

AUSTRALIAN

# RESEARCH

INDEPENDENT INVESTMENT RESEARCH

## 360 Capital Industrial Fund (TIX)

Initiating Coverage

December 2012

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# Contents

|  |    |
|--|----|
| Key Points .....                           | 1  |
| Earnings Forecast.....                     | 1  |
| SWOT Analysis.....                         | 3  |
| Overview.....                              | 4  |
| Financial Position.....                    | 4  |
| Investment Case .....                      | 5  |
| Australian Industrial Property Market..... | 5  |
| Property Portfolio .....                   | 6  |
| Historical Performance of the Fund.....    | 8  |
| 360 Capital Property Group.....            | 9  |
| Peer Analysis.....                         | 9  |
| Risks .....                                | 10 |
| Capital Structure .....                    | 10 |
| Board and Management .....                 | 10 |

### Investment Profile

|                           |        |
|---------------------------|--------|
| NTA at 30 September 2012* | \$0.50 |
| Valuation (NTA/unit)      | \$0.54 |
| Issued capital:           |        |
| Units (M)                 | 182.7  |
| Convertible Notes (\$M)   | 26.0   |

\*Unaudited.

### Board and Management

#### Directors

Andrew Moffat (Non-Executive Director)  
John Ballhausen (Non-Executive Director)  
David Van Aanholt (Non-Executive Director)  
Tony Pitt (Managing Director)

#### Management Team

Ben James (Head of Property)  
Emma Shipley (CFO)  
Alan Sutton (Company Secretary)  
Jason Griffiths (Investment Manager)  
James Storey (Investment Manager)  
Tim Spencer (Head of Investor Relations)

### Major Shareholders

|                               | %    |
|-------------------------------|------|
| The Trust Company Limited     | 18.6 |
| BT Portfolio Services Pty Ltd | 2.7  |
| John Borthwick & Murray Ness  | 1.1  |

### Top 20 Shareholders

27.4

## 360 CAPITAL INDUSTRIAL FUND TO LIST ON THE ASX

The 360 Capital Industrial Fund (the Fund) is expected to list on the ASX in the week commencing 10 December 2012 under the code TIX. The previous manager of the Fund (Becton Investment Management Limited) was acquired by 360 Capital Property Group, a property investment and funds management group, in December 2010. The Fund invests in a portfolio of Australian industrial properties and is managed by 360 Capital RE Limited, the Responsible Entity (RE) and wholly owned subsidiary of 360 Capital Property Group. The Fund is currently going through a period of portfolio repositioning to maintain its goal of a steady stream of income through quality assets coupled with the requirement to reduce debt.

## KEY POINTS

**360 Capital Industrial Fund to List on the ASX:** The 360 Capital Industrial Fund (the Fund) is expected to list on the ASX in the week commencing 10 December 2012. The Fund is listing after unitholders voted in favour of the proposal to list at an extraordinary meeting on 8 November 2012. Listing the Fund provides improved liquidity for unitholders.

**Property Portfolio:** The Fund invests in a portfolio of Australian industrial properties. At 31 October 2012, the portfolio comprised 20 properties valued at \$310.3M (including those properties that are held for sale). The Fund has a high occupancy rate of 98% with a weighted average lease expiry of five years.

**Portfolio Gearing:** The Fund has a \$240M debt facility with the National Australia Bank (NAB). With the recent sale of three properties outstanding debt has been reduced to \$182M, which equates to an LVR of 58.7% of the current portfolio value (\$310.3M). The Fund has to comply with debt covenants associated with the debt facility. In addition to maintaining a minimum Interest Coverage Ratio (ICR) of 1.6x, the Fund is required to progressively reduce the LVR to 50% by 31 March 2014. The RE has achieved asset sales of \$65.1M since taking over management of the Fund, using the proceeds to repay debt and resulting in the reduction of the LVR to 58.7%.

**Portfolio Rationalisation:** The Fund is currently going through a period of portfolio rationalisation. The RE has acquired four properties and divested eight properties to improve the quality of the portfolio. The RE is seeking to sell or has sold those properties it determines as non core assets, which includes those assets that are smaller, have poorer tenants or do not add sufficient value to the portfolio. The Fund recently sold two properties in WA (\$10.5M), with the settlement period ending in mid December. In addition, the RE is seeking to sell an additional Victorian property, valued at \$10.3M. Portfolio rationalisation will continue in the short-term as the RE seeks to reduce debt. This will result in some volatility in the revenue stream, yet will reduce debt levels to a more acceptable level.

**Increase in FY'13 Distributions:** Since acquiring the portfolio in late 2010, the RE has reinstated distributions, paying a full year distribution of \$0.04 per unit in FY'12. The Fund expects to increase distributions to \$0.045 in FY'13, offering an above average yield when compared to its peer group.

**Valuation:** We have valued the Fund based on the net tangible assets (NTA) at the time of listing of \$0.54 per unit. The NTA includes the sale of the two Gauge Circuit properties in WA. We view the NTA as a good proxy for the value of the Fund given it represents the expected value of the Fund if the assets were sold and liabilities extinguished.

