



PROPERTY GROUP

# Proposal for Investa Office Fund

December 2016



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# Why Cromwell should be granted access to due diligence

- 1 Cromwell is seeking investor support to conduct due diligence so it can develop a binding cash offer for all IOF unitholders to consider
- 2 Cromwell views the proposal as compelling in the current market environment and superior to the previously recommended Dexus proposal
- 3 All cash proposal, with no exclusivity or break fee provisions and simple to execute
- 4 Dexus was granted due diligence whereas Cromwell has been denied despite higher premium and cash nature of the proposal
- 5 Cromwell has provided letters of equity and debt funding support which is in line with market practice
- 6 Point in property cycle and rising long term rates increase attractiveness of Cromwell proposal

# Cromwell proposal is attractive to IOF unitholders

## Proposal summary

- Cromwell has made an attractive proposal for IOF and is seeking due diligence to make a binding offer to IOF unitholders
- Cromwell Property Group announced on 30 Nov 16 that it had presented a proposal to Investa Listed Funds Management Limited (ILFML) as responsible entity of IOF to make a fully funded cash offer to privatise IOF at \$4.45 per IOF unit
  - Proposal was subject to a number of conditions including 40 days of due diligence and Foreign Investment Review Board approval
- Total cash consideration of Cromwell proposal is \$4.55 per IOF unit
  - \$4.45 price per IOF unit
  - IOF unitholders are also eligible to receive the IOF 1H17 cash distribution of \$0.10 per unit<sup>1</sup>
- Cromwell views the proposal as compelling in the current market environment
  - All cash offer made to all unitholders
  - 8.3% premium to IOF's 1 month weighted average price of \$4.20 per IOF unit<sup>2</sup>
  - 7.6% premium to IOF's last stated net tangible assets of \$4.23 per IOF unit<sup>2</sup>
  - 7.6% premium to Investa Wholesale Funds Management Limited's (IWFML)<sup>3</sup> recent IOF unit acquisition price from Morgan Stanley of \$4.23 per IOF unit
  - 11.9% premium to Dexu's proposal of \$4.07<sup>4</sup> (as at 4 Dec 15) upon which due diligence was granted

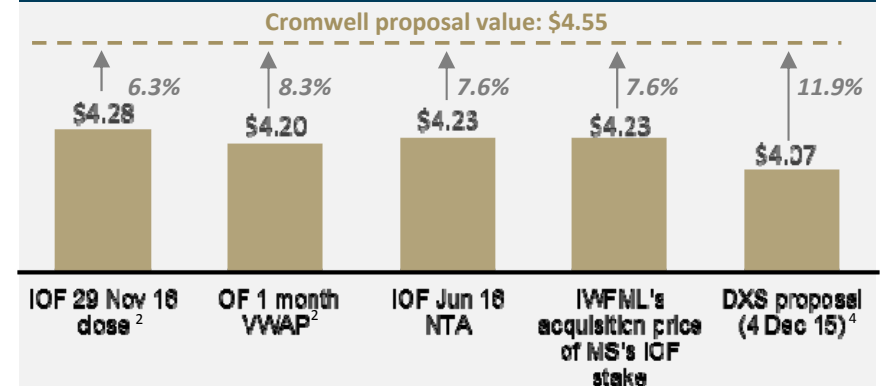
1. Reflects management guidance of FY17 distribution per unit of 20 cents and assumes 50% will be paid out in 1H17.

2. Based on undisturbed IOF trading values as at 29 Nov 16 for the Cromwell proposal.

3. IWFML, in its capacity as responsible entity of the Investa Commercial Property Fund (ICPF), agreed to acquire Morgan Stanley's 8.94% stake in IOF on 29 Nov 15.

4. Based on Dexu's Standard Consideration of \$0.8229 and 0.424 Dexu securities per IOF unit. Dexu security price of \$7.65 as at 4 Dec 15, being the last close prior to the Dexu proposal announcement.

