



Centuria Capital Group AGM

Thursday, 12 October 2017, 10:00 am

Sofitel Sydney Wentworth, Hobart Room, Lobby Level, 61-101 Phillip Street, Sydney

Chairman's address: Garry Charny

Good morning ladies and gentlemen.

My name is Garry Charny, and I am the chairman of Centuria Capital Group. On behalf of our board of directors and senior management, I would like to welcome you to our Annual General Meeting for the 2017 financial year.

I am satisfied a quorum is present and so I declare the meeting open. I propose to take the Notice of Meeting as read.

First, let me introduce my fellow directors: Peter Done, John Slater, Susan Wheeldon-Steele, Nicholas Collishaw, Jason Huljich and John McBain.

The Centuria Group is a relatively complex business. The property funds management vehicles themselves comprise two independently listed REITs, presently sixteen separately accounted unlisted property funds and one open-ended diversified property fund.

In addition to the Centuria Capital directors present today, we have two "responsible entity" boards which govern the affairs of the property funds and I would like to welcome and acknowledge Matthew Hardy and Darren Collins who sit as independent directors on these boards.

Finally, I would like to welcome back Roger Dobson, our erstwhile Chairman, who, after some gentle arm twisting, has agreed to sit on the CPFL Board.

I think it is important to note that the majority of our independent directors sit on the APRA regulated Centuria Life board and the Over Fifty Guardian Friendly Society board. All of these boards and their attendant committees and compliance obligations make life very busy for our non-executive directors and the significant achievements achieved this year is testament to their hard work.

I would also like to make special mention of Peter Done, the Chair of both the Centuria Capital and Centuria Life Audit Committees. It is a thankless but absolutely critical task in a company of our size and nature and we are indebted to him for the care and attention he delivers year after year.

This is a cohesive and focused board. In what is demonstrably a fast-moving environment, the directors all give willingly of themselves, often on short notice and at all hours and I thank them for their dedication and commitment.

As you would be aware from the Notice of Meeting, there are seven items of business to be discussed when we move into the formal part of the meeting.

Before proceeding to those items I would like to make some general observations about the last 12 months or so and what lies ahead.

Centuria Capital Group

Consisting of:
Centuria Capital Limited ABN 22 095 454 336 and
Centuria Capital Fund ARSN 613 856 358

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Then our CEO, John McBain will comment in more specific terms on the company's business activities and after that I will return to open the formal proceedings.

Year in review

I'm pleased to report on what has been a transformational year for Centuria.

When I spoke to you less than twelve months ago our share price was around \$1.03. Today it is closer to \$1.40. Whilst not the only indicia of a successful company, it certainly suggests we remain on course to serve you, our shareholders in the best way possible.

Centuria has delivered impressive results from its core operating businesses, enabling us to offer initial FY18 guidance for operating earnings per security of 10.8 cents, subsequently upgraded to 15.8 to 16.2 cents per security following the realisation of a significant performance fee from the unlisted property division in October this year.

At the same time, the group experienced elevated corporate activity, with our market capitalisation tripling and a 118% increase in funds under management to \$4.2 billion.

Often when we see strong growth in companies this size, it is carried out at the expense of securityholder distributions and I am pleased to say, and remain resolute in maintaining, this hasn't been the case for Centuria. We were pleased to recently issue FY18 distribution guidance of 8.2 cents per security up 9.3% from the previous financial period.

In line with our strategy, both the board and management have maintained our sharp focus on reliable, growing distributions while actively growing underlying funds under management and the scale of the business.

Undoubtedly, our acquisition of the majority of the 360 Capital Group real estate platform was the largest single contributor to group scale, growing funds under management by \$1.4 billion.

The transaction was complementary to Centuria at many levels, providing exposure to many new institutional and retail investors, additional relationships with new financiers and strategically expanding our listed investment offering with the acquisition of Centuria Industrial REIT (formerly the 360 Capital Industrial Trust). In addition, we were able to provide scale to Centuria Metropolitan REIT, which is now firmly positioned in the S&P ASX 300 Index.

More importantly, this large acquisition has been successfully integrated into the Centuria business. Whilst a short sentence, that statement underplays the meticulous planning and adroit implementation by the entire management team to make that integration seamless, ensuring a strong platform for recurring revenues into the future. The relative seamlessness of this integration is testament to the experience and capability of the property and funds management teams.

In addition, organic growth in our listed property business has seen Centuria enter the 2018 financial year as a significant player amongst its Australian peers. With \$1.6 billion of funds under management, our unlisted business has further cemented its position amongst the country's leading unlisted funds.

Centuria Life has achieved above market growth of 11% in FY17. Market conditions continue to be favourable for investment bonds as regulatory changes start to restrict contributions into superannuation savings, and the board is committed to supporting this growth.

Conclusion

In summary, FY17 was a transformational year for our business.

When I was invited to serve on Centuria's Board in 2016, one of the exciting challenges put forward was an agenda of significant growth. I am proud to be able to report that during the 2017 financial period we were able to achieve substantial growth without compromising our commitment to providing reliable and growing distributions to securityholders. Whilst there remains many a slip 'twixt the cup and the lip, I believe we have made progress in building a company of necessary scale and quality to make us all guardedly optimistic for the future.

