

ASX Announcement

24.07.18

Investa Office Fund (ASX:IOF)

Notice of Meeting and Explanatory Memorandum

Investa Listed Funds Management Limited (**ILFML**), as Responsible Entity of the Investa Office Fund (**IOF**) announces the release of the attached Notice of Meeting and Explanatory Memorandum (**Notice of Meeting**) in respect of a unitholder meeting to consider the proposal by Quartz BidCo Pty Ltd and Quartz Sub TC Pty Ltd as trustee of the Quartz Bid Trust (being entities affiliated with The Blackstone Group L.P.) (collectively, **Blackstone**) to acquire all of the units in IOF by way of trust scheme (**Scheme**). This follows the provision of judicial advice by the Supreme Court of New South Wales confirming that ILFML is justified in despatching the Notice of Meeting to unitholders and convening the meeting.

It is expected that the Notice of Meeting and an accompanying proxy form will be mailed to IOF unitholders on or around 27 July 2018. IOF unitholders who have previously nominated an electronic means of notification will receive or be able to access the materials electronically.

Vote in favour of the Scheme

The Directors of ILFML unanimously recommend that IOF unitholders vote in favour of the Scheme, in the absence of a superior proposal.

The Directors of ILFML have appointed KPMG Corporate Finance as the Independent Expert to provide an opinion on the Scheme. The Independent Expert has concluded that the Scheme is in the best interests of IOF unitholders in the absence of a superior proposal. In arriving at this opinion, the Independent Expert assessed the Scheme to be not fair but reasonable.

Scheme Meeting

A meeting of unitholders to consider the Scheme is currently scheduled to be held at **10:00am (Sydney time) on 21 August 2018 at the Swissotel, Maple Room, 68 Market Street, Sydney**. All IOF unitholders are encouraged to vote by completing and lodging the proxy form that will accompany the Notice of Meeting or alternatively by attending the Scheme meeting.

The Notice of Meeting is an important document that IOF unitholders should read in its entirety before making a decision as to how to vote (whether in person or by proxy). For proxy votes to be considered, they must be lodged with Link Market Services Limited by 10.00am (Sydney time) on 19 August 2018.

FY18 Results

The Notice of Meeting contains a summary of key pro-forma financial performance measures for the year ended 30 June 2018 and the pro-forma statement of financial position as at 30 June 2018 (together, the **Pro Forma Financial Information**). IOF intends to release its full year results (including audited financial statements) for the year ended 30 June 2018 on or around 8 August 2018. IOF unitholders should refer to these results for further details on IOF's financial performance and financial position for the year ended 30 June 2018 as well as other financial disclosures in relation to IOF as part of their consideration of the Scheme.

IOF Unitholder Information Line

For further information in relation to the Scheme, IOF unitholders can contact the IOF Unitholder Information Line on +61 1300 851 394, between 8:30am and 7:30pm Monday to Friday (Sydney time), or consult their legal, investment or other professional adviser.

End

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About Investa Office Fund

Investa Office Fund (ASX code: IOF) is an externally managed Australian listed real estate investment trust, included in the S&P/ASX 100 index. IOF is governed by the Independent Board of Investa Listed Funds Management Limited as Responsible Entity, and managed by Investa – one of Australia’s largest and most highly regarded office managers. IOF has total assets under management of over \$4.3 billion, with 20 investment grade office buildings in core CBD markets across Australia. The Fund receives rental income from more than 400 tenants, including government agencies and blue chip organisations. IOF’s strategy is to deliver attractive risk-adjusted returns investing in high quality Australian office buildings, leveraging Investa’s fully integrated specialist property sector capabilities to outperform.

About Blackstone

Blackstone is one of the world’s leading investment firms. We seek to create positive economic impact and long-term value for our investors, the companies we invest in, and the communities in which we work. We do this by using extraordinary people and flexible capital to help companies solve problems. Our asset management businesses, with US\$450 billion in assets under management, include investment vehicles focused on private equity, real estate, public debt and equity, non-investment grade credit, real assets and secondary funds, all on a global basis. Further information is available at www.blackstone.com. Follow Blackstone on Twitter @Blackstone.

Notice of Meeting and Explanatory Memorandum



Investa Office Fund (ASX: IOF)

In relation to the proposed acquisition by Quartz BidCo Pty Ltd (ACN 626 431 927) and Quartz Sub TC Pty Limited (ACN 626 431 963) in its capacity as trustee of the Quartz Bid Trust of all of the issued securities of Investa Office Fund comprising Armstrong Jones Office Fund (ARSN 090 242 229) and Prime Credit Property Trust (ARSN 089 849 196)

Vote in favour

The Directors of Investa Listed Funds Management Limited,
the responsible entity of Investa Office Fund,

UNANIMOUSLY RECOMMEND

that IOF Unitholders vote in favour of the Proposal
Resolutions, in the absence of a Superior Proposal.

Details of Meeting

Time: 10:00am (Sydney time)

Date: 21 August 2018

Place: Swissotel, Maple Room, 68 Market Street, Sydney NSW 2000

This is an important document and requires your immediate attention.
You should read the whole document in its entirety before deciding how to vote.

If you are in any doubt about how to deal with this document, you should consult
your legal, investment or other professional adviser.

Financial Adviser

J.P.Morgan

Legal Adviser

Allens & Linklaters

Important Notices and Disclaimer

General

This Explanatory Memorandum is important and requires your immediate attention. You should read this Explanatory Memorandum in full before making any decision as to how to vote at the Meeting. If you have sold all of your IOF Units, please ignore this Explanatory Memorandum.

If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser.

Purpose of this document

This Explanatory Memorandum has been prepared for IOF Unitholders in connection with the extraordinary general meeting to be held on 21 August 2018 in relation to the Proposal under which the Acquirer proposes to acquire all of the IOF Units on issue. The purpose of this Explanatory Memorandum is to provide IOF Unitholders with information about the Proposal and with information that is prescribed or otherwise which the Directors believe to be material to deciding whether or not to approve the Proposal Resolutions detailed in the Notice of Meeting included as Schedule 1 to this Explanatory Memorandum.

This Explanatory Memorandum does not constitute or contain an offer to IOF Unitholders, or a solicitation of an offer from IOF Unitholders, in any jurisdiction.

A copy of this Explanatory Memorandum has been provided to ASIC and ASX. None of ASIC or ASX, or their officers take any responsibility for the contents of this Explanatory Memorandum.

Court involvement

The Court provided the First Judicial Advice on 24 July 2018. The Court's provision of the First Judicial Advice is not and should not be treated as an endorsement by the Court of, or any other expression of opinion by the Court on, the Proposal. In particular, the Court's provision of the First Judicial Advice does not mean that the Court:

- has formed any view as to the merits of the Proposal or as to how IOF Unitholders should vote (on these matters IOF Unitholders must reach their own decision); or
- has prepared, or is responsible for, the content of this Explanatory Memorandum.

Notice of Second Judicial Advice hearing

On the Second Judicial Advice Date, the Court will consider whether to give the Second Judicial Advice following the vote at the Meeting.

Any IOF Unitholder may appear at the Second Judicial Advice hearing, expected to be held on 22 August 2018 at the Supreme Court of New South Wales, 184 Phillip Street, Sydney.

Any IOF Unitholder who wishes to oppose the Second Judicial Advice at the Second Judicial Advice hearing may do so by filing with the Court and serving on IOF a notice of appearance in the prescribed form together with any affidavit that the IOF Unitholder proposes to rely on.

Responsible entity

ILFML is the responsible entity of the AJO Fund and the PCP Trust. The AJO Fund and the PCP Trust are managed investment schemes registered under Chapter 5C of the Corporations Act.

Unless the context otherwise requires in this Explanatory Memorandum, a reference to ILFML is a reference to it in its capacity as responsible entity of the AJO Fund and the PCP Trust.

Glossary

Capitalised terms used in this Explanatory Memorandum are defined in the Glossary in Section 9.

No investment advice

This Explanatory Memorandum contains general financial product advice only and has been prepared without taking account of the investment objectives, financial situation, tax position or particular needs of any IOF Unitholder or any other person. The information and recommendations contained in this Explanatory Memorandum and the Taxation Report in Section 7 of this Explanatory Memorandum do not constitute, and should not be taken as, financial product advice.

Before acting on any of the matters described in this Explanatory Memorandum, you should have regard to your investment objectives, financial situation, tax position or particular needs and obtain your own advice by contacting your legal, investment or other professional adviser.

Your investment in IOF is subject to investment and other risks, including possible loss of income and principal invested. ILFML gives no guarantee or assurance as to the performance of IOF, the IOF Units or the repayment of capital. Past performance is not indicative of future performance.

Forward looking statements

Some of the statements appearing in this Explanatory Memorandum may be in the nature of forward looking statements. Forward looking statements or statements of intent in relation to future events in this Explanatory Memorandum (including in the Independent Expert's Report) should not be taken to be a forecast or prediction that those events will occur. Forward looking statements generally may be identified by the use of forward looking words such as 'believe', 'aim', 'expect', 'anticipate', 'intending', 'foreseeing',

'likely', 'should', 'planned', 'may', 'estimate', 'potential', or other similar words.

Similarly, statements that describe the objectives, plans, goals or expectations of IOF are or may be forward looking statements. You should be aware that such statements are subject to inherent risks and uncertainties.

Those risks and uncertainties include factors and risks specific to the circumstances in which IOF operates, as well as general economic conditions, prevailing exchange rates and interest rates and conditions in the financial markets. Actual events or results may differ materially from the events or results expressed or implied in any forward looking statement and deviations are both normal and to be expected.

Neither ILFML nor IOF, their officers, agents or advisers, or any person named in this Explanatory Memorandum or involved in the preparation of this Explanatory Memorandum makes any representation or warranty (either express or implied) as to the accuracy or likelihood of fulfilment of any forward looking statement, or any events or results expressed or implied in any forward looking statement. Accordingly, you are cautioned not to place undue reliance on those statements.

This Explanatory Memorandum also contains forward looking statements based on the current expectations of ILFML about future events. The prospective information is, however, subject to risks, uncertainties and assumptions that could cause actual results to differ materially from the expectations described in such prospective information.

Factors which may affect future financial performance include those matters identified in section 3.11, the assumptions underlying any forecast or forward looking statement financial information not proving correct and other matters not currently known to, or considered by, ILFML. IOF Unitholders should note that the historical financial performance of IOF is no assurance or indicator of future financial performance of IOF (whether or not the Proposal proceeds). ILFML does not guarantee any particular rate of return or the performance of IOF nor does it guarantee the repayment of capital or any particular tax treatment in respect of any investment in IOF. The pro forma financial information provided in this Explanatory Memorandum is for illustrative purposes only and is not represented as being indicative of ILFML's views on future financial conditions and/or performance.

The forward looking statements in this Explanatory Memorandum reflect facts, circumstances and views held only at the date of this Explanatory Memorandum.

Subject to any continuing obligations under the ASX Listing Rules or the Corporations Act, ILFML and its officers, employees, agents and advisers disclaim any obligation or undertaking to distribute after the date of this Explanatory Memorandum any updates or revisions to any forward-looking statements to reflect any change in expectations in relation to them or any change in events, conditions or circumstances on which any such statement is based.

Responsibility statement

Except as outlined below, the information contained in this Explanatory Memorandum other than the Acquirer Group Information, the Taxation Report, and the Independent Expert's Report has been prepared by ILFML and is its responsibility alone. Except as outlined below, neither Acquirer nor any of its Controlled Entities, directors, officers, employees or advisers assumes any responsibility for the accuracy or completeness of such information.

The Acquirer has prepared and provided the Acquirer Group Information and is responsible for that information. Neither ILFML nor IOF, nor any of their respective Controlled Entities, directors, officers, agents or advisers assume any responsibility for the accuracy or completeness of the Acquirer Group Information.

KPMG Corporate Finance has prepared the Independent Expert's Report (as set out in Schedule 2 to this Explanatory Memorandum) and takes responsibility for that report.

Allens has prepared the Taxation Report (as set out in Section 7 of this Explanatory Memorandum) and takes responsibility for that report.

No consenting party has withdrawn their consent to be named before the date of this Explanatory Memorandum.

Foreign jurisdictions

The release, publication or distribution of this Explanatory Memorandum in jurisdictions other than Australia may be restricted by law or regulation in such other jurisdictions and persons outside Australia who come into possession of this Explanatory Memorandum should seek advice on and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable laws or regulations.

IOF Unitholders who are nominees, trustees or custodians should seek independent advice as to how they should proceed.

This Explanatory Memorandum has been prepared in accordance with laws of the Commonwealth of Australia and the

information contained in this Explanatory Memorandum may not be the same as that which would have been disclosed if this Explanatory Memorandum had been prepared in accordance with the laws and regulations of jurisdictions outside Australia.

Privacy

ILFML may collect personal information in the process of implementing the Proposal. The type of information that they may collect about you includes your name, contact details and information on your unitholding in IOF and the names of persons appointed by you to act as a proxy, attorney or corporate representative at the Meeting, as relevant to you. The collection of some of this information is required or authorised by the Corporations Act.

The primary purpose of the collection of personal information is to assist ILFML to conduct the Meeting and implement the Proposal. Without this information, ILFML may be hindered in its ability to issue this Explanatory Memorandum and implement the Proposal. Personal information of the type described above may be disclosed to Link Market Services Limited, third party service providers (including print and mail service providers and parties otherwise involved in the conduct of the Meeting), authorised securities brokers, professional advisers, Related Bodies Corporate of ILFML, Government Agencies, and also where disclosure is otherwise required or allowed by law.

IOF Unitholders who are individuals and the other individuals in respect of whom personal information is collected as outlined above have certain rights to access the personal information collected in relation to them. If you would like to obtain details of information about you held by ILFML, please contact the IOF Unitholder Information Line on +61 1300 851 394, between 8:30am and 7:30pm Monday to Friday (Sydney time).

IOF Unitholders who appoint an individual as their proxy, corporate representative or attorney to vote at the Meeting should ensure that they inform that person of the matters relating to the collection and use of personal information outlined above.

Currency and financial information

Unless stated otherwise, all references to dollars, \$, cents or c in this Explanatory Memorandum are to Australian currency.

Unless stated otherwise or implied, references to dates or years are financial year references. All financial and operational information contained in this Explanatory Memorandum is current as at the date of this Explanatory Memorandum unless otherwise specified.

Charts, maps and diagrams

Any diagrams, charts, maps, graphs and tables appearing in this Explanatory Memorandum are illustrative only and may not be drawn to scale. Unless stated otherwise, all data contained in diagrams, charts, maps, graphs and tables is based on information available as at 31 December 2017.

Effect of rounding

A number of figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Explanatory Memorandum are subject to the effect of rounding.

Accordingly, the actual calculation of these figures, amounts, percentages, prices, estimates, calculations of value and fractions may differ from the figures, amounts, percentages, prices, estimates, calculations of value and fractions set out in this Explanatory Memorandum.

As a result, any calculations you make based on the figures, amounts, percentages, prices, estimates, calculations of value and fractions in this Explanatory Memorandum may differ from the correct answers to those calculations.

Any discrepancies between totals in tables or financial statements, or in calculations, graphs or charts are due to rounding.

Timetable and dates

All times and dates referred to in this Explanatory Memorandum are times and dates in Australian Eastern Standard Time, being the time in Sydney, Australia, unless otherwise indicated. All times and dates relating to the implementation of the Proposal referred to in this Explanatory Memorandum may change and, among other things, are subject to all necessary approvals from Government Agencies.

Additional information

If, after reading this Explanatory Memorandum, you have any questions regarding the Proposal, please call the IOF Unitholder Information Line on +61 1300 851 394, between 8:30am and 7:30pm Monday to Friday (Sydney time), or consult your legal, investment or other professional adviser.

Date of Explanatory Memorandum

This Explanatory Memorandum is dated 24 July 2018.

This Explanatory Memorandum may be updated. Any updates will be available for inspection on the website at <https://www.investa.com.au/funds/iof/asx-announcements>. If you access an electronic version of the Explanatory Memorandum you should ensure you download and read the entire Explanatory Memorandum.

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Letter from the Chairman

24 July 2018

Dear IOF Unitholder,

On 28 May 2018, the Directors of Investa Listed Funds Management Limited (**ILFML**), the responsible entity of Investa Office Fund (**IOF**), announced that ILFML had received an indicative, unsolicited and non-binding proposal from an affiliate of Quartz BidCo Pty Ltd and Quartz Sub TC Pty Ltd as trustee of the Quartz Bid Trust (together, the **Acquirer**) to acquire all of the units in IOF by way of a trust scheme (**Proposal**) and that ILFML had also entered into a Process Deed to allow for a further four weeks for the undertaking of confirmatory due diligence and provision to ILFML of a binding proposal. On 12 June 2018, ILFML subsequently entered into a binding Scheme Implementation Agreement with the Acquirer. The Acquirer is affiliated with The Blackstone Group L.P. and entities which are ultimately owned and/or controlled by The Blackstone Group L.P. (together, **Blackstone**).

This Explanatory Memorandum sets out details of the Proposal, the recommendation of ILFML's Directors in relation to the Proposal, and the Independent Expert's Report on the Proposal.

Summary of the Proposal

Under the Proposal, the Acquirer has offered to acquire all of the units in IOF for \$5.25 cash per IOF Unit, less any distributions declared or paid by IOF on or after 4 May 2018 and prior to implementation of the Proposal.

As ILFML declared a distribution of 10.15 cents per IOF Unit on 18 June 2018, IOF Unitholders will receive:

- an unfranked distribution of 10.15 cents for each IOF Unit that they hold on the Distribution Record Date (payable by ILFML on or before 27 August 2018); and
- if the Proposal is implemented, the cash consideration of \$5.1485 for each IOF Unit (the **Proposal Consideration**) that they hold on the Record Date (payable by the Acquirer on the Implementation Date which is expected to be 5 September 2018).

The Proposal is subject to a number of customary conditions including receipt of judicial advice from the Court, regulatory approvals and approval by IOF Unitholders. If the Proposal is successfully implemented, the Acquirer will acquire all of the IOF Units on issue and the Acquirer will apply for IOF to be delisted from the ASX.

Independent Expert's Opinion

The Directors of ILFML have appointed KPMG Corporate Finance as the Independent Expert to provide an opinion on the Proposal.

The Independent Expert has concluded that the Proposal is in the best interests of IOF Unitholders in the absence of a Superior Proposal.

In arriving at this opinion, the Independent Expert assessed the Proposal to be not fair but reasonable. The Independent Expert took into account a number of factors in concluding that the Proposal was reasonable and in the best interests of IOF Unitholders, including that the Proposal Consideration represents a substantial premium to the trading price of IOF Units, and that the cash nature of the Proposal Consideration allows IOF Unitholders to realise immediate value.

Schedule 2 of this Explanatory Memorandum contains a full copy of the Independent Expert's Report. IOF Unitholders should read the report in its entirety. A summary of the range of factors relevant to the Independent Expert's assessment of the Proposal are set out in Section 3 of the Independent Expert's Report.

ILFML Directors' Recommendation

The Directors of ILFML have carefully considered the Proposal and, after receiving advice from their financial and legal advisors and considering the Independent Expert's Report, unanimously recommend that IOF Unitholders vote in favour of the Proposal in the absence of a Superior Proposal as the Proposal Consideration represents an attractive and certain cash price for IOF Unitholders when considered against the historic trading performance of IOF Units.

Until announcement of the Proposal, IOF Units have not traded at a price near or above the Proposal Consideration price of \$5.1485 per IOF Unit since 7 October 2008, which is almost 10 years ago.

The Proposal Consideration of \$5.1485 per IOF Unit also represents a:

- 13.2% premium to IOF's ex-distribution price of \$4.55 per IOF Unit on 25 May 2018, being the last trading day prior to announcement of the Proposal;¹
- 16.0% premium to the 1 month VWAP up to 25 May 2018 of \$4.44 per IOF Unit; and
- 18.2% premium to the 3 month VWAP up to 25 May 2018 of \$4.35 per IOF Unit.

1. The ex-distribution price has been calculated as IOF's closing price on 25 May 2018 of \$4.63 less the pro-rated amount of the distribution of 10.15 cents per IOF Unit declared on 18 June 2018. The pro rata calculation is based on the number of days between IOF's ex-distribution dates for 1H18 (28 December 2017) and 2H18 (28 June 2018).

Letter from the Chairman

Other factors which were considered when reviewing the merits of the Proposal included:

1. The Proposal Consideration represents a high multiple of IOF's pro forma FY18 and forecast FY19 distribution and FFO (based on preliminary guidance)

Lower yields correspond to higher prices and higher implied multiples of annual distributions or FFO.

The distribution yield implied by the Proposal Consideration of 3.9% for FY18 is the lowest 12 month trailing distribution yield for IOF Units in the last five years and the lowest FY18 yield of any ASX 200 REIT with a focus on ownership of Australian properties.

The Proposal Consideration also implies a pro forma FY18 FFO yield of 5.9% and a forecast FY19 FFO yield of 5.7% (based on preliminary guidance), which are both lower than any 1 year forward trading FFO yield for IOF Units over the last five years.

2. IOF has benefited from a sustained period of office property price increases and NTA growth

The Proposal was received after a period of strong growth in property valuations in the Australian office market. These conditions have contributed to an uplift in IOF's NTA of 69% for the five years to 30 June 2018.

IOF has taken advantage of these conditions to dispose of some properties which do not fit its long term strategy of focusing on larger CBD office assets. However, disposing of assets is not a desirable strategy for IOF's whole portfolio as it would take considerable time and involve significant costs, tax consequences and risks.

The Proposal allows IOF Unitholders, if they wish to do so, the opportunity to realise their investment at a certain cash price without the risks and costs involved in a managed wind-up of IOF.

3. The Proposal Consideration is at a discount to the Pro Forma Unaudited NTA

The Board undertook a process of revaluing IOF's entire portfolio to fully inform IOF Unitholders and the market. The revaluation process resulted in the NTA per IOF Unit increasing from \$4.95 at 31 December 2017 to the Pro Forma Unaudited NTA as at 30 June 2018 of \$5.47.

The Proposal Consideration represents a 5.9% discount to the Pro Forma Unaudited NTA as at 30 June 2018.

In considering the discount to the Pro Forma Unaudited NTA, it is relevant to note that in the three months prior to announcement of the Proposal, IOF's closing price has represented an average discount to NTA of 12.4%. The average closing price discount to NTA was lower at 7.4% in the 12 months prior to announcement of the Proposal (during which time IOF had received a takeover approach).

4. As opportunities to acquire desired assets with attractive risk adjusted returns have been limited, IOF has been strategically investing into its existing assets, increasing portfolio quality and de-risking income to enhance long term risk adjusted returns. This activity has impacted short term FFO and distribution growth

IOF has been actively managing its portfolio to improve portfolio quality, enhance unitholder returns and position the assets for sustainable performance in the future. Recent examples include the releasing and refurbishment of 242 Exhibition Street in Melbourne and the construction of a new prime grade asset, Barrack Place (151 Clarence Street), in Sydney.

Additional value accretive projects include the full refurbishment and release of 388 George Street, Sydney from October this year and the repositioning and partial releasing of 347 Kent Street, Sydney from January next year.

Such activities will reduce short term earnings and cashflow, however they are expected to provide unitholders with attractive total returns in the medium term.

While the ILFML Board is confident that IOF is well-positioned to continue delivering its investment strategy for IOF Unitholders into the future, the Directors consider it important that IOF Unitholders be given the opportunity, if they wish to do so, to realise certain value at a premium to the historical trading price of IOF Units prior to the announcement of the Proposal.

Further detail on the Director's recommendation, reasons you may vote in favour of the Proposal Resolutions and reasons you may vote against the Proposal Resolutions are set out in Section 2.

Meeting and Implementation Process

The Proposal requires the approval of IOF Unitholders at a Meeting proposed to be held at 10.00am (Sydney time) on 21 August 2018 at the Swissotel, Maple Room, 68 Market Street, Sydney NSW 2000. To proceed with implementation of the Proposal, IOF Unitholders must pass resolutions contained in the Notice of Meeting that can be found in Schedule 1 of this Explanatory Memorandum.

If the Proposal Resolutions are passed by the requisite majority at the Meeting and the other Conditions Precedent are satisfied or waived (as applicable), the Proposal will be implemented consistently with the indicative timetable set out in the 'Key Dates' section on page 6. This anticipates IOF being suspended from trading on 22 August 2018 and payment of the Proposal Consideration to IOF Unitholders on 5 September 2018.