## Cromwell proposal value per IOF unit



## Timeline of events

Monday 14 Nov 16	Cromwell submitted a conditional and non-binding cash offer for IOF to IOF's Board at \$4.45 per IOF unit
Tuesday 15 Nov 16	IOF's Chairman raised a number of questions and issues with the Proposal during a phone call
Wednesday 16 Nov 16	Cromwell wrote to IOF addressing issues raised
Thursday 17 Nov 16	IOF's Chairman requested Cromwell provide further details of Cromwell's proposed funding and a list of due diligence items
Tuesday 22 Nov 16	Cromwell resubmitted the Proposal including letters of support from debt and third party equity providers accompanied by a list of due diligence items
Friday 25 Nov 16	ICPF entered into an agreement to acquire an 8.94% stake in IOF from Morgan Stanley at \$4.23 per IOF unit
Tuesday 29 Nov 16	IOF's Board notified Cromwell of its intention not to consider the Proposal any further
Tuesday 29 Nov 16	ICPF announced it had acquired the 8.94% stake in IOF



# Superior proposal to recommended Dexus proposal

## Dexus was granted due diligence based on a lower offer with exclusivity and break fee provisions

- Cromwell's proposal is superior to Dexus's offer which received access to due diligence
  - 100% cash offer
  - 11.9% premium to Dexus's original offer<sup>1</sup>
  - No exclusivity or break fee
- Dexus was granted an exclusivity period of up to 4 weeks under which IOF and Dexus would undertake reciprocal due diligence and negotiate detailed terms of the merger agreement
  - Negotiations were subject to no shop, no-talk, matching rights and notifications rights provisions and a \$23.5million break fee
- The IBC indicated Dexus's offer of \$4.07<sup>1</sup> was likely to be recommended, subject to no superior offer and the independent expert report
- KPMG stated a premium to NTA of 0 - 5% was appropriate for IOF in its independent expert report on the Dexus proposal

	Dexus proposal Due diligence granted	Cromwell proposal Due diligence rejected
Date proposal announced	7 Dec 15	30 Nov 16
Proposal value	\$4.07 <sup>1</sup>	\$4.55 <sup>3</sup>
Consideration type	20% cash / 80% scrip	100% cash
Conditionality	Conditional	Conditional
Exclusivity requested	Yes (no shop, no talk)	No
Break fee payable	\$23.5m	\$0.0m
Due diligence period	2 wks + optional 2 wks	40 days
IOF last close <sup>2</sup>	\$3.83	\$4.28
IOF 1 month VWAP <sup>2</sup>	\$3.86	\$4.20
IOF NTA per unit	\$3.98 (31 Dec 15)	\$4.23 (30 Jun 16)
Premium to IOF last close	6.2%	6.3%
Premium to IOF 1 month VWAP	5.4%	8.3%
Premium to NTA	2.3%	7.6%

Source: Company filings and FactSet market data.

1. Based on Dexus's Standard Consideration of \$0.8229 and 0.424 Dexus securities per IOF unit. Dexus security price of \$7.65 as at 4 Dec 15, being the last close prior to the Dexus proposal announcement.
2. Based on undisturbed IOF trading values as at 29 Nov 16 for the Cromwell proposal and as at 4 Dec 15 for the Dexus proposal.
3. Includes IOF 1H17 distribution of 10.0 cents per unit. Based on management guidance of IOF FY17 distribution per unit of 20 cents and assumes 50% will be paid out in 1H17.