I must also acknowledge the Centuria management team for their hard work and disciplined approach to growing the business.

Our Group CEO, John McBain, continues to work well with the Board in driving the strategic growth of Centuria. He exhausts me with his energy and unbridled enthusiasm and it is a pleasure working closely with him.

He is also well supported by the senior management team including Jason Huljich, Nick Collishaw and our CFO, Simon Holt.

You may have read that Nick Collishaw will be moving to a non-executive director's role in 2018. I cannot overstate the role Nick has had in building our listed REIT business. I am delighted to say the gravitas, experience and wisdom he brings will not be lost to us when he joins the CPFL Board and continues on the Centuria Capital Board.

As Nick transitions to a non-executive director, Jason Huljich will assume responsibility for the Listed Property team, in addition to his current responsibilities in leading the Unlisted Property team. I am pleased to see our succession planning bearing fruit and assure our shareholders that we remain in capable hands.

During the 2018 year the board and management team will continue to work in close cooperation and remain united in the pursuit of clear strategic growth goals.

Finally, I wish to convey my appreciation for the ongoing support of our securityholders. We serve at your pleasure and deeply respect the trust you have placed in us. We remain committed to achieving sustainable growth and optimal returns.

If I could now ask John McBain, Centuria Capital Group to deliver the CEO's report.

Garry Charny
Chairman

CEO's address: John McBain

Thank you Mr Chairman, and good morning everyone. Let me also welcome securityholders to the Centuria Capital Group 2017 annual general meeting.

It is pleasing to see so many well-known faces but I want to offer a particular welcome to new securityholders who have taken the trouble to attend today.

Today I will begin with a report on Centuria's results for the 2017 financial year, and then bring you up to date with some important events which have occurred since the end of the reporting period, and are extremely positive for Centuria.

I will also make some comments regarding the property and financial services outlooks in Australia, and where we see opportunity.

A lot has happened since we met last year so I apologise if my address somewhat longer than you generally expect from me.

Year in review

Last year I outlined our ambition to build a larger-scale business underpinned by high quality, recurring earnings.

During financial year 2017, we executed a series of major initiatives which, in combination, have enhanced the scale of our business platform substantially, grown recurring revenues and increased distribution per security.

Financial metrics:

The year-on-year financial metrics for the business are summarised as follows:

| | FY17 | FY16 | Increase |
|--------------------------------|-------------|-------------|-----------------|
| Operating net profit after tax | \$15.5 m | \$11.3m | 37 % |
| Operating earnings per share | 10.3 c | 14.8c | (31) %* |
| Distribution per security | 7.5 c | 5.25c | 43 % |

* Please note that our FY16 total operating earnings per security were impacted positively by a \$16 million performance fee generated by the unlisted property division – So while the total operating earnings metric decreased, in fact core recurring earnings devoid of performance fees continued to grow, a trend which has continued.

Highlights during FY17 include:

- ⇒ Acquisition of the 360 Capital real estate platform in November 2016, which increased property funds under management by \$1.4 billion

- ⇒ Organic growth of \$731 million from unlisted and listed property acquisitions, and above market growth in our investment bonds business of 11%
- ⇒ Total group funds under management increasing 118% to \$4.2 billion, significantly in excess of our FY17 target of 25%
- ⇒ A strengthened balance sheet, providing co-investment support to REITs and unlisted fund acquisitions, and
- ⇒ Recurring revenue contributions increased from 55% to 75% of total revenue

As a result, our market capitalisation tripled from \$80 million to \$290 million and our security price grew from \$1.05 to \$1.26 per security in the 2017 financial year.

Most importantly, this growth was achieved while improving securityholder returns and in line with guidance. As discussed, distribution per security increased from 5.25 cents in FY16 to 7.5 cents in FY17 as per guidance, and total shareholder return for the period was 24%.

The acquisition of the 360 Capital platform was extremely complimentary to the Centuria platform affording Centuria substantially greater scale and positioning the business for further growth.

Unlisted property

The past year has been one of exceptional growth for our unlisted property business.

During FY17 unlisted property funds under management have more than doubled from \$783 million to \$1.6 billion, we launched six unlisted property funds, including the purchase of three properties, and the business also integrated four funds from the 360 Capital Group platform transaction.

We have also expanded distribution to aligned advisers with the launch of an open-ended unlisted diversified property fund.

Listed property

The listed property business has had an exceptionally busy year providing the group with increased funds under management and broader exposure to institutional investors.

Centuria significantly increased its commitment to the REIT sector during the year, adding to Centuria Metropolitan REIT by acquiring the management rights to a significant industrial REIT (from the 360 Capital platform acquisition) which we have re-named the Centuria Industrial REIT.

Centuria's total combined REIT market capitalisation is \$1.1 billion, with Centuria Capital holding a principal co-investment of \$136 million. The return from this investment and management fees generated by the property funds and the investment bond business, have assisted the group in achieving increased group recurring revenue contributions to over 75% of total earnings.