What you should do next

This Explanatory Memorandum (including the Independent Expert's Report) contains important information in relation to the Proposal, and should be read carefully prior to making a decision on how to vote on the Proposal Resolutions at the Meeting. Votes may be cast in person, by proxy, by attorney, or in the case of a corporation by its duly appointed corporate representative. Please see the Notice of Meeting and Section 3.5 of this Explanatory Memorandum for further details on how votes may be cast and timing requirements. If you have any questions in relation to the Proposal, please contact the IOF Unitholder Information Line on +61 1300 851 394 between 8.30am and 7.30pm (Sydney time) Monday to Friday.

Conclusion

I look forward to your participation at the Meeting on 21 August 2018 and encourage you to vote in favour of the resolutions relating to the Proposal in the absence of a Superior Proposal.

Yours sincerely,



Richard Longes
Chairman
INVESTA LISTED FUNDS MANAGEMENT LIMITED

Key Dates

Date of this Explanatory Memorandum	24 July 2018
Time and date by which Proxy Forms must be received	10.00am, 19 August 2018
Voting Record Date	7.00pm, 19 August 2018
Time and date of the Meeting	10.00 am, 21 August 2018

If the Proposal is approved by IOF Unitholders and all other Conditions Precedent in connection with the Proposal are fulfilled or waived, the following key dates apply:

Second Judicial Advice Date	22 August 2018
Effective Date	22 August 2018
Record Date	7.00pm, 29 August 2018
Implementation Date	5 September 2018

Dates and times are indicative only and are subject to change. Unless otherwise specified, all times and dates refer to Sydney time. Any changes to the timetable will be notified to the ASX and made available on the website at <https://www.investa.com.au/funds/iof/asx-announcements>.

What to do next

STEP 1: CAREFULLY READ THIS EXPLANATORY MEMORANDUM IN FULL

You should read this Explanatory Memorandum in full before making any decision on how to vote. It contains important information to assist you in deciding how to vote on the Proposal Resolutions.

It is important that you consider the information disclosed in light of your own particular investment needs, objectives and financial circumstances. The 'Frequently Asked Questions' in Section 1 of this Explanatory Memorandum may help answer some of your questions.

If after reading this Explanatory Memorandum, you have any questions regarding the Proposal or the Proposal Resolutions, contact the IOF Unitholder Information Line on +61 1300 851 394 between 8.30am and 7.30pm (Sydney time) Monday to Friday, or consult your legal, investment or other professional adviser without delay.

STEP 2: VOTE ON THE PROPOSAL RESOLUTIONS

YOUR VOTE IS IMPORTANT

If you are an IOF Unitholder on the Voting Record Date you are entitled to vote on the Proposal Resolutions at the Meeting (subject to any applicable voting exclusions).

The Independent Expert has concluded that the Proposal is in the best interests of IOF Unitholders in the absence of a Superior Proposal. In arriving at this opinion, the Independent Expert assessed the Proposal to be not fair but reasonable. The Directors unanimously recommend that IOF Unitholders vote in favour of the Proposal Resolutions, in the absence of a Superior Proposal.

Frequently Asked Questions



This Section 1 answers some frequently asked questions about the Proposal. It is not intended to address all relevant issues for IOF Unitholders. This Section 1 should be read together with all other parts of this Explanatory Memorandum.

Question	Answer	More information
This Explanatory Memorandum and Notice of Meeting		
1. Why have I received this Notice of Meeting and Explanatory Memorandum?	This is a Notice of Meeting and Explanatory Memorandum that has been sent to you because you are an IOF Unitholder and you are being asked to vote on the Proposal Resolutions. This Notice of Meeting and Explanatory Memorandum is intended to help you decide how to vote.	N/A
Proposal overview		
2. What is the Proposal?	The Proposal involves the acquisition by the Acquirer of all of the IOF Units from the Proposal Participants by way of a trust scheme facilitated by amendments to the IOF Constitutions and a resolution pursuant to section 611 item 7 of the Corporations Act. The Proposal Consideration is in the form of cash. If the Proposal becomes Effective and is implemented then: <ul style="list-style-type: none"> the Acquirer will acquire all IOF Units; and Proposal Participants will receive the Proposal Consideration of \$5.1485 per IOF Unit. 	Section 3
3. What will I receive if the Proposal becomes Effective and is implemented?	If the Proposal becomes Effective, Proposal Participants will receive a cash payment of \$5.1485 per IOF Unit on the Implementation Date. Any aggregate cash amount payable to a Proposal Participant will be rounded to the nearest whole cent.	Section 3.3
4. Will I still receive the distribution for the second half of the financial year ending on 30 June 2018?	On 18 June 2018, ILFML declared an unfranked distribution of 10.15 cents per IOF Unit for the second half of the 2018 financial year. You will be entitled to receive this distribution if you were registered as an IOF Unitholder on 29 June 2018, the Distribution Record Date. This distribution will be paid to IOF Unitholders on or before 27 August 2018.	Section 3.3
5. What will happen to IOF if the Proposal becomes Effective and is implemented?	If the Proposal becomes Effective and is implemented, IOF will be acquired by the Acquirer and an application will be made for termination of the official quotation of IOF Units on ASX, and to have IOF removed from the official list of ASX.	Sections 6.6 and 6.7
6. Who is entitled to participate in the Proposal?	If the Proposal Resolutions are passed and the Conditions Precedent are satisfied or waived (if applicable) and the Proposal becomes Effective and is implemented, all IOF Unitholders on the IOF Register at the Record Date will become entitled to receive the Proposal Consideration in respect of the IOF Units they hold at that time.	Section 6.4
7. Are there conditions to the Proposal proceeding?	Implementation of the Proposal is subject to the satisfaction or waiver (as applicable) of a number of Conditions Precedent. These Conditions Precedent are summarised in Sections 3.2 and 8.3 of this Explanatory Memorandum.	Sections 3.2 and 8.3
8. Are there any termination rights?	The Implementation Agreement contains standard termination rights for both the Acquirer and IOF. These include mutual termination rights if: <ul style="list-style-type: none"> the Conditions Precedent are not satisfied or waived (as applicable); the other party is in material breach of its obligations or warranties in the Implementation Agreement, which is not remedied within 5 business days of receiving notice of the breach; the Proposal has not become Effective on or before the End Date; or the Proposal Resolutions are not approved by the requisite majority at the Meeting. 	Section 8.3

1. Frequently Asked Questions

Question	Answer	More information
Independent Expert's opinion and the Directors' recommendation		
9. What is the opinion of the Independent Expert?	The Independent Expert has concluded that the Proposal is in the best interests of IOF Unitholders in the absence of a Superior Proposal. In arriving at this opinion, the Independent Expert assessed the Proposal to be not fair but reasonable.	Independent Expert's Report (Schedule 2)
10. Do the Directors recommend the Proposal?	The Directors unanimously recommend that IOF Unitholders vote in favour of the Proposal in the absence of a Superior Proposal.	Section 2
11. How do the Directors intend to vote?	The Directors intend to vote all IOF Units they hold or control in favour of the Proposal, in the absence of a Superior Proposal.	N/A
Benefits, potential disadvantages and risks of the Proposal		
12. Why might I consider voting in favour of the Proposal?	<p>Reasons you may consider voting in favour of the Proposal include:</p> <ul style="list-style-type: none"> until announcement of the Proposal on 28 May 2018, IOF Units have not traded at a price near or above the Proposal Consideration price of \$5.1485 per IOF Unit since 7 October 2008, which is almost 10 years ago; the Independent Expert has concluded that the Proposal is in the best interests of IOF Unitholders in the absence of a Superior Proposal. In arriving at this opinion, the Independent Expert assessed the Proposal to be not fair but reasonable; the Proposal represents a high multiple of IOF's pro forma FY18 and forecast FY19 distribution and FFO (based on preliminary guidance); IOF is expected to experience lower FFO and distribution growth in the short term due to development and repositioning of certain assets; IOF has benefited from a sustained period of office property price increases and NTA growth; if the Proposal does not proceed, and no Superior Proposal emerges, the price of IOF Units may fall; no Superior Proposal has been received as at the date of this Explanatory Memorandum; and no brokerage will be payable by you on the transfer of your IOF Units under the Proposal; and the Proposal represents a superior outcome to a managed winding-up of IOF. 	Section 2
13. Why might I consider voting against the proposal?	<p>Reasons why you may consider voting against the Proposal include:</p> <ul style="list-style-type: none"> you may disagree with the ILFML Board's recommendation and the opinion of the Independent Expert and consider that the Proposal is not in your best interests; you may not be prepared to sell your IOF Units at a discount to the Pro Forma Unaudited NTA; you may prefer to realise the potential value of IOF over the long term and may consider that the Proposal does not capture IOF's long term potential; you may believe that it is in your best interests to maintain your current investment and risk profile; the tax consequences of the Proposal may not suit your current financial position; and you may believe that there is the potential for a Superior Proposal to be made in the future, however, as at the date of this Explanatory Memorandum, no Superior Proposal has been received by the ILFML Board. 	Section 2

Question	Answer	More information
Meeting details, voting and approval thresholds		
14. When and where will the Meeting be held?	The Meeting will be held at Swissotel, Maple Room, 68 Market Street, Sydney NSW 2000 on 21 August 2018, commencing at 10.00am (Sydney time).	Notice of Meeting (Schedule 1)
15. Who is eligible to vote at the Meeting?	<p>All IOF Unitholders on the IOF Register as at 7.00pm (Sydney time) on 19 August 2018 (the Voting Record Date) are entitled to attend and vote at the meeting, except that:</p> <ul style="list-style-type: none"> • for the purposes of the Trust Acquisition Resolutions, and in accordance with item 7, section 611 and section 253E of the Corporations Act, the Acquirer and its Associates must not cast any votes in favour of the resolutions, and ILFML and its Associates are not entitled to vote their interests if they have an interest in the resolutions other than as a member of IOF; • for the purposes of the Trust Constitution Amendment Resolutions, and in accordance with section 253E of the Corporations Act, ILFML and its Associates are not entitled to vote their interests if they have an interest in the resolutions other than as a member of IOF; and • for the purposes of the De-Stapling Resolutions, and in accordance with section 253E of the Corporations Act, ILFML and its Associates are not entitled to vote their interests if they have an interest in the resolutions other than as a member of IOF. <p>As at the date of this Explanatory Memorandum, IWFML in its capacity as the responsible entity of ICPF holds 119,667,397 IOF Units, representing 19.9973% of the total number of issued IOF Units.</p> <p>IWFML and ILFML are both Controlled Entities of the Investa Property Group, and are therefore related bodies corporate and Associates of each other.</p> <p>In light of the voting exclusions discussed above, and based on the information available to ILFML, if the Meeting was to be held as at the date of this Explanatory Memorandum, ILFML expects that IWFML (in its capacity as responsible entity of ICPF) would not be able to vote on the Proposal Resolutions for the reasons set out in Section 3.5(c).</p> <p>Whether any IWFML or any other IOF Unitholder is restricted under the Corporations Act from being able to vote at the Meeting will be determined by the Chair of the Meeting based on circumstances known at the relevant time.</p>	Section 3.5 and Notice of Meeting (Schedule 1)
16. Why should I vote?	Voting is not compulsory. However your vote will be important in determining whether the Proposal will proceed. The Directors recommend that you read this Explanatory Memorandum carefully and vote in favour of the Proposal, in the absence of a Superior Proposal.	N/A
17. Can I oppose the Proposal on the Second Judicial Advice Date?	<p>Each IOF Unitholder has the right to appear and make submissions at the Court on the Second Judicial Advice Date on 22 August 2018.</p> <p>Any IOF Unitholder who wishes to oppose the Second Judicial Advice at the Second Judicial Advice hearing may do so by filing with the Court and serving on IOF a notice of appearance in the prescribed form together with any affidavit that the IOF Unitholder proposes to rely on.</p>	N/A

1. Frequently Asked Questions

Question	Answer	More information
18. What are the Proposal Resolutions?	<p>The Proposal Resolutions are:</p> <ul style="list-style-type: none"> • The Trust Acquisition Resolutions: an ordinary resolution to approve the Proposal for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes including the acquisition of a Relevant Interest in all the IOF Units by the Acquirer. • The Trust Constitution Amendment Resolutions: a special resolution for the purposes of section 601GC(1) of the Corporations Act to approve amendments to the IOF Constitutions as set out in each Supplemental Deed Poll. • The De-Stapling Resolutions: a special resolution to approve the de-stapling of AJO Units from PCP Units. 	Notice of Meeting (Schedule 1)
19. What voting majorities are required for the Proposal?	<p>Approval of the Proposal will require IOF Unitholders to approve each resolution by the requisite majorities. The Proposal Resolutions are interdependent and the Proposal will only proceed if all Proposal Resolutions are passed at the Meeting by the requisite majorities.</p> <p>For the Proposal Resolutions to be approved:</p> <ul style="list-style-type: none"> • The Trust Acquisition Resolutions must be passed by at least 50% of the total number of votes cast on the resolution by IOF Unitholders entitled to vote on the resolution at the Meeting. <p><i>For the purposes of these Proposal Resolutions:</i></p> <ul style="list-style-type: none"> – In accordance with item 7, section 611 of the Corporations Act, the Acquirer and its Associates must not cast any votes in favour of the resolution. – In accordance with section 253E of the Corporations Act, ILFML and its Associates are not entitled to vote their interests if they have an interest in the resolution other than as a member of IOF. <ul style="list-style-type: none"> • The Trust Constitution Amendment Resolutions must each be passed by at least 75% of the total number of votes cast on the relevant resolution by IOF Unitholders entitled to vote on the resolution at the Meeting. <p><i>For the purposes of these Proposal Resolutions, in accordance with section 253E of the Corporations Act, ILFML and its Associates are not entitled to vote their interests if they have an interest in the resolutions other than as a member of IOF.</i></p> <ul style="list-style-type: none"> • The De-Stapling Resolutions must each be passed by at least 75% of the total number of votes cast on the relevant resolution by IOF Unitholders entitled to vote on the resolutions at the Meeting. <p><i>For the purposes of these Proposal Resolutions, in accordance with section 253E of the Corporations Act, ILFML and its Associates are not entitled to vote their interests if they have an interest in the resolutions other than as a member of IOF.</i></p>	Section 3.5 and Notice of Meeting (Schedule 1)
20. How do I vote?	<p>You may vote in person by attending the Meeting. Alternatively, if you do not want to, or cannot, attend in person, you can vote by proxy, by attorney or by corporate representative (in the case of a body corporate) in accordance with the instructions in the Notice of Meeting.</p>	Notice of Meeting (Schedule 1)
21. What happens if I vote against the Proposal or do not vote?	<p>If you do not vote, or if you vote against the Proposal or any of the Proposal Resolutions, then the Proposal may not be approved.</p> <p>The Proposal cannot be implemented unless all Proposal Resolutions are passed by the requisite majorities of IOF Unitholders at the Meeting.</p> <p>However, even if you do not vote or vote against any of the Proposal Resolutions, this does not mean the Proposal will not be approved. If you vote against the Proposal Resolutions and those resolutions are approved and the Conditions Precedent are satisfied or waived (if applicable) and the Proposal becomes Effective, the Proposal will be implemented.</p>	N/A

Question	Answer	More information
22. Can I keep my IOF Units if the Proposal is approved, becomes Effective and is implemented?	If the Proposal Resolutions are passed by the requisite majorities (even if you did not vote, or voted against the Proposal Resolutions) and you are a Proposal Participant, then if the Proposal becomes Effective and is implemented, you will be bound by the Proposal and the Acquirer will acquire all of your IOF Units and you will receive the Proposal Consideration.	N/A
23. What happens if the Resolutions are not approved?	<p>If any of the Proposal Resolutions are not approved by the requisite majorities of IOF Unitholders at the Meeting or any other Conditions Precedent are not satisfied or waived (if applicable):</p> <ul style="list-style-type: none"> • IOF Unitholders will not receive the Proposal Consideration; and • IOF will remain listed on ASX and will continue to be externally managed by the Investa Property Group. 	Section 3.11
The Acquirer		
24. Who is Blackstone?	The Blackstone Group L.P. is a global asset manager and one of the largest institutional real estate investors in the world. With offices in the United States of America, Europe and Asia, as of 31 March 2018, Blackstone manages US\$120 billion of capital for real estate investments.	Section 5.1
25. Who is the Acquirer?	BidCo and Bid Trust, together, the Acquirer, are newly-established Australian entities which are ultimately managed, controlled or advised by Blackstone.	Sections 5.1 and 5.2
26. How is the Acquirer funding the Proposal Consideration?	The Acquirer has advised ILFML that it has in place binding debt and equity commitments sufficient to meet its obligations to pay the Proposal Consideration.	Section 5.3
Implementation and other matters		
27. When will the Proposal be completed and implemented?	If the Proposal Resolutions are passed and the Conditions Precedent are satisfied or waived (if applicable) and the Proposal becomes Effective, the Proposal will be implemented on the Implementation Date, which is expected to be 5 September 2018.	Key Dates
28. When will I be paid the Proposal Consideration?	ILFML must, subject to being provided with the aggregate Proposal Consideration by the Acquirer, pay the Proposal Consideration to the Proposal Participants on the Implementation Date, which is expected to be 5 September 2018.	Key Dates and Section 6.6
29. Can I sell my IOF Units on the ASX?	You can sell your IOF Units on the ASX up to and including the Effective Date.	N/A
30. Does the Acquirer intend to remove the responsible entity of ILFML or the trustees of the unit trusts and sub-trusts within the IOF Group?	<p>The Proposal does not involve any changes to the responsible entity of IOF.</p> <p>The Acquirer has informed ILFML that it has not made a decision about the future management of the IOF portfolio if the Proposal is implemented.</p> <p>The Acquirer has had preliminary discussions covering a range of typical commercial and legal matters involved in the provision of portfolio management services with Investa Property Group and the potential for it to continue its management of the IOF portfolio, due to its excellent track record in managing office assets in Australia.</p> <p>If the discussions with Investa Property Group do not proceed to a portfolio management contract, the Acquirer may negotiate with other well-credentialed managers of Australian office assets or manage the IOF portfolio itself. There is currently no facilitation payment being discussed with Investa Property Group.</p>	Section 5.4

1. Frequently Asked Questions

Question	Answer	More information
31. What happens if a Competing Proposal for IOF emerges?	<p>If a Competing Proposal emerges, the Directors, having regard to their obligations under the Implementation Agreement (including the 'no talk' and 'no shop' restrictions in that agreement), will consider the merits of that proposal.</p> <p>If the Directors consider the Competing Proposal is a Superior Proposal, then:</p> <ul style="list-style-type: none"> • IOF Unitholders will be informed through an announcement on ASX; and • The Directors will carefully consider the Superior Proposal and will provide you with their recommendation and additional detail in relation to that proposal. <p>Subject to limited exceptions, ILFML must pay to the Acquirer a break fee of \$20 million if any of the Directors recommend a Competing Proposal.</p>	N/A
32. When is a break fee payable?	<p>Under the Implementation Agreement, subject to limited exceptions, ILFML must pay to the Acquirer a break fee of \$20 million if certain specified events occur, including if any of the Directors recommend a Competing Proposal.</p> <p>However the break fee will not be payable only because the Proposal Resolutions are not approved at the Meeting.</p>	Section 8.3
33. What are the transaction costs associated with the Proposal?	<p>The Acquirer and IOF will each incur transaction costs as part of the Proposal. The Acquirer and ILFML are each responsible for paying their own costs.</p> <p>ILFML estimates that IOF will incur one-off transaction costs of approximately \$5.1 million in relation to the Proposal, which will be payable by IOF regardless of whether or not the Proposal is implemented. Additional transaction costs will become payable if the Proposal is implemented.</p>	Sections 3.11, 4.6(c)(viii), and 4.6(c)(ix)
34. Do I have to pay brokerage fees or stamp duty to participate in the Proposal?	<p>No brokerage or stamp duty will be payable by Proposal Participants on the transfer of their IOF Units under the Proposal or the receipt by Proposal Participants of the Proposal Consideration.</p> <p>If an IOF Unitholder disposes of their IOF Units before the Record Date, brokerage may be payable.</p>	Section 3.10
35. What are the tax implications of the Proposal for IOF Unitholders?	<p>The Proposal, upon becoming Effective, should give rise to a CGT event for the IOF Unitholders. IOF Unitholders who hold their IOF Units on capital account should realise either a capital gain or capital loss.</p> <p>For detailed tax implications of the Proposal, refer to the Taxation Report in Section 7 of this Explanatory Memorandum which sets out the general Australian taxation implications for IOF Unitholders in respect of the Proposal.</p> <p>IOF Unitholders should seek professional tax advice regarding the tax implications of the Proposal.</p>	Section 7
36. What happens if the Acquirer considers, or reasonably believes, that a particular IOF Unitholder is a 'relevant foreign resident' for the purposes of Australian foreign resident capital gains tax withholding rules?	<p>Under Australian foreign resident capital gains tax withholding rules, the Acquirer may be required to withhold and pay to the ATO 12.5% of the Proposal Consideration otherwise payable to an IOF Unitholder who is a 'relevant foreign resident' and whose IOF Units constitute an 'indirect Australian real property interest'.</p> <p>An IOF Unitholder may be a 'relevant foreign resident' if the Acquirer:</p> <ul style="list-style-type: none"> • knows or reasonably believes the IOF Unitholder is a foreign resident; or • does not reasonably believe the IOF Unitholder is an Australian resident, and either: <ul style="list-style-type: none"> – the IOF Unitholder has an address outside Australia; or – the Acquirer is authorised to pay the Proposal Consideration to a place outside Australia (such as an overseas bank account). 	N/A

Question	Answer	More information
<p>36. What happens if the Acquirer considers, or reasonably believes, that a particular IOF Unitholder is a 'relevant foreign resident' for the purposes of Australian foreign resident capital gains tax withholding rules? <i>continued</i></p>	<p>An 'indirect Australian real property interest' includes a unitholding in a trust, where the majority of the value of the trust is attributable to land in Australia, if that unitholding is a 'non-portfolio interest'. An IOF Unitholder will have a non-portfolio interest if they own on the Implementation Date, or owned throughout a 12 month period during the two years preceding the Implementation Date, (together with any interest held by their Associates, if applicable), 10% or more of all the issued units in IOF.</p> <p>In order to comply with these rules, the Acquirer will clarify the status of certain IOF Unitholders which it considers, or reasonably believes, is a 'relevant foreign resident'. The Acquirer will look at a number of factors in determining whether it considers, or reasonably believes, that an IOF Unitholder will be a 'relevant foreign resident' for the purpose of the Australian foreign resident capital gains withholding tax rules including circumstances in which the IOF Unitholder:</p> <ul style="list-style-type: none"> • is classified as a non-resident in the IOF Register or has a non- Australian domicile per the IOF Register; • has a foreign registered address; • is not incorporated in Australia; or • is a corporate securityholder, <p>and otherwise has a registered name that leads the Acquirer to reasonably believe that the corporate IOF Unitholder is not an Australian incorporated corporate entity.</p> <p>If the Acquirer considers, or reasonably believes, that you are a 'relevant foreign resident' you should have been provided (or will be provided) with a Relevant Foreign Resident Declaration Form either together with this Explanatory Memorandum or separately. If you are provided with a Relevant Foreign Resident Declaration Form you should ensure that you read it in full and follow the instructions provided on the form.</p> <p>If you are in doubt as to what you should do, you should consult your legal, investment or other professional adviser. You must return your signed Relevant Foreign Resident Declaration Form by 5.00pm (Sydney time) on 22 August 2018 in order to ensure your status is correctly reflected and to prevent withholding tax being deducted from the Proposal Consideration otherwise payable to you for capital gains tax purposes.</p> <p>Note: The Acquirer will need to remit 12.5% of the Proposal Consideration otherwise payable to a registered holder who it considers, or reasonably believes, is a 'relevant foreign resident' and whose IOF Units constitute an 'indirect Australian real property interest'. Accordingly if, for whatever reason, you think that you are a foreign resident and hold an 'indirect Australian real property interest', but do not receive a Relevant Foreign Resident Declaration Form, you should contact the IOF Unitholder Information Line on +61 1300 851 394 to request a declaration form.</p>	N/A
37. Further questions	<p>If after reading this Explanatory Memorandum you have any questions about the Proposal, you should call the IOF Unitholder Information Line on +61 1300 851 394 between 8.30am and 7.30pm (Sydney time) Monday to Friday. If you are in any doubt as to what you should do, you should consult your legal, investment or other professional adviser without delay.</p>	N/A

ILFML Directors' Recommendation and Evaluation of the Proposal



2.1 ILFML Directors' recommendation

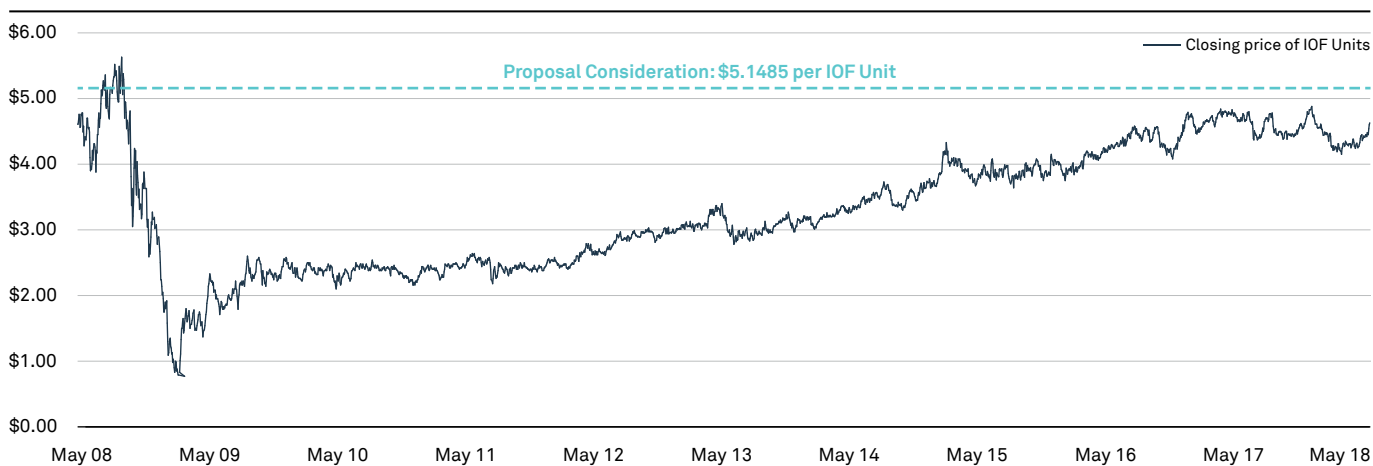
The Directors of ILFML have carefully considered the Proposal and, after receiving advice from their financial and legal advisors and considering the Independent Expert's Report, unanimously recommend that IOF Unitholders vote in favour of the Proposal in the absence of a Superior Proposal.

