

2015 Annual General Meeting

Chairman & CEO Address

Centuria Capital Limited

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Chairman's Address



ROGER DOBSON
Non-Executive Chairman

Again, ladies and gentlemen, thank you for joining us this morning at Centuria Capital's Annual General Meeting. At this time last year I was able to express the Board's pleasure at the 2014 financial results as well as the progress being made to execute our vision and strategy for the Group. The Group's results for the 2015 financial year were pleasing and we have continued to invest in the growth of the business.

We are very pleased with the progress of our growth strategy since the end of the 2015 financial year, and John McBain, our CEO, will provide a more detailed update shortly.

The focus of your Board continues to be on the execution of our strategy to grow our core businesses. As you know, those businesses are our property funds management business and our friendly society business.

Some key highlights for the Company and strategic goals achieved by the Group during FY15 were:

- Increased returns to shareholders. Total shareholder returns during FY15 equalled 22.8%. This figure takes into account increase in share price and is inclusive of FY15 dividends. This was made possible due to expense control and reduced interest costs along with increases in divisional profits.
- The Listing of the Centuria Metropolitan REIT in December 2014 along with the capital raising of \$100million for the acquisitions of additional properties for inclusion in the REIT
- Our Investment bonds division has seen a significant increase in retention and the development of new business channels throughout FY15.
- Our Unlisted Property division initiated a new style of investment product for the business with the re-development of the Monarch development in Mosman, Sydney. Formerly a commercial office space, the site is currently being redeveloped into a high-end residential apartment complex.
- Another significant outcome for the Group was the Unlisted Property division's acquisition of a 50% interest in the Channel 7 building at Australian Technology Park, Redfern.

While financial markets remain volatile, the Board and Senior Management want to ensure that the Group is well-positioned to deal with this volatility. A big thing we now have going for us, in comparison to previous years, is a much stronger balance sheet.

The commercial property market has continued to be highly competitive over the year and Centuria has taken advantage of these conditions with our Unlisted Property division, listing a number of our buildings for sale during FY15. These sales have led to very positive outcomes for our investors and have and will generate substantial revenue for the Company. On the other hand, such a strong property market presents more challenges when it comes to acquiring properties. Nevertheless, the diversification we now have through our Listed Property division and REIT, and through other initiatives currently being pursued, gives the Group more opportunities than it has ever previously had. I should also add that, despite the competitive environment, both our Unlisted and Listed Property divisions have been able to acquire assets over the year.

As Chairman, one of the most pleasing aspects of the Group's performance is the Investment Bond Division which, under the leadership of Neil Rogan, is gaining some real momentum. If that continues, which I expect it to do, it will have a significantly beneficial impact on the Group over the longer-term and provides strong and predictable income in an otherwise unpredictable world.

As we look ahead to FY16, we are already off to a positive start with the recent announcement of Centuria's inclusion as successful co-tenderer with major property developer, Mirvac, to acquire the balance of the Australian Technology Park in Eveleigh, Sydney. We have other initiatives currently underway, which John McBain will detail further.

Your Board is optimistic that we will build on this success and momentum being generated by the business to make Centuria a better company.

My sincere thanks to my fellow Directors, to our executives and to all of our staff for their contribution to the Group's success throughout the year.

I will now hand over to John McBain, Centuria Group CEO.

Roger Dobson
Chairman

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JOHN MCBAIN
Executive Director and
Chief Executive Officer

Thank you Mr Chairman and I also extend my welcome to shareholders to the 2015 Centuria Capital Annual General Meeting.

Today, I will begin with a report on Centuria's results for the 2015 financial period and then bring you up to date with some important events which have occurred since the end of the reporting period which are extremely positive for Centuria.

The Group has had a clear strategy to focus on core operations and monetise non-core divisions, thereby simplifying our business model. Achieving these goals set the scene for major changes during the 2015 financial period.

During FY15 we announced the sale of both the variable rate reverse mortgage portfolio and Over Fifty Insurance Limited, releasing \$37.8 million in equity (before transaction costs). These disposals were transformational because they greatly strengthened Centuria's balance sheet and supported the further development of our core Property Funds Management and Investment Bond divisions.

It is pleasing to report that during the FY15 period, we were able to grow underlying net profit after tax by 6.4%, increase fully franked dividends substantially to 4.75 cents per share and grow net tangible assets per share to \$0.86 per share. It is noteworthy that this was achieved against a backdrop where, by the completion of FY15, the Group's balance sheet was transformed with cash in excess of \$25 million and undrawn corporate debt facilities.

Total shareholder returns during the FY15 period equalled 22.8% which takes into account the increase in share price over the period plus FY15 dividends

These results were made possible due to the consistent profits generated by the Investment Bond business together with another strong performance by the Property Funds Management division. In addition, corporate and finance costs reduced \$800,000 during the period as a result of expense control and reduced interest costs.

A highlight of FY15 was the performance of our combined property funds management business which produced an underlying profit of \$8.7 million, a 70% increase from the previous year.

Turning now to the performance of the operating divisions and looking first at **unlisted property**;

The unlisted property division, led by Divisional CEO Jason Huljich, has an extensive track record of acquiring and repositioning under-valued assets. As properties are repositioned, significant profits are released to our investors and substantial sales and performance fees are generated for the Company.

During FY15 the unlisted division took advantage of a buoyant commercial property market to sell selected assets and crystallise significant performance fees for the Company. Unlisted property funds under management during the period decreased by 5% year-on-year to \$876 due to the sale of these fund assets and the sale of five unlisted assets to the CMA, the listed fund.