# Cash consideration offers greatest flexibility and value certainty

All cash offer by Cromwell represents a compelling proposal for IOF investors vs. Dexus proposal	
IBC Board DXS proposal recommendation	Relevance to Cromwell proposal
<b>Key benefits of Dexus proposal</b>	
<ul style="list-style-type: none"> <li>→ Dexus proposal represents attractive value for IOF unitholders                             <ul style="list-style-type: none"> <li>→ 6.2% premium to IOF undisturbed last close price (4 Dec 15)</li> <li>→ 5.4% premium to IOF undisturbed 1 month VWAP (4 Dec 15)</li> <li>→ 2.3% premium to IOF Dec 15 NTA</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ Cromwell proposal is at a 11.9% premium to Dexus's recommended offer                             <ul style="list-style-type: none"> <li>→ 6.3% premium to IOF undisturbed last close price (29 Nov 16)</li> <li>→ 8.3% premium to IOF undisturbed 1 month VWAP (29 Nov 16)</li> <li>→ 7.6% premium to IOF Jun 16 NTA</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>→ Earnings and distribution accretion                             <ul style="list-style-type: none"> <li>→ Expected FY16 underlying FFO accretion of 7.9% and FY16 DPS accretion of 17.4% under Dexus proposal</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ Cash proposal at a premium where investors can choose how to reinvest proceeds</li> </ul>
<ul style="list-style-type: none"> <li>→ IOF unitholders who receive Dexus securities will share in significant strategic benefits                             <ul style="list-style-type: none"> <li>→ Combination of two complementary office portfolios</li> <li>→ Investment in a larger more diversified office portfolio</li> <li>→ Exposure to additional revenue streams including Dexus's development pipeline, third party funds management business and property services business and income from trading profits</li> <li>→ Enhanced cost-effectiveness with a MER of &lt;35bps</li> <li>→ Greater relevance for equity and debt investors</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>✓ Cash proposal at a premium where investors can choose how to reinvest proceeds</li> </ul>
<ul style="list-style-type: none"> <li>→ Enhanced governance and alignment of interests through internal management</li> </ul>	<ul style="list-style-type: none"> <li>✓ Privatisation via an all cash offer provides a clean exit for IOF unitholders and removes conflicts</li> </ul>
<ul style="list-style-type: none"> <li>→ The revised Dexus proposal provides flexibility for each IOF unitholder to determine the optimal form of consideration</li> </ul>	<ul style="list-style-type: none"> <li>✓ All cash offer provides investors with greatest flexibility                             <ul style="list-style-type: none"> <li>→ Cash consideration was capped at \$505 million under the Dexus proposal</li> </ul> </li> </ul>
<b>Key risks of Dexus proposal</b>	
<ul style="list-style-type: none"> <li>→ Reduction in IOF's NTA per IOF unit</li> </ul>	<ul style="list-style-type: none"> <li>✓ All cash offer provides clean exit to IOF unitholders at a premium to NTA</li> </ul>
<ul style="list-style-type: none"> <li>→ Potential variability in implied offer price due to movements in DXS security price</li> </ul>	<ul style="list-style-type: none"> <li>✓ All cash offer provides value certainty to IOF unitholders</li> </ul>
<ul style="list-style-type: none"> <li>→ Change in nature of the investment with more diverse operations</li> <li>→ Higher target gearing range than IOF</li> <li>→ Risk of the proposal triggering default/pre-emptive rights on jointly owned properties</li> <li>→ Risks that repayment provisions under IOF's USPP and MTN could be triggered by the proposal</li> <li>→ Integration risks and realisation of assumed synergies not being achieved</li> <li>→ Geographic concentration risk with greater exposure to Sydney market</li> </ul>	<ul style="list-style-type: none"> <li>✓ Not relevant to IOF unitholders - all cash offer provides clean exit to IOF unitholders with risks taken on by new owners</li> </ul>

# Cromwell proposal represents record low implied cap rate for IOF

- Cromwell's proposal value of \$4.55<sup>1</sup> implies a cap rate of 5.88%
  - 34 bps tighter than IOF implied cap rate as at 29 Nov 16<sup>2</sup> and 32 bps tighter than IOF's Jun 16 portfolio book cap rate
  - Tighter than IOF's historical portfolio book cap rate including through last two property cycles
  - Lower than the sector average
- IOF will seek to maximise December 2016 valuations
  - IOF revalued its whole portfolio in November 2015, and select assets again in June 2016
  - Across FY16, IOF's portfolio cap rate tightened from 6.93% to 6.20%, 73 basis points of compression
  - The portfolio currently exhibits a record low weighted average cap rate (WACR)
- KPMG stated a premium to NTA of 0 - 5% was appropriate for IOF in its independent expert report on the Dexus proposal