2.2 Reasons for the ILFML Directors' recommendation

a. The Proposal Consideration represents an attractive and certain price for IOF Unitholders when considered against the historic trading performance of IOF Units

As shown below, until announcement of the Proposal on 28 May 2018, IOF Units have not traded at a price near or above the Proposal Consideration price of \$5.1485 per IOF Unit since 7 October 2008, which is almost 10 years ago.

IOF 10 Year Historical Trading Price Performance

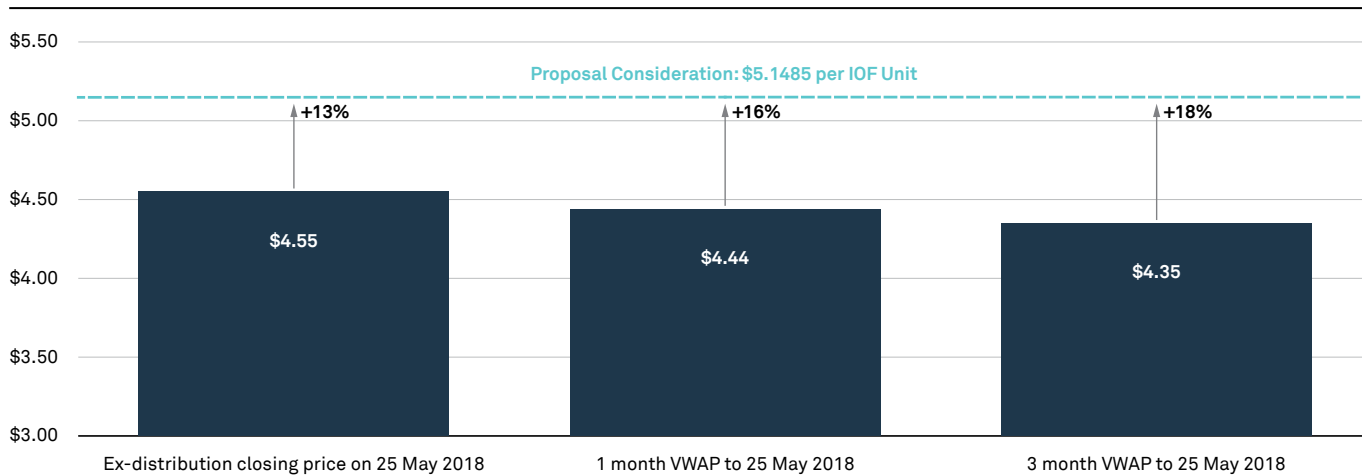


Source: IRESS.

The Proposal Consideration of \$5.1485 per IOF Unit also represents a:

- 13.2% premium to the IOF ex-distribution closing price of \$4.55 on 25 May 2018, being the last day on which IOF Units traded before announcement of the Proposal;¹
- 16.0% premium to the 1-month VWAP to 25 May 2018 of \$4.44 per IOF Unit; and
- 18.2% premium to the 3-month VWAP to 25 May 2018 of \$4.35 per IOF Unit.

Proposal Consideration Metrics



Source: IRESS.

1. The ex-distribution price has been calculated as IOF's closing price on 25 May 2018 less the pro-rated amount of the distribution of 10.15 cents per IOF Unit declared on 18 June 2018. The pro rata calculation is based on the number of days between IOF's ex-distribution dates for 1H18 (28 December 2017) and 2H18 (28 June 2018).

2. ILFML Directors' Recommendation and Evaluation of the Proposal

The cash nature of the Proposal provides an opportunity for IOF Unitholders to realise value for their units at a certain price.

The certainty of the Proposal Consideration should be considered against the risks, uncertainties, and opportunities of remaining an IOF Unitholder (which existed before the Proposal) if the Proposal is not implemented. Some of the key risks, uncertainties and opportunities of remaining an IOF Unitholder are outlined in Section 3.11.

While the ILFML Board is confident that IOF is well-positioned to continue delivering its investment strategy for IOF Unitholders into the future, the ILFML Directors consider that IOF Unitholders should have the opportunity, should they wish to do so, to realise certain value at a premium to the historical trading price of IOF Units.

b. The Independent Expert has concluded that the Proposal is in the best interests of IOF Unitholders in the absence of a Superior Proposal.

The ILFML Board appointed the Independent Expert, KPMG Corporate Finance, to prepare the Independent Expert's Report to opine on whether the Proposal is in the best interests of IOF Unitholders.

The Independent Expert concluded that *"the Scheme is in the best interests of IOF Unitholders in the absence of a superior proposal. In arriving at this opinion, we have assessed the Scheme to be not fair but reasonable."*

According to the Independent Expert the Proposal is not fair as the Proposal Consideration of \$5.1485 per IOF Unit is below the Independent Expert's assessed value for IOF Units of \$5.38 to \$5.41 per IOF Unit. The Independent Expert noted that *"the range of values is extremely narrow (0.6%), reflecting that the property values, which comprise a majority of the value, represent the book value of the properties at 30 June 2018."*

The Independent Expert considered a range of factors in determining that the Proposal is reasonable and in the best interests of IOF Unitholders. These are summarised in Section 3 of the Independent Expert's Report and include the following factors:

- *"...If even a small range for the property values was utilised (+/-3.3% of the point estimate), the Proposal would be fair*
- *although the Proposal Consideration represents a 5.9% discount to pro forma and unaudited NTA at 30 June 2018 of \$5.47, it offers a substantial premium (16.0% to 18.4%) to the trading price of IOF Units over a one month, three month and six month period prior to the announcement of the Proposal...*
- *the Proposal Consideration is in cash and allows IOF Unitholders to immediately realise value from their investment. It provides certainty as to the pre-tax amount they will receive*
- *IOF Unitholders will no longer be exposed to the risks to which IOF is exposed, in particular reletting risk whereby 18% of the portfolio is off lease in FY19²...*
- *in the absence of the Proposal or a superior alternative proposal, the IOF Unit price is likely to fall. In the three months prior to the announcement of the Proposal, IOF Units traded at a discount in the range of 6.5% to 16.2% to 31 December 2017 NTA, with an average discount of 12.4%...*
- *no superior alternative proposal has emerged since the announcement of the Proposal. It would be open for IOF Unitholders to vote against the Proposal in the expectation that the IOF Unit price would increase in the future as property valuations continue to increase, however, future growth is not certain. Furthermore, IOF's Unit price is influenced by other factors such as distribution yields. A wind up of the portfolio is unlikely to realise a return to IOF Unitholders in excess of the cash payment under the Proposal."*

In calculating the value range for IOF Units, the Independent Expert calculated capitalised overhead costs for FY18 of \$27.4 million to \$46.2 million based on assumed residual corporate overheads of \$3.4 million to \$5.1 million per annum after taking into account cost savings that it expected to be available to a number of potential acquirers of IOF that have an existing funds management platform in Australia. The Independent Expert noted on page 51 of its report that although this approach is consistent with the requirements of ASIC Regulatory Guide 111, it recognised that Blackstone is unlikely to be able to achieve this level of savings.

2. The 18% takes into account the recently announced ANZ agreement for lease over 68% of 347 Kent Street, Sydney, for 5 years from January 2019 (ie during the refurbishment period).

In this context, it is noted that:

- i. IOF's pro forma corporate overheads for FY18 were \$17.1 million; and
- ii. based on the market capitalisation of IOF³ at the Proposal Consideration price, IOF's corporate overheads would be \$19.2 million per annum assuming that this market capitalisation was maintained for a full year.

If IOF's pro forma corporate overheads for FY18 were used in the Independent Expert's analysis (and no cost savings were assumed), the value of IOF's capitalised overhead costs would increase to between \$136.8 million and \$153.9 million, implying a valuation for IOF Units of \$5.20 to \$5.23 per IOF Unit. If IOF's corporate overheads were calculated using the market capitalisation implied by the Proposal (and no cost savings were assumed), IOF's capitalised overhead costs would increase to between \$154.0 million and \$173.2 million, implying a valuation for IOF Units of \$5.17 to \$5.20 per IOF Unit.

A complete copy of the Independent Expert's Report is included in Schedule 2 of this Explanatory Memorandum, and the Directors strongly encourage you to read this report in its entirety.

2.3 Other reasons why IOF Unitholders may consider voting in favour of the Proposal

The ILFML Directors have considered other reasons why IOF Unitholders may consider voting in favour of the Proposal. These reasons do not form the basis of the Director's recommendation however may be relevant to you when deciding how to vote at the Meeting.

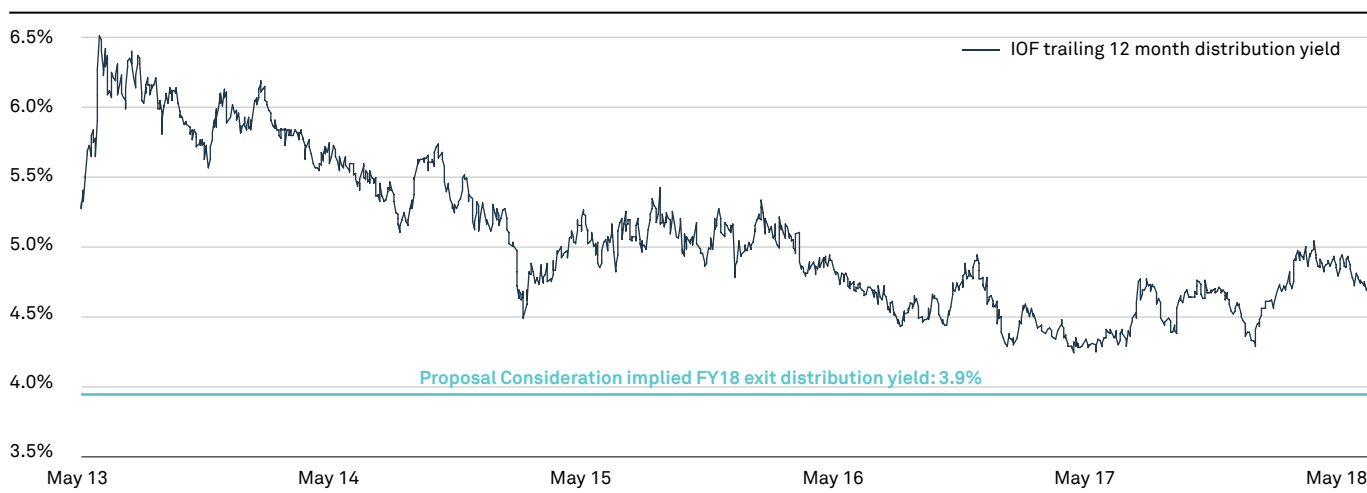
a. The Proposal Consideration represents a high multiple of IOF's pro forma FY18 and forecast FY19 distribution and FFO (based on preliminary guidance)

The Proposal Consideration of \$5.1485 per IOF Unit represents an FY18 exit distribution yield of 3.9%⁴, an FY18 exit FFO yield of 5.9%⁵ and a forecast FY19 exit FFO yield of 5.7%⁶ (based on preliminary guidance).

Lower exit yields correspond to higher offer prices and higher implied multiples of annual distributions or FFO. If the Proposal is implemented, Proposal Participants will receive a cash payment of \$5.1485, which represents a 25.4x multiple of IOF's annual distribution for FY18⁴, a 16.8x multiple of IOF's pro forma FFO for FY18⁵ and a 17.6x multiple of IOF's forecast FFO for FY19⁶ (based on preliminary guidance). This is an attractive valuation for IOF Units when compared to IOF's trading price history.

As shown below, over the last 5 years, IOF has not traded at a price that would result in its 12 months trailing distribution and 1 year forward FFO yields being as low as that implied by the Proposal Consideration.

IOF 12 month Trailing Distribution Yield (last 5 years)⁷



Source: Bloomberg.

3. The responsible entity fee payable to ILFML under the IOF Constitutions is a significant component of IOF's corporate overheads, and is calculated based on IOF's market capitalisation and payable quarterly. The fee for a quarter cannot change by more or less than 2.5% from the previous quarter's fee.

In calculating the \$19.2 million figure for corporate overheads, this restriction on changes to the fees for a quarter by more or less than 2.5% from the previous quarter's fee has been disregarded.

4. Calculated using the total distributions declared by ILFML in FY18 of 20.3 cents per IOF Unit.

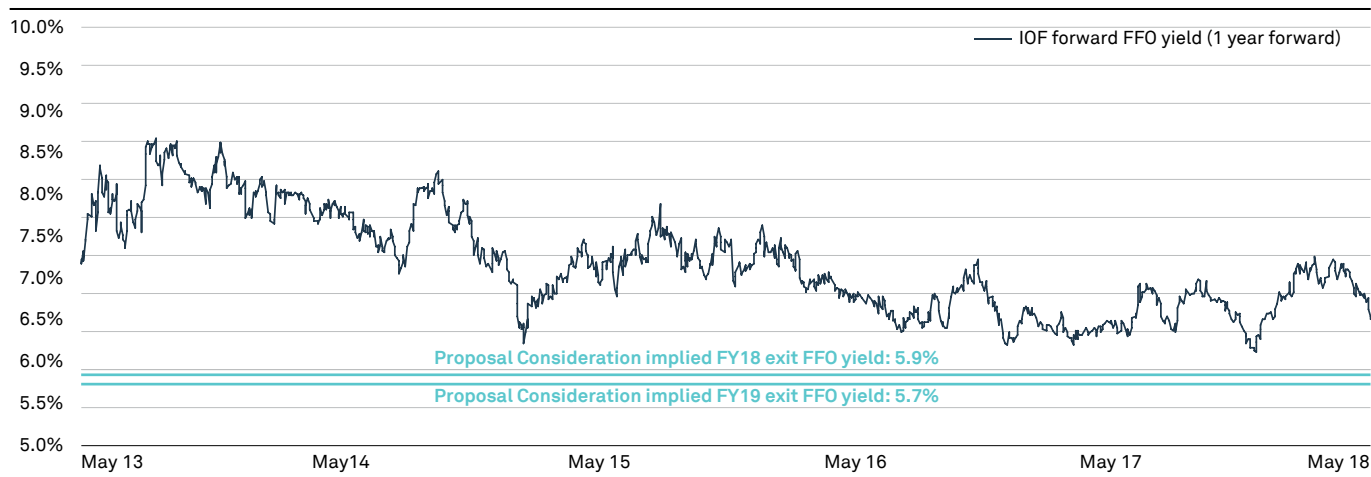
5. Calculated using IOF's pro forma FY18 FFO of 30.6 cents per IOF Unit.

6. Calculated using IOF's preliminary FY19 FFO of 29.2 cents per IOF Unit (based on preliminary guidance).

7. The trailing 12 month distribution yield is calculated by adding the most recently announced interim and final distributions as at a particular date and dividing the total of these distributions by the closing price on that date.

2. ILFML Directors' Recommendation and Evaluation of the Proposal

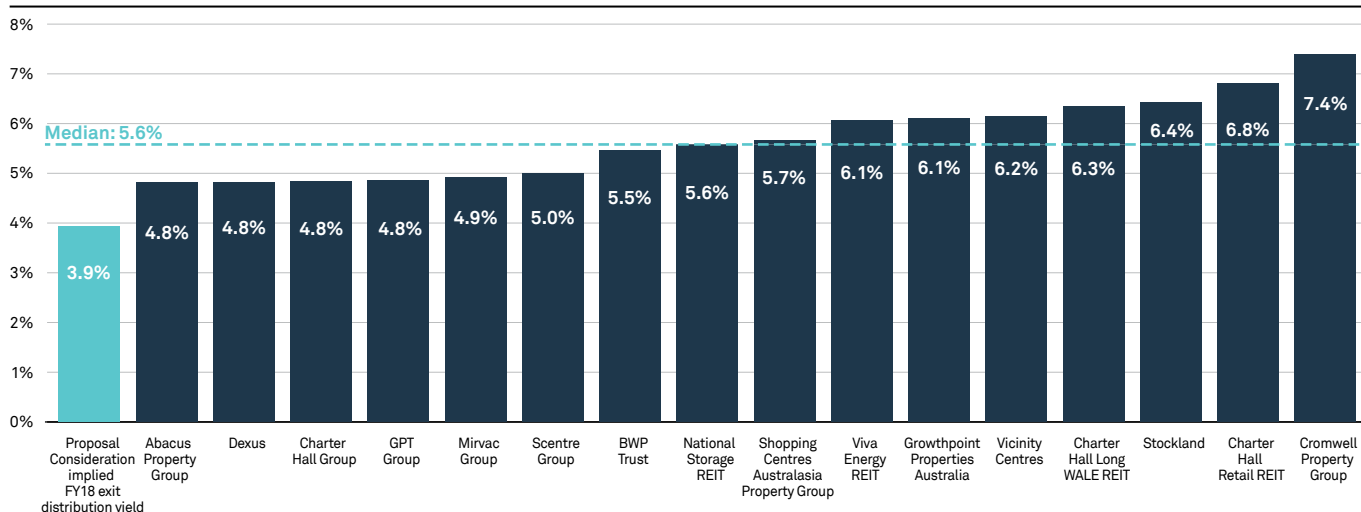
IOF 1 Year Forward FFO Yield (last 5 years)⁸



Source: Bloomberg.

The distribution yield implied by the Proposal Consideration also compares favourably to the distribution yields of other ASX-listed REITs, as shown below. As at the Last Practicable Trading Date, the exit distribution yield implied by the Proposal Consideration is the lowest distribution yield of any domestically focused ASX 200 REIT⁹.

FY18 Distribution Yields of domestically focused REITs included in the ASX 200 index



Source: ASX filings, IRESS as at the Last Practicable Trading Date.

b. IOF is expected to experience lower FFO and distribution growth in the short term

Over the last two financial years, IOF has been actively managing the portfolio to improve portfolio quality, enhance unitholder returns and position the assets for sustainable performance in the future. Recent examples of this include the releasing and refurbishment of 242 Exhibition Street in Melbourne and the creation of a new prime grade asset Barrack Place (151 Clarence Street) in Sydney. Looking forward, key strategic initiatives are the refurbishment and releasing of 388 George Street and 347 Kent Street in the favourable Sydney market.

This asset repositioning program does however impact near term FFO and distributions as there will be a period of reduced income whilst works are being undertaken and capital is required to fund tenant incentives and refurbishment activity. This, combined with the recent announcement by IOF of the conditional agreement to divest 836 Wellington Street, Perth, which is anticipated to settle in October 2018, is expected to result in preliminary FY19 FFO guidance of 29.2 cents per IOF Unit, a decrease of 4.6% on the pro forma FY18 FFO. The preliminary distribution guidance for FY19 is expected to remain flat at 20.3 cents per IOF Unit (refer to Section 4.11 for further information).

8. The forward FFO yield is calculated using the Bloomberg estimate for FFO over the next twelve months as at a particular date, divided by the closing price on that date.

9. Excludes Goodman Group and Unibail-Rodamco-Westfield which have significant operations outside of Australia.

c. IOF has benefited from a sustained period of office property price increases and NTA growth

The Proposal was received after a period of strong growth in property valuations in the Australian office market. These favourable conditions have contributed to cumulative revaluation gains of \$1.3 billion and an uplift in IOF's NTA of 69% for the five years to 30 June 2018. The Proposal allows IOF Unitholders the opportunity to realise their investment in IOF after IOF's portfolio has delivered strong returns.

d. If the Proposal does not proceed, and no Superior Proposal emerges, the price of IOF Units may fall

Since market close on 25 May 2018 (being the last day on which IOF Units traded before announcement of entry into the Process Deed), IOF's trading price has increased by 11.7% up to \$5.17 per IOF Unit on the Last Practicable Trading Date.

The Directors are unable to predict the price at which IOF will trade in the future, but consider that, in the absence of implementation of the Proposal and a comparable proposal or a Superior Proposal and, based on historic performance, the price of IOF Units may fall.

e. No Superior Proposal has been received as at the date of this Explanatory Memorandum

Since entry into the Implementation Agreement on 12 June 2018 and up to the date of this Explanatory Memorandum, no Superior Proposal has been received by the ILFML Board. The ILFML Board is not aware, as at the date of this Explanatory Memorandum, of any Superior Proposal that is likely to emerge.

f. No brokerage will be payable by you on the transfer of your IOF Units under the Proposal

You will not incur any brokerage on the transfer of your IOF Units to the Acquirer under the Proposal.

If you sell your IOF Units on the ASX (rather than disposing them via the Proposal), you may incur brokerage charges (and, potentially GST on those charges).

g. The Proposal represents a superior outcome to a managed wind-up of IOF

The ILFML Directors considered a sale of IOF's property and a subsequent winding-up of IOF as a potential alternative to the Proposal. Having received advice from their financial advisers, the ILFML Directors concluded that the Proposal is preferable to a winding-up in that a wind-up of the portfolio is unlikely to realise a return to IOF Unitholders in excess of the cash payment under the Proposal. It is noted that the Independent Expert came to a similar conclusion in its report. In particular, in Sections 2 and 3 of the Independent Expert's Report, the Independent Expert commented that:

- i. the sale of the portfolio is likely to take a considerable amount of time given the size of the portfolio;
- ii. it may be difficult to sell the portfolio in a single transaction as the process would be complicated by pre-emptive rights under co-investor agreements; and
- iii. the net proceeds from sale would be reduced by selling costs, break fees and taxes.

2.4 Reasons why IOF Unitholders may consider voting against the Proposal and disadvantages of the Proposal**a. You may disagree with the ILFML Directors' recommendation and the opinion of the Independent Expert and consider that the Proposal is not in your best interests**

Despite the recommendation of the ILFML Board and the opinion of the Independent Expert that the Proposal is in the best interests of IOF Unitholders, in the absence of a Superior Proposal, you may believe that the Proposal is not in your best interests or that of other IOF Unitholders.

