

360 Capital Total Return Fund

For the half year ended 31 December 2018

Comprises the stapling of 360 Capital Total Return Passive Fund (ARSN 602 304 432) and 360 Capital Total Return Active Fund (ARSN 602 303 613)

This preliminary financial report is given to the ASX in accordance with Listing Rule 4.2.A. This report should be read in conjunction with the Interim Financial Report for the half year ended 31 December 2018. It is also recommended that the Interim Financial Report be considered together with any public announcements made by the Fund. Reference should also be made to the statement of significant accounting policies as outlined in the 30 June 2018 Annual Report. The Interim Financial Report for the half year ended 31 December 2018 is attached and forms part of this Appendix 4D.

Details of reporting period:

Current reporting period: 1 July 2018 – 31 December 2018

Prior corresponding period: 1 July 2017 – 31 December 2017

Results announcement to the market:

	31 Dec 2018 \$'000	31 Dec 2017 \$'000	Movement \$'000	Movement %
Revenue and other income from ordinary activities	4,373	1,110	3,263	294.0
Profit attributable to stapled securityholders for the half year	3,086	671	2,415	359.9
Operating profit ¹	3,969	4,173	(204)	(4.9)

1 Operating profit is a financial measure which is not prescribed by Australian Accounting Standards (AAS) and represents the profit under AAS adjusted for specific non-cash items and significant items. The Directors consider operating profit to reflect the core earnings of the Fund. Operating earnings is used by the Board to make strategic decisions and as a guide to assessing an appropriate distribution to declare. A reconciliation of the Fund's statutory profit to operating earnings is provided in Note 2 of the Interim Financial Report.

	31 Dec 2018 Cents per security	31 Dec 2017 Cents per security	Movement Cents per security	Movement %
Earnings per security – Basic and diluted	4.6	1.0	3.6	360.0
Operating profit per security	6.0	6.3	(0.3)	(4.8)

360 Capital Total Return Fund



For the half year ended 31 December 2018

Comprises the stapling of 360 Capital Total Return Passive Fund (ARSN 602 304 432) and 360 Capital Total Return Active Fund (ARSN 602 303 613)

Distributions:

	Cents per security	Total amount paid \$'000	Date of payment
September 2018 quarter distribution	3.0	1,975	25 October 2018
December 2018 quarter distribution	3.0	2,024	24 January 2019
Total distribution for the period ended 31 December 2018	6.0	3,999	
September 2017 quarter distribution	2.25	1,483	26 October 2017
December 2017 quarter distribution	2.25	1,482	25 January 2018
Total distribution for the period ended 31 December 2017	4.50	2,965	

Distribution reinvestment plan:

During the half year the Fund introduced a Distribution Reinvestment Plan (DRP) which was activated from the September 2018 quarter. The DRP will apply to future distributions unless notice is given of its suspension or termination. Refer to Note 9 of the Interim Financial Report for more details. Applications to participate in or to cease or vary participation in the DRP were required to be correctly completed and lodged by 2 January 2019 if they were to apply to the December quarter distribution.

Net tangible asset per security:

	31 Dec 2018 \$	31 Dec 2017 \$
NTA per security	1.17	1.21

INTERIM FINANCIAL REPORT
FOR THE HALF YEAR ENDED
31 DECEMBER 2018

360 CAPITAL TOTAL RETURN FUND

360 CAPITAL TOTAL RETURN FUND COMPRISES 360 CAPITAL TOTAL RETURN PASSIVE FUND (ARSN 602 304 432) AND 360 CAPITAL TOTAL RETURN ACTIVE FUND (ARSN 602 303 613)

360 CAPITAL TOTAL RETURN FUND

Interim Financial Report For the half year ended 31 December 2018

360 Capital Total Return Fund comprises 360 Capital Total Return Passive Fund (ARSN 602 304 432) and its controlled entities and 360 Capital Total Return Active Fund (ARSN 602 303 613).

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for 360 Capital Total Return Fund for the year ended 30 June 2018 and any public announcements made by 360 Capital Total Return Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

360 Capital Total Return Fund
Responsible Entity report
For the half year ended 31 December 2018

The Directors of 360 Capital FM Limited (CFML) (ABN 15 090 664 396) (AFSL No 221474), the Responsible Entity, present their report together with the interim financial report of 360 Capital Total Return Fund (the Fund or consolidated entity) (ASX: TOT) for the half year ended 31 December 2018. 360 Capital Total Return Fund comprises 360 Capital Total Return Passive Fund (Passive Fund) (Parent Entity) and its controlled entities and 360 Capital Total Return Active Fund (Active Fund).