## EARNINGS FORECAST

| Y/E June          | 2011A | 2012A | 2013F | 2014F | 2015F |
|-------------------|-------|-------|-------|-------|-------|
| Revenue (\$M)     | 34.3  | 32.6  | 25.3  | 24.3  | 21.9  |
| Total Costs (\$M) | 25.4  | 27.6  | 15.2  | 13.2  | 12.0  |
| Profit/Loss (\$M) | 3.5   | -11.5 | 10.1  | 11.1  | 9.9   |
| NTA (\$/per unit) | 0.61  | 0.51  | 0.55  | 0.54  | 0.53  |
| DPS (\$/per unit) | 0.000 | 0.040 | 0.045 | 0.045 | 0.046 |
| ICR               | 1.82  | 2.00  | 2.40  | 2.87  | 2.88  |

| PROFIT AND LOSS      |             |              |             |             |             |
|----------------------|-------------|--------------|-------------|-------------|-------------|
| Y/E June             | 2011A       | 2012A        | 2013F       | 2014F       | 2015F       |
| Rental Income        | 32.6        | 32.6         | 25.3        | 24.3        | 21.9        |
| Other                | 1.7         | 0.2          | 0.0         | 0.0         | 0.0         |
| <b>Total Revenue</b> | <b>34.3</b> | <b>32.6</b>  | <b>25.3</b> | <b>24.3</b> | <b>21.9</b> |
| Property Expenses    | 6.4         | 7.2          | 5.1         | 4.9         | 4.4         |
| Other Expenses       | 19.0        | 20.4         | 10.1        | 8.3         | 7.6         |
| <b>Total Costs</b>   | <b>25.4</b> | <b>27.6</b>  | <b>15.2</b> | <b>13.2</b> | <b>12.0</b> |
| Other                | 5.4         | 16.5         | 0.0         | 0.0         | 0.0         |
| <b>Profit/Loss</b>   | <b>3.5</b>  | <b>-11.5</b> | <b>10.1</b> | <b>11.1</b> | <b>9.9</b>  |

| BALANCE SHEET (\$M)            |              |              |              |              |              |
|--------------------------------|--------------|--------------|--------------|--------------|--------------|
| Y/E June                       | 2011A        | 2012A        | 2013F        | 2014F        | 2015F        |
| Cash                           | 4.5          | 9.1          | 10.6         | 9.3          | 6.7          |
| Receivables                    | 3.0          | 1.6          | 1.6          | 1.6          | 1.6          |
| Investment Properties          | 0.0          | 46.5         | 0.0          | 0.0          | 0.0          |
| Other                          | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Current Assets</b>          | <b>7.5</b>   | <b>57.2</b>  | <b>12.2</b>  | <b>10.9</b>  | <b>8.3</b>   |
| Investment Properties          | 272.0        | 298.3        | 265.9        | 239.2        | 239.2        |
| Other                          | 5.4          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Non-Current Assets</b>      | <b>277.4</b> | <b>298.3</b> | <b>265.9</b> | <b>239.2</b> | <b>239.2</b> |
| <b>Total Assets</b>            | <b>284.8</b> | <b>355.5</b> | <b>278.0</b> | <b>250.1</b> | <b>247.5</b> |
| Payables                       | 3.8          | 4.4          | 6.8          | 6.4          | 5.9          |
| Borrowings                     | 166.3        | 20.0         | 0.0          | 0.0          | 0.0          |
| Other                          | 0.3          | 7.1          | 0.0          | 0.0          | 0.0          |
| <b>Current Liabilities</b>     | <b>170.5</b> | <b>31.5</b>  | <b>6.8</b>   | <b>6.4</b>   | <b>5.9</b>   |
| Borrowings                     | 0.0          | 200.0        | 145.0        | 118.3        | 118.3        |
| Deferred Tax Liabilities       | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Other                          | 3.7          | 31.8         | 26.0         | 26.0         | 26.0         |
| <b>Non-Current Liabilities</b> | <b>3.7</b>   | <b>231.8</b> | <b>171.0</b> | <b>144.3</b> | <b>144.3</b> |
| <b>Total Liabilities</b>       | <b>174.2</b> | <b>263.3</b> | <b>177.8</b> | <b>150.8</b> | <b>150.3</b> |
| Net Assets                     | 110.6        | 92.2         | 100.2        | 99.4         | 97.3         |
| Contributed Equity             | 179.1        | 179.1        | 179.1        | 179.1        | 179.1        |
| Reserves                       | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| Retained Earnings              | -68.5        | -86.9        | -78.9        | -79.8        | -81.9        |
| Shareholders' Equity           | 110.6        | 92.2         | 100.2        | 99.4         | 97.3         |