New assets are being acquired to refresh our portfolio and FY16 is expected to be a growth year where FUM will increase generating enhanced acquisition fees and performance fees will be continue to be earned.

In summary, we are expecting another strong profit performance from this division in the current period and the announcement in October 2015 of the acquisition of an \$86 million office investment – 203 Pacific Hwy in St Leonards, Sydney set the year off to a good start. This asset will be jointly acquired by the listed CMA REIT and a new unlisted fund.

This was followed in early November by Centuria's selection as successful co-tenderer with Mirvac Group to acquire the balance of the Australian Technology Park in Eveleigh, Sydney.

Centuria and Mirvac will own separate portions of the park with Centuria Property Funds acquiring three buildings, being the NICTA Building, the Biomed Building and the International Business Centre. Centuria has identified a number of potential value-add options for these properties ranging from re-setting of leases and rents in the short-term to large-scale refurbishment and repositioning options over the long-term while Mirvac has secured a commitment by the Commonwealth Bank of to occupy some 93,000 square metres of campus-style office space.

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In 2013 Centuria identified the Australian Technology Park precinct as an important business and technology hub when we acquired an initial 50% interest in the \$220 million Channel Seven headquarters. We followed this up in FY15 when we acquired the remaining 50% and Centuria Property Funds now wholly-own the Channel Seven building at ATP. The capital raising for this fund was the most successful in the Group's history closing five weeks early and being substantially over-subscribed.

Finally, the property group pioneered a new style of investment product recently when it restructured a passive unlisted office fund to residential re-development. The development is a high-end, 62 unit apartment block in Mosman, Sydney. It is 97% pre-sold and currently under construction. The development, management and performance fees payable to Centuria provide additional profit streams along with a new style of investment product which was highly attractive to our investors.

Moving on to **Listed Property Funds**; a highlight of FY15 was the successful listing of the Centuria Metropolitan REIT (CMA) on the ASX. In addition, CMA completed a \$100m equity raising in May 2015, for the purchases of additional properties which brought CMA's total market capitalisation as at 30 June 2015 to \$245 million. The listed property division led by Divisional CEO, Nicholas Collishaw and Fund Manager, Nicholas Blake have overseen the creation of a new highly complementary division to the group which will build FUM steadily and represents a new profit centre for Centuria.

Whereas unlisted property FUM tends to fluctuate, listed property FUM will generally increase in a predictable manner. The addition of the REIT brings a host of advantages to our platform including the ability to raise funds efficiently in the equity capital markets. The strength to contemplate larger acquisitions and the ability to acquire assets jointly with Centuria's unlisted funds.

I would like now to cover some highlights of the **Life Companies**:

As you may be aware, Centuria Life manages two friendly societies – Centuria Life Friendly Society and the Over Fifty Guardian Friendly Society. Combined, the two friendly societies are the fourth largest friendly society/insurance bond issuer in Australia with 9.7% market share. Together, the two societies had a total FUM of \$715 million as at 30 June 2015.

Under the guidance of industry specialist, Neil Rogan, the Life companies experienced steady growth in policyholder numbers to 83,814 primary holders at 30 June 2015, and the Over Fifty Guardian funds under management has grown steadily - up 8.93% from 2013/2014. We expect this growth trend to continue and we have already seen inflows of over \$10million since the end of the FY15.

Centuria Life Friendly Society retention improved by 8.93% from FY14. Total redemptions decreased from \$46.58m to \$42.42m for the period.

We believe the retention of this division as a core business and our commitment to its growth will provide a continuing annuity-style profit stream for years to come and growing these profits will be highly accretive to the Group.

Capital Management

During 2015 Centuria undertook an on market share buy-back scheme. The Group purchased and cancelled 1.37 million shares from October 2014. During the period the company held the view that the security price did not fully reflect the underlying value of the group and the purchase and cancellation of the shares was accretive to earnings per share.

Centuria has a strong track record of communicating its strategies clearly and transparently and executing on them. Both the board and management embrace a philosophy of continuing strong growth in profitability and distributable earnings.

Many of the goals set out over the past few years have now been achieved - transforming Centuria Capital into a simpler, highly focussed group with two clear operating divisions and a particularly strong balance sheet given its capitalisation.

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To take full advantage of these improved circumstances it is necessary to set out refreshed strategic objectives and detailed strategies such that stakeholders clearly understand our new goals and how we intend to achieve them.

Accordingly, we have set in place detailed strategies for the year ahead.

These are:

- To continue to grow our listed property fund, the Centuria Metropolitan REIT "CMA" to achieve strong returns for investors and increased management fee revenue for Centuria
- To expand and diversify the unlisted property product range to meet increased investor demand.
- To utilise and recycle our balance sheet to underwrite new product offerings and co-invest along-side our clients where appropriate
- To bring Centuria's Investment Bond business into a clear expansion phase.
- To consider accretive corporate acquisitions where our scale and market position is enhanced.

It is pleasing to be able to report on the positive progress of the Group for FY15. I am privileged to work with a highly-skilled and well-motivated management team and I want to thank them and the entire team for their engagement and the hard work they have put in to achieve our goals. I would also like to express my sincere thanks to the Chairman and non-executive directors for their devotion to the company and their guidance and counsel.

Finally, I would like to thank you, our shareholders for your continued support and the great interest you take in our progress and ambitions. Centuria Capital is committed to repaying this support through the steady growth in shareholder returns.

John McBain
Group CEO