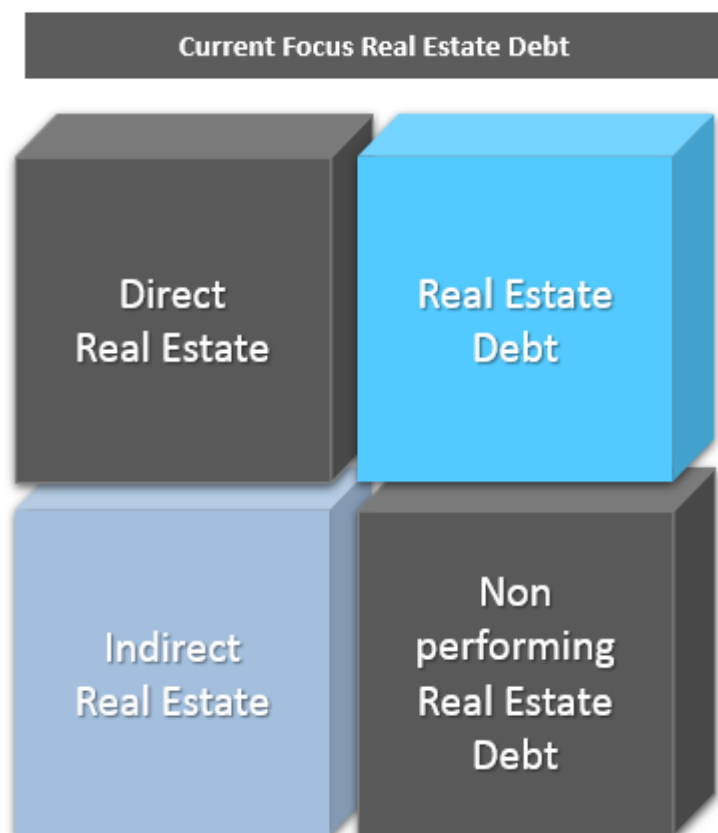
Directors

The following persons were Directors of 360 Capital FM Limited during the half year up to the date of this report, unless otherwise stated:

David van Aanholt (Chairman)
Tony Robert Pitt
William John Ballhausen
Graham Ephraim Lenzner
Andrew Graeme Moffat

Principal activities

The Fund listed on the Australian Stock Exchange (ASX) in April 2015 as a unique, opportunistic fund investing in various forms of Australian real estate assets. The Fund's objective is to deliver a total return of 12.0% plus per annum through disciplined investment in a broad range of real estate opportunities. The fund is currently focused on the real estate debt sector.



Wide Real Estate Mandate

- repositioning assets
- investing in investment properties
- underwriting potential capital raisings including syndicates and both unlisted and listed funds
- strategic positions in unlisted funds
- capitalising on mispriced trading opportunities AREIT sector
- participating in mergers and acquisition activities
- special situations within markets including distressed sales, investments with restructuring potential, and providing loans.

Why Real Estate Debt?

- late stages of real estate cycle, focus on capital preservation, step-out of first loss position
- Banking Royal Commission and changes to prudential regulation continue to benefit non-bank sector
- secured loans with higher risk-adjusted returns than equity
- this strategy is expected to continue for several years; however, TOT expects to re-enter equity investing into real estate (initially through distressed opportunities) before mainstream real estate investing again.

Operating and financial review

Key financial highlights for the half year ended 31 December 2018



Statutory net profit attributable to securityholders

\$3.1m

(December 2017: \$0.7 million)

Statutory net profit attributable to securityholders higher than prior half year reflecting growth of finance revenue on real estate debt investments to \$4.2 million in HY19



Operating profit

\$4.0m

(December 2017: \$4.2 million)

Operating profit¹ of \$4.0 million (equating to 6.0 cps) excludes \$0.9 million loss allowance on loans recognised following the adoption of AASB 9



Distributions per security

6.0cps

(December 2017: 4.5 cps)

Distributions of 6.0 cps for the period reflects a 33.3% increase on the prior period



Net tangible assets

\$1.17

per security
(June 2018: \$1.19)

Net tangible assets (NTA) reduction due to the impact of a loss allowance on the Fund's loan portfolio on adoption of AASB 9, equating to \$0.02 per unit



ASX closing price

\$1.23

per security
(June 2018: \$1.26)

The Fund's closing price reflects a 9.8% operating earnings and distribution yield based on the annualised 1H19 operating EPU and DPU. The Fund continues to trade at a premium to NTA

¹ Operating profit is a financial measure which is not prescribed by Australian Accounting Standards (AAS) and represents the profit under AAS adjusted for specific non-cash items and significant items. The Responsible Entity considers operating profit to reflect the core earnings of the Fund and it is used as a guide to assess the Fund's ability to pay distributions to securityholder. The operating profit information in the table has not been subject to any specific audit procedures by the Fund's auditor but has been extracted from Note 2: Segment reporting.

² Distributable gain represents the amount available for distribution from the realised gain on disposal of the fund's IDR Investment.

Operating and financial review (continued)

Key operational achievements for the half year ended 31 December 2018



Loan Book

\$110.2m

comprising 93% senior loans

360 Capital's dedicated debt team has grown to four, which has led to a significant increase in deal flow with the Fund growing its loan book to \$110.2 million



Recycle capital

\$58.7m

Forecast to be repaid in 2H19

The Fund is forecasting to be repaid \$58.7 million in loan investments during 2H19. The Fund is reviewing a number of new loan investment opportunities to reinvest available cash



Building active revenue streams through AMF

2%

Establishment fee

50% ownership in AMF Finance continues to benefit TOT from active revenue streams in the form of establishment fees on loan transactions written by 360 Capital Group entities including TOT, private client funding and proposed new funds

Financial overview

The Fund's statutory net profit attributable to stapled securityholders for the half year ended 31 December 2018 was \$3.1 million (December 2017: \$0.7 million). The Fund's statutory balance sheet as at 31 December 2018 had gross assets of \$82.1 million (June 2018: \$79.8 million).