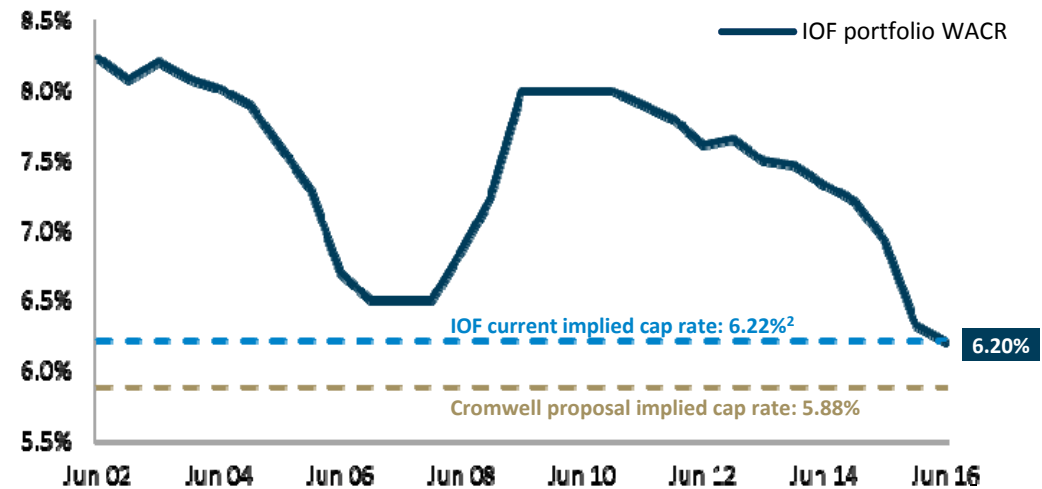
Source: Company filings.

Note: Implied cap rate reflects forward NPI / implied property value calculated as (Jun 16 book cap rate x Jun 16 property value) / (Jun 16 property value + absolute premium/(disc.) to NTA).

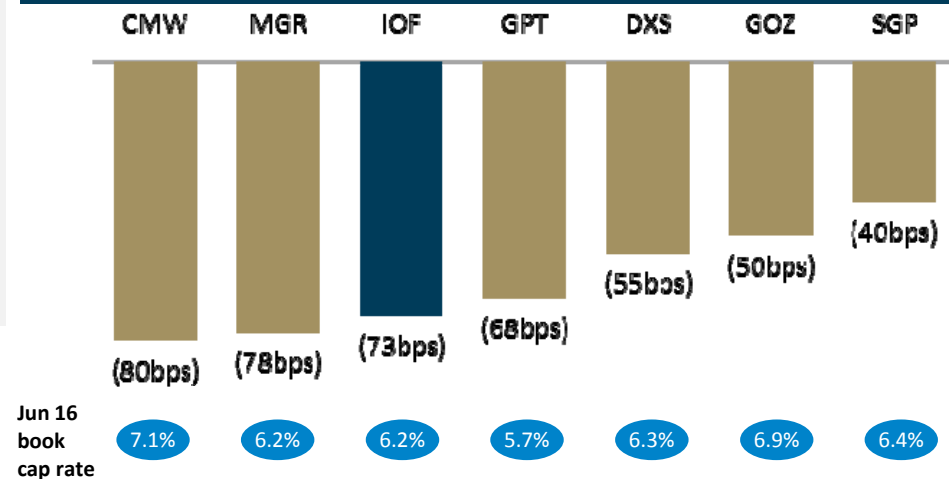
1. Includes IOF 1H17 distribution of 10.0 cents per unit. Based on management guidance of IOF FY17 distribution per unit of 20 cents and assumes 50% will be paid out in 1H17.

