360 Capital Group

360 CAPITAL INDUSTRIAL FUND (ASX: TIX)

HALF YEAR REVIEW

FOR THE HALF-YEAR ENDED 31 DECEMBER 2013

FUND OVERVIEW

360 Capital Industrial Fund (ASX code: TIX) is an ASX-listed real estate investment trust (A-REIT) included in the S&P/ASX300 Index. The Fund holds a well-diversified portfolio of institutional grade industrial properties valued at over $330 million across mainland Australia and has strong defensive income focused investment fundamentals such as high occupancy, long weighted average lease expiry and predominately fixed annual rent increases from its blue chip tenant base. TIX aims to provide ongoing security of income through active asset management, proactive re-leasing and capital recycling. TIX is externally managed by 360 Capital, a leading ASX-listed real estate investor and fund manager that operates under a transparent fee structure and maintains a 15% unitholding in the Fund to ensure ongoing alignment of interests with unitholders.

OVERVIEW

"Investment demand for industrial property gained strength, particularly in the latter half of calendar 2013. With the appetite for industrial property set to continue, TIX is in a good position to build on its strong HY14 performance to keep delivering value to its Unitholders."

Ben Butler, Fund Manager

FINANCIAL PERFORMANCE

	HY14	PCP[1]
Statutory net profit	**$8.6m**	$7.7m
Statutory EPU	**9.12cpu**	16.94cpu
Operating earnings[2]	**$9.8m**	$4.2m
Operating EPU	**10.46cpu**	9.17cpu
DPU	**9.30cpu**	9.00cpu
Payout ratio	**89%**	98%
Total assets	**$342.9m**	$347.10
No. assets	**19**	20
Units on issue	**94.1m**	93.2m
NTA per Unit	**$1.94**	$1.94
LVR[3]	**46.00%**	46.90%

98.7%

OCCUPANCY

5.2YRS

WEIGHTED AVERAGE LEASE EXPIRY

2.9%

LIKE FOR LIKE NET PROPERTY INCOME GROWTH

27.8%

TOTAL RETURN SINCE LISTING

10.0%[4]

OPERATING EARNINGS YIELD

9.0%[4]

DISTRIBUTION YIELD

BALANCE SHEET

	31 Dec 13 ($m)	30 Jun 13 ($m)
Cash and current assets	7.9	4.8
Trade and other receivables	1.5	1.6
Properties held for sale	9.6	28.7
Properties at fair value	323.9	312.0
Total assets	**342.9**	**347.1**
Trade and other payables	4.1	3.8
Distributions payable	4.4	3.6
Interest bearing liabilities	151.3	158.4
Derivative financial instruments	0.3	0.2
Total liabilities	**160.1**	**166.0**
Net assets	**182.8**	**181.2**
Units on issue (m)	94.1	93.2
NTA per Unit	**$1.94**	**$1.94**

PROFIT AND LOSS STATEMENT

	31 Dec 13 ($m)	31 Dec 12 ($m)
Property rental	19.6	18.4
Total revenue	**19.6**	**18.4**
Direct property expenses	(4.0)	(4.1)
Responsible entity fees	(1.1)	(1.1)
Initial and deferred establishment fees	0.0	7.1
Custodian fees	(0.1)	(0.2)
Other expenses	(0.5)	(2.8)
Finance costs	(4.4)	(9.3)
Fair value gain/(loss) on derivative financial instruments	(0.2)	0.6
Fair value gain/(loss) on property fair values	(0.6)	0.1
(Loss)/gain on sale of properties	(0.1)	(1.0)
Total costs	**(11.0)**	**(10.6)**
Net profit/(loss)	**8.6**	**7.7**
Non cash adjustments	1.2	(3.5)
Net operating profit/(loss)	**9.8**	**4.2**
Operating earnings (cpu)[5]	10.46	9.17

The above information has been extracted from the Funds Interim Financial Report for the half year ended 31 December 2013. The full Interim Financial Report is available at **www.360capital.com.au**

1 Previous corresponding period (PCP) for balance sheet items is 30 June 2013 and profit and loss items is 31 December 2012.