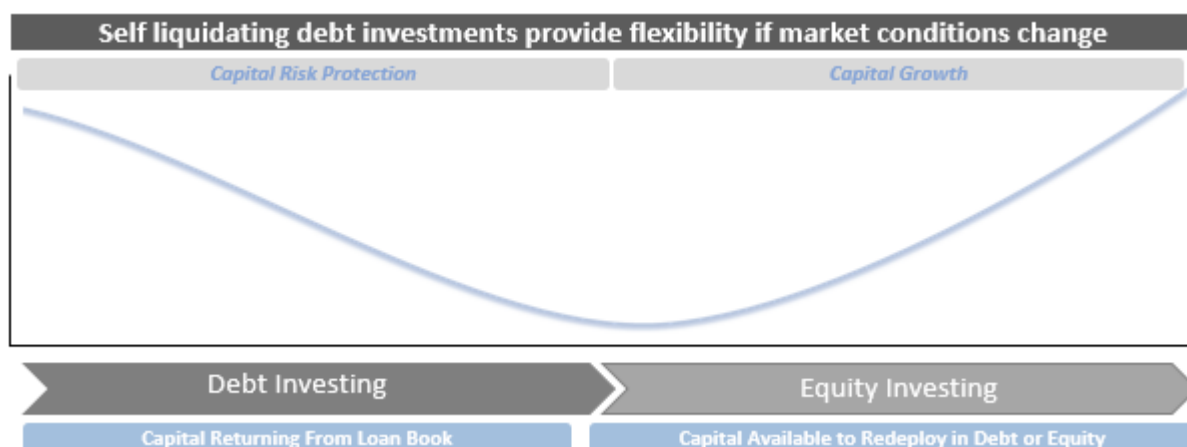
The Fund's operating profit (profit before specific non-cash and significant items) for the half year ended 31 December 2018 was \$4.0 million (December 2017: \$4.2 million).

As at 31 December 2018 the Fund had recognised a total \$1.3 million loss allowance on loans receivable following the first-time adoption of AASB 9. The new accounting standard requires a provision to be recognised based on the probability of future expected credit loss not on an actual incurred loss basis as previously required. Whilst the Fund has recognised a loss allowance on the loans receivable, all the loans are currently performing and there is no evidence that any actual loss will eventuate.

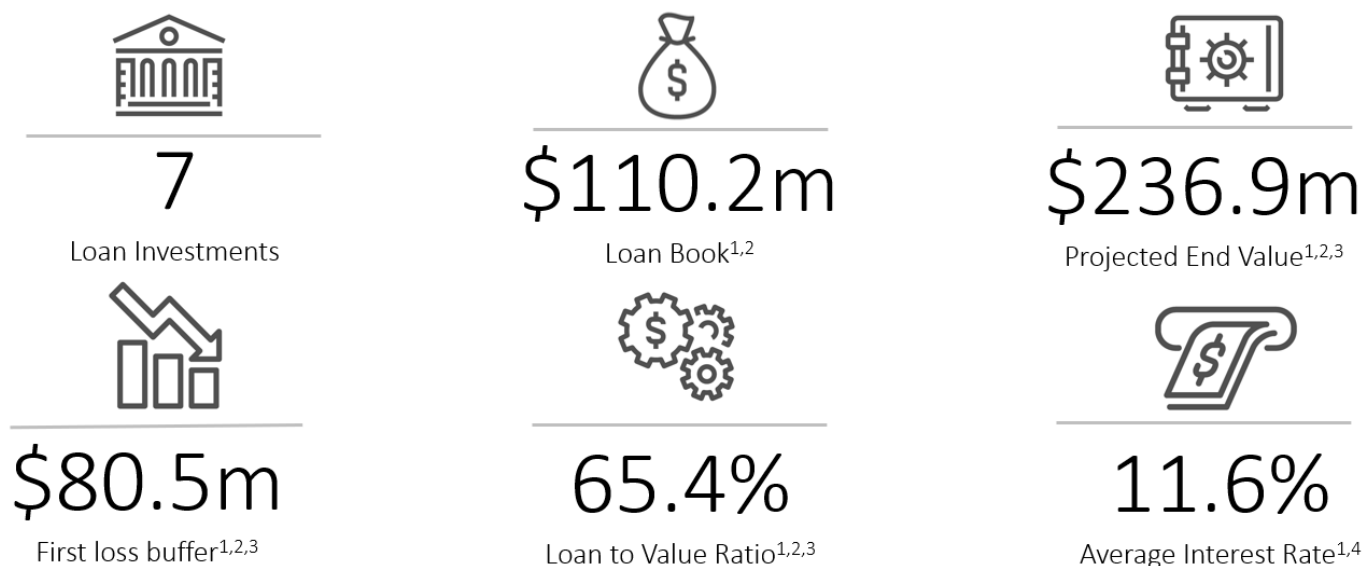
Investment Strategy

Given the Responsible Entity's opinion that we are entering the late stage of the real estate cycle, TOT is capitalising on its broad mandate and focusing on real estate debt investment which it believes provides higher risk adjusted returns than equity investing. The self-liquidating nature of TOT's loan investments provide flexibility, allowing TOT to consider equity investment opportunities should market conditions change.

Investment Strategy (continued)



Current Loan Portfolio



The above represents a summary of the Fund's loan portfolio as at 31 December 2018. The loan investments are predominantly first mortgage security and are located across Australia with 85% located in New South Wales and Victoria. The loans comprise a range of asset types with 39.8% hotel assets, 44.5% residential and the balance of 15.7% representing short term accommodation and a medical centre (by loan value).

1. Facility amount including capitalised interest and fees
2. Based on "As if Complete" valuation (net of GST)
3. Calculated as "As if Complete" valuation (net of GST) less facility amounts (including capitalised interest and fees) and senior facility on 900 Hay Street, Perth WA
4. Weighed average interest rate inclusive of line-fee and interest margin

360 Capital Total Return Fund
Responsible Entity report
For the half year ended 31 December 2018

Debt origination and management joint venture

The Fund holds a 50% stake in AMF Finance Pty Limited (AMF). AMF originates alternative lending and structured financing solutions to Australian real estate investors and developers and receives all establishment fees on development transactions written by 360 Capital Group entities, including TOT and other private client development funding.