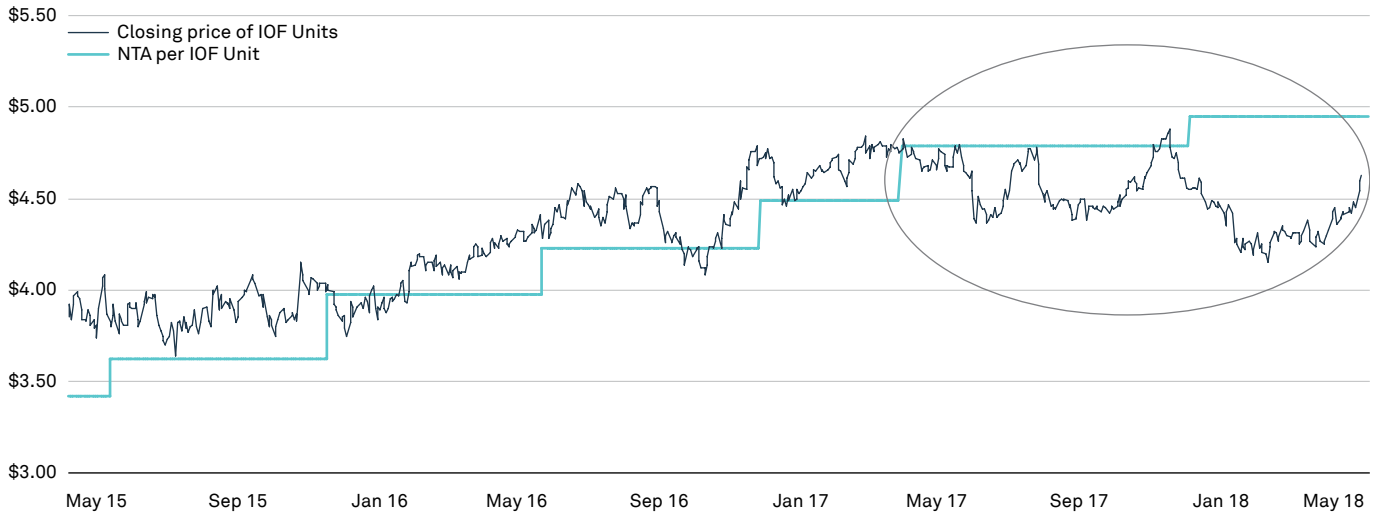
b. Recognition of discount to IOF's Pro Forma Unaudited NTA as at 30 June 2018

The Proposal Consideration of \$5.1485 per IOF Unit reflects a discount of 5.9% to IOF's Pro Forma Unaudited NTA as at 30 June 2018 of \$5.47 per IOF Unit. You may not be prepared to sell your IOF Units at a discount to the Pro Forma Unaudited NTA as at 30 June 2018.

Although the Proposal Consideration represents a discount to the Pro Forma Unaudited NTA, as shown in the chart below, in the three months prior to announcement of the Proposal on 25 May 2018, IOF's closing price has represented an average discount to NTA of 12.4%. The average closing price discount to NTA was lower at 7.4% in the 12 months prior to announcement of the Proposal, during which time IOF had received a takeover approach.

2. ILFML Directors' Recommendation and Evaluation of the Proposal

IOF closing price relative to NTA per IOF Unit



Source: IRESS.

c. You may prefer to realise the potential value of IOF over the long term and may consider that the Proposal does not capture IOF's long term potential

If the Proposal is approved by IOF Unitholders, it is expected to be implemented on 5 September 2018. This time frame may not be consistent with your investment objectives and you may consider that your IOF Units have greater value in the longer term.

You may consider that IOF has stronger long term growth potential and that the Proposal Consideration does not fully reflect your view on long term value. You may therefore prefer to retain your listed IOF Units and realise the value of your IOF Units over the longer term.

d. You may believe that it is in your best interests to maintain your current investment and risk profile

You may wish to keep your IOF Units as you may want to preserve your investment in a publicly listed REIT with the specific characteristics of IOF. In particular, you may consider that IOF may be able to return greater value from its assets by maintaining the current status quo, continuing to deliver on its investment strategy, or seeking alternative commercialisation strategies.

e. The tax consequences of the Proposal may not suit your current financial position

Implementation of the Proposal may trigger taxation consequences for IOF Unitholders. A general guide to the taxation implications of the Scheme is set out in Section 7. This guide is expressed in general terms only and IOF Unitholders should seek professional taxation advice regarding the tax consequences applicable to their own circumstances.

f. You may believe that there is the potential for a Superior Proposal to be made in the future

You may believe that there is a potential for a Superior Proposal to be made in the future. Since the execution of the Implementation Agreement and as at the date of this Explanatory Memorandum, no Superior Proposal has been received by the ILFML Board.

Overview of the Proposal



3. Overview of the Proposal

3.1 Overview of the Proposal

On 13 June 2018, IOF announced that it had entered into the Implementation Agreement with the Acquirer, under which it is proposed that the Acquirer, an entity owned by funds managed or advised by Blackstone, will acquire all the IOF Units on issue by way of trust scheme.

If the Proposal Resolutions are approved by IOF Unitholders at the Meeting and the Court grants the Second Judicial Advice, and if all other approvals and conditions for the Proposal are satisfied or waived (as applicable), IOF will be de-stapled and PCP Trust will become a wholly owned sub-trust of Bid Trust and AJO Fund will become wholly owned subsidiary of BidCo. ILFML will then apply for IOF to be de-listed from the ASX.

If the Proposal Resolutions are not approved, the Proposal will not proceed, and IOF will continue as a stand-alone stapled group listed on ASX.

This Explanatory Memorandum contains information that the ILFML Board considers is material to IOF Unitholders in making a decision whether or not to vote in favour of the Proposal. You should carefully read this Explanatory Memorandum in making a decision whether or not to vote in favour of the Proposal Resolutions.

3.2 Conditions Precedent

The Proposal is subject to a number of Conditions Precedent, including:

- a. approval of the Proposal Resolutions at the Meeting;
- b. the receipt of the First Judicial Advice and the Second Judicial Advice; and
- c. certain regulatory approvals.

Further details regarding the Conditions Precedent and their status are set out in Section 8.3 of this Explanatory Memorandum.

3.3 Proposal Consideration

If the Proposal is implemented, IOF Unitholders are entitled to receive from the Acquirer, \$5.25 per IOF Unit, less the amount of any distributions declared or payable after 4 May 2018.

As ILFML declared a distribution of 10.15 cents per IOF Unit on 18 June 2018, IOF Unitholders will be entitled to receive the Proposal Consideration of \$5.1485 for each IOF Unit that they hold on the Record Date if the Proposal is implemented.

Any aggregate cash amount payable to a Proposal Participant will be rounded to the nearest whole cent.

3.4 IOF Unitholder Approvals

IOF Unitholders will be asked to consider, and if thought fit, pass, the following Proposal Resolutions. The Proposal Resolutions are interdependent and the Proposal will only proceed if all of the Proposal Resolutions are passed at the Meeting by the requisite majorities.

- a. An ordinary resolution to approve the Proposal for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes including the acquisition of a Relevant Interest in all the AJO Units by the Acquirer (**AJO Trust Acquisition Resolution**).
- b. An ordinary resolution to approve the Proposal for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes including the acquisition of a Relevant Interest in all the PCP Units by the Acquirer (**PCP Trust Acquisition Resolution**).
- c. A special resolution for the purposes of section 601GC(1) of the Corporations Act to approve amendments to the IOF Constitutions as set out in the AJO Supplemental Deed Poll (**AJO Constitution Amendment Resolution**).
- d. A special resolution for the purposes of section 601GC(1) of the Corporations Act to approve amendments to the IOF Constitutions as set out in the PCP Supplemental Deed Poll (**PCP Constitution Amendment Resolution**).
- e. A special resolution to approve the AJO Units ceasing to be stapled to the PCP Units (**AJO De-Stapling Resolution**).
- f. A special resolution to approve the PCP Units ceasing to be stapled to the AJO Units (**PCP De-Stapling Resolution**).

3.5 Required voting majorities, eligibility to vote and voting exclusions

a. Persons eligible to vote at the Meeting

Subject to the voting restrictions set out in Section 3.5(b) of this Explanatory Memorandum, each IOF Unitholder who is on the IOF Register at the Voting Record Date is entitled to attend and vote at the Meeting either in person, by proxy, by attorney, or in the case of a body corporate, by its corporate representative appointed in accordance with section 253B of the Corporations Act.

In a resolution of IOF determined by poll, each IOF Unitholder present in person or by proxy has one vote for every dollar of its total interest held in IOF (held via IOF Units). The value of an IOF Unitholder's total interest in IOF will be calculated by reference to the last sale price of IOF Units on ASX on Monday, 20 August 2018.

b. Required voting majorities

For the Proposal Resolutions to be approved:

- i. The **Trust Acquisition Resolutions** must be passed by at least 50% of the total number of votes cast on the resolution by IOF Unitholders entitled to vote on the resolution at the Meeting.

Voting exclusions

For the purposes of this Proposal Resolution:

- In accordance with item 7, section 611 of the Corporations Act, the Acquirer and its Associates must not cast any votes in favour of the resolution.
- In accordance with section 253E of the Corporations Act, ILFML and its Associates are not entitled to vote their interests if they have an interest in the resolution other than as a member of IOF.

- ii. The **Trust Constitution Amendment Resolutions** must each be passed by at least 75% of the total number of votes cast on the relevant resolution by IOF Unitholders entitled to vote on the resolution at the Meeting.

Voting exclusions

For the purposes of this Proposal Resolution, in accordance with section 253E of the Corporations Act, ILFML and its Associates are not entitled to vote their interests if they have an interest in the resolution other than as a member of IOF.

- iii. The **De-Stapling Resolutions** must each be passed by at least 75% of the total number of votes cast on the relevant resolution by IOF Unitholders entitled to vote on the resolution at the Meeting.

Voting exclusions

For the purposes of these Proposal Resolutions, in accordance with section 253E of the Corporations Act, ILFML and its Associates are not entitled to vote their interests if they have an interest in the resolutions other than as a member of IOF.

c. Voting by ICPF

As at the date of this Explanatory Memorandum, Investa Wholesale Funds Management Limited (ACN 149 681 390) (**IWFML**) in its capacity as the responsible entity of the Investa Commercial Property Fund (ARSN 103 041 505) (**ICPF**) holds 119,667,397 IOF Units, representing 19.9973% of the total number of issued IOF Units.

IWFML and ILFML are both Controlled Entities of the Investa Property Group, and are therefore Related Bodies Corporate and Associates of each other, as well as being Associates of the other members of the Investa Property Group.

As noted above, section 253E of the Corporations Act provides that ILFML and its Associates are not entitled to vote their interests on a resolution if they have an interest in the resolution other than as a member of IOF.

As a result, based on the information available to ILFML, if the Meeting was to be held as at the date of this Explanatory Memorandum, ILFML expects that IWFML would not be able to vote for the following reasons:

- as related bodies corporate, ILFML, IWFML, and the other members of the Investa Property Group, are Associates; and
- the Investa Property Group (of which IWFML is a member) has an interest other than as a member in the outcome of the vote on the Proposal Resolutions, arising from its ownership of ILFML (the responsible entity of IOF) and IOM (the manager of IOF).

3. Overview of the Proposal

ILFML notes that on 29 May 2018, IWFML as responsible entity of ICPF announced that:

The Investa Property Group is in the final stages of consulting ICPF unitholders in relation to a potential strategic initiative with an institutional partner for the Investa management platform. Discussions with the potential partner are ongoing and incomplete, and at this stage no agreement, arrangement or understanding has been reached in respect of any Platform Transaction (including in respect of the management of IOF or ICPF) and there is no certainty any such transaction will proceed.

ILFML also notes that, as announced on 28 May 2018, it had been informed by Blackstone that:

Blackstone has not made a decision about the future management of IOF if the Proposal is completed. As part of its deliberations, Blackstone intends to discuss with Investa Property Group it potentially continuing the management of IOF due to its excellent track record in managing office assets in Australia. (See also Section 5.4).

If after the date of this Explanatory Memorandum the circumstances described above explaining why ILFML expects that IWFML may not be able to vote change, the voting entitlement of IWFML may be affected.

Whether any IWFML or any other IOF Unitholder is restricted under the Corporations Act from being able to vote at the Meeting will be determined by the Chair of the Meeting based on circumstances known at the relevant time.

3.6 Court approval

If the Proposal Resolutions are approved by the requisite majorities of IOF Unitholders at the Meeting, ILFML will apply to the Court of the Second Judicial Advice in respect of the Proposal.

3.7 Recommendations of the Directors

The Directors unanimously recommend that you **vote in favour** of the Proposal Resolutions, in the absence of a Superior Proposal. See Section 2 for further detail on the reasons for the ILFML Board's recommendation.

3.8 Independent Expert's conclusion

The Independent Expert has concluded that the Proposal is in the best interests of IOF Unitholders in the absence of a Superior Proposal. In arriving at this opinion, the Independent Expert assessed the Proposal to be not fair but reasonable.

IOF Unitholders should carefully review the Independent Expert's Report in its entirety. The Independent Expert's Report is included in Schedule 2 of this Explanatory Memorandum.

3.9 Tax implications

The Proposal should give rise to a CGT event for the IOF Unitholders. IOF Unitholders who hold their IOF Units on capital account should realise either a capital gain or capital loss.

For detailed tax implications of the Proposal, refer to the Taxation Report in Section 7 of this Explanatory Memorandum which sets out the general Australian taxation implications for IOF Unitholders in respect of the Proposal.

3.10 No brokerage or stamp duty

No brokerage or stamp duty will be payable by Proposal Participants on the transfer of their IOF Units to the Acquirer under the Proposal or the receipt by Proposal Participants of the Proposal Consideration.

3.11 Implications if Proposal not approved

If any of the Proposal Resolutions are not approved, or any other Conditions Precedent are not satisfied or waived (if applicable), and the Proposal does not proceed:

- a. IOF Unitholders will not receive the Proposal Consideration;
- b. IOF Unitholders will retain their IOF Units; and
- c. IOF will remain listed on ASX and will continue to be externally managed by the Investa Property Group.

Before the Meeting, ILFML estimates that IOF will have incurred or committed one-off transaction costs of approximately \$5.1 million in relation to the Proposal. These costs have already been incurred or will be payable by IOF regardless of whether or not the Proposal is implemented. If the Proposal is implemented, additional costs will be payable.

In addition, if the Proposal is not implemented, ILFML will continue to implement its investment strategy for IOF and you will have the opportunity to participate in the business conducted by IOF as an IOF Unitholder. The factors relating to IOF's business and an investment in IOF which will continue to be relevant to you if the Proposal is not implemented, include:

- investment in a high quality office portfolio, with exposure to development and value-add activity;
- conditions in the property investment markets including tenant vacancies, the property valuation cycle, the availability of funding, interest rates, and foreign exchange rates which can impact the value of IOF's underlying properties;
- vacancy levels, which can affect rental returns and the market value of office property;
- interest rates and exchange rate risks which can impact the value of some of IOF's debt facilities; and
- equity market volatility which can impact the value of IOF units on the ASX.

*Profile
of IOF*



4.1 Overview of IOF

Investa Office Fund (ASX: IOF) is an ASX-listed and externally managed Australian real estate investment trust. IOF is included in the S&P/ASX 100 index and is one of Australia's leading owners of investment grade office buildings in core CBD markets throughout Australia. As at 31 May 2018, IOF owned a portfolio of 20 investment properties worth \$4.3 billion.

IOF was formed by the stapling of the units in two Australian registered managed investment schemes – AJO Fund and the PCP Trust. Each IOF Unit quoted on the ASX comprises of one AJO Unit and one PCP Unit. ILFML, wholly owned by IOM, and a member of the Investa Property Group, is the responsible entity of both registered managed investment schemes.

As an externally managed vehicle, IOF does not employ any staff directly. IOF has engaged IOM to act as the manager of IOF pursuant to an Amended and Restated Management Deed dated 21 September 2017 to provide IOF with asset, portfolio and capital management services to support the delivery of IOF's strategy.

As at the Last Practicable Trading Date, IOF had a market capitalisation of \$3.1 billion. IOF has a diverse unitholder base with more than 12,500 investors.

4.2 Strategy

IOF's strategy is to deliver attractive risk-adjusted returns to IOF's unitholders by investing in high quality Australian office buildings. This strategy is achieved through:

Active asset management	Active asset management of the portfolio to drive income and capital returns.
Value add and development activity	Identifying and implementing value add and development opportunities to create high quality core assets.
Selective acquisitions and divestments	Enhancing portfolio quality, scale and diversification with selective acquisitions and divestments.
Prudent capital and risk management	Applying a prudent approach to capital and risk management.
Responsible investment	Ensuring best in class responsible investment – environmental, social and governance.

4.3 Portfolio Overview

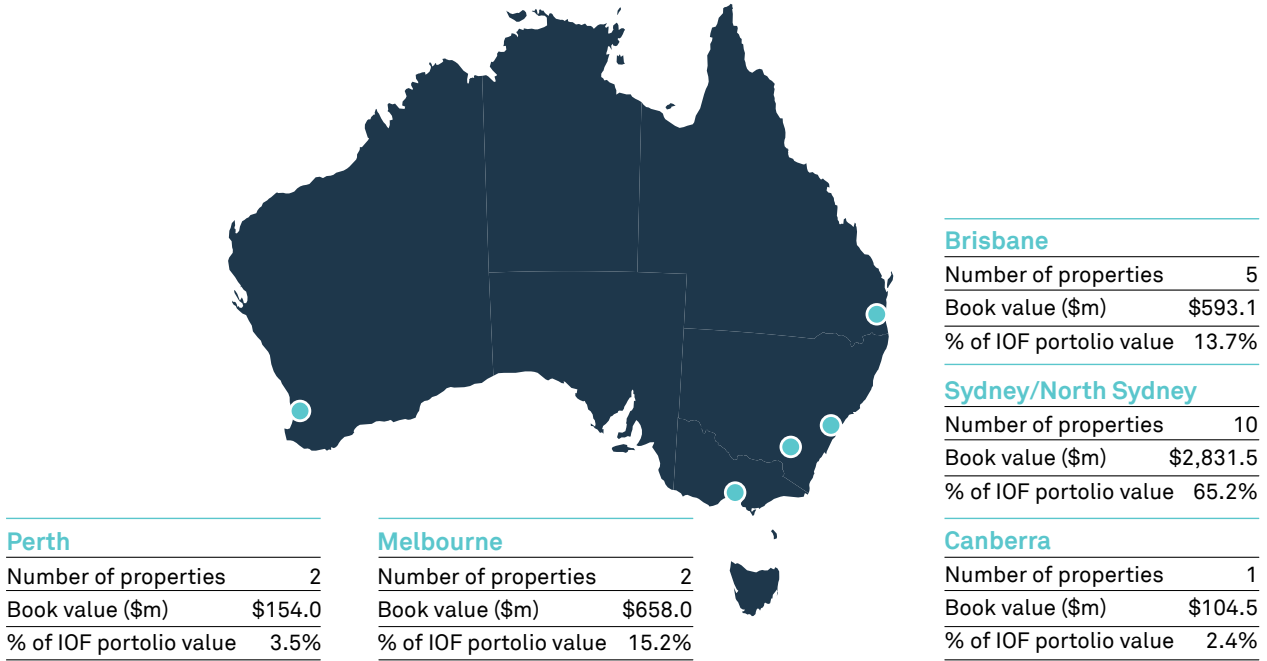
A summary of IOF's portfolio is set out below.

Portfolio Summary	As at 31 May 18
Occupancy (weighted by income)	97%
Weighted average lease expiry (WALE)	5.0 years
Weighted average Cap Rate ¹	5.48%
Tenant retention (FY18 YTD)	78%
Portfolio NLA	389,383 sqm
Number of property investments	20
Book value	\$4,341 million

1. Cap Rate refers to the market capitalisation rate, being the fully leased market rental of a property divided by the property's value prior to adjustments for near term leasing and capital allowances. The weighted average is calculated as the average, determined by the proportion of each property (excluding 151 Clarence Street) having regard to its value relative to the total value of all properties (excluding 151 Clarence Street) in the portfolio. 151 Clarence Street is not included in the Cap Rate calculation as the property is still under construction.

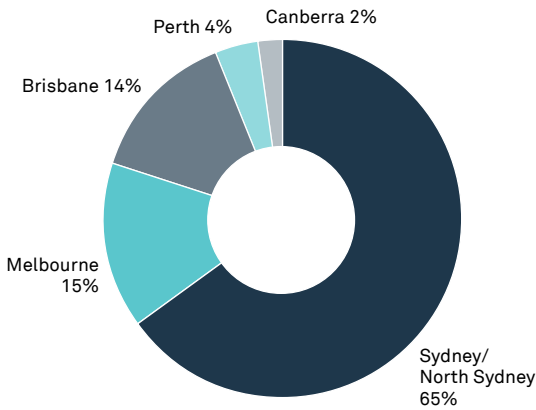
4. Profile of IOF

Map of IOF portfolio (as at 31 May 2018)

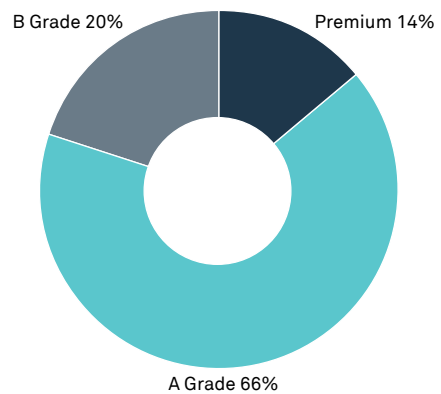


IOF’s portfolio predominantly comprises Premium Grade (14%) and A-Grade (66%) assets in core CBD centres. The portfolio is weighted towards the east coast cities of Sydney/North Sydney (65%) and Melbourne (15%).

Portfolio composition by CBD²



Portfolio composition by Grade²



A list of IOF’s properties and their key metrics (including the impact of independent valuations as at 31 May 2018, as announced to ASX on 26 June 2018) is set out below.

2. By book value as at 31 May 2018.

Portfolio overview (as at 31 May 2018)

Name/address	Location	State	Interest	Building type	Book value (\$m)	NLA (sqm)	Cap Rate (%)	WALE by income (yrs)	Occupancy (by income)
126 Phillip Street	Sydney	NSW	25.0%	Premium	258.5	10,490	4.75%	4.9	96%
10 - 20 Bond Street	Sydney	NSW	50.0%	A grade	310.0	19,192	5.00%	3.1	96%
347 Kent Street	Sydney	NSW	100.0%	A grade	350.0	26,263	5.13%	3.9	100%
388 George Street	Sydney	NSW	50.0%	A grade	244.0	19,372	5.13%	0.4	100%
Piccadilly Complex	Sydney	NSW	50.0%	A grade	323.0	23,674	5.46%	3.3	98%
6 O'Connell Street	Sydney	NSW	100.0%	B grade	275.0	16,089	5.00%	3.1	98%
151 Clarence Street	Sydney	NSW	100.0%	A grade	335.0	21,850	4.88%	–	–
105 - 151 Miller Street	North Sydney	NSW	100.0%	B grade	233.0	28,606	5.75%	2.3	100%
111 Pacific Highway	North Sydney	NSW	100.0%	A grade	236.0	18,668	6.00%	2.7	97%
99 Walker Street	North Sydney	NSW	100.0%	A grade	267.0	19,295	5.63%	6.7	99%
15 Adelaide Street	Brisbane	QLD	100.0%	B grade	60.5	11,326	7.50%	2.5	83%
239 George Street	Brisbane	QLD	100.0%	B grade	136.0	24,233	6.50%	3.7	90%
140 Creek Street	Brisbane	QLD	100.0%	A grade	237.5	27,866	6.00%	5.0	99%
295 Ann Street	Brisbane	QLD	100.0%	B grade	138.6	20,046	6.25%	4.5	99%
232 Adelaide Street	Brisbane	QLD	100.0%	B grade	20.5	4,459	7.00%	4.1	96%
567 Collins Street	Melbourne	VIC	50.0%	Premium	331.5	27,527	5.00%	8.9	98%
242 Exhibition Street	Melbourne	VIC	50.0%	A grade	326.5	32,895	5.00%	13.1	100%
836 Wellington Street ³	Perth	WA	100.0%	A grade	89.0	11,973	6.25%	8.7	100%
66 St Georges Terrace	Perth	WA	100.0%	A grade	65.0	11,407	7.50%	2.8	60%
16 - 18 Mort Street	Canberra	ACT	100.0%	A grade	104.5	14,155	5.85%	7.7	100%
Total/Weighted Average⁴					\$4,341.1	389,383	5.48%	5.0	97%

On 18 July 2018, IOF announced it had entered into transaction documents to sell 836 Wellington Street, Perth, for \$91.325 million. The sale is subject to the purchaser receiving FIRB approval and settlement is expected to take place in October 2018. The transaction is in line with IOF's stated objective to focus on core CBD assets and reflects a 20% premium to December 2017 book value and a \$2.325 million increase on the most recent May 2018 independent valuation.