2 Operating earnings is statutory net profit adjusted for specific non-cash and significant items including, net gains and losses on fair value of properties and derivatives, net gains and losses on sale of investment properties, straight-lining of lease revenue, amortisation of borrowing costs.

3 Loan to value ratio (LVR) is calculated in accordance with debt facility documentation as borrowings divided by property values as determined by last external valuations adopted by the financier.

4 Annualised yield based on closing price as at 31 December 2013 of $2.06.

5 Comparative EPU has been adjusted for 4:1 unit consolidation in July 2013. 31 December 2012 EPU was 2.29cpu prior to the consolidation.

FUND MANAGER'S LETTER

Dear Investor

We are pleased to present to you the 360 Capital Industrial Fund Half Year Review for the six months to 31 December 2013. During this period we delivered our strategy through disciplined and active investment management.

The Fund has now chalked up just over 12 months as a listed fund and in that time has delivered to Unitholders a 27.8% total return. We have provided value to Unitholders through two earnings upgrades over the last six months, on the back of strong underlying portfolio performance.

The Fund's underlying performance has led to solid financial results. Operating earnings are up 14.1% to 10.46cpu on the prior period due to the recapitalisation of the Fund and improved portfolio fundamentals. Correspondingly distributions are also up 3.3% to 9.30cpu and reflect a more appropriate payout ratio. Net Tangible Assets (NTA) have remained stable at $1.94 per Unit and the tax deferred component of distributions is expected to be between 40% and 50% for FY14. The Fund's loan to value ratio is 46% and has continued to trend down through asset sales and the deployment of DRP proceeds. We remain comfortably within our debt facility covenants and the loan to value ratio is within the current target range of 40% to 50%.

The Fund's unit price closed on 31 December 2013 at $2.06 which equates to a 9.0% forecast annualised distribution yield and 10.0% forecast annualised earnings yield which we believe presents an attractive proposition.

Looking ahead, based on the solid six months of underlying portfolio performance, FY14 earnings are forecast to be 20.50cpu which represents a 2.5% increase on previous guidance. Notably, growth has been achieved through management of the existing portfolio without the need to chase growth for growth's sake.

A proposed on-market buy-back of up to 5% of issued Units has been announced as we believe TIX is undervalued. The buy-back will initially be funded through existing debt and potential opportunistic asset disposals with gearing remaining within the stated target range of 40% to 50%. The Fund's DRP accordingly has been suspended while the buyback is being undertaken.

This initiative will be regularly reviewed having regard to other suitable acquisition opportunities that are available in the direct market. This proposal does not alter the Fund's strategy of continuing to focus on earnings and distribution growth by pursuing suitable acquisitions and driving operational performance of its existing portfolio.

Six month key achievements

Portfolio

- 98.7% occupancy[1]
- 5.2 year weighted average lease expiry[1]
- Like-for-like net property income growth of 2.9%
- Weighted average capitalisation rate of 8.94%
- Leased over 11% of the portfolio with a further 5% post period
- Disposed of $9.3m non-core asset
- Disciplined approach in assessing acquisitions

Financial

- Statutory net profit of $8.6m, 11.4% above $7.7m in the prior period
- Operating EPU of 10.46cpu was 14.1% above 9.17cpu in the prior period
- DPU of 9.30cpu was 3.3% above 9.00cpu in prior period
- NTA per Unit remained stable at $1.94 with capital structure now addressed
- Loan to value ratio reduced from 46.9% to 46.0%
- EPU guidance upgraded to 20.50cpu for FY14

