

360 Capital Industrial Fund

21 August 2014

Disciplined management delivering strong FY2014 results

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 results for the year ending 30 June 2014.

Financial highlights

- Statutory net profit of \$41.9m significantly above the statutory profit of \$13.6m in FY13
 - FY13 impacted by the recapitalisation and one off items; FY14 by valuation uplifts
- Operating earnings of \$19.2m up 73.0% from \$11.1m in FY13
 - Driven by higher property income from FY13 acquisitions, fixed rental increases and lower finance costs through lower gearing and margin reductions
- Operating EPU of 20.6cpu in line with guidance
- DPU of 18.6cpu was up 3.3% on FY13 (distributions ~45% tax deferred) reflecting a conservative payout ratio of 90%
- NTA per Unit increased by 14% to \$2.21 from \$1.94 in FY13 mainly due to valuation increases
- Gearing reduced to 42.1% from 45.5%
- ASX closing price 30 Jun 14 of \$2.23 per Unit reflected
 - In line with NTA per Unit of \$2.21
 - Reflects an annualised distribution yield of 8.3% based on FY14 DPU of 18.6 cpu
 - FY14 total unit holder return of 17.3% and 27.6% pa since listing

Operational highlights

- Occupancy¹ of 96.2%
- WALE² of 5.3 years
- Leased 75,903sqm or 22% of the portfolio, reducing FY15 expiries to 5.0% of portfolio
- Disposal of \$13.9m of non-core assets
- Portfolio values increased by 10.0% on a like-for-like basis
- Post period acquisitions of 3 properties for a combined total of \$103.3m
 - Increased portfolio WALE to 6.1 years providing long term stable income
 - Strengthening of covenants with Woolworths now the largest tenant
- Extension of debt facility on favourable terms

¹ By area

² Weighted Average Lease Expiry by income

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Portfolio achievements

The Fund has maintained portfolio occupancy of 96.2%.

Lease extensions to GM Holden, DKSH, Hugo Boss and Elite Logistics contributed to 75,093sqm or 22% of the portfolio being leased in the period which saw the portfolio WALE increase from 5.1 years to 5.3 years as at 30 June 2014.

The 3,005sqm expansion of the Grace Group facility at Hume ACT was completed in June 2014 and provides the Fund with an additional \$0.3m of income p.a., a \$4.9m uplift in valuation and a 4.0 year lease extension until 2022.

FY14 like-for-like NPI (Net Property Income) growth was strong at 3.0%, underpinned by an active period of leasing and fixed rental increases to over 82.0% of the portfolio. The Fund achieved leasing results with minimal incentives averaging 3.7% and reduced portfolio over-renting to less than 2.0% based on the latest valuations.

The WACR of the portfolio firmed 38bp to 8.52% and reflected strong valuation uplifts across the portfolio of \$27.6m or 8.3% on previous book values and 10.0% on a like-for-like basis from FY13. The movement in values was a combination of capitalisation rate compression on the back of transactional evidence and asset repositioning through leasing activity.

The Fund has disposed of \$13.9m in non-core assets with 40-48 Howleys Road, Notting Hill VIC sold in Oct 13 for \$9.3m and 223-235 Barry Road, Campbellfield VIC sold for \$4.6m in April this year with net proceeds from these sales used to repay debt. The Fund has entered into a non-binding Heads of Agreement to dispose of 5-9 Woomera Avenue, Edinburgh Parks SA, being the Fund's largest vacancy and smallest asset, for \$4.5m (in line with the book value). There is no certainty this transaction will eventuate.

Capital management

The on-market buy-back announced in February provided the Fund with the opportunity to invest in its own quality portfolio at a return superior to that which was available at the time in the direct market. The Fund bought back \$5.9m or 3% of issued capital and was funded through proceeds from non-core asset sales of \$13.9m.

As a result of the buyback and recent capital raising, the Fund's DRP has been inactive since the March 2014 quarter. The DRP was however active for the first half of the year and produced proceeds of \$1.3m which were used to repay debt. The Fund may look at reactivating the DRP as part of its disciplined capital management strategy.

Post Period Activity

On 17 Jul 14 the Fund acquired two properties fully leased to Woolworths on long term leases for \$79.4m reflecting a combined yield of 8.3%. The acquisition was funded through a fully underwritten \$61.0m capital raise at a price of \$2.16 per Unit comprising an institutional placement, a 1 for 7.25 entitlement offer, a general offer and a new debt facility. The institutional component of the raising was significantly over-subscribed with both new and existing institutional investors participating. The retail component was offered to both existing unitholders and 360 Capital's 10,800 investor base and closed significantly oversubscribed yesterday.