All of the information included in this Explanatory Memorandum referring to information as at 31 May 2018 includes 836 Wellington Street, Perth.

3. Asset held for sale as at 30 June 2018, with a fair value as at 30 June 2018 of \$91.3 million.

4. Total/Weighted Average for Cap Rate, WALE by income (yrs) and Occupancy (by income) excludes 151 Clarence Street.

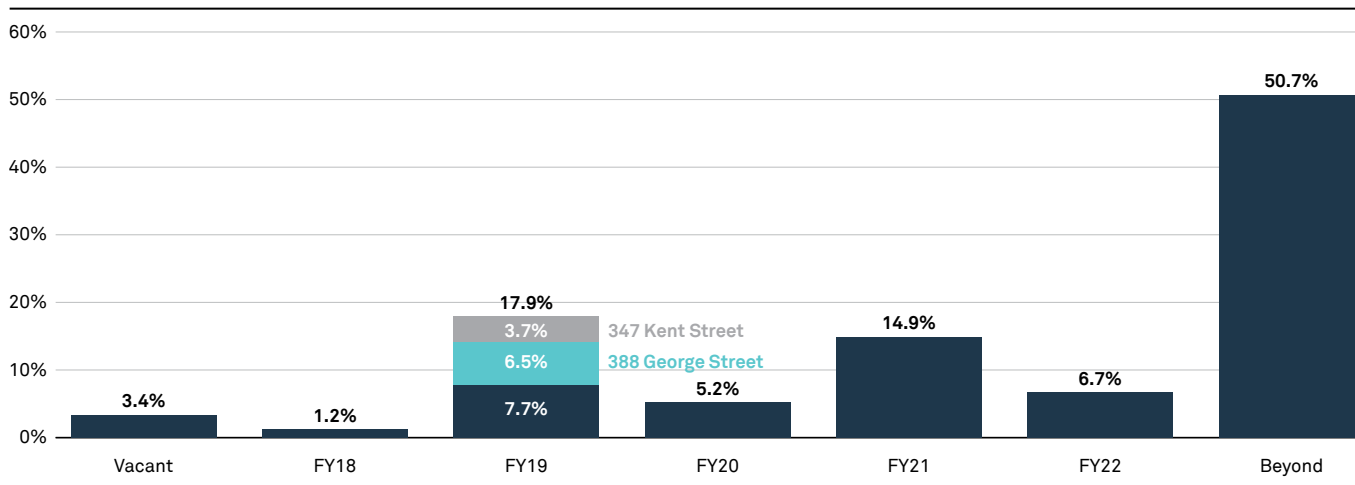
4. Profile of IOF

As illustrated below, 18% of IOF's portfolio by gross income expires in FY19, with two major expiries comprising:

- Insurance Australia Group (**IAG**) at 388 George Street, Sydney: IAG leases 100% of the office tower and will leave the premises in October 2018. The asset will be vacant for at least 18 months while the property is fully refurbished and repositioned; and
- ANZ Banking Group (**ANZ**) at 347 Kent Street, Sydney: ANZ has a lease over the entire office tower and has agreed to remain in 68% of the office net lettable area (**NLA**) after expiry of its existing lease arrangements in January 2019 for a period of 5 years, with the remainder of the space to be vacant for at least 9 months during refurbishment.

Both assets are located in the Sydney CBD where fundamentals have been strong and IOF is taking advantage of the supportive market conditions to reposition the assets for the future.

Portfolio lease expiry by income (at 31 May 2018)



4.4 Development

As at 31 May 2018, IOF has one major new development project and two major refurbishment projects in its development pipeline, all of which are located in the stronger performing Sydney market. The future capital requirements for these works is estimated to be \$140-\$170 million as at 31 May 2018.

These projects align with IOF's strategy to implement value add and development opportunities to create high quality core assets and drive unitholder returns.



151

Clarence Street, Sydney (Barrack Place)

- A new, ~22,000 sqm A-grade building with versatile floor plates (1,160 to 1,590 sqm) as well as a 1,458 sqm retail offering.
- 83% of NLA pre-committed to a range of high calibre tenants including Arup, Pfizer and Mills Oakley.
- These leases have a weighted average expiry of 9.8 years and will provide income to IOF by 1 January 2019.
- Anticipated practical completion date of October 2018.
- Estimated future capital requirements excluding tenant incentives of \$45-\$50million as at 31 May 2018.
- Estimated yield on cost of approximately 8%.



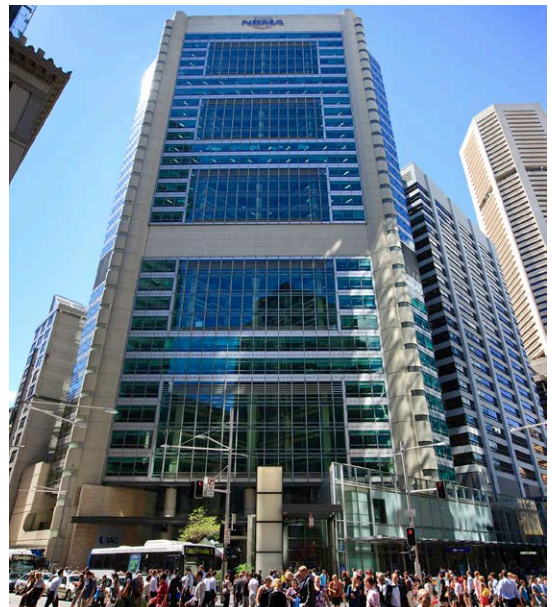
4. Profile of IOF



388

George Street, Sydney

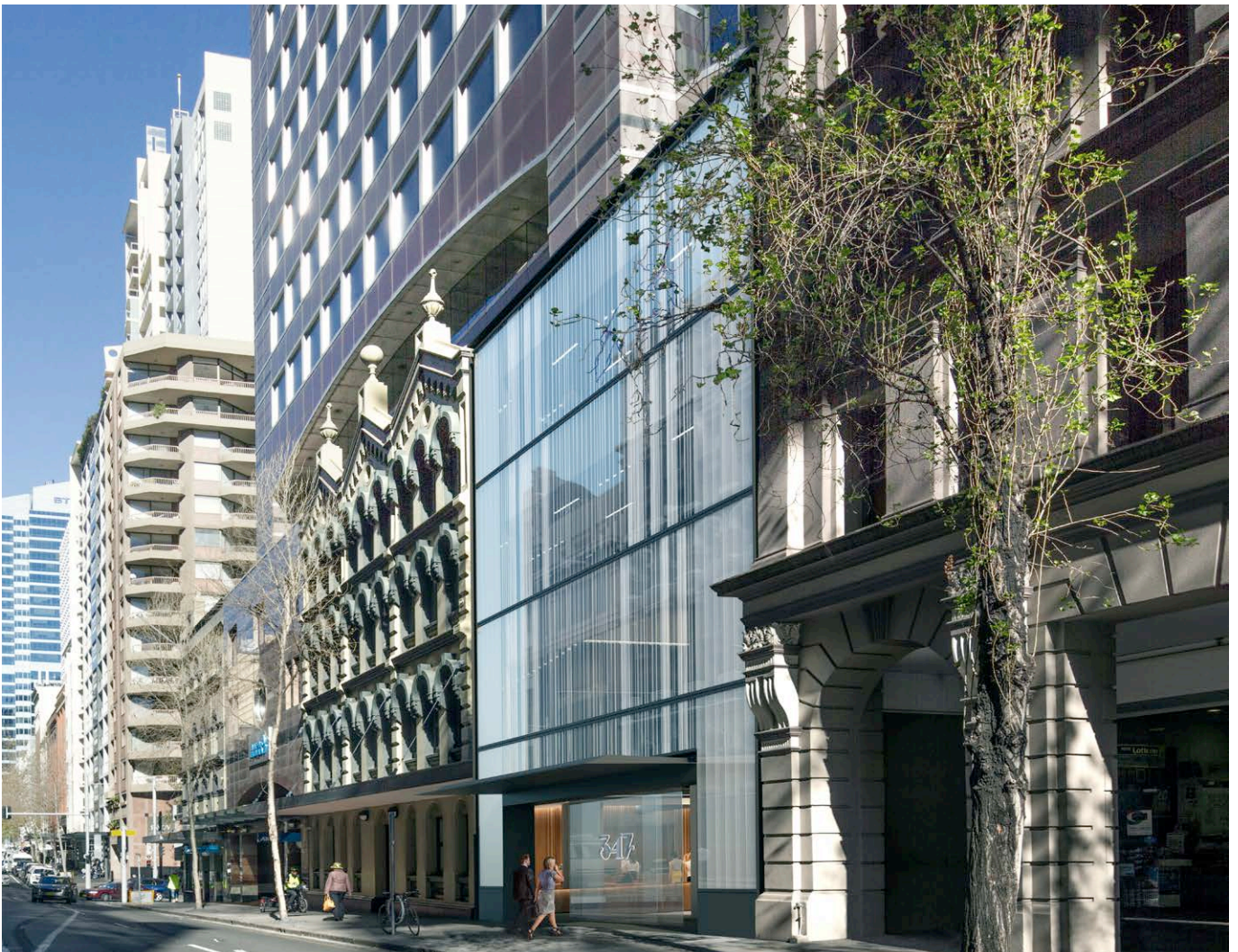
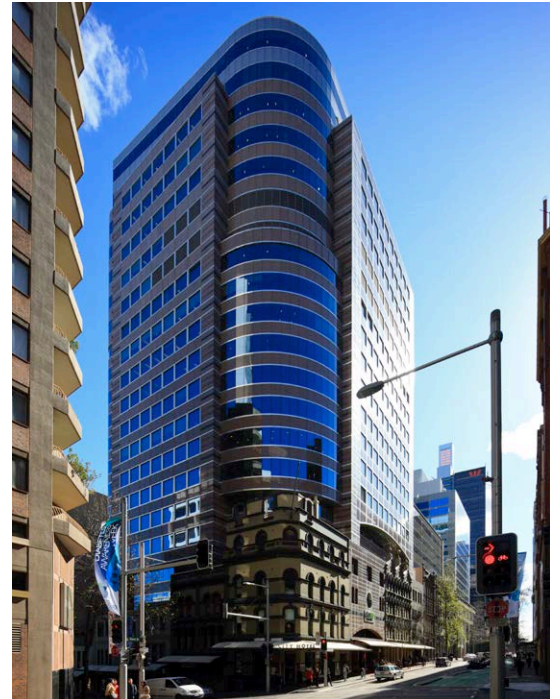
- A major refurbishment including the activation of five atriums, upgrades to common and tenancy areas, mechanical upgrades and new end of trip facilities.
- Development application submitted for potential retail development of King and George Street Forecourt.
- Work on the office refurbishment is commencing in November 2018 and it is expected to take approximately 18 months, with practical completion targeted for early 2020.
- Estimated future capital requirements of approximately \$55–\$75 million (IOF share, excluding tenant incentives) as at 31 May 2018.



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Kent Street, Sydney

- The refurbishment includes relocating and upgrading of the ground floor lobby and activation of underutilised space to create additional income.
- Work is commencing in January 2019 and it is expected to take 9-12 months to complete.
- Existing tenant (ANZ) has committed to renew 68% of office NLA for a five year term, with the remaining office space to be leased on completion of upgrades.
- Estimated future capital requirements of \$40-\$45 million (excluding tenant incentives) as at 31 May 2018.



4. Profile of IOF

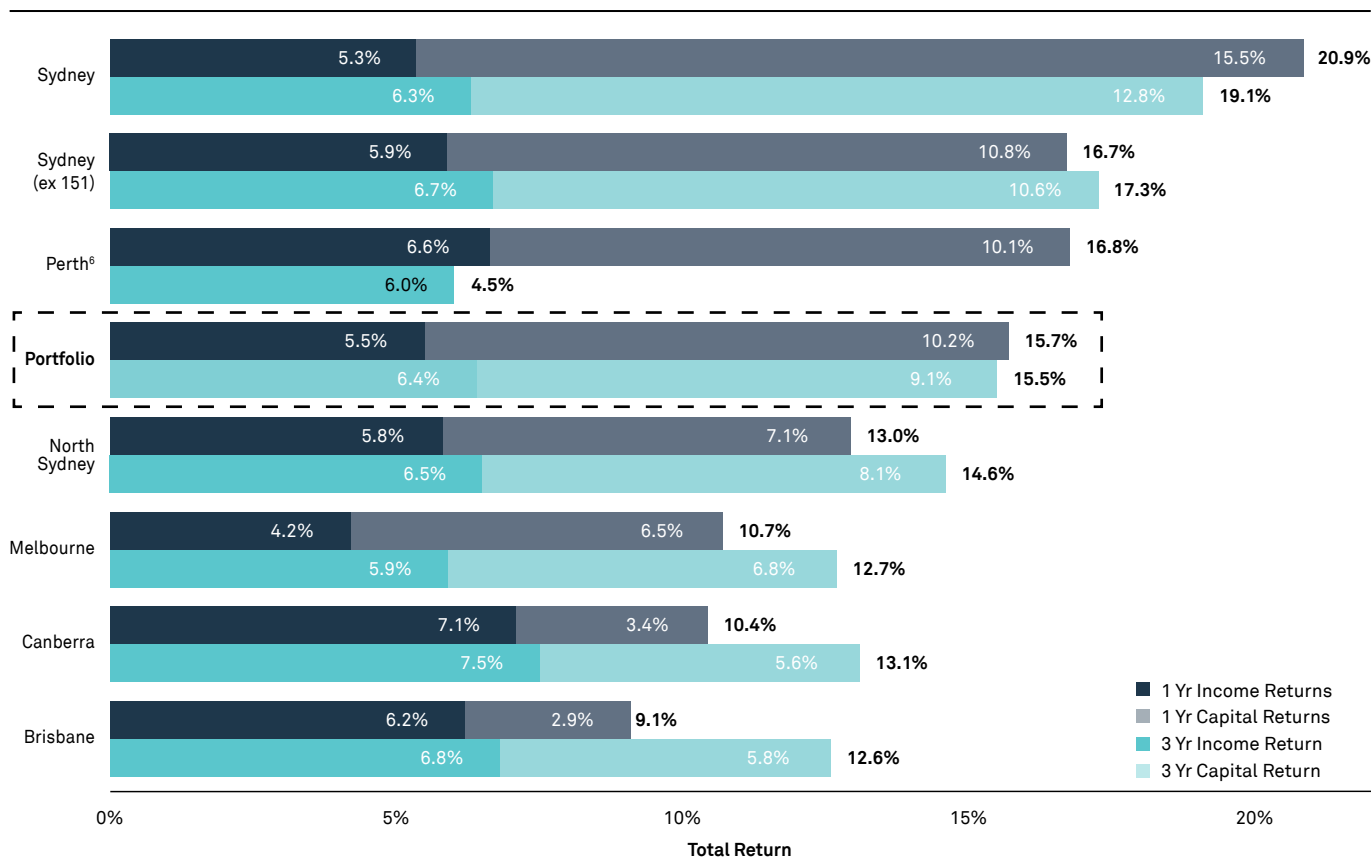
4.5 Portfolio Performance

IOF's portfolio has delivered strong unlevered returns of 15.7% over the last year and 15.5% per annum over the last three years. Sydney, North Sydney and Melbourne CBD's have been the positive contributors towards IOF's performance over both periods due to significant leasing, growth in market rents, and capital appreciation.

The Barrack Place (151 Clarence Street) development was an added major driver of the Sydney CBD returns in the last year, reflecting the fact that construction is nearing completion (October 2018) and 83% of NLA is already pre-committed.

The strong one year total return for Perth was driven by the valuation of 836 Wellington Street reflecting the strong interest in the asset since the asset divestment campaign began in Q2 2018.

Portfolio Total Returns⁵



4.6 Financial Information

This section sets out summary historical and pro-forma financial information for IOF. The historical information has been extracted from IOF's financial statements for the full year ending 30 June 2017, and for the half year ending 31 December 2017.⁷ The pro-forma financial information shown is a pro-forma statement of financial position as at 30 June 2018 and a summary of key financial performance measures for the full year ending 30 June 2018. The pro-forma information comprises 11 months of actual results and one month of forecast results and is unaudited.

The historical and pro-forma financial information has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards. The information is presented in an abbreviated form insofar as it does not include all of the disclosures, presentations or statements as required by the Australian Accounting Standards applicable to general purpose financial reports prepared in accordance with the Corporations Act.

The accounting policies used to prepare both the historical and pro-forma financial information are based on the accounting policies of IOF contained in the financial statements for the full year ending 30 June 2017.

5. Total return based on movement in portfolio book value to 31 May 2018 plus portfolio net income over 12 and 36 months to 30 June 2018, as a percentage of total book value.

6. Perth three-year total return of 4.5% made up of 6.0% income return and -1.5% capital return.

7. Historical financial information in relation to IOF is available at www.investa.com.au/iof.

a. Summary of Financial Performance

The table below sets out a summary of IOF's key financial performance measures for the full year ending 30 June 2017 and the half-year ending 31 December 2017. It also shows IOF's key financial performance measures on a pro-forma and unaudited basis for the full year ending 30 June 2018. The pro-forma results for the year ended 30 June 2018 are preliminary in nature and have not been audited, and are prepared on the basis of the assumptions and principles set out in this Section 4.6.

Summary of key financial performance measures

	Full year ending 30 June 2017 (Audited)	Half year ending 31 December 2017 (Reviewed)	Full year ending 30 June 2018 (Pro-forma and unaudited)
Statutory net profit (\$m)	471.6	151.2	518.3
Funds from Operations (FFO) (\$m)	182.6	92.9	184.0
FFO per IOF Unit (cents)	29.7	15.3	30.6
Distributions per IOF Unit (cents)	20.20	10.15	20.30

Statutory net profit in FY18 is forecast to increase by 10% (compared to statutory net profit in FY17) to \$518.3 million, driven by uplifts relating to the independent valuation of the entire IOF portfolio as at 31 May 2018. The positive valuations reflect continued strong office market fundamentals, particularly in Sydney, North Sydney and Melbourne, where effective rental growth and solid investment demand are driving valuation uplifts. Major leasing transactions and the significant progress of the delivery of IOF's development at Barrack Place, further contributed to value enhancement for IOF.

FFO per IOF Unit is forecast to increase 3.0% to 30.6 cents in FY18, reflecting solid portfolio performance over the year and the positive impact of the buyback undertaken in the first half of FY18, offset by the divestment of assets in FY17.

IOF's distribution per IOF Unit is forecast to increase by 0.5% in FY18 to 20.3 cents. The moderate increase reflects elevated incentives and maintenance expenditure related to significant leasing undertaken within the portfolio in FY16 and FY17, and is in anticipation of an elevated expiry profile and an anticipated period of reduced income in FY19, as IOF delivers upon value add opportunities to enhance portfolio quality and unitholder returns.

Further detail behind IOF's FY18 performance will be provided at the annual results announcement on or around 8 August 2018.

b. Statement of Financial Position

The table below sets out IOF's statement of financial position as at 30 June 2017 and 31 December 2017, together with the pro-forma statement of financial position as at 30 June 2018. The pro-forma statement of financial position as at 30 June 2018 has been prepared on the basis of the assumptions and principles set out in this Section 4.6 and has not been audited.

The Pro Forma Unaudited NTA per IOF Unit as at 30 June 2018 is \$5.47.

4. Profile of IOF

Statement of financial position

Summary of Consolidated Statement of Financial Position (\$m)	30 June 2017 (Audited)	31 December 2017 (Reviewed)	30 June 2018 (Pro-forma and unaudited)
Investment properties (including assets held for sale)	2,973.2	3,094.4	3,444.6
Investments accounted for using the equity method	848.6	870.3	914.7
Derivative financial instruments	89.1	77.8	79.8
Receivables	8.1	16.9	7.6
Cash and cash equivalents	4.0	4.3	5.0
Total assets	3,923.0	4,063.7	4,451.7
Borrowings	887.2	1,009.3	1,088.0
Distribution payable	62.6	60.8	60.7
Payables and Provisions	24.2	24.9	28.4
Derivative financial instruments	5.1	4.5	4.1
Total liabilities	979.1	1,099.5	1,181.2
Net assets	2,943.9	2,964.2	3,270.5
IOF Units on issue (thousands)	614,047	598,419	598,419
NTA per IOF Unit (\$)	4.79	4.95	5.47

c. Basis of Preparation of the Pro Forma Financial Information

The summary of key pro-forma financial performance measures for the year ending 30 June 2018 and the pro-forma statement of financial position as at 30 June 2018 as set out in Sections 4.6(a) and 4.6(b) (together the **Pro Forma Financial Information**) include assumptions which are subject to risks and uncertainties and may result in the actual results and financial position being different from the Pro Forma Financial Information disclosed above.

The Pro Forma Financial Information has been prepared using the following key assumptions:

- i. Fair value movements relating to investment properties (direct ownership interests and equity accounted investments) are based on the independent valuations as at 31 May 2018 summarised in Section 4.7(a), with a forecast for capital expenditure, leasing fees and incentives (net of amortisation) to be incurred for the month of June 2018. The forecast for the month of June 2018 is based on existing contracts and assumptions for amounts to be incurred to 30 June 2018. Investment properties include 836 Wellington St, Perth which is an asset held for sale as at 30 June 2018, with a fair value as at 30 June 2018 of \$91.3 million.
- ii. Fair value movements on derivative financial instruments have been made based on actual fair value movements for the 11 months to 31 May 2018.
- iii. Borrowings as at 30 June 2018 are based on actual cash flows to 31 May 2018 and forecast for the month of June 2018 based on average gross interest rates (including the impact of derivatives) of approximately 4.0% and IOF's existing financing facilities. Note the pro-forma current and non-current components of borrowings as at 30 June 2018 are \$50.0 million and \$1,038 million respectively.
- iv. US Dollar denominated borrowings are based on actual cash flow movements and foreign currency translation for the 11 months to 31 May 2018.
- v. A provision has been included for IOF's distribution of 10.15 cents per IOF Unit for the 6 months ending 30 June 2018 as announced on 18 June 2018.
- vi. Rental income is based on actual income received for the 11 months to 31 May 2018, with a forecast for the month of June 2018. Rental income has been forecast on a property-by-property basis based on existing leases and assumptions for occupancy rates, tenant retention, incentives and market rentals. These are broadly consistent with assumptions adopted for independent asset valuation purposes.

- vii. Direct property expenses are based on actual expenses for the 11 months to 31 May 2018, with a forecast for the month of June 2018. Direct property expenses have been forecast on a property-by-property basis based on current outgoings expectations. They have been forecast from existing service contracts or increased at a fixed annual rate as appropriate.
- viii. Transaction costs for the Proposal forecast to be incurred to 30 June 2018 totalling \$4.2 million have been included in the Pro Forma Financial Information.
- ix. Transaction costs for the Proposal which have not been included in the Pro Forma Financial Information are:
 - A. \$12.5 million which may be payable to J.P. Morgan Australia Limited as financial adviser to IOF if the Proposal Resolutions are approved by the requisite majorities of IOF Unitholders; and
 - B. Other transaction costs which are expected to be incurred after 30 June 2018 of \$0.9 million.
- x. Other revenue and expense items are based on actual results for the 11 months to 31 May 2018, with a forecast for the month of June 2018. The forecast for the month of June 2018 is based on existing contracts and assumptions for amounts to be due/incurred for the month of June 2018.

d. Audited financial information for the year ended 30 June 2018

IOF intends to release its full year results for the year ending on 30 June 2018 on or around 8 August 2018. These results will include audited financial statements for the year ended 30 June 2018 and will be available at www.investa.com.au/funds/iof/performance-periodic-statement/reports-presentations on or around 8 August 2018. Please refer to these statements for further details on IOF's statement of financial position and other financial disclosures in relation to IOF.

As at the date of this Explanatory Memorandum, ILFML considers that it is likely that this information will be substantially consistent with the Pro Forma Financial Information included in this Section 4.6.