| CASHFLOW (\$M)                  |             |              |              |              |              |
|---------------------------------|-------------|--------------|--------------|--------------|--------------|
| Y/E June                        | 2011A       | 2012A        | 2013F        | 2014F        | 2015F        |
| Rental Income                   | 30.1        | 32.6         | 25.3         | 24.3         | 21.9         |
| Expenses                        | 9.3         | 27.6         | 6.8          | 6.4          | 5.9          |
| Interest                        | 14.4        | 12.7         | 8.4          | 6.8          | 6.1          |
| Other                           | 0.0         | 0.0          | 1.7          | 1.6          | 1.6          |
| <b>Operating Activities</b>     | <b>6.4</b>  | <b>-7.7</b>  | <b>8.3</b>   | <b>9.6</b>   | <b>8.3</b>   |
| Asset Sales/(Acquisitions)      | 8.0         | -68.3        | 79.0         | 26.7         | 0.0          |
| Other                           | -7.9        | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Investment Activities</b>    | <b>0.1</b>  | <b>-68.3</b> | <b>79.0</b>  | <b>26.7</b>  | <b>0.0</b>   |
| Share Issues/(Buybacks)         | 0.0         | 0.0          | 0.0          | 0.0          | 0.0          |
| Debt Drawdown/(Repaid)          | -8.0        | -38.0        | -75.0        | -26.7        | 0.0          |
| Dividends Paid                  | 0.0         | -10.3        | -10.8        | -10.8        | -10.9        |
| Other                           | -0.2        | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Financing Activities</b>     | <b>-8.2</b> | <b>-48.3</b> | <b>-85.8</b> | <b>-37.5</b> | <b>-10.9</b> |
| Net Increase/(Decrease) in cash | -1.7        | -124.3       | 1.5          | -1.2         | -2.6         |
| Cash at Beginning               | 6.2         | 4.5          | 9.1          | 10.6         | 9.3          |
| Cash at End                     | 4.5         | 9.1          | 10.6         | 9.3          | 6.7          |

## SWOT ANALYSIS

### STRENGTHS

- ◆ Since acquiring the Fund in 2010, the RE has resumed distribution payments to unitholders, acquired and divested properties to improve the quality of the portfolio, secured a more favourable finance facility and is improving liquidity for unitholders through listing the Fund.
- ◆ The fund expects distributions to increase 12.5% in FY'13 to \$0.045.
- ◆ The Fund has a high occupancy rate at 98% as at 31 October 2012, with a five year weighted average lease expiry.
- ◆ 76% of lease renewals are locked in at CPI or above and over 60% of the lease renewals are in FY'17 and beyond.
- ◆ The RE currently hedges 85% the interest rate risk, reducing operating profit volatility.
- ◆ 360 Capital Group and its associates have an economic interest in the Fund (~18%) plus \$22M of the \$26M convertible notes. This aligns the interests of the RE with that of unitholders.
- ◆ The RE has shown a prudent approach to portfolio management since acquiring the Fund.

### WEAKNESS

- ◆ The RE has divested non core assets to improve the quality of the portfolio. Whilst the RE has achieved their objective of improving the quality of the portfolio, further non core properties are expected to be sold which will reduce the Funds rental income and increase portfolio concentration with fewer properties.
- ◆ Geographically the largest investment is in Victoria, with 9 of the 20 properties located in Victoria, accounting for 38% of the portfolio by value. Victoria has been the worst performing state in the Industrial Property sector and is expected to lag the recovery of other states.

### OPPORTUNITIES

- ◆ The listing of the Fund provides unitholders improved liquidity. Liquidity has been restricted as an unlisted Fund.
- ◆ The Fund provides the opportunity to participate in a recovery in the Industrial Property sector, which is expected over the next two years.
- ◆ The Fund offers direct investment in a portfolio of industrial properties. There are limited opportunities to invest in an industrial specific portfolio currently on the ASX.
- ◆ The RE has the first right of refusal for a five year period over any completed and leased industrial property from the Walker Corporation.

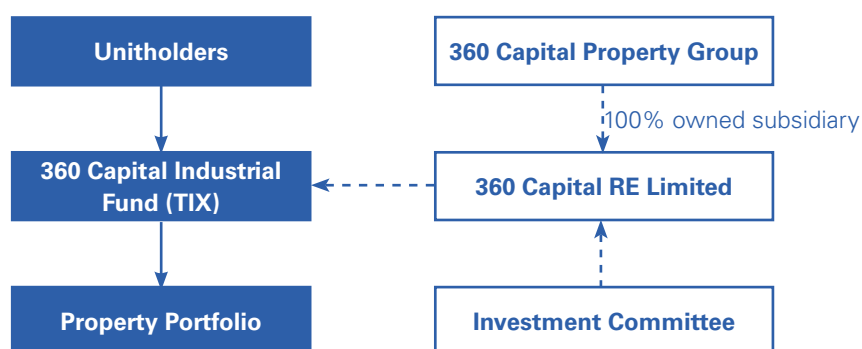
### THREATS

- ◆ The RE may not be able to sell properties to reduce debt levels to meet the covenant requirements in a timely manner. If the debt covenants are breached, the facility terms may be renegotiated at much less favourable terms or the Fund may be subject to being wound up.
- ◆ An increase in interest rates will increase the interest payments for the unhedged portion of the debt (currently 15%), adversely impacting operating income.
- ◆ The listed Fund will likely experience share price weakness in the short-term while sellers (those who need exit) take the opportunity to exit the Fund.
- ◆ The Fund may trade at a discount to NTA, resulting in unitholders not being able to exit their investment at full value. On the otherhand, this provides potential investors the opportunity to invest at a discount and potentially improve their capital return prospects.
- ◆ A decline in the value of the portfolio value without an offsetting reduction in debt levels will result in an increase in the LVR and may result in a breach of covenants.