Attractive investment metrics

- Market capitalisation increased to $193.9m from $72.2m in prior period
- Inclusion in S&P/ASX300 A-REIT Index
- All TIX broker research notes had "Buy/Outperform" recommendations following announcement of HY14 results
- Closing price of $2.06 as at 31 December 2013 equates to:
  - 9.0% distribution yield
  - 10.0%[2] operating earnings yield

Strategy

- Maintained disciplined approach to equity
  - Focus on earnings and distributions instead of growth for growth's sake
- Earnings growth achieved through existing portfolio
- Continuing to opportunistically dispose of assets valued at less than $10.0m
- Loan to value ratio trending down
- Leveraging development partnerships
  - efficient capital deployment with access to new product

1 By income.
2 Based on FY14 forecast of 20.50cpu.

Strong portfolio fundamentals driving performance

The portfolio has performed solidly with portfolio occupancy of 98.7%. The weighted average lease expiry has been maintained above five years thanks to over 38,700 square metres being leased over the last six months and with a further 18,500 square metres leased post period meaning that all major expiries for the remainder of FY14 and the majority into FY15 have been addressed.

The portfolio comprises a total of 19 assets with a total value of some $333.4 million following the sale of the Notting Hill asset in November 2013. The weighted average capitalisation rate has remained in line with 30 June 2013 at 8.94% and the Fund will have its portfolio re-valued prior to June 2014 with the market pointing towards a general firming of yields as the lag in valuations from recent transactions takes effect.

On the capital transactions front, we have continued our disciplined approach to equity issuances having regard to our current cost of capital. The Fund disposed of one non-core asset in Notting Hill for $9.3 million during the period. Post period end, contracts were exchanged to sell the Campbellfield asset for $4.6 million and the Edinburgh Parks asset is held for sale. We will also consider any opportunistic disposals of assets which are not considered to be core to the Fund in the medium to long term.

The Fund has leveraged its partnership with Walker Corporation which is currently undertaking the 3,000 square metre expansion of our Grace facility in Hume ACT. Importantly our relationship with Walker provides the Fund with access to new product through an efficient deployment of capital.

HY14 results summary and looking forward

The Fund delivered strong HY14 results driven by a solid performance from the existing portfolio, characterised by high occupancy, long term leases and a manageable expiry profile with all major expiries in FY14 and FY15 now addressed.

As a result, the Fund was able to deliver operating EPU and DPU growth to unitholders of 14.1% and 3.3% (respectively).

The Fund remains committed to delivering Unitholder value. The management team has a solid skillset in industrial property, is nimble and experienced, is resourced appropriately and has the capability to grow the Fund responsibly. With a significant co-investment in the Fund, 360 Capital's interests remain aligned with Unitholders.

Looking ahead, 360 Capital expects to deliver FY14 operating EPU of 20.50cpu, 2.5% ahead of previous guidance and FY14 DPU of 18.60cpu (in line with guidance).

Strong investment demand for industrial assets is forecast to continue which should see improved valuation metrics in the coming six months. This bodes well for TIX as its portfolio will be re-valued prior to June 2014, and this is anticipated to drive the NTA of the Fund higher.

The announcement of an on-market buy-back reflects 360 Capital's view that the Fund is undervalued and the buy-back is considered the most efficient use of capital to drive Unitholder value at this time. However, it does not alter the Fund's strategy of continuing to focus on earnings and distribution growth, pursuing acquisition opportunities and driving operational performance of the Fund's existing portfolio.

At current pricing, with sustainable distributions and continued investment demand anticipated, the Fund will be well placed to deliver further value for Unitholders over the coming year.

With the outlook for continuing improvement in industrial fundamentals, TIX is in a good position to grow and deliver value to Unitholders.

Ben Butler
Fund Manager

PROPERTY PORTFOLIO

Diversified, core industrial portfolio

- Core industrial properties in established industrial areas
- High occupancy of 98.7%
- Geographically diversified across mainland Australia
- Attractive tenant profile
  - No tenant more than 9.5% of rental income
  - Top 10 tenants are national businesses focused on warehousing/distribution/logistics.

