

## RG198 Announcement

ALL CORRESPONDENCE TO:

Boardroom Pty Ltd  
GPO Box 3993

Sydney NSW 2001  
Phone: 1800 182 257

Email: [investor.relations@360capital.com.au](mailto:investor.relations@360capital.com.au)

Web: [www.360capital.com.au](http://www.360capital.com.au)

## 360 Capital Industrial Fund

ARSN: 099 680 252

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### 360 CAPITAL INDUSTRIAL FUND: MEMBER UPDATE

We are pleased to advise that a new Meeting will be held in September with one simple proposition for you to **approve a listing of the Fund on the ASX to provide full liquidity for Members who want it by December 2012.**

No doubt you have received a letter about an alternative meeting from the Denison Group with the backing of their parent, Forum Partners, a US-based hedge fund and one of the largest convertible bond investors in the world.

Forum's business is buying assets at minimum price. Do you really believe Forum has **ANY** interest in your well-being? We, as the largest economic investor in the Fund, believe they are purely motivated by their own self-interest to secure management fees at Members' expense.

**360 Capital's proposal provides liquidity, fairly and transparently, to everyone before Christmas.** This is what many investors have asked for and is what approximately 90 % of Members voted for prior to the last meeting being postponed at the instigation of Denison/Forum's associate, Mr Chris Garnaut.

#### Performance of your Responsible Entity

360 Capital is a financially secure, Australian property fund manager with deep retail investor experience. We have:

- A current retail investor base of more than 10,000 Members
- Our Directors and Senior Management have an average of 15 years of local property funds management experience
- A number of our 20 locally based staff have gained retail investor experience through the management of the Mirvac/JF Meridian Trust and syndicates that had more than 28,000 Members
- Full alignment with Members through our investment in your fund

Prior to 360 Capital becoming the manager of your Fund, the Fund had significant impediments:

- Distributions were suspended and had not been paid for at least 18 months
- Pressure from the Fund's financiers to refinance the Fund's borrowings, which were on a short term and expensive basis
- No prospects of addressing the liquidity event in December 2012

Since becoming the responsible entity of the Fund, since December 2010, we have:

- Stabilised the Fund's balance sheet by entering into a new \$260 million three year finance facility with NAB on improved terms and conditions
- Reinstated FY2012 distributions at 4.0 cents per Unit per annum
- Increased the forecast FY2013 distributions by 12.5% to 4.5 cents per Unit per annum
- Re-leased in excess of 130,000 square metres of industrial space over 18 tenancies (over 40% of the Portfolio's net lettable area)
- Increased the Fund's weighted average lease expiry from 3.2 years to 4.9 years
- Sold three older style properties characterised by short term income risk for \$19.1 million
- Acquired four properties with long term leases for \$87.4 million from Walker Corporation which enhanced the Fund's income security and asset quality
- Investigated all alternatives to provide liquidity to Members and determined that listing the Fund on the ASX is in the best interests of all Members.

Our experience and track record speaks for itself. We strongly question just what improvement in performance a change of Responsible Entity will provide Members – in fact we believe that Members will be worse off and that the Fund is likely to be put in jeopardy.

#### **Denison/ Forum proposal**

The Denison/ Forum proposal is opportunistic and is not in the best interests of Members. In particular:

- it DOES NOT provide Members with liquidity
- it DOES NOT provide a strategy for the future of the Fund
- it will trigger an EVENT OF DEFAULT under the Fund's banking facilities
- there is a HIGH RISK that it will result in the winding up of the Fund which will have a materially adverse effect on Members
- Denison/ Forum group DOES NOT have relevant expertise and experience
- Denison/ Forum has a history of generating superior returns for themselves AT THE EXPENSE OF THEIR INVESTORS
- Denison/ Forum ARE NOT MEMBERS in the Fund and as such their interests are not aligned with Members.

**As such, 360 Capital recommends that Members reject the Denison/ Forum proposal and ignore all correspondence received from Denison/ Forum and its associates.**

**No Liquidity:** Denison/ Forum provides no liquidity strategy for the short or long term. Denison/ Forum wants you to wait up to another three years for your money. We want to give all Members the option to get out by Christmas this year (or a time of your choosing), or stay in the Fund and continue to enjoy the benefits the Fund produces.