## OVERVIEW

- ◆ The 360 Capital Industrial Fund is an unlisted industrial property fund which is expected to list on the ASX in the week commencing 10 December 2012 under the code TIX, after investors approved the proposal to list the Fund at a recent unitholder meeting. The primary purpose of the ASX-listing is to provide unitholders improved liquidity. Listing also offers the Fund greater access to capital.
- ◆ The Fund is managed by 360 Capital RE Limited, the Responsible Entity (RE), who acquired the Fund's manager (Becton Investment Management Limited) in December 2010. The RE is a wholly owned subsidiary of the 360 Capital Property Group, a property investment and funds management group that was established in 2006. Since acquiring the Fund, the RE has repositioned the portfolio through asset sales and acquisitions. The most recent acquisition being four properties from the Walker Corporations Industrial Property portfolio.
- ◆ The Fund comprises a portfolio of Australian industrial properties. At the timing of writing this report the Fund has 20 properties valued at \$310.3M, however two of these properties have been sold and are expected to be settled in mid December and another property is up for sale.
- ◆ The Fund seeks to maintain a portfolio of quality industrial properties that offer a steady stream of income and the opportunity for capital growth.
- ◆ The Fund has a \$240M gearing facility, \$182M of which is currently drawdown. The RE recently signed a three year debt facility with NAB. The facility has a variable rate structure, however the Fund uses interest rate swaps to hedge interest rate risk (currently 85% of debt is hedged). The Fund is subject to LVR and interest rate coverage covenants. As part of the facility agreement, the RE has stipulated it will progressively reduce the LVR of the Fund from current levels (58.7%) to 50% by March 2014. The LVR can be reduced through the sale of properties and/or by raising capital to pay down the debt.
- ◆ All investment decisions are reviewed and must be ratified by the Investment Committee (IC). The IC currently comprises two independent directors and one senior executive of the 360 Capital Property Group.

## FUND STRUCTURE



## FINANCIAL POSITION

- ◆ As at 30 June 2012, the Fund had \$9.1M cash and net assets of \$92.2M (\$0.51/unit). The net assets includes investment properties valued at \$344.8M and borrowings of \$220M. In addition the \$220M bank debt, the Fund has \$26M convertible note debt outstanding.
- ◆ The Fund is going through a period of portfolio rationalisation to improve the quality of the properties and reduce debt levels. Post 30 June 2012, the RE has sold three properties for \$34.5M and reduced debt to \$182M. A further three properties are earmarked for sale, two of which have been sold for \$10.5M with settlement expected mid December 2012. At 31 October 2012, the portfolio value was \$310.3M with an LVR of 58.7% (below the required 60% by 31 December 2012).

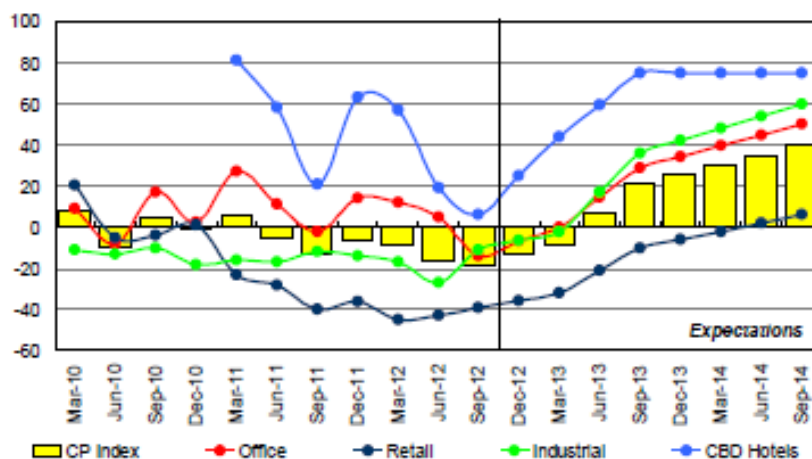
## INVESTMENT CASE

- ◆ The Fund offers the opportunity to gain access to a high yielding defensive investment, gaining access to the expected recovery in the Industrial Property sector over the coming years.
- ◆ Short-term weakness in the share price is expected as sellers exit the Fund once listed, however this will provide investors an opportunity to invest in the Fund at a discount to NTA and potentially improve their capital return prospects.
- ◆ Portfolio rationalisation will continue in the short-term as the RE seeks to reduce debt to meet debt covenant obligations. This will result in some volatility in the revenue stream, yet will reduce the debt levels of the Fund. The listing of the Fund opens up the equity markets as a source of capital.
- ◆ While the RE has successfully been able to manage the portfolio rationalisation process thus far, we note that there are some risks associated with having to reduce debt levels within the 12-month period required by the covenants. The primary risk being the RE may not be able to sell properties in a timely manner, which may result in the Fund not being able to meet covenant requirements.
- ◆ The success of the Fund will largely be dependent on the management of the portfolio, from a debt and asset perspective. The RE has provided confidence thus far in their portfolio management capabilities, which holds them in good stead moving forward.

## AUSTRALIAN INDUSTRIAL PROPERTY MARKET

- ◆ The NAB Commercial Property Index fell in the September quarter 2012, to its lowest level for the year so far at -19 points. The weakness was largely driven by weak Office and CBD Hotel markets. The Industrial Property market was the best performing market, although still remains weak. The Industrial Property market is expected to be one of the better performing markets over the next two years.