AMF has begun to establish itself as a major non-bank real estate debt originator. AMF has built strong relationships with the Australian banks and over 100 accredited brokers, and these relationships have delivered a strong track record to-date and are providing a robust and growing pipeline of transaction opportunities over time. This revenue stream will add to the Fund's active earnings.

Capital management

During the period, 360 Capital established the 360 Capital Senior Loan Series – August 2018 ("Senior Loan Fund") wholesale investment fund to facilitate the sell down of two existing loan investments within TOT and to expand and diversify TOT's investment loan book. As at 31 December 2018, TOT holds a controlling interest in the Senior Loan Fund and accordingly the results of the Senior Loan Fund have been consolidated into the results of the Fund.

The Fund's Dividend Reinvestment Plan (DRP) was active for the September and December 2018 quarter distributions, raising a total of \$4.0 million and issued 3.3 million securities.

Distributions

Total distributions paid or payable to unitholders by the Fund for the half year ended 31 December 2018:

	31 December 2018 \$'000	31 December 2017 \$'000
September 2017 quarterly distribution 2.25 cps paid on 26 October 2017	-	1,483
December 2017 quarterly distribution 2.25 cps paid on 25 January 2018	-	1,482
September 2018 quarterly distribution 3.0 cps paid on 25 October 2018	1,975	-
December 2018 quarterly distribution 3.0 cps paid on 24 January 2019	2,024	-
	3,999	2,965

Buy back arrangements

As detailed in the Fund constitution, the Responsible Entity is not under any obligation to buy back, purchase or redeem units from securityholders. During the half year ended 31 December 2018 there were no units bought back and cancelled (December 2017: 71,333).

Number of interests on issue

As at 31 December 2018, the number of securities on issue in the Fund was 67,455,636 (June 2018: 65,853,647). During the period a total of 1,601,989 securities were issued under the Funds DRP.

Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Fund that occurred during the half year under review other than those listed above or elsewhere in the Responsible Entity's report.

360 Capital Total Return Fund
Responsible Entity report
For the half year ended 31 December 2018

Likely developments and expected results of operations

The Fund will continue to invest in real estate based activities and seek to actively manage a diversified portfolio of investments as outlined in the Product Disclosure Statement (PDS) dated 17 March 2015.

Events subsequent to balance date

No circumstances have arisen since the end of the period which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

Auditor's independence declaration

The auditor's independence declaration required under Section 307C of the Corporations Act 2001 is set out on page 8 and forms part of the Responsible Entity's report for the half year ended 31 December 2018.

Rounding of amounts

360 Capital Total Return Fund is an entity of the kind referred to in Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC). In accordance with that Instrument, amounts in the interim financial report and Responsible Entity report have been rounded to the nearest thousand dollars, unless otherwise stated.

This report is made in accordance with a resolution of the Directors.



David van Aanholt
Chairman



Tony Robert Pitt
Managing Director

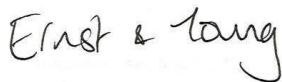
Sydney
27 February 2019

Auditor's Independence Declaration to the Directors of 360 Capital FM Limited as Responsible Entity for 360 Capital Total Return Passive Fund

As lead auditor for the review of the half-year financial report of 360 Capital Total Return Passive Fund for the half-year ended 31 December 2018, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of 360 Capital Total Return Passive Fund and the entities it controlled during the financial period.



Ernst & Young



Mark Conroy
Partner
27 February 2019

360 Capital Total Return Fund

Consolidated interim statement of profit or loss and other comprehensive income

For the half year ended 31 December 2018

		31 December 2018 \$'000	31 December 2017 \$'000
	Note		
Revenue from continuing operations			
Finance revenue		4,195	766
Distributions from property funds		2	3
Total revenue from continuing operations		4,197	769
Other income			
Net gain on fair value of financial assets	7	2	7
Net gain on disposal of financial assets		-	276
Share of equity accounted profits	8	174	58
Total other income		176	341
Total revenue from continuing operations and other income		4,373	1,110
Administration expenses		109	123
Management fees	12	280	283
Acquisition costs		-	33
Loss allowance on loans receivable		885	-
Profit from continuing operations before tax		3,099	671
Income tax benefit	5	(18)	-
Profit for the period		3,117	671
Total comprehensive income for the period		3,117	671
Total comprehensive income attributable to:			
Unitholders of 360 Capital Total Return Passive Fund		2,915	647
Unitholders of 360 Capital Total Return Active Fund		171	24
Profit attributable to stapled securityholders		3,086	671
External non-controlling interests		31	-
Profit for the period		3,117	671
Earnings per stapled security for profit after tax attributable to the stapled securityholders of 360 Capital Total Return Fund		cents	cents
Basic and diluted earnings per security	4	4.6	1.0

The above consolidated interim statement of profit or loss and other comprehensive income should be read with the accompanying condensed notes.

360 Capital Total Return Fund
Consolidated interim statement of financial position
As at 31 December 2018

		31 December 2018 \$'000	30 June 2018 \$'000
	Note		
Current assets			
Cash and cash equivalents	11	9,718	40,089
Receivables		25	1
Loans receivable	6	60,549	33,152
Total current assets		70,292	73,242
Non-current assets			
Loans receivable	6	11,109	6,015
Financial assets at fair value through profit or loss	7	61	59
Investments equity accounted	8	526	352
Deferred tax assets		129	111
Total non-current assets		11,825	6,537
Total assets		82,117	79,779
Current liabilities			
Trade and other payables		57	92
Distribution payable		2,024	1,482
Total current liabilities		2,081	1,574
Total liabilities		2,081	1,574
Net assets		80,036	78,205
Equity			
Issued capital – Passive Fund	9	89,718	88,062
Issued capital – Active Fund	9	12,248	11,949
Accumulated losses		(23,161)	(21,806)
Total equity attributable to stapled securityholders		78,805	78,205
External non-controlling interest		1,231	-
Total equity		80,036	78,205

The above consolidated interim statement of financial position should be read with the accompanying condensed notes.