4.7 Material changes in IOF's financial position since last accounts published

The latest published financial statements of IOF are the financial statements for the half year to 31 December 2017, which were released to the ASX on 20 February 2018. To the knowledge of ILFML's Directors and except as disclosed elsewhere in this Explanatory Memorandum or announced on the ASX, the financial position of IOF has not materially changed since 31 December 2017, other than:

- a. on 26 June 2018, ILFML announced updated property valuations for IOF's portfolio as at 31 May 2018. These property valuations covered the entire IOF portfolio comprising 20 properties, which were independently valued on 31 May 2018, resulting in an increase to the value of IOF's portfolio of \$316.1 million. The table below summarises the impact of the new independent property valuations on IOF's portfolio:

31 May 2018 valuation summary

	31 December 2017	31 May 2018	Change
Valuation (\$m)	3,967.1	4,341.1	374.0
Weighted average Cap Rate ⁸	5.65%	5.48%	(0.17%)

- b. there have been additions to investment property of \$74.2 million on account of capital expenditure, leasing fees, incentives based on expenditure incurred for the 5 months to 31 May 2018 with a forecast for the month of June 2018 for capital expenditure, leasing fees, incentives, and no asset acquisitions or disposals;
- c. fair value and foreign currency net expense on IOF's derivative financial instruments, and US Dollar-denominated borrowings of \$10.7 million for the 5 months to 31 May 2018;
- d. transaction costs for the Proposal forecast to be incurred to 30 June 2018 of \$4.2 million; and
- e. there has been an increase in the pro-forma net assets of IOF as at 30 June 2018 by \$5.1 million resulting from the combined effect of:
 - i. the pro-forma statutory net profit of IOF for the 6 months ending 30 June 2018 excluding the items above of \$65.8 million; and
 - ii. the declaration of IOF's 2H18 distribution of 10.15 cents per IOF Unit on 18 June 2018 totalling \$60.7 million.

All of the above changes are reflected in the pro-forma and unaudited statement of financial position set out in Section 4.6(b).

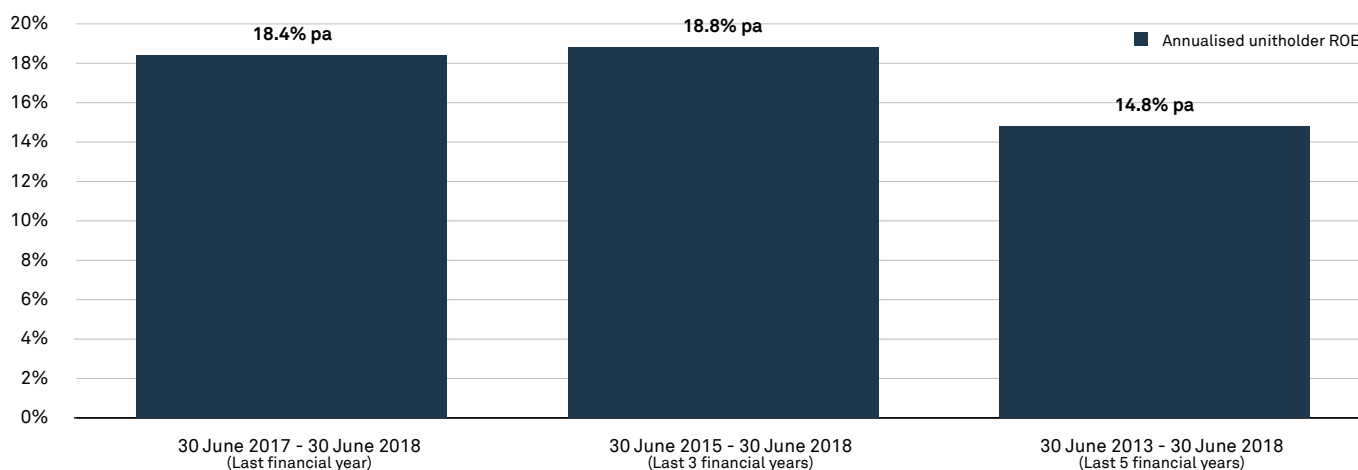
8. Cap Rate refers to the market capitalisation rate, being the fully leased market rental of a property divided by the property's value prior to adjustments for near term leasing and capital allowances. The weighted average is calculated as the average, determined by the proportion of each property (excluding 151 Clarence Street) having regard to its value relative to the total value of all properties (excluding 151 Clarence Street) in the portfolio. 151 Clarence Street is not included in the Cap Rate calculation as the property is still under construction.

4. Profile of IOF

4.8 Historic Unitholder Return on Equity

IOF has provided a strong Return on Equity of 18.4% over the last year and 18.8% per annum over the last three years. This has been driven by strong valuation growth experienced in the portfolio reflecting continued improving market fundamentals, particularly in Sydney, North Sydney and Melbourne where IOF maintains a high allocation. Active asset management including significant leasing and delivering upon IOF's development and value add strategy have also been key drivers.

IOF Unitholder Return on Equity⁹



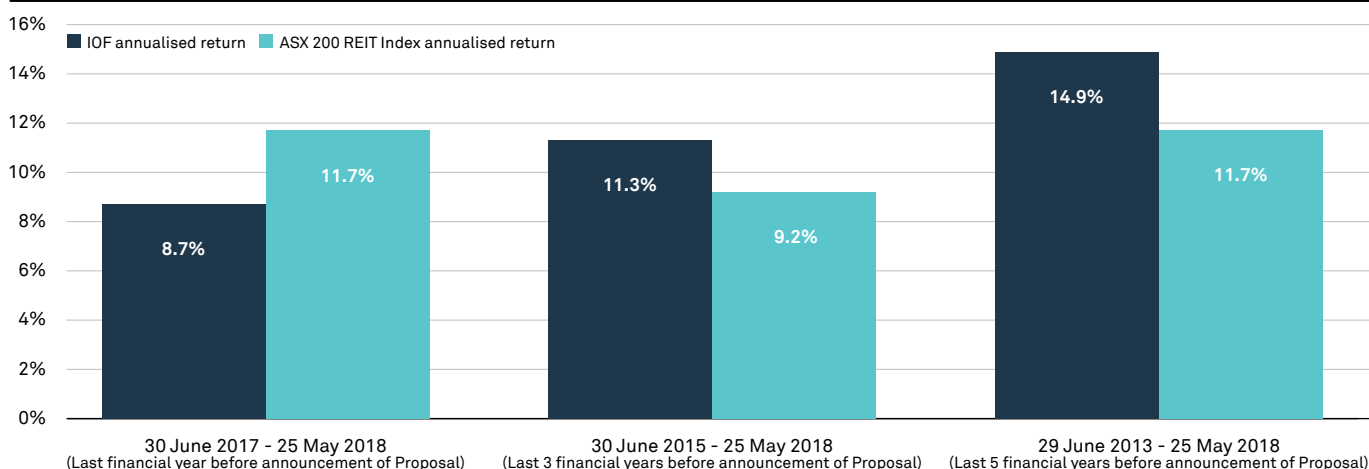
Source: Bloomberg.

4.9 Historic Unitholder Total Return

Unitholder total return is a measure of the actual rate of return that an IOF Unitholder experiences over a given period, having regard to changes in the IOF Unit price and the amount of distributions received over that period.

IOF has delivered an annualised unitholder total return of 8.7% for the period between 30 June 2017 and 25 May 2018 (being the day prior to announcement of the Proposal), underperforming the REIT 200 index due to a range of potential factors including the cessation of the corporate activity playing out earlier in the period with Cromwell Property Group. IOF has delivered a unitholder total return of 11.3% and 14.9%, respectively, on an annualised basis, for the three and five years prior to announcement of the Proposal, outperforming the REIT 200 index.

IOF Unitholder Total Return¹⁰



Source: Bloomberg.

9. Return on equity is calculated as: (Change in NTA + total distributions declared)/opening NTA for the relevant period. The returns have been annualised.

10. Total unitholder return includes the impact of distributions received and changes in security price. It is assumed that securityholders reinvest distributions received into a purchase of additional securities when unitholder total returns are calculated.

4.10 Recent performance

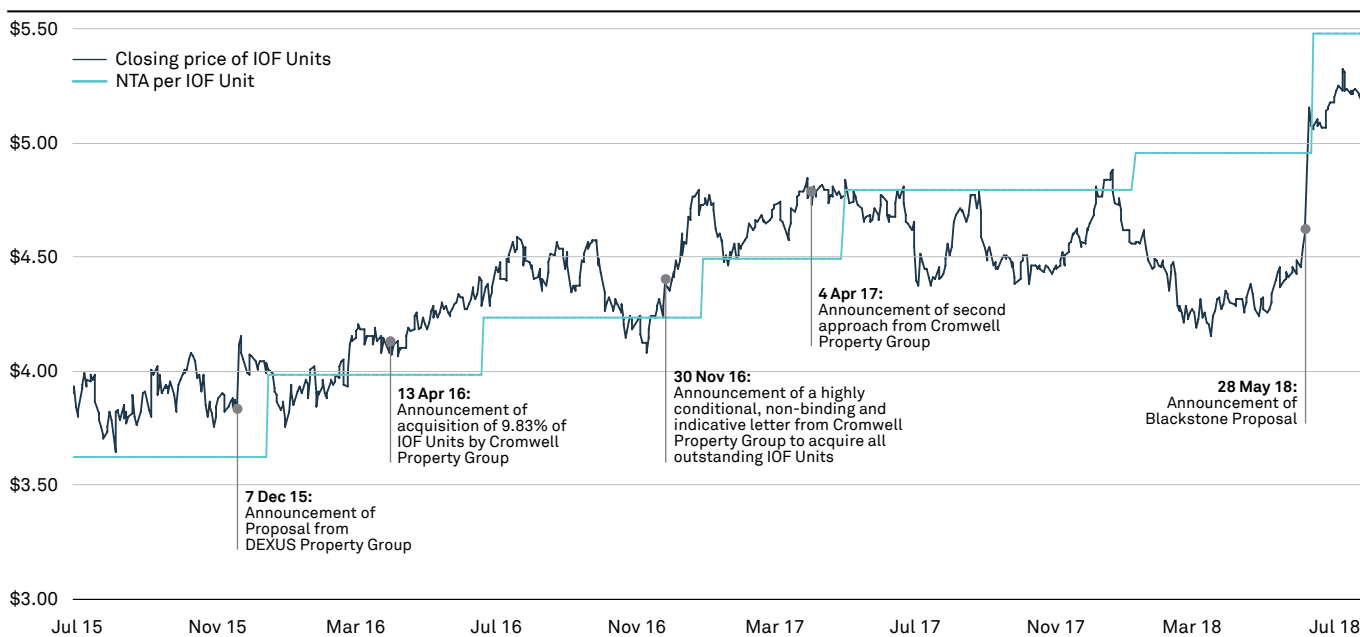
The closing price of IOF Units on ASX on 25 May 2018, being the trading day before announcement of the Proposal, was \$4.63 per IOF Unit. The 1 month VWAP of IOF Units to 25 May 2018 was \$4.44.

During the 3 months ending on 25 May 2018:

- the highest recorded daily closing price for IOF Units on ASX was \$4.63; and
- the lowest recorded daily closing price for IOF Units on ASX was \$4.15.

The closing price of IOF Units on ASX on the Last Practicable Trading Date was \$5.17.

IOF closing price relative to NTA per IOF Unit



Source: IRESS as at Last Practicable Trading Date.

4.11 Preliminary guidance

Preliminary FFO guidance for FY19 is forecast to be 29.2 cents per IOF Unit, a 4.6% decrease on IOF's pro forma FY18 FFO. This reflects the impact of a period of reduced income due to the refurbishment activity at 388 George Street, Sydney and 347 Kent Street, Sydney, and also includes the impact of the anticipated divestment of 836 Wellington Street in Perth.

Adjusted Funds From Operations (**AFFO**) is also anticipated to be impacted in FY19 by increased incentives and maintenance expenditure relating to the abovementioned projects and other leasing activity.

The preliminary distribution guidance for FY19 is 20.3 cents per IOF Unit.

It should be noted that IOF's distribution policy is to pay out 95-100% of AFFO through the property cycle. IOF's AFFO payout ratio from FY12 to FY17 averaged 91% in anticipation of the FY19 lease expiry profile and refurbishment activity.

This guidance is subject to prevailing market conditions and assumes no acquisitions or disposals, other than the anticipated divestment of 836 Wellington Street in Perth.

This guidance will be confirmed when IOF's full year results for FY18 are released to the market on or around 8 August 2018. Please refer to the full year results for further detail on IOF's guidance for FY19.

4. Profile of IOF

4.12 Capital structure

As at the date of this Explanatory Memorandum IOF has 598,418,985 IOF Units on issue.

4.13 Substantial unitholders

As at the Last Practicable Trading Date, IOF has received notification from the following persons of the fact that they hold a substantial holding (within the meaning of the Corporations Act) in IOF Units, based on substantial holder notice lodgements with the ASX, which are available on the ASX website.

Substantial unitholders in IOF¹¹

IOF Unitholder	Effective date	Number of IOF Units	Voting interests at time of notice
Investa Wholesale Funds Management Limited	6 October 2017	119,667,397	19.9973%
The Vanguard Group, Inc.	11 March 2016	50,058,157	8.2%
BlackRock, Inc.	29 November 2017	30,020,782	5.0%

4.14 Continuous disclosure

IOF is a disclosing entity for the purposes of the Corporations Act and is subject to periodic reporting and disclosure obligations under the Corporations Act and the Listing Rules.

These obligations require IOF to notify the ASX of information about specified matters and events as they arise for the purpose of the ASX making that information available to participants in the market.

Once IOF becomes aware of any information concerning it which a reasonable person would expect to have a material effect on the price or value of an IOF Unit, IOF must (subject to limited exceptions) immediately tell ASX that information.

Publicly disclosed information about all ASX-listed entities, including IOF, is available on ASX's website at www.asx.com.au.

11. Sourced from substantial holding notices lodged with the ASX as at the Last Practicable Trading Date.

*Profile of
the Acquirer*



5. Profile of the Acquirer

5.1 Overview of the Acquirer

BidCo and Bid Trust, together known as the **Acquirer**, are newly-incorporated Australian entities, owned by certain Blackstone Funds, formed for the purpose of the Proposal.

Blackstone is one of the largest institutional real estate investors in the world. With offices in the United States of America, Europe and Asia, as of 31 March 2018, Blackstone manages US\$120 billion of capital for real estate investments. Since 2004, Blackstone has completed over 26 public company real estate acquisitions with a combined transaction value in excess of US\$153 billion, including Hilton Hotels, Equity Office Properties Trust, Trizec Properties, Spirit Group, CarrAmerica Realty, CenterParcs UK, MeriStar Hospitality, La Quinta, Wyndham International, NHP PLC, Boca Resorts, Prime Hospitality, Extended Stay America, Savoy Hotels, Valad Property Group, Tysan Holdings Ltd., Japan Residential Investment Company, Strategic Hotels & Resorts, BioMed Realty Trust, Croesus Retail Trust and the Astro Japan Property Group. Blackstone is also one of the largest office owners in the world, with investments in 619 office properties globally and 61 office properties totalling 118 million square feet in Asia (as of 31 March 2018).

Blackstone also has significant experience in executing transactions in Australia and has completed acquisitions with an aggregate value of over A\$10 billion in Australia (as of 31 March 2018).

5.2 Ownership and acquisition structure

On the Implementation Date, Bid Trust will acquire all the units in PCP Trust and BidCo will acquire all the units in AJO Fund. Bid Trust and BidCo are owned indirectly by the Blackstone Funds.

5.3 Funding arrangements

On the Implementation Date, IOF Unitholders will receive Proposal Consideration, being \$5.1485 for each IOF Unit. Based on the number of IOF Units on issue as at the date of this Explanatory Memorandum the maximum amount of cash payable by the Acquirer to IOF Unitholders in connection with the Proposal will be approximately A\$3.08 billion.

The Acquirer has advised ILFML that it proposes to fund the acquisition using a combination of debt and equity.

The description of the Acquirer's funding arrangements to finance the payment of the Proposal Consideration is as follows:

a. Equity Funding Arrangements

The Acquirer has received an equity commitment from the Blackstone Funds for up to A\$3,141,700,000 which is subject to certain conditions being satisfied, including the Proposal becoming Effective. The Blackstone Funds have also provided a limited guarantee to IOF (acting through ILFML) which is limited to \$75 million, under which the Blackstone Funds guarantee the due and punctual payment of any indemnity payment payable by the Acquirer pursuant to clause 10.2 of the Implementation Agreement up to a maximum aggregate amount of \$75 million. As of 25 May 2018, Blackstone Real Estate Partners Asia II had aggregate undrawn commitments in excess of US\$6.4 billion and Blackstone Real Estate Partners VIII had aggregate undrawn commitments in excess of US\$2.8 billion.

b. Debt Funding Arrangements

The Acquirers has executed a binding commitment letter dated 19 June 2018 with Citibank N.A., Sydney Branch, Deutsche Bank AG, Sydney Branch and National Australia Bank Limited as mandated lead arrangers, underwriters and bookrunners to provide debt facilities to the Acquirer totalling approximately A\$3 billion (**Debt Funding Arrangements**).

The availability of the Debt Funding Arrangements is subject to a number of conditions precedent, including:

- i. the execution and delivery of long-form financing documents;
- ii. approval of the Proposal by IOF Unitholders and the Court; and
- iii. satisfaction of other conditions which are customary for facilities of this kind.

It is expected that these conditions will be satisfied or waived before the Second Judicial Advice Date (other than Court approval and certain other conditions that are intended to be satisfied concurrently with, or prior to, or immediately after, the first drawdown under the Debt Funding Arrangements prior to the Implementation Date, including the payment of fees and expenses and repayment of certain existing indebtedness).

If these conditions precedent (and the conditions described in the paragraph below) are satisfied and the equity funding has been provided or will be simultaneously provided with the debt funding, then the financiers must provide the funds for their portion of the commitment under the Debt Funding Arrangements.

The availability of the Debt Funding Arrangements is also subject to the correctness of certain representations, compliance with certain undertakings and there not occurring and subsisting certain events of default (in each case, as are customary for facilities of this nature).

As at the date of this Explanatory Memorandum, the Acquirer is not aware of:

- i. any reason why any of the conditions precedent to the Debt Funding Arrangements will not be satisfied, and expect that they will be satisfied, in time to allow payment in full of the aggregate Proposal Consideration as and when due under the terms of the Proposal; or
- ii. the occurrence of any misrepresentation, breach of undertaking or event of default or any circumstance that would lead to any misrepresentation, breach of undertaking or event of default or which would give rise to a right to the financiers to terminate the Debt Funding Arrangements.

If for any reason, draw down under the Debt Funding Arrangements does not occur, the Acquirer has received an equity commitment from the Blackstone Funds for up to 100% of the Proposal Consideration under the equity funding arrangements on the terms set out in Section 5.3(a) above.

5.4 Acquirer's intentions

The intentions set out in this section are statements of current intention only and are based on facts and circumstances that are known to the Acquirer as at the date of preparing this Explanatory Memorandum. Final decisions will only be made by the Acquirer after a detailed review of IOF has been conducted. Accordingly, the intentions set out in this section may change as new information becomes available or circumstances change.

Following implementation, BidCo will hold all of the units of AJO Fund and Bid Trust will hold all of the units of PCP Trust. In particular, the Acquirer intends to:

- a. have IOF removed from the official list of the ASX;
- b. deregister IOF as a managed investment scheme under the Corporations Act;
- c. continue to operate IOF as a trust investing in Australian office property;
- d. maximise the value of IOF by developing and executing business plans for each property, including strategies for leasing, capital expenditure, holding or selling assets, refurbishment, rental growth, maintenance and management contracts; and
- e. refinance IOF's existing debt facilities using a new approximately A\$3 billion syndicated loan facility.

The Acquirer has informed ILFML that it has not made a decision about the future management of the IOF portfolio if the Proposal is implemented. The Acquirer has had preliminary discussions covering a range of typical commercial and legal matters involved in the provision of portfolio management services with Investa Property Group and the potential for it to continue its management of the IOF portfolio, due to its excellent track record in managing office assets in Australia. If the discussions with Investa Property Group do not proceed to a portfolio management contract, the Acquirer may negotiate with other well-credentialed managers of Australian office assets or manage the IOF portfolio itself. There is currently no facilitation payment being discussed with Investa Property Group.

5.5 Acquirer liability under the Scheme Implementation Agreement

Under clause 9.7 of the Implementation Agreement, the sole and absolute liability of the Acquirer to ILFML in respect of any breach of any term of the Implementation Agreement is limited to \$75 million in aggregate (the **Cap**). The Blackstone Funds have provided a limited guarantee to IOF (acting through ILFML) for the payment of any breaches of the Acquirer indemnification obligations under the Implementation Agreement, up to the maximum aggregate \$75 million amount. For the avoidance of doubt, the Cap does not limit the obligation on the Acquirer to pay the Proposal Consideration in accordance with the Proposal and the Supplemental Deed Poll on the Implementation Date. IOF Unitholders should however be aware that:

- a. such obligation is conditional on and subject to the Proposal becoming Effective; and
- b. no liability of the Acquirer will arise under the Supplemental Deeds Poll until the Proposal becomes Effective.

Implementation of the Proposal



6.1 Implementation Agreement

On 12 June 2018, ILFML and the Acquirer entered into an Implementation Agreement in relation to the Proposal under which ILFML agreed to put the Proposal to IOF Unitholders. The implementation of the Proposal is subject to a number of Conditions Precedent which are summarised in Sections 3.2 and 8.3 of this Explanatory Memorandum. The Proposal will not proceed unless all of these conditions are satisfied or waived (if applicable) in accordance with the Implementation Agreement.

ILFML and the Acquirer have agreed to use best endeavours to satisfy, or procure the satisfaction of, the Conditions Precedent.

6.2 Deed Poll

On or before 24 July 2018, the Acquirer executed the Deed Poll, pursuant to which the Acquirer has agreed, in favour of all IOF Unitholders, to fulfil all obligations contemplated of the Acquirer under the Proposal, including the obligation to provide the Proposal Consideration to Proposal Participants, subject to the Proposal becoming Effective.

6.3 Effective Date

The Proposal will, subject to the Proposal Resolutions being passed at the Meeting and receipt of the Second Judicial Advice, become Effective on the Effective Date. If the Trust Constitution Amendment Resolutions are passed, notification will be lodged with ASIC following the Meeting.

IOF Units will be suspended from trading on the ASX at the close of trading on the Effective Date. If the Proposal proceeds, this will be the last day that IOF Units will trade on ASX.

6.4 Determination of persons entitled to the Proposal Consideration

a. Record Date

Persons who are recorded as IOF Unitholders on the IOF Register on the Record Date (ie at 7.00pm, 29 August 2018) will become entitled to the Proposal Consideration in respect of the IOF Units they hold at that time.

b. Dealings on or prior to the Record Date

For the purposes of calculating entitlements under the Proposal, any dealing in IOF Units will only be recognised if:

- i. in the case of dealings of the type to be effected using CHESSE, the transferee is registered in the IOF Register as the holder of the relevant IOF Units by the Record Date; and
- ii. in all other cases, registrable transfers or transmission applications in respect of those dealings are received by the IOF Registry by 5.00pm on the Record Date.

Subject to the Corporations Act, the Listing Rules and the IOF Constitutions, ILFML must register registrable transmission applications or transfers of the kind recognised above which are effected by 7.00pm on the Record Date.

ILFML will not accept for registration or recognise for any purpose any transfer or transmission application in respect of IOF Units received after 5.00pm on the Record Date (other than as contemplated by the Proposal in relation to the transfer of the IOF Units to the Acquirer) or received prior to that time but not in registrable form.

c. Dealings after the Record Date

For the purposes of determining the entitlement to the Proposal Consideration, ILFML will, until the Proposal Consideration has been paid to the Proposal Participants, and the Acquirer has been registered as the holder of the IOF Units, maintain the IOF Register, subject to the comments in Section 6.4(a) of this Explanatory Memorandum, in its form as at the Record Date. The IOF Register in this form will solely determine entitlements to the Proposal Consideration.

From the Record Date, except as evidence of entitlement to the Proposal Consideration in respect of the IOF Units relating to that entry:

- all statements of holding in respect of IOF Units cease to have effect as documents of title in respect of such IOF Units; and
- each entry on the IOF Register will cease to be of any effect.

6.5 Proposal Consideration

A summary of the Proposal Consideration is set out in Section 3.3.