NAB Commercial Property Index

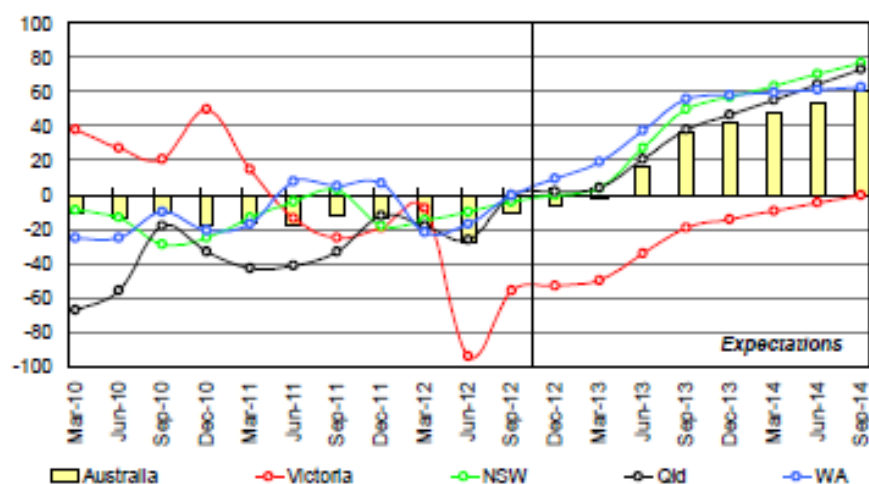


Source: NAB September Quarter Australian Commercial Property Survey

- ◆ From a geographic perspective, Victoria has been the weakest performing state in 2012 by a significant margin (see below graphic), after the index fell significantly in the June quarter. Victoria gained some ground in the September quarter but still remains at -59 points. The greatest confidence lies in WA and NSW, expected to reach +56 and +50 points, respectively, in 2013. The Industrial Property market as a whole is expected to improve over the next two years, with Victoria expected to lag the overall market, remaining in negative territory through to 2014 due to ongoing weakness in the manufacturing sector.



NAB Industrial Property Index by State



Source: NAB September Quarter Australian Commercial Property Survey

- ◆ The Industrial Property market and the Commercial Property market as a whole, is susceptible to business conditions and consumer confidence. Consumer confidence has shown some signs of recovery, with the Westpac Consumer Confidence Index rising 5.2% in November following a 1% increase in October. Business conditions on the other hand remain weak. In October, the NAB Business Conditions Index fell 2 points to -5. The wholesale and manufacturing conditions were amongst the worst performers, which may weigh on expected growth in the Industrial Property sector in the near-term.

## PROPERTY PORTFOLIO

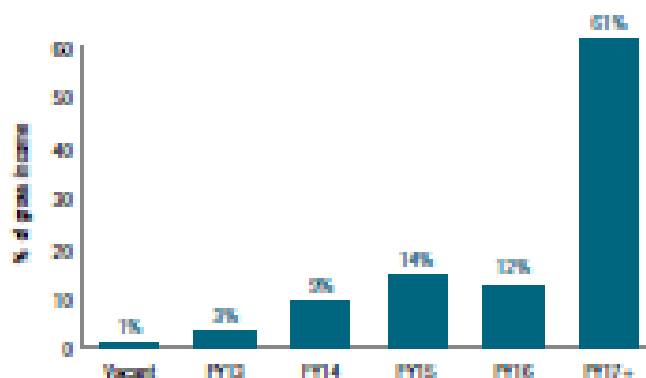
- ◆ The portfolio currently comprises 20 industrial properties located throughout Australia. We note the RE is seeking to sell three of these properties, the sale of two of which is expected to settle in mid December.
- ◆ At 31 October the portfolio had a value of \$310.3M (including the properties held for sale), with a capitalisation rate (cap rate) of 9.1%, 98% occupancy and a weighted average lease expiry period of five years (detailed below).
- ◆ Geographically, the Funds largest exposure is to Victoria with 45% of properties located in the state of Victoria, accounting for 38% of the portfolio by value and 40% by net lettable area.
- ◆ The largest and most highly valued property is 310 Spearwood Avenue at Bibra Lake in WA. The property has a net lettable area of 59,509m<sup>2</sup> and is currently fully leased to two tenants, AWH (44,296m<sup>2</sup>) and CTI Freight Systems (15,212m<sup>2</sup>). The primary tenants (AWH) lease does not expire until July 2019. The property currently contributes to 11.5% of the annual property income.