2. Based on IOF's undisturbed 1 month VWAP of \$4.20 as at 29 Nov 16.

## IOF portfolio book cap rate



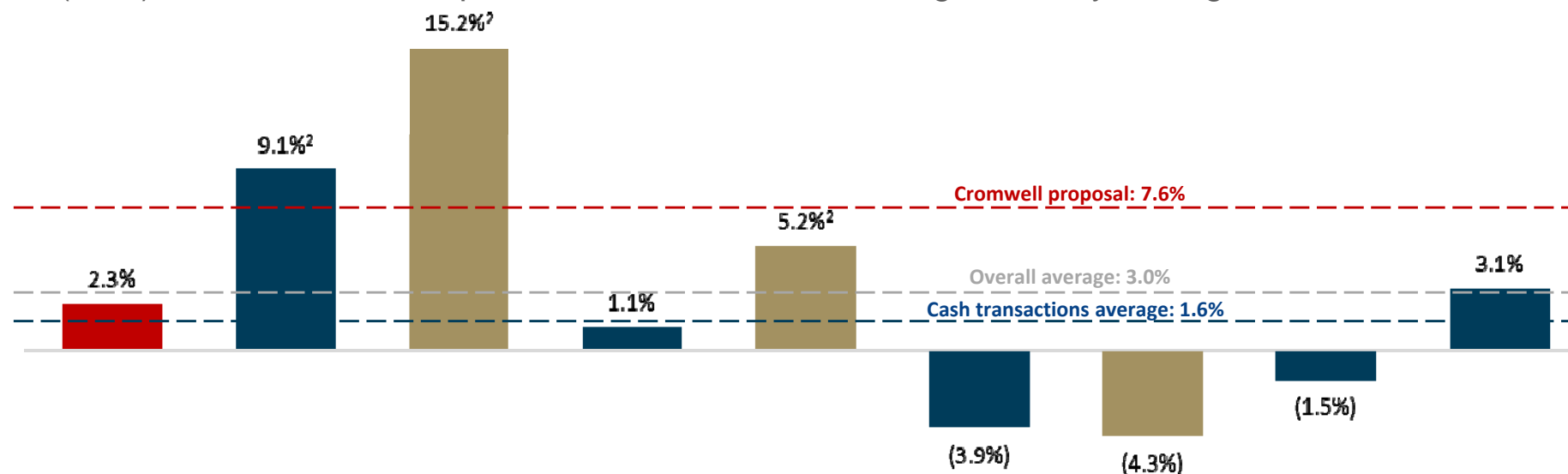
## Office sector cap rate compression (FY16)



# Cromwell proposal is attractive relative to precedents

Average cash transaction premium to NTA since GFC of 1.6% versus Cromwell's proposal at 7.6%

Premium / (disc.) to NTA<sup>1</sup> of relevant precedent transactions involving externally managed REITs



Completion date	7 Dec 15 <sup>3</sup>	23 Sep 16	1 Dec 15	4 Jul 14	15 Apr 14	1 May 12	27 Jun 11	17 Mar 11	23 Jul 10
Target	Investa Office Fund	GPT Metro Office Fund	Australian Industrial REIT	Challenger Diversified Property Group	Commonwealth Property Office Fund	Charter Hall Office REIT	Rabinov Property Trust	ING Industrial Fund (93%)	Westpac Office Trust
Acquiror	Dexus Property Group	Growthpoint Properties Australia	360 Capital Industrial Fund	Challenger Life Company Ltd.	Dexus Property Group	Macquarie-led Consortium	Growthpoint Properties Australia	Goodman Group	Mirvac Group Ltd
Consideration (A\$m)	\$2,497 <sup>3</sup>	\$439	\$223	\$587	\$2,910	\$1,228	\$50	\$1,395	\$417
Deal structure	Scheme of arrangement	Off-market takeover	Off-market takeover	Off-market takeover	Off-market takeover	Scheme of arrangement	Off-market takeover	Scheme of arrangement	Scheme of arrangement
Consideration	80% scrip / 20% cash	100% cash or 51% scrip / 49% cash	90% scrip / 10% cash	100% cash	32% scrip / 68% cash or 38% scrip / 62% cash	100% cash	100% scrip	100% cash	100% cash or 100% scrip

Source: Company filings and KPMG Independent Expert Report. Shaded transactions represent cash offers.