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Continuing with the pursuit of properties characterised by strong fundamentals of high occupancy, quality tenants, long WALE and fixed rental increases, the Fund conditionally exchanged on a property at Carole Park in QLD for \$23.9m on 11 Aug 14. The property will be acquired on an 8.0% yield and is leased to Greens Biscuits on a 15 year lease with 3.25% fixed annual rent increases. The acquisition will be 100% debt funded with gearing of 44.7% remaining within the Fund's stated target range.

The abovementioned acquisitions now take the total assets acquired by 360 Capital for the Fund to nine properties with a combined value of \$237.1m. 360 Capital's focus on acquiring quality assets that complement and enhance the existing portfolio has been demonstrated with these assets having a combined WALE of 9.0 years, 100% occupancy and a weighted average building age of 8.7 years.

As part of the acquisitions undertaken in July and the associated capital raise, the Fund increased and extended its debt facility on favourable terms. The multi option debt facility is now extended to Jul 17 and the facility limit has been increased to \$230.0m (drawn to \$207.7m post the abovementioned acquisitions) providing adequate debt capacity for further acquisitions. The margin has been reduced and a new interest rate swap has been entered into for \$185.0 m at 2.95% plus margin giving the Fund an all in debt cost of ~4.5%.

Following on from the recent capital raise and acquisitions, a Unitholder meeting has been scheduled for 8 Sep 14 to consider two resolutions. The first resolution seeks to ratify the July placement and refresh the Fund's placement capacity for suitable investment opportunities and/or general capital management initiatives. The second seeks approval to amend the Funds constitution to simplify the pricing mechanism to allow underwriting of the DRP and provide flexibility in raising new capital.

The Fund's manageable lease expiry profile over the next 24 months provides strong earnings visibility. Of the 22,703sqm of pending FY15 expiry, no single expiry represents more than 2.0% of total portfolio income. Current vacancy of the portfolio is 12,879sqm. The largest area of vacancy is within the Fund's Edinburgh Parks SA asset which considered non-core and held for sale. We are pleased to advise that an offer has been received from an owner-occupier at \$4.5m and the buyer is currently undertaking due diligence.

Outlook

Market

- Capitalisation rates to firm continuing to drive TIX's NTA per unit growth
- More acquisition opportunities expected in FY15 albeit more market players in industrial space now
- Increase in pre-commitment activity may provide fund through opportunities

Operational

- Opportunistic disposal of smaller assets taking advantage of more market players seeking industrial assets
- Address medium term lease expiries to further strengthen the Fund's cashflows

Objectives

- Sustainable distributions through solid and predictable cashflows delivering further value for Unitholders
- Remain appropriately capitalised to continue to grow the Fund's asset base in a responsible manner

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- Well capitalised, nimble manager positions Fund to take advantage of opportunities for TIX unitholders

TIX Fund Manager, Mr Ben Butler said “The outlook for industrial property remains robust, buoyed by a strong investment appetite which is continuing the momentum we have seen in the last 12 months. As tenant demand improves in line with the broader economy we anticipate industrial property will continue to benefit from increased investment supported by several proposed or committed transport infrastructure projects likely to underpin further activity. We will continue to focus on earnings security and distribution growth by pursuing selective opportunities and driving operational performance of our existing portfolio.”

Earnings and distribution guidance

Management has provided FY15 operating earnings guidance of 20.2cpu. Full year distribution guidance of 19.2cpu is also provided representing a 3.3% increase on FY14 and reflects a 95% payout ratio.

Based on the last closing price of \$2.33³, this equates to an earnings yield of 8.7% and distribution yield of 8.2%, indicating an attractive investment proposition.

More information can be found on the ASX's website at www.asx.com.au using the Fund's AXS 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

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About 360 Capital Industrial Fund (ASX code TIX)

360 Capital Industrial Fund is an ASX-listed Fund focused on passive rent collecting from warehouse and logistics properties in Australia in the \$10.0 million plus range. The Fund has strong, defensive, income-focused investment fundamentals via a diversified \$462.1 million portfolio of eighteen quality assets, a weighted average lease expiry of 6.1 years, occupancy of 96.7%, appropriate gearing of 44.7%, distributions tax deferred at approximately 40% to 50% and a forecast FY15 distribution of 19.20cpu. 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 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's 21 full time staff have significant property, funds and investment management experience. 360 Capital Group manages nine investment vehicles holding assets valued at approximately \$1.0 billion on behalf of over 10,800 investors, has over \$100 million worth of co-investments across the 360 Capital Group platform and owns a direct asset valued at more than \$35 million.

³ As at 20 August 2014