6. *Implementation of the Proposal*

6.6 Payment of Proposal Consideration

If the Proposal becomes Effective and is implemented:

a. Deposit of aggregate Proposal Consideration by Acquirer

The Acquirer must, by 12 noon on the day before the Implementation Date, deposit in immediately available funds, an amount equal to the aggregate Proposal Consideration payable in respect of the IOF Units, into an Australian dollar denominated trust account operated by ILFML as trustee for the Proposal Participants.

b. Payment of Proposal Consideration

On the Implementation Date, subject to funds having been deposited by the Acquirer as set out above, ILFML must pay or procure the payment, to each Proposal Participant, the Proposal Consideration in respect of their IOF Units, by:

- i. electronic funds transfer to the account of the Proposal Participant with the bank or other financial institution nominated by them for receipt of distributions on their IOF Units; or
- ii. otherwise, dispatching, or procuring the dispatch of, a cheque for the relevant amount in Australian dollars to the Proposal Participant by prepaid post to their registered address (as at the Record Date), such cheque being drawn in the name of the Proposal Participant, subject to rules for joint holders.

6.7 Delisting IOF

The Acquirer will apply for termination of the official quotation of IOF Units on ASX, and to have IOF removed from the official list of ASX, with effect after the Implementation Date.

Taxation Report



7. Taxation Report

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24 July 2018

The Directors
Investa Listed Funds Management Limited as
responsible entity for Prime Credit Property Trust
and Armstrong Jones Office Fund
Level 30, 420 George Street
Sydney NSW 2000

Dear Directors

Australian Taxation Report

We have been requested to prepare a summary of the Australian tax consequences for Australian resident and non-resident IOF Unitholders of the implementation of the Proposal to be included in the Notice of Meeting and Explanatory Memorandum issued by ILFML dated on or around 24 July 2018 (the **Explanatory Memorandum**). The information contained in this summary is only general in nature. This summary has been prepared on the assumption that the Proposal described in the Explanatory Memorandum will be carried out in the manner described in the Explanatory Memorandum.

This summary does not address all tax consequences to IOF Unitholders of the Proposal, and in particular, does not address the positions of IOF Unitholders who:

- acquired their IOF Units in the course of a business of trading or investing in securities, such as share traders, investment companies, banks or insurance companies, or who otherwise hold IOF Units on revenue account or as trading stock; and/or
- acquired their interests in their IOF Units pursuant to an employee share, option or rights plan; and/or
- are subject to the "taxation of financial arrangements" rules in Division 230 of the Tax Act in respect of their IOF Units; and/or
- acquired (or are deemed to have acquired) their units in either the AJO Fund or the PCP Trust before 20 September 1985.

The actual tax consequences to IOF Unitholders of the Proposal may differ depending upon their individual circumstances.

IOF Unitholders should be advised to consult their own professional tax adviser regarding the consequences of the Proposal in light of their particular circumstances. IOF Unitholders who are not resident in Australia should obtain advice on the taxation implications arising from the Proposal in their local jurisdiction.

This summary is based on Australian tax laws and regulations and the current administrative practice of the Australian Taxation Office (the **ATO**) as at the date of this Explanatory Memorandum.

Defined terms used in this letter take their meaning from the Explanatory Memorandum, unless the context requires otherwise.

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1 Income Tax Consequences of Proposal

1.1 De-Stapling

No tax consequences should arise as a result of the De-Stapling Resolutions in respect of IOF Units for resident or non-resident IOF Unitholders.

1.2 Sale - Australian resident IOF Unitholders

(a) Capital gains tax (CGT)

Each IOF Unit consists of two separate CGT assets: an AJO Unit and a PCP Unit.

The Proposal will give rise to two separate CGT events for IOF Unitholders:

- a CGT event on the disposal of their AJO Units for cash; and
- a CGT event on the disposal of their PCP Units for cash.

This means that IOF Unitholders will need to determine whether a capital gain, or a capital loss, arises in respect of each component security of their IOF Units.

On the basis that the CGT events will arise as a consequence of the trust scheme under the Proposal, the time of the CGT event will be the date of the disposal, which will be the Implementation Date for the Proposal.

IOF Unitholders will make a capital gain on a relevant CGT event to the extent that:

- their capital proceeds from the disposal of their AJO Units are greater than their 'cost base' for their AJO Units; or
- their capital proceeds from the disposal of their PCP Units are greater than their 'cost base' for their PCP Units.

The 'CGT Discount' may be available to reduce the taxable gain for an IOF Unitholder who is an individual, complying superannuation entity or trust (discussed below).

IOF Unitholders will make a capital loss on a relevant CGT event to the extent that:

- their capital proceeds from the disposal of their AJO Units are less than their 'reduced cost base' for their AJO Units; or
- their capital proceeds from the disposal of their PCP Units are less than their 'reduced cost base' for their PCP Units.

(b) Cost base or reduced cost base

The first element of an IOF Unitholder's cost base, or reduced cost base, for their AJO Units is the amount paid by the IOF Unitholder for their AJO Units. Similarly, the first element of an IOF Unitholder's cost base, or reduced cost base, for their PCP Units is the amount paid by the IOF Unitholder for their PCP Units. Other amounts associated with the acquisition or disposal of the AJO Units, or the PCP Units, such as broker fees, may be added to their cost bases.

An IOF Unitholder who acquired their IOF Units for consideration which did not separately allocate an amount to each of the AJO Units and PCP Units can apportion the amount paid on a reasonable basis across their AJO Units and PCP Units. One possible method of apportionment is on the basis of the relative net assets of the AJO Fund and the PCP Trust at the time of acquisition. Information regarding the net asset split of the AJO Fund and the PCP Trust as at 30 June each year is published on the Investa website.

7. Taxation Report

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Also, the cost base or reduced cost base of an IOF Unitholder's AJO Units and PCP Units may be subject to adjustments because of the character of certain components of distributable amounts received by, or attributed to, the IOF Unitholder during the period of ownership of their AJO Units and PCP Units. The adjustments may have happened under different rules applicable to the AJO Fund and PCP Trust before and after the time that ILFML made a choice for each of AJO Fund and PCP Trust to become an attribution managed investment trust (**AMIT**) with effect from the year ended 30 June 2017:¹

- For the periods before AJO Fund and PCP Trust became an AMIT, the cost base or reduced cost base of an IOF Unitholder's AJO Units and PCP Units will be reduced by any tax deferred distributions that have been paid by the AJO Fund or the PCP Trust, respectively, since acquisition of the units by the IOF Unitholder. Details of distributions made by IOF for relevant financial years can be found by an IOF Unitholder on their Annual Tax Statement.
- For the period since the AJO Fund and PCP Trust became an AMIT, an adjustment can be made to the cost base or reduced cost base of an IOF Unitholder's AJO Units and PCP Units depending on the difference between, generally, (1) the actual amount of distributions to which the IOF Unitholder is entitled to receive and (2) the total components of income attributed to the IOF Unitholder under the AMIT rules, in respect of the IOF Unitholder being a member of AJO Fund and PCP Trust. The difference may result in an 'excess' or 'shortfall' in the IOF Unitholder's 'AMIT cost base net amount' under the AMIT rules in respect of each of the AJO Fund and PCP Trust:
 - If the amount in (1) above exceeds the amount in (2) above, there will be an 'excess' which will reduce the cost base or reduced cost base of an IOF Unitholder's AJO Units and PCP Units; and
 - If the amount in (1) above is less than the amount in (2) above, there will be a 'shortfall' which will increase the cost base or reduced cost of an IOF Unitholder's AJO Units and PCP Units.

The amount of the 'AMIT cost base net amount' for an IOF Unitholder is reported in their AMIT member annual statement (**AMMA statement**) in relation to the year ended 30 June 2017, accessible online through their Link Market Services account, and is expected to be reported in the AMMA statement for the year ended 30 June 2018.

(c) **Capital proceeds**

The overall capital proceeds that will be received by IOF Unitholders from the disposal of their AJO Units and PCP Units will be the Proposal Consideration.

The capital proceeds for the disposal of the AJO Units will be that part of the Proposal Consideration payable by BidCo.

The capital proceeds for the disposal of the PCP Units will be that part of the Proposal Consideration payable by Bid Trust.

The allocation of the Proposal Consideration between the AJO Units and PCP Units will be determined before the Implementation Date for the purpose of determining the amount payable by each of BidCo and Bid Trust. Information about the allocation of the Proposal

¹ See Investa Office Fund, Attribution Managed Investment Trust (AMIT), Frequently Asked Questions (https://www.investa.com.au/www_investa/media/about-investa/iof-amit-faq_2017.pdf).

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Consideration, or the method of apportionment, is expected to be provided to IOF Unitholders before, or shortly after, the Implementation Date.

(d) Net capital gain or loss

Any capital gain (or capital loss) made by an IOF Unitholder will be aggregated with other capital gains and capital losses of the IOF Unitholder in the relevant year of income to determine whether the IOF Unitholder has an overall net capital gain or overall net capital loss for the income year in which the CGT event occurs. A net capital gain, if any, will be included in the IOF Unitholder's assessable income and will be subject to income tax. A net capital loss may not be deducted against other assessable income, but may be carried forward to be offset against net capital gains realised in later income years.

(e) CGT Discount

If an IOF Unitholder is an individual, complying superannuation entity or a trust, and held their IOF Units for 12 months or more before the disposal, the IOF Unitholder may be entitled to a 'CGT Discount' for any capital gain made on the disposal of their AJO Units and PCP Units. IOF Unitholders should seek independent advice to determine if their AJO Units and PCP Units have been held for the requisite period.

The 'CGT Discount' provisions may entitle IOF Unitholders to reduce their capital gain on the disposal of an AJO Unit or PCP Unit (after deducting available capital losses) by half, in the case of individuals and trusts, or by one-third in the case of complying superannuation entities. However, trustees should seek specific advice regarding the tax consequences of making distributions attributable to discounted capital gains. The 'CGT Discount' is not available to companies.

An IOF Unitholder who acquired their units in either AJO Fund or PCP Trust on or before 11.45am on 21 September 1999 may choose to apply the indexation method and index their cost base up to 30 September 1999 instead of applying the 'CGT Discount' as described above.

1.3 Sale - Non-Australian residents

Any capital gain or capital loss made by a non-Australian resident IOF Unitholder from the disposal of their AJO Units and PCP Units will be disregarded unless their AJO Units or PCP Units are 'taxable Australian property'.

An AJO Unit or PCP Unit will be 'taxable Australian property' for an IOF Unitholder only if:

- the IOF Unitholder's AJO Unit or PCP Unit is, or has been, held by the IOF Unitholder in carrying on a business at or through a permanent establishment in Australia; or
- the IOF Unitholder is an individual who made an election to disregard making a capital gain or capital loss from a CGT event I1 in respect of the AJO Unit or PCP Unit when they ceased to be an Australian resident (if the IOF Unitholder was ever an Australian resident); or
- broadly, the IOF Unitholder, together with any associates, owns, or owned, at the Implementation Date or throughout a 12 month period during the two years preceding the Implementation Date, 10% or more of all the issued units in IOF (in which case the IOF Units would constitute an 'indirect Australian real property interest').

An IOF Unitholder who believes that one of the categories above may be applicable to their circumstances should seek their own advice.

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If a non-Australian resident IOF Unitholder's AJO Units or PCP Units are 'taxable Australian property' and the IOF Unitholder makes a capital gain as a result of the disposal of their AJO Units and PCP Units, the IOF Unitholder will not be entitled to any 'CGT Discount'.

2 IOF June 2018 Distribution

IOF Unitholders who are registered on the Distribution Record Date will receive a distribution from IOF in respect of the half year ended 30 June 2018. IOF Unitholders who receive the distribution in respect of the half year ended 30 June 2018 will be advised of the income tax implications of this distribution in their AMMA statement for the year ended 30 June 2018, which will be in a similar format to the AMMA statement for the year ended 30 June 2017.

In certain circumstances identified by the Commissioner of Taxation in Taxation Ruling TR 2010/4, the amount of a dividend declared and paid by a company to a shareholder which has disposed of their shares as part of a scheme of arrangement may constitute part of the capital proceeds from the disposal for CGT purposes and may affect the amount of any capital loss (but not any capital gain). In contrast, a dividend declared and paid independently of the sale of the shares may not be capital proceeds from the disposal of shares, even if the dividend is contingent on, or contemporaneous with, the sale of the shares. The principles in TR 2010/4 are discussed in the context of the payment of a dividend by a company. If the same principles are applicable to the distribution of income by the trustee of a trust (or the attribution of income to a member of an AMIT), then it is relevant to consider whether any distribution to IOF Unitholders may be included in the capital proceeds of IOF Unitholders for the disposal of their Units.

In our view, the capital proceeds received by IOF Unitholders for the disposal of their AJO Units and PCP Units should not include the amount of the declared IOF distribution in respect of the half year ended 30 June 2018 because it is an amount that would be expected to be distributed in the ordinary course to the IOF Unitholders.

For completeness, this commentary does not address the potential consequences for the capital proceeds of IOF Unitholders if any distribution, other than the distribution in respect of the half year ended 30 June 2018, is declared and made before the Implementation Date. If such a distribution is declared and made before the Implementation Date, different tax considerations could apply and IOF Unitholders will need to seek their own advice about the potential consequences.

3 Foreign resident capital gains tax withholding

In accordance with the foreign resident capital gains tax withholding rules contained in the tax legislation, the Acquirer may be required to withhold and pay to the ATO 12.5% of the Proposal Consideration otherwise payable to an IOF Unitholder if the interest acquired is an 'indirect Australian real property interest' and on the Implementation Date, the Acquirer:

- knows or reasonably believes the IOF Unitholder is a foreign resident; or
- does not reasonably believe the IOF Unitholder is an Australian resident, and either:
 - the IOF Unitholder has an address outside Australia; or
 - the Acquirer is authorised to pay the Proposal Consideration to a place outside Australia (such as an overseas bank account).

An 'indirect Australian real property interest' includes a unitholding in a trust, where the majority of the value of the trust is attributable to land in Australia, if that unitholding is a 'non-portfolio interest'. An IOF Unitholder will have a non-portfolio interest if they own on the Implementation Date, or owned throughout a 12 month period during the two years preceding the Implementation Date, (together with any interest held by their associates, if applicable), 10% or more of all the issued units in IOF.

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We understand the Acquirer will clarify the status of certain IOF Unitholders. Unless an IOF Unitholder is contacted separately by the Acquirer to clarify whether they are a foreign resident or whether their units are an 'indirect Australian real property interest', it is not expected that the Acquirer will withhold any amount from their Proposal Consideration and they will not be required to take any action regarding these rules.

4 GST

No GST should be payable by an IOF Unitholder (whether Australian resident or non-resident) in respect of any of the steps of the Proposal.

5 Stamp Duty

No stamp duty should be payable by an IOF Unitholder in respect of any of the steps of the Proposal.

Yours faithfully



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Allens
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*Additional
Information*



8.1 Relevant interests of ILFML Directors

The Relevant Interests of the ILFML Directors in IOF Units as at the date of this Explanatory Memorandum are set out below.

Director	Position	Number of IOF Units
Richard Longes	Chairman and Non-Executive Independent Director	15,000
John Fast	Non-Executive Independent Director	15,000
Geoff Kleemann	Non-Executive Independent Director	15,000
Robert Seidler AM	Non-Executive Independent Director	11,579
Gai McGrath	Non-Executive Independent Director	2,000

8.2 No pre-transaction benefits

a. Benefits in connection with retirement from office

Except as disclosed in Section 8 of this Explanatory Memorandum, no payment or other benefit is proposed to be made or given to any director, company secretary or executive officer of ILFML (or its Related Bodies Corporate) as compensation for the loss of, or as consideration for or in connection with his or her retirement from office in ILFML or any of its Related Bodies Corporate in connection with the Proposal.

The ILFML Directors are covered under an insurance policy maintained by ICPF Holdings Limited on behalf of all its subsidiaries, including ILFML. IOF has not paid any insurance premium for any person who is or has been a director or officer of the responsible entity.

b. ILFML Directors' interests in agreements or arrangements relating to the Proposal

Except as disclosed in this Explanatory Memorandum:

- i. no member of the ILFML Board has any other interest in a contract entered into by the Acquirer Group;
- ii. there are no contracts or arrangements between a member of the ILFML Board any person in connection with or conditional upon the outcome of the Proposal, and
- iii. no member of the ILFML Board has a material interest in relation to the Proposal other than in their capacity as an IOF Unitholder as outlined in Section 8.1 of this Explanatory Memorandum.

For completeness, it is noted that:

- iv. Bob Seidler has been appointed as a director of IOM and has recused himself from considering, participating in discussions or voting on, any matters at the IOM Board level in connection with matters of conflict with IOF; and
- v. as disclosed in IOF's 2017 Corporate Governance Statement, Geoff Kleemann is a member of the Audit and Operational Risk Committee (**Risk Committee**), which is a committee of the IOM Board that assists the ILFML Board with its oversight of risk management for IOF. Mr Kleemann's appointment to this role is in accordance with the Risk Committee charter which requires the members of the committee to include at least one non-executive member from the Audit Committee of ILFML.

8. Additional Information

8.3 Summary of Implementation Agreement

The Implementation Agreement was released to ASX in full on 13 June 2018. A summary is provided below.

Topic	Summary
Parties	ILFML and the Acquirer (being Bid Trust and BidCo). On implementation, the AJO Units will be de-stapled from the PCP Units, and BidCo will acquire the AJO Units and Bid Trust will acquire the PCP Units.
Conditions Precedent and status	<p>The Proposal to acquire all of the units in IOF by way of trust scheme is subject to a number of Conditions Precedent. The following Conditions Precedent are outstanding at the date of this Explanatory Memorandum:</p> <p>a. (FIRB) The Acquirer receives the necessary approvals from the Treasurer of the Commonwealth of Australia (or his delegate) to acquire IOF. Status: FIRB approval in relation to the acquisition of IOF was received by the Acquirer on 17 July 2018.</p> <p>b. (Regulatory Approvals) All regulatory approvals (being ASIC and ASX waivers) required to implement the Proposal are granted or obtained and those approvals are not withdrawn, cancelled or revoked. Status: ASX has agreed to grant the waivers and confirmations necessary to implement the Proposal. ASIC has agreed to grant the relief necessary to implement the Proposal.</p> <p>c. (IOF Unitholder Approval) IOF Unitholders approve the Proposal Resolutions by the requisite majorities. Status: The Meeting to consider the Proposal Resolutions will be held at 10.00am on 21 August 2018 at Swisshotel, Maple Room, 68 Market Street, Sydney NSW 2000.</p> <p>d. (No restraints) No restraint imposed by a court or other governmental agency that prohibits, materially restricts, makes illegal or restrains the completion of the Proposal remains in effect. Status: As at the date of this Explanatory Memorandum, neither ILFML nor the Acquirer is aware of anything that will cause this Condition Precedent not to be satisfied.</p> <p>e. (Execution and lodgement of each Supplemental Deed Poll) ILFML executes each Supplemental Deed Poll and lodges a copy of the executed Supplemental Deed with ASIC. Status: ILFML will execute the Supplemental Deed and lodge with ASIC if the Proposal Resolutions are approved by the requisite majorities and the Second Judicial Advice is received.</p> <p>f. (No IOF Prescribed Occurrences) No IOF Prescribed Occurrence occurs before the Second Judicial Advice Date, other than as required or permitted by the Implementation Agreement or the Proposal or agreed to in writing by the Acquirer. Status: As at the date of this Explanatory Memorandum, neither ILFML nor the Acquirer is aware of anything that will cause this Condition Precedent not to be satisfied.</p> <p>g. (No IOF Material Adverse Change) No Material Adverse Change occurs before the Second Judicial Advice Date. Status: As at the date of this Explanatory Memorandum, neither ILFML nor the Acquirer is aware of anything that will cause this Condition Precedent not to be satisfied.</p> <p>h. (Board Recommendation) No member of the ILFML Board has, prior to the Meeting, withdrawn, qualified or varied their recommendation that IOF Unitholders vote in favour of the Proposal Resolutions. Status: As at the date of this Explanatory Memorandum, the Directors have not withdrawn, qualified or varied their recommendation that IOF Unitholders vote in favour of the Proposal Resolutions.</p>

Topic	Summary
Conditions Precedent and status <i>continued</i>	<p>i. (Judicial Advice) The Court provides the Second Judicial Advice, which will confirm, amongst other things, that ILFML would be justified in proceeding to implement the Proposal. Status: The Second Judicial Advice will be sought on or around 22 August 2018.</p> <p>j. (Independent Expert's Report) The Independent Expert does not change its conclusion that the Proposal is in the best interests of IOF Unitholders or withdraw its report prior to the Meeting. Status: Satisfied as at the date of this Explanatory Memorandum.</p> <p>k. (Execution of Deed Poll) The Acquirer signs and delivers the Deed Poll. Status: Satisfied as at the date of this Explanatory Memorandum.</p> <p>l. (Acquirer Funding) The Acquirer's warranty that it has a reasonable basis to expect that it will, by the business day prior to the Implementation Date, have funds sufficient to perform its obligations if the Proposal becomes Effective, is true and correct on the Second Judicial Advice Date. Status: Satisfied as at the date of this Explanatory Memorandum.</p>
Exclusivity	<p>The SIA contains various exclusivity provisions (as outlined below) that regulate the actions, discussions and negotiations that ILFML may have with respect to any Competing Proposal, being any actual or proposed proposal, agreement, arrangement or transaction where a third party would acquire a relevant interest in 20% or more of the IOF units, acquire Control of IOF, acquire an interest in a substantial or material part of IOF's business, merge with IOF or require ILFML to abandon the Proposal.</p> <p>No existing discussions</p> <p>Under the SIA, ILFML represented and warranted that, as at the date of the Implementation Agreement:</p> <ul style="list-style-type: none"> • there were no current negotiations or discussions relating to any actual, proposed or potential Competing Proposal; and • no confidential information had been provided to a third party since 1 January 2018 under a confidentiality agreement in relation to an actual, proposed or potential Competing Proposal. <p>No shop</p> <p>ILFML and its Representatives must not directly or indirectly solicit, invite, encourage or initiate enquiries, negotiations or discussions with a view to obtaining a Competing Proposal, or expression of interest in relation to a Competing Proposal.</p> <p>No talk</p> <p>Subject to the fiduciary exception discussed below, ILFML and its Representatives must not participate or enter into in negotiations or discussions in relation to a Competing Proposal or any arrangement, agreement or understanding that may be reasonably expected to lead to a Competing Proposal.</p> <p>No due diligence</p> <p>Subject to the fiduciary exception discussed below, ILFML and its Representatives, must not enable, disclose, make available or permit the disclosure of, any non-public information relating to IOF or enable a third party to undertake due diligence investigations on their businesses or operations, in connection with a Competing Proposal.</p> <p>Notification of approaches</p> <p>Subject to the fiduciary exception discussed below, ILFML must promptly notify the Acquirer, and in any event within 24 hours of becoming aware of any:</p> <ul style="list-style-type: none"> • bona fide, written Competing Proposal received by ILFML or its Representatives, including the identity of the person making the actual, proposed or potential Competing Proposal and the material terms and conditions of that Proposal; and • provision by ILFML or its Representatives of any non-public information concerning the business or operations of IOF.