1. Premium to NTA paid in precedent transactions has been sourced from the KPMG Independent Expert Report on the Dexus proposal where possible.

2. GPT Metro Office Fund, Australian Industrial REIT, and Commonwealth Property Office Fund were all subject to interlopers which ultimately drove higher pricing and therefore a higher premium.

3. 7 Dec 15 reflects the date of announcement. Total consideration calculated as \$4.0665 x 614,047,458 units on issue. Price as at date of announcement has been used to reflect the time at which Dexus was granted due diligence.

■ Cash transactions



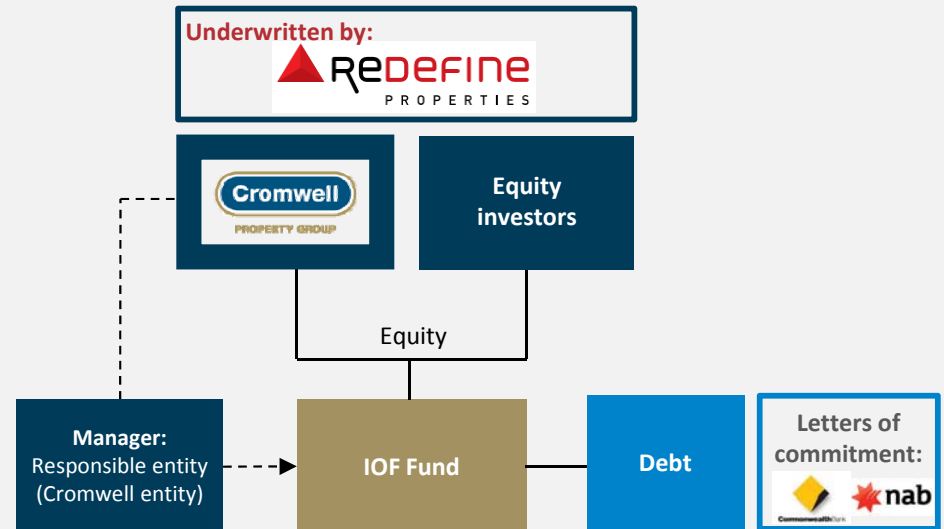


# Funding support provided is in line with market practice

## Funding support

- Cromwell submitted letters of support from debt and third party equity providers in the proposal to ILFML
  - As requested by IOF independent directors as part of proposal discussion between Cromwell and IOF
  - Letter confirming that Redefine Properties is prepared to underwrite the equity requirement of \$1.6-1.8 billion
  - Letters of commitment from domestic banks, Commonwealth Bank Australia and National Australia Bank
- Funding support is subject to
  - Finalisation of terms
  - Completion of satisfactory due diligence
  - Obtaining final internal and any other approvals, which may be necessary for a transaction of this nature, before entry into binding documentation
- Level of funding support provided is in line with market practice

## Proposed funding structure



# Cromwell's due diligence request is in line with market practice

- IOF was previously prepared to provide Dexus with access to full due diligence but unwilling to provide it to Cromwell
  - Likely that a full online dataroom was established during the Dexus process
- At ILFML's request Cromwell submitted a list of key due diligence items
  - Due diligence items requested are market standard for REIT deals in Australia
  - Having recently provided Dexus with due diligence, IOF should be well positioned to provide Cromwell with due diligence
  - Requested limited access to IOF key management
- Cromwell remains open to discussing its due diligence requirements with the IOF Board to reach a mutually acceptable due diligence scope

## Summary of diligence items requested

1	Board and governance materials
2	Key management agreements
3	Debt and hedging agreements
4	Property management reports
5	Technical reports and information for each asset
6	Historical and forecast financial information
7	Key legal documents
8	Co-ownership arrangements



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