within the Campbellfield asset which, together with the Edinburgh Parks asset (where 10,503 sqm became vacant in February 2014) are scheduled for disposal at the end of FY14.

The portfolio's weighted average capitalisation rate (WACR) remained at 8.94%. The portfolio will be independently valued at 30 June 2014 with recent market transaction activity and recent leasing success expected to drive yields down.

Like-for-like net property income (NPI) growth of 2.9% was underpinned by the portfolio's contractual fixed rental increases that average 3.5% p.a. over 77% of the portfolio.

Acquisitions and Disposals

Mr Butler said "The Fund continues to be active in assessing investment opportunities both on and off market and our preference is for off market transactions through our existing relationships within the sector.

There were a number of on-market transactions in the latter half of 2013 including a number of portfolio offerings in excess of $300m. We assessed and submitted offers on those opportunities that were expected to have a positive impact on operating EPU and DPU. Strong investment demand for limited opportunities resulted in rigorous competition for the assets and, in our view, led to a mispricing of industrial property fundamentals in some instances.

Nevertheless, as a result we expect to see a firming of cap rates during the next six months which bodes well for TIX as its portfolio will be independently valued in as at 30 June 2014".

In November 2013 the Fund disposed of its Notting Hill asset for $9.3m in line with book value. Another two assets are currently held for sale being Campbellfield and Edinburgh Parks and are expected to transact by the end of FY14. The Fund will continue to review and assess the portfolio in relation to asset sales, particularly those assets in the sub $10.0m range and will look to deploy the proceeds into the acquisition of larger assets in the $15.0-$40.0m range or into alternate capital management initiatives.

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360 Capital Industrial Fund

Summary & outlook

The Fund will continue to implement its active management, acquisitions and recycling strategy and provide Unitholders with regular and sustainable income in the form of quarterly distributions and potential capital growth.

The Fund delivered strong HY14 results driven by a solid performance from the existing portfolio, characterised by high occupancy, long term leases and a manageable expiry profile with all major expiries in FY14 and FY15 now addressed.

Mr Butler said "As a result of the Fund's strong underlying performance, it was able to deliver operating EPU and DPU growth to unitholders of 14.1% and 3.3% (respectively).

Looking ahead we expect to deliver FY14 operating EPU of 20.50cpu, 2.5% ahead of previous guidance and FY14 DPU of 18.60 cpu (in line with guidance).

Strong investment demand for industrial assets is forecast to continue which should see improved valuation metrics in the coming six months.

Today's announcement of an on-market buy-back reflects our view that TIX is undervalued. We consider this is the most efficient use of capital to drive Unitholder value at this time. However it does not alter our strategy of continuing to focus on earnings and distribution growth, pursuing acquisition opportunities and driving operational performance of our existing portfolio.

At current pricing, with sustainable distributions and continued investment demand anticipated, TIX will be well placed to deliver further value for Unitholders over the coming year."

More information on the Fund can be found on the ASX's website at www.asx.com.au using the Fund's ASX code "TIX", on the Fund's website www.360capital.com.au, by calling the 360 Capital investor enquiry line on 1800 182 257 or emailing investor.relations@360capital.com.au

For more information, please contact:

Ben Butler
Fund Manager
360 Capital Industrial Fund
+61 2 8405 5672

Tim Spencer
Head of Investor Relations
360 Capital Group
+61 2 8405 8872

About 360 Capital Group (ASX code TGP)

360 Capital is an ASX-listed, property investment and funds management group concentrating on strategic investment and active investment management of property assets. The company actively invests in direct property assets, property securities and various corporate real estate acquisitions within Australian real estate markets on a private equity basis. The company's 17 full time staff located in Sydney have significant property, funds and investment management experience. 360 Capital currently manages 9 investment vehicles holding assets valued at approximately $1.0 billion on behalf of almost 8,500 investors, has over $90 million worth of co-investments across the 360 Capital platform and owns two direct assets valued at more than $40 million.