Proven asset management

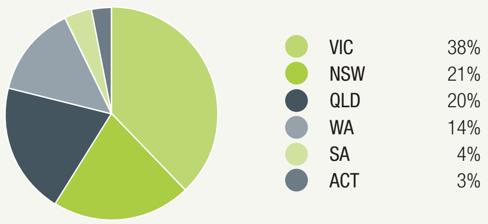
Ongoing strong re-leasing performance leads to greater FY15 earnings visibility

- 38,793sqm (11% portfolio) re-leased in last six months
- Post December 2013: re-leased 18,545sqm (5% portfolio) including DKSH and Hugo Boss
- No major lease expiries until H2FY15
- No single FY15 expiry represents more than 2.5% of portfolio income
- Proven ability to pre-emptively deal with significant medium term lease expiries as evidenced by GM Holden, DKSH and Hugo Boss renewals
- Continuing to address leasing underpins the strength of the Fund's future cashflows.

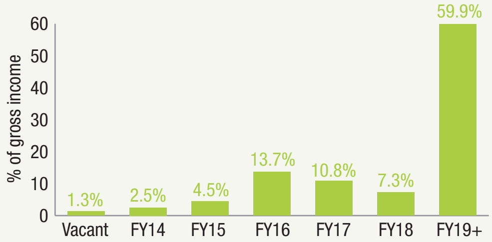
In-built rent review profile, with a 77% weighting[1] to fixed rental reviews

- Average fixed rental growth of 3.5% p.a.
- 31 December 2013 weighted average lease expiry of 5.2 years underpins security of rental income.

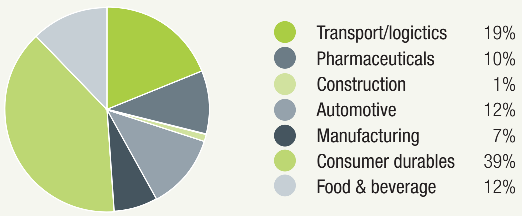
Geographic Diversification (by income)



Property lease expiry (by income)



Tenant Diversification (by income)



Portfolio overview

Property	State	Valuation ($m)	Last valued	Cap rate (%)	NLA (sqm)	Occupancy[2] (%)	WALE[2] (years)
60 Marple Avenue, Villawood	NSW	18.7	Jun 13	9.25	18,529	100.0	2.8
37-51 Scrivener Street, Warwick Farm	NSW	20.9	Jun 13	9.75	27,599	100.0	4.5
457 Waterloo Road, Chullora	NSW	17.3	Jun 13	9.25	16,051	100.0	9.2
8 Penelope Crescent, Arndell Park	NSW	14.1	Jun 13	8.50	11,423	100.0	2.4
54 Sawmill Circuit, Hume	ACT	10.6	Jun 13	8.50	5,684	100.0	8.2
22 Hawkins Crescent, Bundamba	QLD	34.2	Jun 13	8.25	18,956	100.0	10.9
1 Ashburn Road, Bundamba	QLD	30.7	Jun 13	8.50	26,628	100.0	6.1
9-13 Caribou Drive, Direk	SA	9.2	Jun 13	8.75	7,023	100.0	5.8
5-9 Woomera Avenue, Edinburgh Parks	SA	5.0	Jun 13	10.5	10,580	100.0	0.1
102-128 Bridge Road, Keysborough	VIC	22.0	Jun 13	9.25	24,617	100.0	3.6
69 Studley Court, Derrimut	VIC	20.0	Jun 13	8.00	20,731	100.0	9.8
500 Princes Highway, Noble Park	VIC	19.0	Jun 13	9.25	13,714	96.9	2.1
6 Albert Street, Preston	VIC	17.0	Jun 13	10.00	20,517	90.9	4.4
14-17 Dansu Court, Hallam	VIC	15.4	Jun 13	8.75	17,070	100.0	4.8
12-13 Dansu Court, Hallam	VIC	11.4	Jun 13	8.75	11,542	100.0	2.4
33-59 Clarinda Road, Oakleigh South	VIC	10.1	Jun 13	9.25	10,774	100.0	2.0
39-45 Wedgewood Road, Hallam	VIC	8.4	Jun 13	9.00	10,631	100.0	1.4
223-235 Barry Road, Campbellfield	VIC	4.6	Jun 13	11.25	11,092	69.0	3.5
310 Spearwood Avenue, Bibra Lake	WA	45.0	Jun 13	8.67	59,508	100.0	4.9
Total/weighted average (19 properties)		**333.4**		**8.94**	**342,669**	**98.7**	**5.2**