Investment Bonds

Centuria Life, our investment bonds business, also enjoyed a positive FY17, achieving above market growth. As the fourth largest friendly society in Australia, the business represents 10.8% of a total \$7.4 billion market.

Demand continued to grow for Centuria Life's unitised bonds, which grew 28% to \$113 million in funds under management. We have also seen strong performance in the Over Fifty Guardian's friendly society with 21% growth to \$466 million in FY17.

Total funds under management in this division grew from \$720 million to \$799 million during FY17.

Post 30-June activity

Centuria's momentum has continued into the new financial year, with our listed metropolitan REIT, CMA, entering the ASX 300 Index for the first time in September.

The Unlisted Property team achieved a record breaking sale of Sydney CBD tower, Swire House, for \$270 million in September. In addition to tripling returns for investors of the fund, the transaction delivered a net performance fee of \$25.8 million to the Group.

Accordingly, Centuria has revised its FY18 operating earnings guidance to 15.8 to 16.2 cents per security and re-affirmed FY18 distribution guidance of 8.2 cents per security.

Centuria Capital in association with Centuria Industrial REIT recently announced the acquisition of a 17% strategic stake in the Propertylink Group. This is a very recent development and Centuria's intentions regarding a possible merging of the two platforms have been made public.

To date it is too early to report significant progress in this endeavour but we will update securityholders when we can achieve an outcome we believe is satisfactory.

Finally, securityholders will be aware that we are in the midst of a \$60 million entitlement offer which is scheduled to close on 20th October this year. The offer is fully underwritten and the additional capital will lower pro forma operating gearing to a conservative 7.1%.

Funds will be used to replenish free cash, support further co-investment in Centuria REIT's and provide additional working capital.

Market outlook

Whilst there has been recent market commentary around high pricing levels and potential interest rate rises in 2019, we believe the outlook for commercial property is positive.

Despite the concerns expressed by the Reserve Bank around the sustainability of recent residential pricing levels, we believe that commercial property values whilst very strong are underpinned in the short to medium term.

The spread between government bond rates and our property fund returns remains substantial and continues to attract strong investor demand for our property fund products. We anticipate further rental

growth in certain areas of both Sydney and Melbourne and we have also acquired some assets in Western Australia where we believe that the property cycle has bottomed.

Market conditions are also favourable for our investment bonds business, as the 1 July 2017 superannuation changes start to restrict contributions into superannuation savings. Further tailwinds for this division include increased regulatory uncertainty from the ongoing policy debate on potential taxation restrictions regarding discretionary trusts and negative gearing.

As a result, we expect demand to continue in FY18 and beyond with both financial advisers and self-directed investors seeking alternative vehicles (such as investment bonds) to create, transfer and protect wealth.

Conclusion

Centuria Capital is now well placed for near-term S&P ASX 300 Index inclusion and management is dedicated to continue to grow the Centuria funds management platform in FY18 – both organically and by corporate acquisition if appropriate transactions are available.

I wish to thank our tireless staff and the senior management team for their hard work and dedication during FY17. It is rare that a business triples its market capitalisation in such a relatively short period, and the fact that the new property portfolios were bedded down so efficiently is a great credit to the entire team.

In addition, I would like to acknowledge the strong support management always receives from our board. Our chairman Garry Charny and his fellow directors are extremely experienced, generous with their time and very involved in the day-to-day activities at Centuria. These are working boards and I want to thank all the directors of the group board the responsible entity boards and the Life Company boards for their immense contributions.

Can I also welcome Roger Dobson back to the Centuria responsible entity board. Roger's detailed knowledge of the Centuria Group combined with his finance and restructuring legal background and his commercial experience will be invaluable to these boards.

In January 2018, my fellow director Nick Collishaw transitions from executive director to non-executive director. Nick will remain on the Centuria Capital boards and in addition has joined the responsible entity boards. In addition to continuing to consult to Centuria, Nick's wide property experience and his specific REIT knowledge will continue to assist and guide our endeavours in the future. I am delighted he has chosen to maintain such strong linkages to the group he has helped build and I want to thank Nick both personally and behalf of the entire team for his contribution to date and wish him well with his future undertakings.

From January, Jason Huljich who currently leads the unlisted property division and the asset and property management teams will assume additional responsibility for the listed division. I have worked along-side Jason for over twenty years and it should be no surprise that he will assume this important and pivotal additional role. I can absolutely guarantee he has the experience and commitment to undertake his new role flawlessly and I would like to congratulate him as a key Centuria business-builder.

Finally, I can assure you that the team at Centuria is dedicated to continue our pace of growth. We have the balance sheet capacity, a resourceful and hardworking team and sufficient scale to enable the business to compete very effectively and grow at an above market rate.

None of this is possible without support from investors at all levels of our platform and I thank you, our securityholders, for the confidence you place in us.

I will now hand back to Garry Charny to continue proceedings.

Thank you.

John McBain
Group CEO
