360 Capital Group

# 360 Capital TOTAL RETURN FUND

# 2016 Annual Results Presentation

# ASX: TOT

**24 August 2016**

360 Capital Investment Management Limited (ACN 133 363 185) as responsible entity for the 360 Capital Total Return Passive Fund (ARSN 602 304 432) and 360 Capital Total Return Active Fund (ARSN 602 303 613) together the 360 Capital Total Return Fund (ASX code "TOT")

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**2016 Annual Results presentation**

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# At a glance

**$38.75m**
Investment in IDR

**15.8%**
Total return at Fund level

**5.6%**
Total return based on ASX trading price

**22.7%**
Of units bought back in FY16

**$1.33**
NTA per Security (highly transparent)

**8.5cps**
Distributions

**16.4cps**
Statutory Earnings

**$1.15**
ASX closing price

# 2 Key achievements

- In line with strategy, the Fund successfully completed the sale of the Frenchs Forest properties for $26.0 m
- Increased investment stake in Industria REIT (ASX:IDR) to 14.7%
- Simplified the capital structure of the Fund by redeeming A Class units
- Fund achieved 15.8% total return in FY16, albeit trading price does not reflecting these returns
- 9.0m Securities (22.7%) bought back at $1.14 (14.2% discount to $1.33 30 June 2016 NTA per Security)
- Given current M&A activity in AREIT sector, TOT is well positioned to capitalise on this ongoing theme

IPO – 30 June 2016 → Current

**Capital Management**: Raised $40m in IPO → Repaid debt facility → Disposed direct property for $26m → Invested $36.5m in IDR → Redeemed A Class units → Completed buyback of 22.7% of securities

**Investments**: Renegotiated the sale of direct assets **completed** → Completed due diligence on mezzanine debt **did not proceed** → Identified IDR as investment **proceeded**

# 3 Profit & loss analysis

| Operating profit | FY16 ($'000) |
|---|---|
| Net property income | 865 |
| Distribution income | 2,732 |
| Finance & other revenue | 201 |
| **Total revenue** | **3,789** |
| Operating expenses | (604) |
| **Operating EBIT** | **3,194** |
| Net interest expense | - |
| **Operating profit** | **3,194** |
| Revaluation and non operating items | 2,709 |
| **Statutory profit/(loss)** | **5,904** |
| **Operating EPS[1]** | **8.9cps** |
| **Statutory EPS[1]** | **16.4cps** |

| FY16 distributions | Cents per Security |
|---|---|
| September quarter | 2.81 |
| December quarter | 1.50 |
| March quarter | 1.50 |
| June quarter | 1.50 |
| **Recurring** | **7.31** |
| Special distribution | 1.20 |
| **Total Distributions** | **8.51** |

| FY16 Fund total return | |
|---|---|
| Total distributions | 8.51 cents |
| Gain in NTA per Security | 11.22 cents |
| IPO issue price | $1.25 |
| **Annualised total return** | **15.8%** |

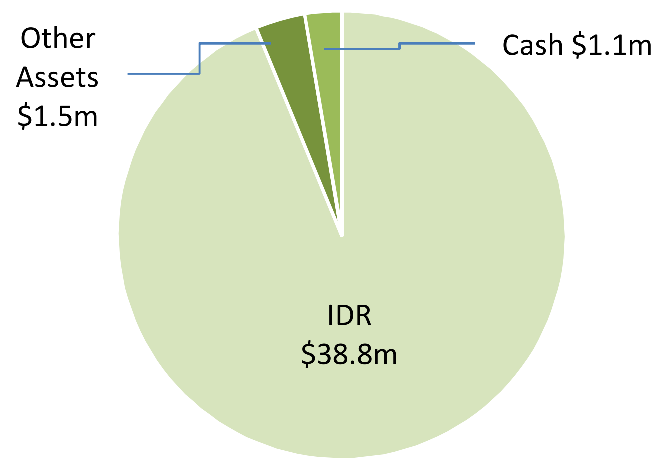
- Revaluation gain represents:
  - mark to market of IDR investment
  - loss on sale of properties

