

360 Capital Office Fund

17 August 2016

Financial Year 2016 Results
A-grade Portfolio, Positioned for Growth

360 Capital Investment Management Limited (360 Capital) as Responsible Entity for the 360 Capital Office Fund (Fund or ASX code: TOF) is pleased to announce the Fund's results for the financial year ending 30 June 2016.

Highlights

- Statutory earnings per Unit of 27.9 cents per unit (cpu), up 70.1% on FY15 (prior comparable period or pcp);
- Operating earnings per Unit of 18.0cpu, down 2.7% on pcp as a result of the sale of Allara Street, Canberra
- Distributions of 17.0cpu in line with FY16 guidance and approximately 70.0% tax deferred;
- Over 9,600 sqm or 24.7%¹ of the portfolio leased, maintaining 99.2% occupancy;
- Completed disposal of non-core asset (Allara Street for \$29.0 million), removing the major leasing and capital expenditure risk within the Fund;
- Gearing² has reduced to 17.8% from 28.7% as at 30 June 2015;
- Net tangible assets (NTA) of \$164.8 million (2015: \$156.8 million) representing \$2.25 per unit (2015: \$2.14); and
- The ASX closing price at 30 June 2016 of \$2.25 per unit reflected an annualised distribution per unit (DPU) yield of 7.6% and a FY16 total Unitholder return of 15.8%.

Financial performance

Earnings & distributions

Statutory net profit of \$20.4 million was 64.8% above pcp primarily driven by revaluation gains on investment property, offset by mark to market movement in derivatives.

Operating earnings of \$13.2 million was 5.6% below pcp primarily due to reduced net rental income as a result of the sale of 33 Allara Street.

Operating earnings per Unit (EPU) of 18.0cpu, in line with guidance; distributions per unit remained unchanged at 17.0cpu in line with guidance.

Assets & liabilities

The disposal of 33 Allara Street, Canberra, ACT for \$29.0 million was the largest impact to the Fund's balance sheet. Gross assets were reduced by \$19.5 million or 8.5% to \$211.0 million as a result of the sale, with the full impact offset by \$11.8m in revaluation gains of two other assets.

Interest bearing liabilities reduced by \$28.6 million and gearing reduced to 17.8% as at 30 June 2016.

NTA increased by \$8.0 million or 11.0cpu, reflecting \$2.25 per unit.

¹ Based on area of 38,835 sqm including 33 Allara Street

² Gearing: Borrowings less cash divided by Total Assets less Cash

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Portfolio management

The property portfolio continues to perform, maintaining strong occupancy of 99.2% and weighted average lease expiry (WALE) of 4.7 years. A key focus for the Fund was executing the asset strategy at 33 Allara Street, Canberra. In August 2015, the Fund secured a 12 month extension of the Department of Environment (9,200sqm) which positioned the asset for sale. After a short marketing campaign, the Fund exchanged contracts in November 2015 for a sale price of \$29.0 million, subsequently settling the sale of the asset in late November 2015.

With the sale of the Fund's non-core Allara Street asset, the Fund now has no lease expiries until 30 June 2017, being the Queensland Curriculum and Assessment Authority at 154 Melbourne Street, South Brisbane. The Fund remains focused on actively managing this expiry over the first half of FY17.

Property valuations

Independent valuations of two of the Fund's assets (62.7% of portfolio by value) were completed resulting in an \$11.8 million increase on the 30 June 2015 book values. The Fund's remaining asset, 154 Melbourne Street, South Brisbane will be independently valued following the conclusion of current lease negotiations. As a result of the revaluations, the Fund's overall weighted average capitalisation rate (WACR) firmed 29 basis points to 7.12% compared to 30 June 2015.

Capital management

As at 30 June 2016, the Fund had total debt facilities of \$80.0 million of which \$39.7 million was drawn, representing a gearing ratio of 17.8%. The Fund's debt facility expires in April 2017, and will be extended upon redeployment of the current balance sheet capacity. Interest rate hedges were reduced post-period from \$70.0 million down to \$40.0 million in line with the Fund's drawn debt, at a weighted average interest rate of 2.64% (excluding any margins). The weighted average interest rate hedge term is approximately 3.6 years. The Fund remains well within its debt covenants, with the current interest cover ratio (ICR) of 6.7 times against a bank covenant of 2.0 times and loan to value ratio (LVR) of 19.1% against a bank covenant of less than 50.0%.

Reinvestment capacity

Since listing in April 2014, the Fund has focused on improving underlying earnings quality through recycling non-core assets. These non-core disposals have deleveraged the Fund's balance sheet and provided the Fund with significant capital to pursue higher quality assets.

The Fund has reviewed a significant number of opportunities to date; however, the Fund remains diligent in its approach to acquiring assets that enhance the portfolio and provide long-term EPU and DPU growth.

The Fund has balance sheet capacity of up to \$60.0 million, which would result in fully deployed EPU of between 18.20 and 18.50cpu assuming a \$50.0 to \$60.0 million acquisition.

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Outlook & guidance

The Fund's operational strategy for the 2017 financial year is to continue to manage the existing portfolio to maximise unitholder returns and focus on reinvestment opportunities to expand and diversify the Fund's asset base.

It remains a strategic objective of the Fund to achieving a greater relevance and entry into the S&P/ASX 300 AREIT index.

Distribution guidance for the first half of FY17 is 8.50cpu.

Distribution guidance will be reviewed in December 2016, subject to the reinvestment of the balance sheet capacity.

More information on the Fund can be found on the ASX's website at www.asx.com.au using the Fund's ASX code "TOF", 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

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About 360 Capital Office Fund (ASX code TOF)

360 Capital Office Fund is the only ASX-listed office sector A-REIT focused on suburban A grade and CBD B grade rent collecting properties in Australia in the \$30 to \$100 million asset value range. The Fund has a diversified \$208 million portfolio of three quality assets, a weighted average lease expiry of 4.7 years, occupancy of 99.2%, gearing of approximately 17.8% and a forecast 1H17 distribution of 8.50cpu. The Fund is externally managed by 360 Capital Group, a leading ASX-listed real estate investor and fund manager, that operates under a transparent fee structure and is the largest unitholder in the Fund with a co-investment stake of circa 30% to ensure ongoing alignment of interests with Unitholders.

About 360 Capital Group (ASX code TGP)

360 Capital Group 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. 360 Capital Group manages nine investment vehicles holding assets valued at over \$1.4 billion on behalf of over 12,500 investors and has over \$200 million worth of co-investments across the 360 Capital Group.