360 Capital Total Return Fund

Consolidated interim statement of changes in equity

For the half year ended 31 December 2018

		Issued capital - Passive Fund \$'000	Issued capital - Active Fund \$'000	Accumulated losses - Passive Fund ¹ \$'000	Retained earnings - Active Fund \$'000	Total equity attributable to stapled Securityholders \$'000	External non- controlling interest \$'000	Total equity \$'000
	Note							
Balance at 1 July 2018		88,062	11,949	(21,847)	41	78,205	-	78,205
Impact of changes in accounting standards ¹		-	-	(442)	-	(442)	-	(442)
Adjusted balance at 1 July 2018		88,062	11,949	(22,289)	41	77,763	-	77,763
Total comprehensive income for the period		-	-	2,915	171	3,086	31	3,117
Recognition of non-controlling interest		-	-	-	-	-	1,200	1,200
Transactions with Securityholders in their capacity as Securityholders								
Issued securities - DRP	9	1,673	302	-	-	1,975	-	1,975
Equity raising transaction costs	9	(17)	(3)	-	-	(20)	-	(20)
Distributions	3	-	-	(3,999)	-	(3,999)	-	(3,999)
		1,656	299	(3,999)	-	(2,044)	-	(2,044)
Balance at 31 December 2018		89,718	12,248	(23,373)	212	78,805	1,231	80,036
Balance at 1 July 2017		88,217	11,976	(17,942)	(350)	81,901	-	81,901
Total comprehensive income for the period		-	-	647	24	671	-	671
Transactions with Securityholders in their capacity as Securityholders								
Security buy back	9	(72)	(12)	-	-	(84)	-	(84)
Equity raising transaction costs	9	(40)	(7)	-	-	(47)	-	(47)
Distributions	3	-	-	(2,965)	-	(2,965)	-	(2,965)
		(112)	(19)	(2,965)	-	(3,096)	-	(3,096)
Balance at 31 December 2017		88,105	11,957	(20,260)	(326)	79,476	-	79,476

The above consolidated interim statement of changes in equity should be read with the accompanying condensed notes.

¹ Accumulated losses at 1 July 2018 have been restated to reflect the impact of new AASB 9 accounting standard introduced from 1 January 2018

360 Capital Total Return Fund
Consolidated interim statement of cash flows
For the half year ended 31 December 2018

		31 December 2018 \$'000	31 December 2017 \$'000
	Note		
Cash flows from operating activities			
Cash payments to suppliers (inclusive of GST)		(420)	(341)
Distributions received		2	2,205
Finance revenue		202	681
Net cash (outflows)/inflows from operating activities	11 (b)	(216)	2,545
Cash flows from investing activities			
Payment for financial assets		-	(89)
Proceeds from disposal of financial assets		-	63,335
Loans receivable provided		(30,643)	(8,128)
Loans receivable repaid		817	-
Net cash (outflows)/inflows from investing activities		(29,826)	55,118
Cash flows from financing activities			
Proceeds from issue of capital		1,975	-
Proceeds from issue of capital to external non-controlling interest		1,200	-
Payments for security buy backs		-	(84)
Payment of transaction costs to issue capital		(47)	(47)
Distributions paid to stapled securityholders		(3,457)	(4,648)
Net cash outflows from financing activities		(329)	(4,779)
Net (decrease)/increase in cash and cash equivalents		(30,371)	52,884
Cash and cash equivalents at the beginning of the period		40,089	19,858
Cash and cash equivalents at the end of the period	11 (a)	9,718	72,742

The above consolidated interim statement of cash flows should be read with the accompanying condensed notes.

360 Capital Total Return Fund
Condensed notes to the interim financial report
For the half year ended 31 December 2018

Note 1: Basis of preparation

a) Reporting entity

The interim financial report is a general purpose financial report which has been prepared in accordance with AASB 134: *Interim Financial Reporting* and the *Corporations Act 2001*. The interim financial report of 360 Capital Total Return Fund (the Fund) comprises the consolidated financial statements of 360 Capital Total Return Passive Fund (Passive Fund) and its controlled entities and 360 Capital Total Return Active Fund (Active Fund). A 360 Capital Total Return Fund stapled security comprises one 360 Capital Total Return Passive Fund unit stapled to one 360 Capital Total Return Active Fund unit to create a single listed entity traded on the ASX. The Passive Fund or the Active Fund cannot be traded or dealt with separately.

The Responsible Entity of the Fund is 360 Capital FM Limited. The registered office and the principal place of business is Level 8, 56 Pitt Street, Sydney NSW 2000 Australia. The nature of operations and principal activities of the Fund are disclosed in the Responsible Entity's report.

The interim financial report was authorised for issue by the Board on 27 February 2019.

The interim financial report does not include all of the notes and information required for a full annual financial report and should be read in conjunction with the annual financial report for the year ended 30 June 2018 and any public announcements made by 360 Capital Total Return Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The annual financial report of the 360 Capital Total Return Fund for the year ended 30 June 2018 is available upon request from the registered office at Level 8, 56 Pitt Street, Sydney NSW 2000 Australia.

The accounting policies adopted in this interim financial report are consistent with those of the previous financial year and corresponding interim reporting period, except for those disclosed in Note 1(c) below.

b) Basis of preparation

Basis of preparation

360 Capital Total Return Fund and its consolidated entities are for-profit entities for the purpose of preparing the interim financial report.

The interim financial report has been prepared on accruals basis and on the historical cost basis except for financial assets and financial liabilities, which are stated at their fair value.