In the meantime, Denison/ Forum says it will offer liquidity using its complete discretion based on Hardship claims only. Assuming a Member qualifies for Hardship, one can expect that this global hedge fund is likely to make an offer to buy out your investment at a massive discount to NTA per Unit.

No details are given as to whether they will be able to acquire those units or for what price. Such action is likely to see you being offered merely a fraction of your investment's value.

In addition, any liquidity facility may also be designed to deliver control to unknown Forum affiliates at a heavily reduced price, which will disempower remaining Members and deprive the Fund of future opportunities. This will be to the significant disadvantage of any remaining Members.

Compare this to your Responsible Entity's proposal whereby you may liquidate your investment at any time in the efficient and transparent ASX market.

**High Execution risk:** Denison/ Forum is seeking Members' approval for an extension of the Fund's investment term and a deferral of the Exit Mechanism for three years. This will require a 75% vote in favour. We strongly expect that the absence of an effective liquidity strategy will cause this resolution to fail. This will mean that the Fund will need to be wound up which will have a materially adverse effect on Members. Our belief is that this is the likely and worst outcome for Members, and is exactly what our proposal seeks to avoid.

**Breach of banking covenants:** If the Denison/ Forum proposal is passed then the Fund will be in breach of its banking covenants which may result in NAB taking enforcement action which may have a material adverse effect on Members or result in the Fund being wound up.

**Poor Denison/ Forum fund management performance:** Denison/ Forum does not have the relevant expertise and experience: One only need look at the performance of the Denison/ Forum funds as set out below:

Denison/ Forum Fund	Distributions	NTA per Unit as at 30 June 2012	Performance Based on \$1.00 per Unit
Denison Diversified Property Fund	Suspended	\$0.47	-53%
Denison Metro Property Syndicate	Suspended	\$0.55	-45%
Denison New Enterprise Property Syndicate	Suspended	\$0.69	-31%
Denison Premiere Property Syndicate	Suspended	\$0.64	-36%

Source: Denison website 16 August 2012

In relation to these funds in a press release on 28 June 2012 "Mr Burrows said he believed it would be a two to three year time frame before distributions and redemptions would resume".

Denison/Forum has a history of extracting for themselves superior returns out of its funds at the expense of investors. In an Investor Presentation and Update 6-9 August 2012, Unitholders in the abovementioned Denison Diversified Property Fund had their distributions suspended while Denison/Forum "restructured" the fund via:

- A \$19.4 million loan from Forum to the Diversified Fund (to be repaid in total by June 2015)
- Interest rate of 18% p.a. payable to Forum
- Provision for issuance of warrants to Forum and its affiliates for 35 million Diversified Fund units. Using the current units on issue of 80.8 million, the warrants will dilute existing unitholders from 100% to 70% ownership.

No warrant conversion price was provided - one should assume it will be at a large discount to NTA.

**Garnaut etc. cannot be trusted to deliver liquidity at a fair price:** Further evidence of the likely destruction of your investment's value at the hands of Denison/Forum is that the last Fund manoeuvred by Garnaut to a new Trustee in 2012 offered Unitholders liquidity at 37% discount to NTA. Our analysis shows that listing the 360 Capital Industrial Fund will have nowhere near this impact on Members' value and will provide liquidity by Christmas.

We are not interested in having these people anywhere near our investment in the Fund, and nor should you.

#### **Conflict of Interest: Denison/ Forum & Garnaut**

The relationship between Denison/Forum fails to address the fact that there is a commercial relationship with Garnaut that has not been disclosed. How much is Garnaut getting paid this time? A full disclosure of Garnaut's commercial (or any other beneficial) arrangements with Denison/Forum needs to be made known to Members as Garnaut has brokered this ill-conceived proposal. We also note that Garnaut's clients own substantial stakes in each of the Denison/Forum funds.

#### **Summary**

Denison/Forum are asking you to appoint them when they have no clear strategy for the Fund, no ability to execute a strategy (if one is developed) and no clarity on when or the price or the terms on which Members will have liquidity. The Denison/Forum proposal is opportunistic and ill-conceived. Denison/Forum does not have the requisite experience. If their proposal is approved, it may well result in the Fund being wound up.

