



**Investa Office Fund**

**INVESTA** 

# **Operational and Governance Review**

**IOF**

April 2017

**The first  
choice in  
Australian  
office.**

# IOF Vision: To be Australia's Leading Specialist Office Fund



The first choice in Australian office

# Introduction

---

- > The Independent Directors (**Directors**) announced that an operational and governance review (**Review**) would be undertaken in order to shape how Investa Office Fund (**IOF**) works with the Investa Office Management platform (**IOM** or the **Platform**), a best in class office specialist platform
  
- > The objective of the Review has been to optimise the benefits for IOF unitholders focussing on:
  - Continued access to a best in class integrated platform on favourable terms
  - Reconfirmation of the strategic relationship with Investa Commercial Property Fund (**ICPF**) to access future opportunities and initiatives
  - Enhancing actual and perceived independence of both Board and management focus to ensure the interests of IOF unitholders continue to be protected
  - The potential to enhance IOF's return on equity by participating in the growth of the management platform
  
- > The Review identified areas of strength of working with the Platform as well as areas which could be improved. The Board was of the view that a restructure which allowed IOF greater influence over the future direction and operation of the Platform would ensure stability and improved alignment to the benefit of unitholders
  
- > As previously announced the Directors determined to progress the Platform joint venture (**Joint Venture**) and to negotiate with ICPF a true joint venture on appropriate terms to ensure IOF unitholders continue to derive benefits from stability of Platform and certainty of access to the high quality of service provided by IOM

## Operational and Governance Review

01

## Review - Best in class service

---

- > IOM has a demonstrable track record of enhancing unitholder value for IOF unitholders through services provided by its dedicated specialist office management expertise

---

<b>IOM awards</b>	<ul style="list-style-type: none"><li>&gt; <b>2016 GRESB 5 Green Stars</b> – ICPF and IOF both achieved 5 Green Star rankings</li><li>&gt; <b>2016 (RICS) Oceania Awards</b> – Property Funds Management Team of the Year</li><li>&gt; <b>2016 Urban Taskforce Development Excellence Awards</b> – Commercial Office Development of the Year - 567 Collins Street, Melbourne</li><li>&gt; <b>RIAA's 2016 Responsible Investment Benchmark Report</b> – noted IOM as Australia's 2nd largest asset manager of 'core responsible investment portfolios'</li></ul>
-------------------	---

---

<b>Strategic positioning of IOF</b>	<ul style="list-style-type: none"><li>&gt; Recycling of offshore assets into Australian commercial real estate</li><li>&gt; Selective divestments at an opportune time in the market</li><li>&gt; Reweighting of IOF's portfolio to core east coast CBD markets<ul style="list-style-type: none"><li>– c.80% weighting to Sydney and Melbourne as at 31 December 2016</li></ul></li><li>&gt; Strategic development/value add pipeline of opportunities in Sydney to enhance returns</li></ul>
-------------------------------------	---

---

<b>IOF awards</b>	<ul style="list-style-type: none"><li>&gt; <b>2016 GRESB Public Disclosure Score</b> – 1st in Australian office</li><li>&gt; <b>2016 Australasian Reporting Awards</b> – Silver Award - 2015 annual reporting suite</li><li>&gt; <b>2016 GRESB Real Estate Assessment</b> – 2nd in Australian listed office, 13th globally (34th in 2015)</li></ul>
-------------------	---

---

### Primary areas of focus for the Directors:

- > Continue to leverage and work closely with the Investa Office Management platform
- > Ensuring stability of the management team

# Review - Delivering growth and returns

---

- > IOM has generated an annualised IOF unitholder return of 18.3% since April 2011<sup>1</sup>
    - Versus an annualised return for the S&P / ASX 200 A-REIT accumulation index of 14.9%<sup>1</sup>
- 

## **Strong track record of delivering value**

- > Compound NTA uplift of 7.5% per annum (since April 2011)
  - > 17.8% unitholder return on equity over 12 months<sup>2</sup>
  - > 14.0% portfolio unlevered total return over 12 months<sup>3</sup>
  - > 3.4% CAGR in distributions over the last four years
- 

## **Capital management**

- > Conducted unitholder buyback
  - > Strategic divestment of assets to ensure balance sheet strength
  - > Conservative look through gearing of 26.5% at 31 December 2016 (pre recent divestments)
  - > Maintained BBB+ credit rating
  - > First A-REIT to raise A\$ green credential medium term note (green bond) in March 2017
- 

## **Primary areas of focus for the Directors:**

- > Continue to leverage and work closely with the Investa Office Management platform
- > Continue to access pipeline rights with ICPF
- > Continue to access return on equity enhancing opportunities

1. Source: Bloomberg - from 11 April 2011 to 31 December 2016, with net distributions re-invested.

2. Net Tangible Asset (NTA) movement plus distributions.

3. Portfolio book value movement plus portfolio income as a percentage of total book value as at 31 December 2016.

## Review - Strong alignment

---

- > Market leading, cost effective base management fee linked to market capitalisation aligning with unitholders' interests – 55bps of market capitalisation equating to c.34bps of gross assets
- 