The interim financial report is presented in Australian dollars.

The Fund is an entity of the kind referred to in Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC). In accordance with that Instrument, amounts in the interim financial report and Responsible Entity report have been rounded to the nearest thousand dollars, unless otherwise stated.

c) Changes in accounting policies and disclosures

The Fund applied AASB 9 and AASB 15 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

c) Changes in accounting policies and disclosures (continued)

AASB 9 Financial Instruments

AASB 9 *Financial instruments* (AASB 9) replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018. AASB 9 makes changes to the classification and measurement of financial instruments, introduces a new expected credit loss (ECL) model when recognising and calculating impairment on financial assets, and also introduces new general hedge accounting requirements.

The Fund has adopted AASB 9 and related amendments from 1 July 2018. Comparative results are not restated as permitted by the standard. The impact of the adoption of AASB 9 is detailed below:

i) Classification and measurement

The classification and measurement requirements of AASB 9 did not have a significant impact on the Fund. The Fund continued measuring at fair value all financial assets previously held at fair value under IAS 39. Receivables and Loans receivable, previously classified as *Loans and receivables* under IAS 39 are now classified and measured as *Financial assets at amortised cost*. Listed equity investments remain classified as *Financial assets at fair value through profit or loss*.

From 1 July 2018, the Fund classifies its financial assets as follows:

- Cash and cash equivalents, trade and other receivables & loans receivable are held at amortised cost. These are held to collect contractual cash flows and these contractual cash flows are solely payments of principal and interest (SPPI).
- Financial assets that do not meet the SPPI criterion are measured at fair value through profit and loss (FVTPL).

At initial recognition, the Fund measures a financial assets and financial liabilities (other than trade receivables, loan receivables and cash) at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets at FVTPL are subsequently measured at fair value. Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

ii) Impairment

The adoption of AASB 9 has changed the Fund's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Fund to recognise an allowance for ECLs for all financial assets not held at fair value through profit or loss.

Upon the adoption of AASB 9, the Fund recognised an initial loss allowance on the Funds' Loans Receivable of \$442,236, which resulted in an increase in opening accumulated losses of \$442,236 reflecting the ECL provision that would have been taken up for the Fund's loan portfolio in the prior period. There was previously no impairment provision recognised under IAS 39.

360 Capital Total Return Fund
Condensed notes to the interim financial report
For the half year ended 31 December 2018

c) Changes in accounting policies and disclosures (continued)

AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* (AASB 15) establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Fund has adopted AASB 15 using the modified retrospective method and as a result no adjustments have been required to the financial statements.

Note 2: Segment reporting

The Fund invests solely in the property sector within Australia.

The Chief Operating Decision Maker being, the Managing Director of the Responsible Entity, monitors the performance and results of the Fund at a total Fund level, as a result the Fund has only one segment. Operating profit is a financial measure which is not prescribed by AAS and represents the profit under AAS adjusted for specific non-cash items and other significant items which management consider to reflect the core earnings of the Fund and is used as a guide to assess the Fund's ability to pay distributions to stapled securityholders.

The following table summarises key reconciling items between statutory profit attributable to the unitholders of the Fund and operating profit.

	31 December 2018 \$'000	31 December 2017 \$'000
Profit attributable to stapled securityholders of the Fund	3,086	671
Specific non-cash items		
Net gain on disposal of financial assets	-	(276)
Net gain on fair value of financial assets	(2)	(7)
Loss allowance on loans receivable	885	-
Significant items		
Distributable gain on disposal of financial assets ¹	-	3,752
Acquisition and transaction costs	-	33
Operating profit (profit before specific non-cash and significant items)	3,969	4,173
Weighted average number of units ('000)	66,446	65,873
Operating profit per stapled security (profit before specific non-cash and significant items)		
(EPS) – cents	6.0	6.3

1. Distributable gain represents the amount available for distribution from the realised gain on disposal of the Fund's investment in Industria REIT.

360 Capital Total Return Fund
Condensed notes to the interim financial report
For the half year ended 31 December 2018

Note 3: Distributions

The Active Fund did not declare any distributions during the half year or up to the date of this report (December 2016: Nil). Distributions declared by the Passive Fund directly to securityholders during the half year were as follows:

	31 December 2018 \$'000	31 December 2017 \$'000
September 2017 quarterly distribution 2.25 cps paid on 26 October 2017	-	1,483
December 2017 quarterly distribution 2.25 cps paid on 25 January 2018	-	1,482
September 2018 quarterly distribution 3.0 cps paid on 25 October 2018	1,975	-
December 2018 quarterly distribution 3.0 cps paid on 24 January 2019	2,024	-
	3,999	2,965

Note 4: Earnings per stapled security

	31 December 2018 ¢	31 December 2017 ¢
Basic and diluted earnings per stapled security	4.6	1.0
	\$'000	\$'000
Basic and diluted earnings		
Profit attributable to stapled securityholders of 360 Capital Total Return Fund used in calculating earnings per stapled security	3,086	671
	000's	000's
Weighted average number of stapled securities used as a denominator		
Weighted average number of stapled securities – basic and diluted	66,446	65,873

Note 5: Income tax expense

The Fund calculates income tax expense using the tax rate applicable to the expected total annual earnings. The major components of income tax expense during the year are:

	31 December 2018 \$'000	31 December 2017 \$'000
Profit before tax attributable to stapled securityholders	3,068	671
Income tax expense at the effective corporate rate of 27.5%	844	185
<u>Increase/(decrease) in income tax expense due to:</u>		
Trust income exempt from income tax	(802)	(185)
Equity raising costs	(15)	-
Equity accounted profits	(48)	-
Other tax adjustments	3	-
Income tax benefit recognised in the statement of profit or loss	(18)	-

360 Capital Total Return Fund
Condensed notes to the interim financial report
For the half year ended 31 December 2018

Note 5: Income tax expense (continued)

In the prior year, the Active Fund recognised \$64,401 of tax losses from the year ended 30 June 2017 which had previously not been recognised, in addition to recognising \$46,460 in tax losses for the year ended 30 June 2018. In prior years, the Active Fund and Passive Fund were not liable for income tax as their taxable income and taxable capital gains were fully distributed to securityholder each year. The Active Fund commenced trading activities through its investment in AMF and as a result is likely to be liable to pay income tax in the future.