| Property Portfolio (as at 31 October 2012) |       |              |              |               |                                       |
|--|-------|--------------|--------------|---------------|---------------------------------------|
| Properties                                 | State | Value (\$M)  | Cap Rate (%) | Occupancy (%) | Weighted Average Lease Expiry (years) |
| 60 Marple Avenue, Villawood                | NSW   | 19.7         | 9.0          | 100           | 4.1                                   |
| 37-51 Scrivener St, Warwick Farm           | NSW   | 17.6         | 10.3         | 100           | 1.8                                   |
| 8 Penelope Crescent, Arndell Park          | NSW   | 14.1         | 8.5          | 100           | 3.6                                   |
| 54 Sawmill Circuit, Hume                   | ACT   | 8.9          | 8.3          | 100           | 5.7                                   |
| 22 Hawkins Crescent, Bundamba              | QLD   | 31.0         | 8.5          | 100           | 12.0                                  |
| 1 Ashburn Rd, Bundamba                     | QLD   | 30.3         | 8.8          | 100           | 7.3                                   |
| 9-13 Carlbou Drive, Direk                  | SA    | 9.2          | 8.8          | 100           | 7.0                                   |
| 5-9 Woomera Avenue, Edinburgh Parks        | SA    | 8.7          | 9.3          | 100           | 0.9                                   |
| 102-128 Bridge Rd, Keyborough              | VIC   | 21.5         | 9.5          | 100           | 4.2                                   |
| 500 Princess Highway, Noble Park           | VIC   | 18.3         | 9.3          | 97            | 3.4                                   |
| 14-17 Dansu Court, Hallam                  | VIC   | 14.6         | 9.5          | 100           | 1.6                                   |
| 12-13 Dansu Court, Hallam                  | VIC   | 11.4         | 9.3          | 100           | 3.6                                   |
| 40-48 Howleys Rd, Notting Hill             | VIC   | 9.3          | 9.0          | 100           | 4.2                                   |
| 39-45 Wedgewood Rd, Hallam                 | VIC   | 8.4          | 9.0          | 100           | 0.5                                   |
| 310 Spearwood Av, Bibra Lake               | WA    | 42.0         | 8.9          | 100           | 6.1                                   |
| 6 Albert St, Preston                       | VIC   | 17.2         | 10.3         | 91            | 5.3                                   |
| 223-235 Barry Rd, Cambellfield             | VIC   | 6.4          | 9.0          | 55            | 4.5                                   |
| <b>Sub-Total</b>                           |       | <b>289.5</b> | <b>9.1</b>   | <b>96.6</b>   | <b>5.4</b>                            |
| <b>Properties Held For Sale</b>            |       |              |              |               |                                       |
| 33-59 Clarinda Rd, Oakleigh South          | VIC   | 10.3         | 9.0          | 100           | 3.2                                   |
| 32 Gauge Circuit, Canning Vale*            | WA    | 7.6          | 8.7          | 100           | 2.4                                   |
| 28 Gauge Circuit, Canning Vale*            | WA    | 2.9          | 8.3          | 100           | 3.9                                   |
| <b>Sub-Total</b>                           |       | <b>20.8</b>  | <b>8.8</b>   | <b>100</b>    | <b>3.0</b>                            |
| <b>Total</b>                               |       | <b>310.3</b> | <b>9.1</b>   | <b>98</b>     | <b>5.0</b>                            |

\* Properties have been sold with the settlement period to end mid December.

- ◆ The weighted average lease expiry period is five years, which is well above the bank required average of three years. The RE has locked in lease extension increases of CPI or above for 76% of the leases.
- ◆ Over 60% of the Fund's lease agreements expire in FY'17 and beyond, limiting any short-term lease expiry risk.

Lease Profile of the Fund (as at 31 October 2012)



Source: 360 Capital Industrial Fund Information Memorandum

- ◆ In FY'12, the Fund acquired four properties from the Walker Corporations Industrial Property portfolio for a cost of \$87.4M. The Walker Corporation is an Australian property developer. The RE has first right of refusal to acquire any further industrial properties that have been developed and leased from the Walker Corporation for a five year period.

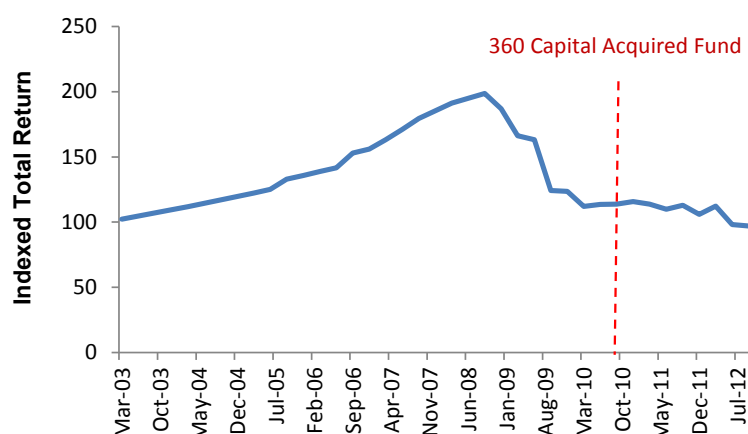
## DEBT FACILITY

- ◆ In March 2012, the RE entered into a \$240M three year debt facility with NAB. The facility matures on the earlier of 31 December 2012 or the three year anniversary of the Fund listing on the ASX.
- ◆ The facility is secured against the assets of the Fund and is first ranking over all other debt and equity.
- ◆ The debt facility has a variable interest rate structure. To hedge the interest rate risk the RE uses interest rate swaps. \$155M of the current \$182M debt drawdown is covered by interest rate swaps. The remainder of the debt is subject to an increase/decrease in the variable interest rate.
- ◆ Covenants associated with the facility include:
  - Minimum Interest Coverage Ratio (ICR) of 1.60x. The ICR at 30 June 2012 was 2.0x.
  - Maximum LVR of 65% with a reduction of the LVR to 60% by 31 December 2012, 55% by 30 June 2013, and 50% by 30 March 2014.
  - A weighted average lease expiry above 3 years.
- ◆ To determine the LVR, property values will be based on the latest available independent valuation. The Fund is required to have an independent valuation of the properties done every two years. The RE's policy is to internally revalue the properties every six months.
- ◆ The RE has reduced the LVR below the required 60% level by the end of 2012 through the proceeds raised from the sale of three properties post June-end, which raised \$34.5M. This in conjunction with the sale of the two Gauge Circuit properties in Canning Vale, WA, will reduce the outstanding debt to \$171.5M (LVR of 57.2%). A third property in Victoria is up for sale, valued at \$10.3M. If the property is successfully sold at the current value, the property portfolio value will be reduced to \$289.5M and the debt will be reduced to \$161.2M (LVR of 55.7%).
- ◆ To reduce the LVR to 50% by 31 March 2014, the Fund will have to further reduce debt levels. In order to reduce the debt the RE will have to sell additional properties or raise capital from the equity market.