### Co-investment

- > 8.9% investment held by ICPF
- 

### Fees

- > Base management fee linked to market capitalisation not gross asset value
  - > No acquisition or disposal fees
  - > No performance fees
- 

### Asset co-ownership

- > 3 premium assets located in Sydney and Melbourne co-owned with ICPF, with IOF's share representing \$815m (23% of portfolio by value<sup>1</sup>)
  - > No pre-emptive provisions on change of ownership of IOF for these assets
- 

### Primary areas of focus for the Directors:

- > Representation on the Platform Board to ensure stability, continued management quality and executive retention
- > Influence over appointment and remuneration of senior fund executives

1. IOF 31 December 2016 portfolio value adjusted for sales of 800 Toorak Road, Melbourne and 383 La Trobe Street, Melbourne.

## Review - Corporate governance

---

- > Under the Deed Poll dated June 2015, IOF currently benefits from strong corporate governance policies
- 

### **Independent Board**

- > The Board of ILFML, the responsible entity of IOF, must be comprised of majority independent directors
  - > Compliance with ASX best practice of rotating independent directors
- 

### **Approval of independent directors**

- > IOF unitholders approve the appointment of the independent directors
- 

### **Primary areas of focus for the Directors:**

- > Appointment and approval of independent directors as per market practice
- > Influence in employment and remuneration of senior fund executives
- > Approval rights on major issues affecting unitholder interests
- > IOF directors oversee strategy setting for IOF



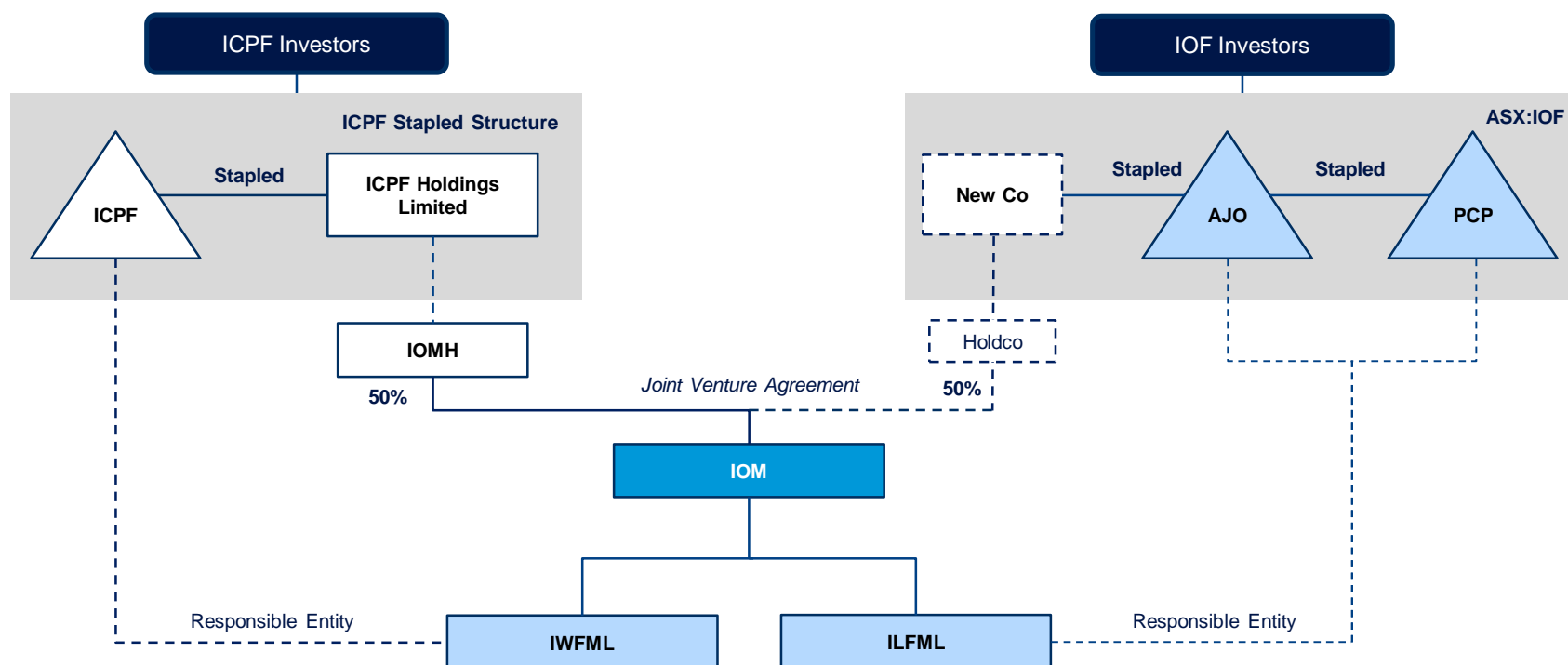
Joint Venture

02

# Joint Venture overview

- > Opportunity to acquire 50% of the Platform for \$45 million plus agreed working capital and other agreed reimbursement adjustments if completion takes place before 31 May 2017
- > Key terms below to be finalised and documented, and will be subject to unitholder approval