1. Calculated using 35,914,103 weighted securities on issue

# 3 Balance sheet composition

| Balance sheet composition | 30 Jun 16 ($'000) | 30 Jun 15 ($'000) |
|---|---|---|
| Cash | 1,094 | 12,024 |
| IDR investment | 38,751 | 11,227 |
| Direct property | - | 26,000 |
| Other assets | 1,488 | 621 |
| **Total assets** | **41,333** | **49,872** |
| Payables | 74 | 413 |
| Distribution payable | 460 | 1,115 |
| **Total liabilities** | **534** | **1,528** |
| **Net assets** | **40,799** | **48,344** |
| **Stapled securities on issue** | **30,662,688** | **39,678,456** |
| **NTA per Stapled Security** | **$1.33** | **$1.22** |

**Assets as at 30 June 2016**




- Sale of direct properties settled 30 September 2015 in line with book value of $26.0m.
- Increased investment in IDR to 14.7%
- Buyback of 22.7% of Securities completed
- Market volatility making TOT's investment mandate attractive going forward

# 4 Capital management

## Inherent value

- TOT currently trading at $1.17 versus a highly liquid asset based NTA of $1.33 per Security as at 30 June 2016
- TOT's major asset is IDR - using IDR's current trading price of $2.22, TOT's NTA today would be $1.38 per Security
    - TOT currently trading at a 15% discount to today's NTA per Security

## Security buyback

- Total of 9.0m securities bought back in FY16 at an average price of $1.14 per Security
- Average price represents a 14.3% discount to the 30 June 2016 NTA of $1.33 per Security
- Given liquid nature of TOT's assets, 360 Capital believes a buyback at such a steep discount represents a good use of funds

## Recycled capital

- $26.0m of capital was recycled following the disposal of its two direct assets.
- Majority of this capital has been redeployed into investing in IDR

## Debt

- Fund debt was fully repaid with the proceeds of the April 2015 IPO – TOT is debt free

## Capital base

- TOT is subscale, but 360 Capital believes the market is now moving in favour of TOT's strategy
- 360 Capital Group owns 24.3% of TOT
- 360 Capital will look to grow the capital base of the Fund when appropriate opportunities arise
- 360 Capital will remain patient in selecting the right opportunities