## HISTORICAL PERFORMANCE OF THE FUND

- ◆ The Fund was originally established by Glenmont Properties in 2002, before being acquired by Becton Investment Management Limited and then 360 Capital Property Group in December 2010.
- ◆ Since being established the Fund has generated a total return of -0.32%p.a. to 30 September 2012. The Fund was negatively impacted throughout 2008 and 2009 by falling property values, which resulted in the previous manager suspending distributions. The RE reinstated distributions in FY'12 and expects distributions to increase 12.5% in FY'13.
- ◆ Since acquiring the Fund, 360 Capital has reduced the LVR of the Fund from 60% to 58.7%, negotiated a new three year debt facility, reinstated distributions and has increased the occupancy rate from 91% to 98%.

360 Capital Industrial Fund Historical Return



Source: 360 Capital RE Limited/IIR

## 360 CAPITAL PROPERTY GROUP

- ◆ The 360 Capital Property Group (360 Capital) was established in 2006 and undertakes property investment and funds management. The group is based in Sydney and currently has ~\$865M of funds under management through 11 property funds.
- ◆ The group is focused on actively managing Australian based property portfolios. The group does not participate in property development activities. The group currently manages funds that invest in commercial, industrial and retail property.
- ◆ 360 Capital and its associates have an economic interest in the Fund (approximately 18%), and \$22M of the \$26M convertible notes on issue. 360 Capital seeks to maintain a 15%-20% holding in the Fund. The investment in the Fund by 360 Capital aligns the interests of management and unitholders.

## UNITHOLDER ACTION

- ◆ On 8 November 2012, an extraordinary meeting of unitholders was held to decide whether to list the Fund on the ASX. Unitholders voted overwhelmingly in favour of the Fund listing.
- ◆ A meeting was called by a financial planner who controls approximately 10% of the issued capital, to replace the RE with Denison Funds Management Limited. This meeting was cancelled after an analysis of proxy votes indicated the majority of unitholders were in favour of retaining the RE as the Fund manager.

## PEER ANALYSIS

- ◆ We have compared the Fund to those listed A-REITs classified as unit trusts and not stapled securities. There is currently only one other direct Industrial Property fund offered on the ASX, the Mirvac Industrial Trust (MIX), the assets of which are all located in the US.
- ◆ Based on the reported assets in the 30 June 2012 accounts from the below peer group, the average LVR is around 50%, which is where the Fund is seeking to reduce their LVR level to. The average premium/discount to net tangible assets (NTA) is 17.5%.
- ◆ The Fund had a dividend yield of 7.8% in FY'12. Based on the expected FY'13 distribution, at the 30 June 2012 NTA (\$0.51) the Fund is yielding 8.8%. This is well above the average dividend yield offered by its peers.

| A-REIT         | Share Price (as at 27 November 2012) | NTA (based on 30 June 2012 accounts) | Market Cap (\$M) | Premium/Discount | Dividend Yield | LVR (based on 30 June 2012 accounts) |
|----------------|--------------------------------------|--------------------------------------|------------------|------------------|----------------|--------------------------------------|
| AEU            | 1.20                                 | 1.21                                 | 210.6            | -0.8%            | 8.5%           | 38.9%                                |
| BPA            | 3.90                                 | 4.65                                 | 191.5            | -16.1%           | 8.0%           | 58.0%                                |
| CDP            | 5.55                                 | 6.38                                 | 388.5            | -13.0%           | 5.0%           | 26.9%                                |
| CFX            | 1.93                                 | 2.07                                 | 5,459.0          | -6.8%            | 6.8%           | 31.0%                                |
| CPA            | 1.04                                 | 1.16                                 | 2,440.9          | -10.3%           | 5.9%           | 27.0%                                |
| CQR            | 3.61                                 | 3.38                                 | 1,206.1          | 6.8%             | 7.3%           | 37.9%                                |
| GHC            | 0.98                                 | 1.00                                 | 72.0             | -2.0%            | 6.8%           | 60.0%                                |
| MIX            | 0.12                                 | 0.19                                 | 41.7             | -39.5%           | na             | 67.2%                                |
| MUE            | 0.10                                 | 0.11                                 | 24.4             | -10.0%           | 6.4%           | 100.5%                               |
| PXT            | 0.10                                 | 0.22                                 | 19.7             | -56.8%           | na             | 67.0%                                |
| RNY            | 0.19                                 | 0.39                                 | 50.0             | -51.3%           | na             | 60.6%                                |
| WRT            | 3.02                                 | 3.37                                 | 9,223.6          | -10.4%           | 5.9%           | 17.8%                                |
| <b>Average</b> |                                      |                                      |                  | <b>-17.5%</b>    | <b>6.7%</b>    | <b>49.4%</b>                         |