1 Weighted by gross passing rent.

2 Weighted average lease expiry; by income.

CASE STUDIES

Strong tenant relationships reinforce the strength of rental income and future capital value.

14-17 Dansu Court, Hallam, VIC

GM Holden lease renewal, Hallam VIC

In 2012 we leased what was then a vacant building to GM Holden on a two year term with the view of engaging with GM Holden once committed and discussing a longer term lease. Whilst Holden has recently announced its departure from Australia from 2016, it remains committed to selling and servicing vehicles in Australia and this facility at Hallam is used to warehouse spare parts. We were able to negotiate a new five year term commencing in May 2014. The rent was reset to market (the shorter lease term had attracted a higher rental) and importantly no down time or rent free incentive will be incurred with some minor base building upgrades undertaken as part of the deal which will add value to the property. As a result the property weighted average lease expiry has increased from 0.5 years to 4.9 years which in turn is likely to underpin an increase in value when independently valued in June 2014. Our focus on maintaining close relationships with our tenants clearly results in a more predictable outlook for income and therefore future capital value.

Leveraging existing relationships

54 Sawmill Circuit, Hume, ACT

Grace Records Management expansion, Hume ACT

Grace required expansion space and through the development agreement with Walker we were able to accommodate their requirements. Importantly, under the current arrangement the land is owned by Walker and made available for expansion at no cost to the Fund prior to construction. This is an efficient use of capital and does not expose the Fund to the potential cost drag from owning development land. For a total investment of $4.0 million including land purchase and a return on cost of 8.5%, Grace will extend its lease to 2022 which should see an anticipated corresponding uplift in value from the additional income and lease term. This is a clear example of how we have leveraged off existing relationships within the sector to accommodate a tenant's growth and in turn grow the Fund's asset base.

1 Ashburn Road, Bundamba, QLD – The Reject Shop

OUTLOOK

The Fund will continue to implement its active management strategy to drive regular and sustainable income, with a focus on growing earnings and distributions per Unit, and also potential capital growth.

At current pricing, with sustainable distributions and continued investment demand anticipated, the Fund is well placed to deliver further value for Unitholders over the coming year:

- FY14 operating EPU guidance of 20.50cpu
  - 2.5% ahead of guidance (before buy-back and other initiatives)
- FY14 DPU guidance of 18.60cpu (in line with guidance)
- Industrial sector fundamentals expected to continue to drive both income and capital appreciation
  - anticipated NTA uplift over next six months through portfolio re-valuations and fixed rental increases
- Buy-back initiated as 360 Capital considers TIX is significantly undervalued
- Sustainable distributions and anticipated uplift in NTA should deliver further value for Unitholders.

Our focuses are:

Portfolio Performance

Enhance and maintain a quality portfolio of investment grade industrial assets in core industrial markets

- Maintain the portfolio's high occupancy and long weighted average lease expiry
- Pre-emptively deal with significant short and medium term lease expiries
- Maintain strong tenant relationships
- Continue enhancement of portfolio through asset recycling and acquisition opportunities.

Capital management

Optimise investment returns through responsible and disciplined capital management

- Maintain disciplined approach to equity issuances
- Responsibly trend gearing down to the lower end of the target range
- Plan for diversifying and extending the term of existing debt funding
- Greater focus on earnings and distribution growth rather than growth for growth's sake.