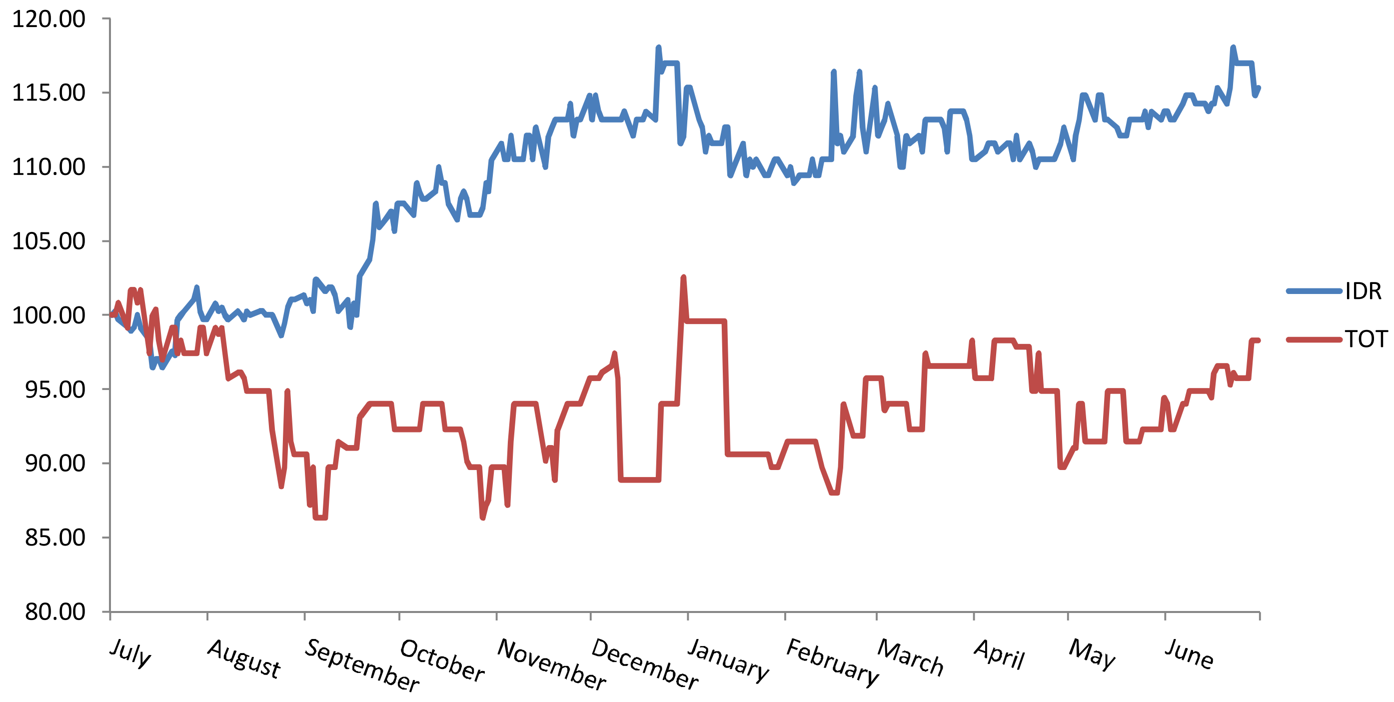
# 5 TOT's IDR investment

**Strategic stake in Industria REIT (ASX:IDR)**

- TOT has accumulated a $38.8m investment in IDR (a 14.7% ownership stake holding 18,107,804 IDR Units)
- TOT spent $36.5m accumulating stake
    - Average entry price of $2.02 per IDR Unit verses $2.14 as at 30 June 2016 (now trading at $2.22)
- Received a total of $3.2m in distributions from IDR
- TOT is the second largest unitholder in IDR
- 360 Capital believes that consolidation in the AREIT sector is an ongoing theme
- Since acquiring the IDR investment, the AREIT sector has seen several M&A transactions including
    - Australian Industrial REIT
    - GPT Metro Fund
    - Generation Healthcare
    - Investa Office REIT
- IDR has underperformed the AREIT index since listing
    - However, given TOT's entry price, the investment has met TOT's total return hurdle
- IDR provided FY17 guidance of:
    - Earnings: 17.5 - 17.7cps (FY16: 17.5 cps)
    - Distributions: 15.6 cps (FY16: 15.5 cps)
- TOT continues to monitor its investment in IDR

# 5 TOT is a proxy for IDR

- TOT is trading at a 12.0% discount to its 30 June 2016 NTA per Security of $1.33
- IDR has rallied since 30 June 2016 - TOT now further undervalued
- Given recent AREIT pricing (including IDR), 360 Capital is considering its options in relation to its IDR investment



# 6 Key focuses and outlook

## Outlook

- Like all our investments, 360 Capital's approach to TOT is to remain patient and disciplined
- Since TOT's IPO we have successfully recycled assets and deployed the cash into relatively stable investments.
- Today
  - Markets are volatile which will provide mispricing at various times
  - Australian Banks are starting to limit their exposure to real estate development and real estate investment property
  - Investors chasing yield are potentially mispricing risk attached to these investments
- Opportunities for TOT are increasing
  - Asset repositioning (releasing & refurbishment)
  - Debt (mezzanine and stretched senior)
  - Underwriting (listed and unlisted)
  - Preference equity transactions
  - Mispriced trading opportunities within AREIT sector
  - M&A and special situations

# 6 Key focuses and outlook

## Key focuses in FY17

- Maximise the value of IDR stake
- Restore value to Securityholders by closing the gap between trading price and NTA per Security
- 360 Capital Group looking to commit further capital to TOT in FY17 (alongside other investors) as opportunities arise in line with TOT’s business plan
- Remain disciplined in implementing investment strategy
- Take advantage of future opportunities created by current volatility in investment markets (both debt and equity investments)
- Fund intends to maintain quarterly distributions
- **Based on the Fund’s current investments, the Fund is forecasting distributions for FY17 at 7.6 cents per Security from normal operations**

360 Capital Group

Thank you

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