## Overview of Joint Venture structure



# Expected financial and strategic impacts to IOF unitholders

---

- > Ensures continued benefits derived from the certainty of access to the high quality of service provided by the Investa Platform and market leading cost effective fees
- 

## Financial impact

- > Accretive to FY17 pro-forma FFO
  - > Offer price of \$45m (an Independent Expert will determine whether the terms of the transaction, including price, are fair and reasonable)
  - > c.8.0c dilutive to 31 December 2016 NTA
  - > Transaction to be 100% debt funded (c.1.5% increase in gearing)
- 

## Governance / alignment enhancements

- > Equal IOF and ICPF representation on the Platform Board
  - > ILFML solely responsible for the setting of strategy of IOF
  - > Mitigates perceived conflicts of interest which may exist within external management models
  - > Management team dedicated to IOF, and responsible for and incentivised directly by reference to IOF interests
- 

## Diversification and scale benefits

- > Strengthens IOF's market position by creating one of Australia's largest specialist, partially internalised office groups which could not be achieved by IOF on its own
  - > Provides access to additional income streams through funds and direct property mandates on behalf of third parties
  - > Partnership opportunities with wholesale capital and ICPF
-

# Summary of key Joint Venture terms

---

## Price:

- > \$45m plus working capital and other agreed reimbursement adjustments

## Governance:

- > Structure of responsible entity boards
  - Each responsible entity board will be solely responsible for setting the strategy and the interests of their respective funds
  - IOF will appoint or approve individuals to be the directors to both the “New Co” Board and ILFML
- > Structure of Platform Board
  - Comprised of non-executive directors with equal representation from ICPF and IOF
  - Platform Board resolutions (other than Shareholder Reserved Matters) decided by simple majority. No Chairman casting vote
  - Shareholder Reserve Matters determined by unanimous approval including, but not limited to:
    - Annual budget and business plan of IOM
    - Amendments to existing ICPF or IOF fee arrangements
    - Entering into related party or unusual transactions
    - Any new funds or mandates
    - Sale of IOM (subject to pre-emptive and tag along provisions)
    - Appointment of Chair and IOM CEO

## Summary of key Joint Venture terms (continued)

### Change of control provisions applicable to both shareholders:

- > Change of control (CoC) or removal of either Responsible Entity (RE)
  - Call Option granted to the shareholder not subject to the CoC/removal of RE (the non-exiting shareholder), on the basis of the following buy-out pricing mechanism to be paid to the party subject to the CoC/removal of RE (the exiting shareholder):

Fair market value x 50%

+

Working capital adjustments

–

Actual scale down costs

=

Buy-out price

Independent valuation process to determine the fair market value for a 100% interest in the remaining Platform<sup>1</sup>

50% of actual working capital of the Platform<sup>2</sup>

100% borne by the exiting shareholder (subject to independent expert determination if in dispute)

Buy-out price cannot be negative

- All relevant records and data to be transferred to the exiting shareholder as if a facilitation fee had been paid to the manager and the transaction was being recommended by the relevant RE Board

1. Assuming services of IOM are no longer required by the exiting shareholder.

2. Customary working capital adjustment mechanism involving completion accounts.

## Summary of key Joint Venture terms (continued)

---

### Wind up provision applicable to both shareholders:

- > The Call Option will also apply where a shareholder resolves to wind up
- > The Call Option will be in favour of the shareholder not being wound up

### Minimum size provision applicable to both shareholders:

- > The Call Option will also apply where a shareholder falls below \$1.5 billion gross asset value
  - > The Call Option will be in favour of the shareholder with gross asset value above \$1.5 billion
  - > The valuation will be undertaken on the basis the services continue to be required by the Platform, however the valuation will reflect the reduced size of assets under management
- 
- > Further detail on the Joint Venture terms will be set out in the documentation and independent expert's report to be sent to investors for the meeting to approve the Joint Venture transaction

## Next Steps

03

## Next steps

---

- > Whilst there remains no certainty that any transaction with Cromwell Property Group (**Cromwell**) will eventuate, the Directors believe continued engagement with Cromwell and updating the valuation of 100% of the portfolio, and pursuing the Joint Venture opportunity, is in the best interests of IOF unitholders
  - The Directors have executed a confidentiality agreement with Cromwell and are facilitating access to due diligence
  - The Directors continue to negotiate with ICPF to finalise and document terms for the Joint Venture

- > Indicative timetable for the Joint Venture

Undertake documentation and due diligence	End of April 2017
Notice of Meeting despatched	Beginning of May 2017
Unitholder extraordinary general meeting (50% voting approval threshold)	End of May 2017
Settlement of Joint Venture	End of May 2017

- > The Directors will keep unitholders informed of discussions and any material developments as they occur