## RISKS

- ◆ **Asset Value Risk:** Properties will be officially revalued every two years. There is a risk that the value of the properties will decline, therefore reducing the resale value of the properties in the portfolio and increasing the LVR. This may lead to a breach of the debt covenants if an offsetting reduction in debt is not made.
- ◆ **Occupancy Risk:** Currently the property has a 98% occupancy rate. In the event that tenants do not renew their leases and new tenants cannot be found, the cashflow of the fund will be adversely affected.
- ◆ **Tenant Default:** Tenants may default on their payment obligations. This would negatively affect the income of the Fund.
- ◆ **Interest Rate Risk:** The Fund has a \$240M loan facility (drawn to \$182M), which has a variable rate interest rate structure. Interest rate swaps are in place to cover \$155M (85.2%) of debt drawn, however the remainder of the debt is subject to the variability in interest rates.
- ◆ **Refinancing Risk:** The Fund currently has a three year finance facility. The RE may not be able to successfully renew the debt facility when required or refinancing may be on terms that are materially less favourable.
- ◆ **Trading at a Discount to NTA:** The Fund may trade at a discount to NTA. Investors looking to exit the Fund may not be able to realise their units at NTA.

## CAPITAL STRUCTURE

- ◆ There are currently 182.7M units on issue and 26M convertible notes on issue. The Fund has \$182M debt at the time of listing with an NTA of \$0.54. The convertible notes are paid a coupon of 12%p.a. This will step down to 10%p.a. upon the Funds listing.
- ◆ The top three unitholders are:
  - The Trust Company Limited (18.6%)
  - BT Portfolio Services Ltd (2.7%)
  - John Borthwick & Murray Ness (1.1)

## BOARD AND MANAGEMENT

### BOARD OF 360 CAPITAL RE LIMITED

- ◆ **Andrew Moffat - Non-Executive Chairman:** Mr. Moffat has in excess of 20 years experience in corporate and investment banking. Mr. Moffat is currently the sole principal of Cowoso Capital Pty Ltd, a corporate advisory company. Mr. Moffat's previous roles included Director of Equity Capital Markets and Advisory at BNP Paribas Equities (Australia) Limited. Mr. Moffat is currently the Chairman of Pacific Star Network Limited and a Director of Rubik Financial Limited.
- ◆ **John Ballhausen - Non-Executive Director (IC Member):** Mr. Ballhausen has a financial services background. Mr. Ballhausen was the founder and Managing Director of Rimcorp Property Limited, which grew to \$100M funds under management. Prior to Rimcorp Property, Mr. Ballhausen was the chief Investment Officer with HIH Insurance.
- ◆ **David Van Aanholt - Non-Executive Director (IC Chairman):** Mr. Van Aanholt has over 20 years experience in the property funds management industry. In 2007, Mr. Van Aanholt established a Property Group. Prior to this Mr. Van Aanholt was the Chief Executive Officer (Asia Pacific) at Goodman Group. Mr. Van Aanholt also held the positions of Fund Manager at Paladin Australia Limited and Associate Director at CDH Properties.
- ◆ **Tony Pitt - Managing Director:** Mr. Pitt is the founding Director of 360 Capital and has over 15 years experience in the property funds management industry. Prior to 360 Capital, Mr. Pitt was the Director of JF Meridian Trust, an Executive Director at James Fielding Funds Management Limited, Hotel Capital Partners Limited, Bankminster Properties Limited and Paladin Travelodge Group.

## MANAGEMENT

- ◆ **Ben James - Head of Property (IC Member):** As the Head of Property for 360 Capital, Mr. James is responsible for all property investment activities. With over 17 years of experience in property funds management, Mr. James has held varied positions in property funds including Mirvac Property Trust and Colliers International.
- ◆ **Emma Shipley - Chief Financial Officer:** Ms. Shipley is responsible for all aspects of financial control at both the Fund and the 360 Capital Group. Ms. Shipley has experience with property companies, previously holding the positions of Vice President of Finance for Brookfield Australia's Infrastructure Group and CFO at Brookfield Multiplex Capital.
- ◆ **Alan Sutton - Company Secretary:** Mr. Sutton has more than 30 years experience in financial control and company secretarial positions. Prior to joining 360 Capital, Mr. Sutton was the Company Secretary for the Lachlan Property Group and Financial Controller at Paladin Australia.
- ◆ **Jason Griffiths - Investment Manager:** Mr. Griffiths is responsible for overseeing the performance of a portfolio of industrial property assets. With over 11 years experience, Mr. Griffiths has held the positions of Asset Manager at FKP Property Group and Asset and Development Manager at Challenger Financial Services Limited.
- ◆ **James Storey - Investment Manager:** Mr. Storey is responsible for a portfolio of property assets. Mr. Storey has over seven years experience in the property industry. Mr. Storey has previously worked for Ernst & Young in the Transaction Advisory Services Team, Valad Property Group and Brookefield Office Properties.
- ◆ **Tim Spencer - Head of Investor Relations:** Mr. Spencer is responsible for all aspects of marketing and communication programs with key external stakeholders. Mr. Spencer has over 19 years experience in the property industry covering investor relations, investment analysis, portfolio management, research and product development.

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