Note 6: Loans receivable

	31 December 2018 \$'000	30 June 2018 \$'000
Current		
Secured loans – amortised cost	60,991	33,152
Loss allowance	(442)	-
	60,549	33,152
Non-current		
Secured loans – amortised cost	11,994	6,015
Loss allowance	(885)	-
	11,109	6,015
Total	71,658	39,167

Loans receivable are initially recognised at fair value and subsequently carried at amortised cost in accordance with AASB 9. The Fund has recognised a total loss allowance of \$1,327,602 based on the lifetime expected credit loss (ECL) for each loan in the Fund's portfolio in accordance with AASB 9.

During the period, the Fund invested in 360 Capital Senior Loan Series – August 2018 (SLS Fund) and sold down two loans from its existing loan book at 30 June 2018 on 1 September 2018. The Fund holds a 92.5% interest in the SLS Fund and accordingly the results of the Senior Loan Fund have been consolidated into the results of the Fund.

Movements in the carrying value during the period are as follows:

	31 December 2018 \$'000	30 June 2018 \$'000
Balance at 1 July	39,167	-
Loans drawn during the period	30,643	37,969
Interest capitalised during the period	3,993	1,198
Loss allowance	(1,328)	-
Loans repaid during the period	(817)	-
Closing balance	71,658	39,167

Note 7: Financial assets at fair value through profit or loss

	31 December 2018 \$'000	30 June 2018 \$'000
Non-current		
Units in listed funds managed externally	61	59
Total	61	59

360 Capital Total Return Fund
Condensed notes to the interim financial report
For the half year ended 31 December 2018

Note 7: Financial assets at fair value through profit or loss (continued)

Movements in the carrying value during the period are as follows:

	31 December 2018 \$'000	30 June 2018 \$'000
Balance at 1 July	59	63,091
Financial assets acquired – on market	-	88
Financial assets disposed – on market	-	(63,403)
Net gain on disposal of financial assets	-	9
Fair value adjustment of financial assets	2	274
Closing balance	61	59

Note 8: Investments accounted for using the equity method

	31 December 2018 %	30 June 2018 %	31 December 2018 \$'000	30 June 2018 \$'000
Joint venture				
AMF Finance Pty Limited	50.0	50.0	526	352

The Fund holds a 50% stake in AMF Finance Pty Limited (AMF). AMF originates alternative lending and structured financing solutions to Australian real estate investors and developers and receives all establishment fees on development transactions written by 360 Capital Group entities, including TOT and other private client development funding. The other 50% stake is held by 360 Capital Group.

Reconciliation of movements in equity accounted investments for the half year are as follows:

	31 December 2018 \$'000	30 June 2018 \$'000
AMF Finance Pty Limited		
Opening balance – 1 July	352	-
Equity accounted profit for the year	174	352
Closing Balance	526	352

360 Capital Total Return Fund
Condensed notes to the interim financial report
For the half year ended 31 December 2018

Note 9: Equity

(a) Issued capital

	31 December 2018 000's	30 June 2018 000's
360 Capital Total Return Passive Fund - Ordinary securities issued	67,456	65,854
360 Capital Total Return Active Fund - Ordinary securities issued	67,456	65,854
	\$'000	\$'000
360 Capital Total Return Passive Fund - Ordinary securities issued	89,718	88,062
360 Capital Total Return Active Fund - Ordinary securities issued	12,248	11,949
Total issued capital	101,966	100,011

(b) Movements in issued capital

Movement during the period in the number of issued securities of the Fund was as follows:

	31 December 2018 000's	30 June 2018 000's
Opening balance at 1 July	65,854	65,925
Security buy back	-	(71)
Securities issued under the Distribution Reinvestment Plan	1,602	-
Closing balance	67,456	65,854

Movement during the half year in the value of issued securities of the Fund was as follows:

	31 December 2018 \$'000	30 June 2018 \$'000
Opening balance at 1 July	100,011	100,193
Security buy back	-	(84)
Securities issued under the Distribution Reinvestment Plan	1,975	-
Transaction costs incurred in issuing capital	(20)	(98)
Closing balance	101,966	100,011

(c) Distribution Reinvestment Plan

During the half year the Fund introduced a Distribution Reinvestment Plan (DRP) which was activated for the September 2018 quarterly distribution. The Fund issued 1,601,989 securities in October 2018 and raised \$2.0 million relating to the September 2018 quarterly distribution. Securities were issued at a 1.5% discount to the Fund's 10 day average of the daily volume weighted average trading price as per the Fund's DRP policy. In January 2019 the Fund issued 1,692,875 securities and raised a further \$2.0 million relating to the December 2018 quarterly distribution. Both the September and December quarter distributions were fully underwritten.

360 Capital Total Return Fund
Condensed notes to the interim financial report
For the half year ended 31 December 2018

Note 10: Other financial assets and liabilities

Fair values

The fair value of the Fund's financial assets and liabilities are approximately equal to that of their carrying values as at 31 December 2018.