9-13 Caribou Drive, Direk, SA – Kimberly Clark

Please contact us

If you have any questions regarding your TIX unitholding, distributions statements, or if you would like to change your details, please call the 360 Capital information line on 1800 182 257 (within Australia) or +61 2 9290 9600 (from outside Australia) between the hours of 8.30am and 5.00pm Monday to Friday AEDT (excluding public holidays) or email investor.relations@360capital.com.au.

If you have any questions regarding TIX please visit www.360capital.com.au or call Roland Martin, 360 Capital Investor Relations Manager, on +61 2 8405 8868 or email roland.martin@360capital.com.au

360 Capital Investment Management Limited
Level 8
56 Pitt Street
SYDNEY NSW 2000
www.360capital.com.au

Disclaimer

This Review has been prepared by 360 Capital Investment Management Limited (ACN 133 363 185, AFSL 340304) as Responsible Entity of the 360 Capital Industrial Fund (ARSN 099 680 252) ('TIX' or the 'Fund').

All information and statistics in this Review are current as at 26 February 2014 unless otherwise specified. It contains selected summary information and does not purport to be all-inclusive or to contain all of the information that may be relevant, or which a prospective investor may require in evaluating a possible investment in TIX. It should be read in conjunction with TIX's other periodic and continuous disclosure announcements which are available at www.360capital.com.au. The recipient acknowledges that circumstances may change and that this Review may become outdated as a result. This Review and the information in it are subject to change without notice and the Responsible Entity is not obliged to update this Review.

This Review is provided for general information purposes only. It is not a product disclosure statement, prospectus or any other disclosure document for the purposes of the Corporations Act and has not been, and is not required to be, lodged with the Australian Securities & Investments Commission. It should not be relied upon by the recipient in considering the merits of TIX or the acquisition of securities in TIX. Nothing in this Review constitutes investment, legal, tax, accounting or other advice and it is not to be relied upon in substitution for the recipient's own exercise of independent judgment with regard to the operations, financial condition and prospects of TIX.

The information contained in this Review does not constitute financial product advice. This Review has been prepared without taking account of any person's individual investment objectives, financial situation or particular needs. It is not an invitation or offer to buy or sell, or a solicitation to invest in or refrain from investing in, securities in TIX or any other investment product. Before making an investment decision, the recipient should consider its own financial situation, objectives and needs, and conduct its own independent investigation and assessment of the contents of this Review, including obtaining investment, legal, tax, accounting and such other advice as it considers necessary or appropriate.

The information in this Review has been obtained from and based on sources believed by the Responsible Entity to be reliable. To the maximum extent permitted by law, Responsible Entity and its related bodies corporate make no representation or warranty, express or implied, as to the accuracy, completeness, timeliness or reliability of the contents of this Review. To the maximum extent permitted by law, the Responsible Entity does not accept any liability (including, without limitation, any liability arising from fault or negligence) for any loss whatsoever arising from the use of this Review or its contents or otherwise arising in connection with it.

This Review may contain forward-looking statements, guidance, forecasts, estimates, prospects, projections or statements in relation to future matters ('Forward Statements'). Forward Statements including indications, guidance or outlook on future revenues, distributions or financial position and performance or return or growth in underlying investments are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. The Responsible Entity and its related bodies corporate do not represent or warrant that such Forward Statements will be achieved or will prove to be correct or give any warranty, express or implied, as to the accuracy, completeness, likelihood of achievement or reasonableness of any Forward Statement contained in this Review. Except as required by law or regulation, the Responsible Entity and its related bodies corporate assume no obligation to release updates or revisions to Forward Statements to reflect any changes.

Investment in TIX is subject to investment risk including possible delays in payment and loss of income and principal invested. The Responsible Entity does not guarantee the performance of TIX or the repayment of monies invested.