I understand that this recent process has confused and frustrated Members and accept that we are partly to blame for this confusion and frustration. We strongly believe we have always had your best interests at heart.

Put simply, Denison/Forum is gambling with your investment in an attempt to secure management fees. Putting their proposal forward does not cost them anything. However if their proposal is successful, it could cost Members a great deal. **DO NOT LET DENISON/ FORUM PLAY ROULETTE WITH YOUR VALUABLE INVESTMENT.**

Our proposition is simple. After stabilising your Fund, reinstating and then increasing your distributions, we are now addressing the December 2012 Exit Mechanism to provide liquidity by Christmas at a likely greater value than any other proposal.

We are committed to Members' best interests. We would like you to approve the listing of your Fund through a new Member meeting to provide a fair way out for those who need it by December 2012 and a fair way forward for those who would like to join us in sharing the Fund's future prosperity. Our new Notice of Meeting will be with you soon. In the meantime, if you have any questions please call 1800 182 257 or visit [www.360capital.com.au](http://www.360capital.com.au)

Yours faithfully,



Tony Pitt

**Managing Director**

**360 Capital RE Limited**

**Fact Sheet regarding 360 Capitals proposal to list the Fund on the ASX**

**If the Fund does not list, THE CURRENT EXIT MECHANISM must be followed.**

The Fund's Constitution allows for Members to request redemption of their Units at the Exit Date (17 December 2012). 360 Capital expects a majority of Members to seek redemption by the Exit Date as it is the only liquidity option in the next 10 years, whereby 360 Capital would have no option but to wind up the entire Fund.

**Impacts of a Fund wind up** are expected to include:

1. It is likely that NAB (per the terms of the debt facility) will require **distributions to immediately cease**. This is very common when a fund reaches a point of selling down its assets.
2. The Fund would be a "forced seller" of assets. Potential buyers would know that the reason for selling is not market related, but purely because the Fund is **required** to sell. Consequently, buyers would seek to purchase asset below their current values. This will have a negative impact on the value of your units, which would then be magnified by the level of gearing in the Fund.
3. The completion of the sale and wind up process will **take up to two years**. The 24 assets in the Fund's large \$356 million portfolio need to be sold, and the Fund's debt repaid, *before* Members receive any remaining capital.

**If the Fund lists, THE CURRENT EXIT MECHANISM has no effect.**

**Listing the Fund** will provide Members with the following **key benefits**:

1. Your investment will gain full liquidity by December 2012. You can choose to exit the Fund at any point by selling your Units (in part or in full) on the open market.
2. If you sell, you will receive the proceeds of any sale within 3 days of selling.
3. If you stay in the Fund, you will enjoy the benefits of strong distributions. After listing you will receive a forecast 12.5% increase in your 2013 distribution to 4.5 cents per Unit.
4. \$7.1 million in cost savings as 360 Capital will waive fees of \$7.1 million (3.9 cents per Unit) if the Fund lists.

**The Board of 360 Capital obtained advice from an independent expert who confirmed the strategy (including listing on the ASX) is in the best interests of Members.**

360 Capital believes that current market conditions (falling interest rates and on-going economic uncertainty) support the listing of high yielding defensive stocks such as Australia Real Estate Investment Trusts (A-REIT).

1. A-REITs have outperformed general equities by 17.7% over the year to June 2012
2. At 30 June 2012 the average discount to NTA (excluding Westfield Group) had shrunk to 5.8% down from over 40% during the GFC.
3. Growthpoint Properties Australia is a domestic focused and passive A-REIT with gearing of circa 50% that for the last six months has traded above its 31 December 2011 NTA per Unit.
4. The Fund will have strong appeal to listed property trust (A-REIT) investors as the Fund will be the only A-REIT focused on the passive industrial property investment sector.

Finally, given our significant economic interest in the Fund, our financial interests are aligned with yours. Put simply, why would 360 Capital do something to destroy its own investment? 360 Capital's desire to list the Fund is underpinned by our obligation as the Responsible Entity to act in the best interests of all Members, which means acting in the best interest of our own significant investment in the Fund.

**It is for these reasons that we want to provide you with the opportunity to approve the listing of the Fund.**