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows and based on the lowest level input that is significant to the fair value measurements as a whole:

Level 1 – Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

For financial instruments that are recognised at fair value on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At balance date, the Fund held the following classes of financial instruments measured at fair value:

	Total \$'000	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Financial assets measured at fair value				
Financial assets at fair value through profit or loss as at 31 December 2018	61	61	-	-
Financial assets at fair value through profit or loss as at 30 June 2018	59	59	-	-

There were no transfers between Level 1 and Level 2 fair value measurements, and no other transfers into or out of Level 3 fair value measurements. Fair value hierarchy levels are reviewed on an annual basis unless there is a significant change in circumstances indicating that the classification may have changed.

Valuation techniques

Fair value profit or loss financial assets

For fair value profit or loss financial assets, the Fund invests in listed investments. The value of the investments in the listed market is stated at the unit price as quoted on the ASX at each statement of financial position date. As such, listed investments are categorised as Level 1 instruments.

360 Capital Total Return Fund
Condensed notes to the interim financial report
For the half year ended 31 December 2018

Note 11: Cash flow information

(a) Reconciliation of cash and cash equivalents

	31 December	30 June
	2018	2018
	\$'000	\$'000
Cash at bank	9,718	40,089
Cash and cash equivalents in the statement of cash flows	9,718	40,089

(b) Reconciliation of net profit to net cash inflows from operating activities

	31 December	31 December
	2018	2017
	\$'000	\$'000
Net profit for the period	3,117	671
<u>Adjustment for:</u>		
Net gain on disposal of financial assets	-	(276)
Net gain in fair value of financial assets	(2)	(7)
Share of equity accounted profits	(174)	(58)
Capitalised interest on loans receivable	(3,993)	(62)
Acquisition and transaction costs	-	33
Loss allowance loans receivable	885	-
<u>Change in assets and liabilities</u>		
(Increase)/decrease in receivables	(42)	2,134
(Decrease)/increase in payables	(7)	110
Net cash (outflows)/inflows from operating activities	(216)	2,545

Note 12: Related party transactions

Responsible entity

The Responsible Entity of the Fund is 360 Capital FM Limited (ABN 15 090 664 396) (AFSL No 221474). The immediate parent entity of the Responsible Entity is 360 Capital Property Limited (ABN 46 146 484 433), and its ultimate parent entity is 360 Capital Group Limited (ABN 18 113 569 136).

Responsible Entity's fees and other transactions

The Responsible Entity is entitled to receive fees management fees under the terms of the constitution and in accordance with the product disclosure statement.

	31 December	31 December
	2018	2017
	\$	\$
Fees for the year paid/payable by the Fund:		
Management fees	277,936	278,223
Fund recoveries	2,377	4,422
	280,313	282,645

Management Fee: The Responsible Entity is entitled to a Management Fee of 0.65% p.a. of the gross value of the assets of the Fund during the relevant year for its role in managing and administering the Fund.

360 Capital Total Return Fund
Condensed notes to the interim financial report
For the half year ended 31 December 2018

Note 12: Related party transactions (continued)

Performance Fee: The Responsible Entity is entitled to a Performance Fee of 20% of any total return in excess of 12% p.a. The calculation of total return is based on actual distributions paid to stapled securityholders during the relevant financial year plus any increase in the trading price of Stapled Securities in the relevant financial year. The Performance Fee is payable yearly in arrears after the end of the relevant financial year.

Acquisition Fee: The Responsible Entity will be entitled to an acquisition fee of up to 1.0% of the total purchase price of an investment of the Fund. The acquisition fee is payable upon the completion of the relevant acquisition.

Disposal Fee: The Responsible Entity will be entitled to a disposal fee of up to 1.0% of the total sale price of an investment sold by the Fund. The disposal fee is payable upon the completion of the relevant sale.

Unitholdings

Units held by the Responsible Entity and other Funds managed by and related to the Responsible Entity held stapled securities in the Fund as follows:

	31 December 2018	30 June 2018
360 Capital Property Limited¹		
Number of stapled securities held	17,001,251	15,621,124
Interest % held	25.2%	23.7%
Distributions paid/payable by the Fund (\$)	978,671	1,405,901

1. On 21 June 2017, 360 Capital Property Limited sold its beneficial interest in 360 Capital Total Return Passive Fund units to 360 Capital Diversified Property Fund, a wholly owned subsidiary of the 360 Capital Investment Trust.

Interest in Joint venture

The Fund holds a 50% stake in AMF Finance Pty Limited. AMF provides alternative lending and structured financing solutions to Australian real estate investors and developers and receives all establishment fees on development transactions written by 360 Capital Group entities, including TOT and other private client development funding. The other 50% stake is held by 360 Capital Group.

Note 13: Events subsequent to balance date

No circumstances have arisen since the end of the period which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

360 Capital Total Return Fund

Directors' declaration

For the half year ended 31 December 2018

In the opinion of the Directors of 360 Capital FM Limited:

- 1) The interim consolidated financial statements and notes that are set out on pages 7 to 22 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the period ended on that date; and
 - (ii) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- 2) There are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



David van Aanholt
Chairman



Tony Robert Pitt
Managing Director

Sydney
27 February 2019

Independent Auditor's Review Report to the unitholders of 360 Capital Total Return Passive Fund

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of 360 Capital Total Return Passive Fund (the "Fund") and its subsidiaries (collectively the "Group"), which comprises the consolidated statement of financial position as at 31 December 2018, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of 360 Capital FM Limited, the Responsible Entity of the consolidated entity.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Fund is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Fund as at 31 December 2018 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Responsible Entity are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's consolidated financial position as at 31 December 2018 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Ernst & Young



Mark Conroy
Partner
Sydney
27 February 2019