8. Additional Information

Topic	Summary
Exclusivity <i>continued</i>	<p>Matching right</p> <p>The Acquirer has 4 business days in which to match any bona fide written Competing Proposal which the ILFML Board considers to be a Superior Proposal.</p> <p>The ILFML Board must not change its recommendation in favour of the Proposal unless the Acquirer has been given the right to match and has chosen not to exercise that right.</p> <p>Fiduciary exception</p> <p>ILFML's no talk, no due diligence and notification of approach obligations are subject to a fiduciary carve-out. This means that those obligations do not apply to the extent that they restrict ILFML from taking or refusing to take any action with respect to a Competing Proposal where the ILFML Board has determined, in good faith and acting reasonably that:</p> <ul style="list-style-type: none"> • such a Competing Proposal is, or could reasonably be considered to become, a Superior Proposal, after consultation with its financial advisors; and • after receiving legal advice from its external legal advisers that failing to take action or respond to such a proposal would be likely to constitute a breach of the ILFML directors' fiduciary or statutory obligations.
Board recommendation	<p>ILFML is required to procure that the ILFML Board maintain their recommendation that IOF Unitholders vote in favour of the Proposal Resolutions in the absence of a Superior Proposal and subject to the Independent Expert concluding that the Proposal is in the best interests of IOF Unitholders.</p> <p>The ILFML Board may only change, withdraw or qualify their recommendation in favour of the Proposal if:</p> <ul style="list-style-type: none"> • the Independent Expert concludes that the Proposal is not in the best interests of IOF Unitholders; or • there is a Superior Proposal, <p>and the ILFML Board, after considering the matter in good faith and taking advice from its legal and financial advisers no longer considers the Proposal to be in the best interests of IOF Unitholders.</p>
Termination rights	<p>Mutual termination rights</p> <p>Either the Acquirer or ILFML may terminate the Implementation Agreement if:</p> <ul style="list-style-type: none"> • (Conditions Precedent) the Conditions Precedent are not satisfied or waived (as applicable); • (material breach) the other party is in material breach of its obligations, representations or warranties, which breach is not remedied within 5 business days (or any such shorter period before the Second Judicial Advice Date) of receiving notice of the breach; • (not Effective) the Proposal has not become Effective on or before the End Date; or • (no approval by IOF Unitholders) the Proposal Resolutions are not approved by the requisite majority at the Meeting. <p>Acquirer termination rights</p> <p>The Acquirer may terminate the Implementation Agreement if:</p> <ul style="list-style-type: none"> • (Board recommendation) the ILFML Board fails to recommend the Proposal or any ILFML director withdraws or adversely revises their recommendation that IOF Unitholders vote in favour of the Proposal or otherwise makes a public statement it no longer supports the Proposal; or • (Competing Proposal) ILFML enters into an agreement to implement a Competing Proposal. <p>ILFML termination rights</p> <p>ILFML may terminate the Implementation Agreement if the majority of the ILFML Board publicly changes or withdraws its recommendation that IOF Unitholders vote in favour of the Proposal, or publicly recommends, promotes or otherwise endorses a Superior Proposal, and ILFML has complied with its exclusivity obligations and obligations to pay a break fee (if applicable).</p>

Topic	Summary
Break Fee	<p data-bbox="424 389 751 416">When break fee is payable</p> <p data-bbox="424 427 1422 454">Subject to the exceptions outlined below, a break fee of \$20 million is payable by ILFML if:</p> <ul data-bbox="424 465 1503 1104" style="list-style-type: none"> <li data-bbox="424 465 1503 584">• (Competing Proposal) a Competing Proposal is notified to the Acquirer or announced before the earlier of (i) the Second Judicial Advice Date; and (ii) the termination of the Implementation Agreement, and the Competing Proposal is completed within 12 months of the date of the Implementation Agreement. <li data-bbox="424 595 1503 853">• (Change of recommendation) any ILFML director fails to recommend the Proposal or withdraws their recommendation except where the change was made after: <ul style="list-style-type: none"> <li data-bbox="448 667 1422 752">– the Independent Expert concluding that the Proposal is not in the best interests of IOF Unitholders other than where the conclusion is due wholly or in material part to the existence, announcement or publication of a Competing Proposal; or <li data-bbox="448 763 1461 853">– ILFML has terminated the Implementation Agreement due to the material breach by the Acquirer of its obligations or warranties, or due to the Proposal not being approved by the requisite majority of IOF Unitholders at the Meeting. <li data-bbox="424 864 1503 1104">• (Termination by Acquirer) the Acquirer has validly terminated the Implementation Agreement due to: <ul style="list-style-type: none"> <li data-bbox="448 936 1477 992">– a material breach by ILFML of its obligations or warranties which has continued to exist for 5 Business Days; <li data-bbox="448 1003 1503 1059">– any ILFML director withdrawing or qualifying their recommendation in favour of the Proposal or otherwise making a public statement that they no longer support the Proposal; or <li data-bbox="448 1070 1254 1104">– ILFML entering into an agreement to implement a Competing Proposal. <p data-bbox="424 1133 962 1160">Exceptions – when break fee is not payable</p> <p data-bbox="424 1171 743 1198">The break fee is not payable:</p> <ul data-bbox="424 1209 1503 1384" style="list-style-type: none"> <li data-bbox="424 1209 826 1236">• if the Proposal becomes Effective; <li data-bbox="424 1247 1441 1274">• merely by reason that the Proposal is not approved by IOF Unitholders at the Meeting; and <li data-bbox="424 1285 1503 1384">• to the extent that payment of the break fee is finally determined by the Takeovers Panel or a court to be unlawful, involve a breach of the fiduciary or statutory duties of the ILFML Board, or constitute unacceptable circumstances within the meaning of the Corporations Act.
Conduct of business	<p data-bbox="424 1397 1441 1458">ILFML is subject to conduct of business obligations applying until the Implementation Date, including that:</p> <ul data-bbox="424 1469 1449 1597" style="list-style-type: none"> <li data-bbox="424 1469 1449 1554">• the business and operations of IOF are conducted in the ordinary course and consistent with the manner conducted in the 12 month period prior to the date of the Implementation Agreement; and <li data-bbox="424 1565 1398 1597">• the Acquirer is notified of any material developments concerning IOF or its properties. <p data-bbox="424 1619 935 1646">ILFML is not restricted from taking any action:</p> <ul data-bbox="424 1657 1490 1951" style="list-style-type: none"> <li data-bbox="424 1657 1254 1688">• required or permitted by the Implementation Agreement or the Proposal; <li data-bbox="424 1700 994 1731">• which has been agreed in writing by the Acquirer; <li data-bbox="424 1742 1490 1803">• which has been fairly disclosed in the due diligence material provided to the Acquirer as being actions that IOF may carry out prior to the Implementation Date; <li data-bbox="424 1814 1469 1874">• which has been fairly disclosed in ILFML’s announcements to ASX or documents lodged with ASIC prior to the date of the Implementation Date; <li data-bbox="424 1886 927 1917">• to avoid an IOF Material Adverse Change; or <li data-bbox="424 1928 1110 1951">• required by law, an order of a court or a Government Agency.
Representations and warranties	Each of ILFML and the Acquirer has given representations and warranties to the other which are customary for an agreement of this kind.

8. Additional Information

Topic	Summary
Acquirer limitation of liability	<p>The sole and absolute liability of the Acquirer to ILFML in respect of any breach of any term of the Implementation Agreement is limited to \$75 million in aggregate (the Cap). The Blackstone Funds have provided a limited guarantee to IOF (acting through ILFML) for the payment of any breaches of the Acquirer indemnification obligations under the Implementation Agreement, up to the maximum aggregate \$75 million amount. For the avoidance of doubt, the Cap does not limit the obligation on the Acquirers to pay the Proposal Consideration in accordance with the Proposal and the Supplemental Deeds Poll on the Implementation Date.</p> <p>It is acknowledged by ILFML that:</p> <ol style="list-style-type: none"> such obligation is conditional on and subject to the Proposal becoming Effective; and no liability of the Acquirer will arise under the Supplemental Deeds Poll until the Proposal becomes Effective.

8.4 Pre-emptive rights in respect of IOF's portfolio

a. Bond Street Co-Owner Agreement

Under the terms of the Bond Street Co-Owner Agreement, the co-owner of IOF's 10-20 Bond Street property has a pre-emptive right that can be triggered when there is a prohibited disposal which occurs without the co-owner's consent. A prohibited disposal includes a change in control of IOF. The acquisition of all of the IOF Units by the Acquirer under the Proposal without the consent of the co-owner would constitute a prohibited disposal.

If pre-emptive rights are triggered under the Bond Street Co-Owner Agreement, an independent valuation must be undertaken to determine the net proceeds of a sale. Once determined, IOF's co-owner may purchase IOF's share of the property at the determined price on prescribed sale conditions.

The Acquirer intends to seek the consent of the co-owner under the Bond Street Co-Owner Agreement to implement the Proposal.

b. George Street Co-Owner Agreement

Under the George Street Co-owner Agreement, a default can occur in favour of a co-owner where there is a prohibited disposal. Prohibited disposals arise from a change of responsible entity of IOF or a change of control of IOF which occurs when IOF is no longer listed on ASX.

The Proposal is not expected to trigger a default under the George Street Co-owner Agreement as the acquisition of the IOF Units by the Acquirer is to occur on the Implementation Date before delisting of IOF.

c. Other Co-Ownership Agreements

Acquisition of all of the IOF Units by the Acquirer under the Proposal is not expected to trigger any pre-emptive rights under other co-ownership agreements in respect of other properties which are co-owned by IOF.

8.5 Change of control consequences under IOF financing arrangements

Under the Implementation Agreement, ILFML is required to work in good faith with the Acquirer (on its reasonable request) on IOF's existing financing arrangements, including seeking all relevant consents and waivers and cooperating in the Acquirer's efforts to prepay, and to minimise the cost of prepaying, bonds issued by the IOF Group. An overview of the change of control consequences arising under IOF's debt arrangements in the context of the Proposal is set out below.

a. USPP

ILFML as responsible entity of the AJO Fund and the PCP Trust has entered into documentation for the issuance of private placement notes.

Impact of Proposal

Under the terms of the USPP note documentation:

- a change of control of IOF constitutes a review event;
- the de-stapling of AJO Units from PCP Units is a review event; and
- amendment to the IOF Constitutions in a manner that would have a material adverse effect (as defined in the USPP note documentation) is an event of default.

Consequences of a review event

If there is a review event, the issuer must offer to prepay the USPP notes at 100% of their principal amount, together with interest accrued to the prepayment date.

Consequences of an event of default

If there is an event of default, noteholders can accelerate repayment of the notes and the issuer must repay the notes (including all accrued and unpaid interest) as well as a 'make whole amount', which is calculated by discounting remaining cash flows by US Treasuries + 50 bps.

b. Green Bond MTN Programme Series Two

The medium term note (*MTN*) programme is a debt programme entered into by ILFML as responsible entity of the AJO Fund and the PCP Trust under which ILFML has issued notes.

Impact of Proposal

Under the terms of the MTN documentation:

- a change of control of IOF does not constitute a review event or event of default;
- the de-stapling of AJO Units from PCP Units does not constitute a review event or event of default; and
- amendment to the IOF Constitutions in a manner that would have a material adverse effect (as defined in the MTN documentation) is an event of default.

Consequences of an event of default

If there is an event of default, the noteholders can accelerate repayment and the issuer must pay the principal amount outstanding on the notes plus accrued interest.

c. Common Terms Deed**Impact of Proposal**

Under the Common Terms Deed:

- a change of control of IOF constitutes a review event;
- the de-stapling of AJO Units from PCP Units is a review event; and
- amendment to the IOF Constitutions in a manner that would have a material adverse effect is an event of default.

Consequences of a review event

If a review event is continuing, each lender may require IOF to negotiate amendments to their finance documents. If agreement is not achieved within 30 days, the lender may by 60 days' notice:

- cancel all or part of the total commitments;
- declare that all or part of the loans, together with accrued interest, and all other amounts accrued or outstanding under the relevant finance documents be due and payable; and/or
- declare that all or part of the loans be payable on demand.

There are no make-whole or other penalties payable if a demand is made following a review event but if payment is made on a date other than the last day of the relevant interest period, break costs may be payable.

Consequences of an event of default

If an event of default is continuing, the lenders can accelerate and require immediate repayment of amounts outstanding under the finance documents.

8.6 Deemed warranty on transfer of IOF Units to Acquirer

Under the changes to the IOF Constitutions to be effected through the Supplemental Deeds Poll, Proposal Participants are taken to have warranted to the Acquirer, and have authorised ILFML to warrant, to the Acquirer, that:

- a. all of their IOF Units (including any rights and entitlements attaching to those securities) will, at the date of transfer to the Acquirer, be fully paid and free from encumbrances; and
- b. they have full power and capacity to sell and to transfer their IOF Units (including any rights and entitlements attaching to those securities) to the Acquirer under the Proposal.

8. Additional Information

8.7 Appointment of ILFML as attorney and agent for Proposal Participants

Under the changes to the IOF Constitutions to be effected through the Supplemental Deeds Poll, and subject to the provision of the Proposal Consideration, on and from the Implementation Date until ILFML registers the Acquirer as the holder of the IOF Units in the IOF Register, each Proposal Participant irrevocably appoints ILFML as attorney and agent (and directs ILFML in such capacity to appoint the Acquirer and each of its directors from time to time, jointly and each of them individually) as its sole proxy, and where applicable, corporate representative, to attend unitholder meetings, exercise the votes attaching to IOF units registered in its name, and sign any unitholder resolution.

Under clause 19 of the IOF Constitutions, ILFML has the power to do all things which it considers are necessary, desirable or reasonably incidental to effect the Proposal.

8.8 Regulatory consents

a. ASX

ILFML has applied for, and ASX has granted, confirmation that it does not object to the proposed amendments to the IOF Constitutions or the Explanatory Memorandum under ASX Listing Rule 15.1.

b. ASIC

On behalf of the Acquirer, ILFML has sought, and ASIC has granted:

- i. a modification to the Corporations Act to enable all Proposal Participants (other than those excluded from voting) to vote on the Proposal Resolutions pursuant to item 7 of section 611 of the Corporations Act; and
- ii. an exemption from any requirement for the Acquirer to comply with Division 5A of Part 7.9 of the Corporations Act in relation to the proposed offer to acquire IOF Units under the Proposal.

ILFML has also applied for, and ASIC has granted, an exemption in favour of ILFML under Division 2 of Part 7.7 of the Corporations Act from the requirement to provide a financial services guide in connection with this Explanatory Memorandum.

8.9 Summary of First Judicial Advice

At the First Judicial Advice hearing on 24 July 2018, the Court made orders that:

- a. ILFML would be justified in:
 - i. convening a meeting of IOF Unitholders to consider, and if thought fit, approve the Proposal Resolutions;
 - ii. distributing the Explanatory Memorandum; and
 - iii. proceeding on the basis that the proposed amendments to the IOF Constitutions would be within the powers of alteration conferred by section 601GC of the Corporations Act; and
- b. ILFML's costs arising out of and incidental to obtaining the First Judicial Advice and the Second Judicial Advice be paid out of the assets of the AJO Fund and the PCP Trust respectively pursuant to ILFML's right of indemnity.

The Second Judicial Advice hearing is expected to take place on 22 August 2018.

8.10 Consents to be named

The following persons have given, and have not, before the date of issue of this Explanatory Memorandum, withdrawn their consent to be named in this Explanatory Memorandum in the form and the context in which they are named:

a. The Acquirer

The Acquirer has given its written consent to the inclusion of the Acquirer Group Information, and the references to that information in the form and context in which it is included in this Explanatory Memorandum and has not, before the date of issue of this Explanatory Memorandum, withdrawn such consent.

b. KPMG Corporate Finance as the Independent Expert

KPMG Corporate Finance as Independent Expert has given its written consent to the inclusion of the Independent Expert's Report in Schedule 2 of this Explanatory Memorandum, and references to the Independent Expert's Report in the form and context in which they are included in this Explanatory Memorandum and has not, before the date of issue of this Explanatory Memorandum, withdrawn such consent.

c. Allens in relation to the Taxation Report

Allens has prepared the Taxation Report and has given its written consent to the inclusion of that report in Section 7 of this Explanatory Memorandum and has not, before the date of issue of this Explanatory Memorandum, withdrawn such consent.

- d. Link Market Services Limited as IOF's security registrar;
- e. Allens as IOF's legal adviser;
- f. J.P. Morgan Australia Limited as IOF's financial adviser;
- g. PricewaterhouseCoopers as IOF's auditor; and
- h. PricewaterhouseCoopers Securities Limited as IOF's accounting adviser.

Other than as specifically outlined above, each party referred to in this Section 8.10 has not caused or authorised the issue of this Explanatory Memorandum and does not make or purport to make any statement in this Explanatory Memorandum or any statement on which a statement is based, and takes no responsibility for any part of this Explanatory Memorandum other than any reference to its name.

8.11 Supplementary Information

To the extent required by the Listing Rules, the Corporations Act or any other applicable law, ILFML will issue a supplementary document to this Explanatory Memorandum if it becomes aware of any of the following between the date of this Explanatory Memorandum and the date of the Meeting:

- a. a material statement in this Explanatory Memorandum is or becomes false or misleading;
- b. a material omission from this Explanatory Memorandum;
- c. a significant change affecting a matter included in this Explanatory Memorandum; or
- d. a significant new matter has arisen and it would have been required to be included in this Explanatory Memorandum if it had arisen before the date of this Explanatory Memorandum.

Depending on the nature and timing of the changed circumstances and subject to obtaining any relevant approvals, ILFML may circulate and publish the supplementary document by any or all of:

- e. placing an advertisement in a prominently published newspaper that is circulated in Australia;
- f. posting the supplementary document on IOF's website;
- g. making an announcement or ASX; or
- h. issuing a supplementary document.

8.12 No other information

Other than as contained in this Explanatory Memorandum, there is no information within the knowledge of any member of the ILFML Board that is material to the making of a decision in relation to the Proposal to be voted on by IOF Unitholders, and that has not been previously disclosed to IOF Unitholders.

Glossary and Interpretation



9.1 Definitions

In this Explanatory Memorandum unless the context otherwise appears, the following terms have the meanings shown below:

Term	Meaning
A-Grade	has the meaning given in the PCA's 'A Guide to Office Building Quality', and other grades such as 'B-Grade' are similarly given the meaning given in the PCA's 'A Guide to Office Building Quality'.
Acquirer	as the context requires, BidCo and/or Bid Trust.
Acquirer Group	each Acquirer and its Related Bodies Corporate.
Acquirer Group Information	the information provided by the Acquirer for inclusion in this Explanatory Memorandum and for which the Acquirer is responsible, being Rows 24, 25, 26, 30 and 36 (to the extent relating to the intentions of the Acquirer) of Section 1, Section 5, references to the awareness of the Acquirer in relation to the status of the Conditions Precedent in Section 8.3, the intentions of the Acquirer described in Section 8.4(a), the definitions of Blackstone and Blackstone Funds in Section 9, and any references to such information above in the form and context in which they are included in this Explanatory Memorandum.
Acquirer Group Member	a member of the Acquirer Group.
AJO Constitution Amendment Resolution	Resolution 3 in the Notice of Meeting and is summarised in Section 3.4 of this Explanatory Memorandum.
AJO De-Stapling Resolution	Resolution 5 in the Notice of Meeting and is summarised in Section 3.4 of this Explanatory Memorandum.
AJO Fund	Armstrong Jones Office Fund (ARSN 090 242 229).
AJO Supplemental Deed Poll	the deed poll to be entered into by ILFML amending the constitution of AJO Fund pursuant to section 601GC(1) as set out in Schedule 4 of this Explanatory Memorandum.
AJO Trust Acquisition Resolution	Resolution 1 in the Notice of Meeting and is summarised in Section 3.4 of this Explanatory Memorandum.
AJO Unit	an ordinary unit in the AJO Fund.
ASIC	the Australian Securities and Investments Commission.
Associate	has the meaning set out in section 12 of the Corporations Act.
ASX	ASX Limited or Australian Securities Exchange, as appropriate.
ATO	the Australian Taxation Office.
bps	a unit of measure for interest rates and other percentages where one basis point is equal to 1/100th of 1%, or 0.01% (0.0001).
BidCo	Quartz BidCo Pty Ltd (ACN 626 431 927).
Bid Trust	the Quartz Bid Trust, the trustee of which is the Bid Trustee.
Bid Trustee	Quartz Sub TC Pty Ltd (ACN 626 431 963).
Blackstone	The Blackstone Group L.P. or entities which are ultimately owned and/or controlled by The Blackstone Group L.P.

9. Glossary and Interpretation

Term	Meaning
Blackstone Funds	<ul style="list-style-type: none"> a. BREP Asia II Quartz Holdings NQ LP, an English Limited Partnership, which is a collective investment scheme under the UK Financial Services and Markets Act 2000; and b. the funds commonly known as Blackstone Real Estate Partners VIII and Blackstone Real Estate Partners Asia II.
Bond Street Co-Owner Agreement	the Co-Owners Deed in respect of 20 Bond Street Sydney dated 29 July 2004 (as amended and novated from time to time).
Business Day	a day not being a Saturday, Sunday or a public holiday in Sydney, New South Wales.
Cap	the cap under clause 9.7 of the Implementation Agreement where the sole and absolute liability of the Acquirer to ILFML in respect of any breach of any term of the Implementation Agreement is limited to \$75 million in aggregate.
Cap Rate	market capitalisation rate, being the fully leased market rental of a property divided by the property's value prior to adjustments for near term leasing and capital allowances. The weighted average is calculated as the average, determined by the proportion of each property (excluding 151 Clarence Street) having regard to its value relative to the total value of all properties (excluding 151 Clarence Street) in the portfolio. 151 Clarence Street is not included in the Cap Rate calculation as the property is still under construction.
CBD	central business district.
CGT	Australian capital gains tax.
CHESS	the Clearing House Electronic Sub-register System for the electronic transfer of securities and other financial products operated by ASX Settlement Pty Limited (ACN 008 504 532).
Competing Proposal	<p>any actual or proposed proposal, agreement, arrangement or transaction (whether by way of takeover bid, scheme of arrangement, capital reduction, sale of assets, sale or issue of securities, joint venture or otherwise), which, if entered into or completed, would mean:</p> <ul style="list-style-type: none"> a. a Third Party (other than ICPF pursuant to a transaction permitted by item 9 of section 611 of the Corporations Act), either alone or together with any other person, would directly or indirectly acquire a Relevant Interest in, or have a right to acquire, a legal, beneficial, or economic interest in, or control of, or the right to vote, 20% or more of IOF Units; b. a Third Party (either alone or together with any other person) would: <ul style="list-style-type: none"> i. acquire Control of IOF; ii. directly or indirectly acquire or obtain a right to acquire, a legal, beneficial or economic interest in, or control of, all or a substantial part or material part of all of the business or assets of IOF; iii. otherwise directly or indirectly acquire or merge with IOF; or iv. require ILFML to abandon, or otherwise fail to proceed with, the Proposal or any part of the Proposal, and <p>in each case, includes a variation or modification of an earlier Competing Proposal.</p>
Conditions Precedent	the conditions to the implementation of the Proposal summarised in Sections 3.2 and 8.3 of this Explanatory Memorandum.
Constitution	as relevant, the constitutions of the AJO Fund and/or the PCP Trust.
Control	has the meaning given by section 50AA of the Corporations Act.
Controlled Entity	in relation to any Entity, another entity which is a Subsidiary of it, or which is Controlled by it.
COO	chief operating officer.

Term	Meaning
Corporations Act	the <i>Corporations Act 2001</i> (Cth).
Court	the Supreme Court of New South Wales or such other court of competent jurisdiction agreed to in writing by ILFML, BidCo and Bid Trust.
Deed Poll	the Deed Poll in the form attached as Schedule 3 to this Explanatory Memorandum.
De-Stapling Resolutions	means the AJO De-Stapling Resolution and the PCP De-Stapling Resolution.
Directors	the directors of ILFML, being external directors within the meaning of section 601JA(2) of the Corporations Act, which are all of the directors listed in Section 8.
Distribution Record Date	29 June 2018.
Effective	when the Proposal comes into effect, which will be when the Supplemental Deeds Poll are executed and lodged with ASIC which will be as soon as practicable after the Second Judicial Advice Date but in any event, no later than 4pm on the first Business day after that date, or such other date as ILFML and the Acquirer agree.
Effective Date	the date on which the Proposal becomes Effective (expected to be 22 August 2018).
End Date	12 December 2018 or another date agreed in writing by BidCo, Bid Trust and ILFML.
Entity	includes a natural person, a body corporate, a partnership, a trust and the trustee of a trust.
Exclusivity Period	the period from and including the date of the Implementation Agreement to the earlier of: <ul style="list-style-type: none"> • the termination of the Implementation Agreement in accordance with its terms; • the Implementation Date; or • the End Date.
Explanatory Memorandum	this explanatory memorandum, including the attachments to it.
FIRB	Foreign Investment Review Board.
First Judicial Advice	the confirmation obtained by ILFML from the Court confirming, amongst other things, that ILFML would be justified in convening the Meeting.
First Judicial Advice Date	the date on which the First Judicial Advice was received.
Funds from Operations (or FFO)	Property Council Funds from Operations defined as IOF's underlying and recurring earnings from its operations, determined by adjusting statutory net profit (under Australian equivalent to the International Financial Reporting Standards) for non-cash and other items such as the amortisation of tenant incentives and rent free periods, fair value gains / losses on investment property, fair value gains / losses on the mark to market of derivatives, the straight-lining of rent, non-FFO deferred tax benefits and expenses, foreign currency translation reserves recognised in net profit, and any other unrealised or one-off items.
FY17	2017 financial year (and the same rule applies for other financial years referred to in this Explanatory Memorandum).
George Street Co-Owner Agreement	Co-Owners' Agreement in respect of 388 George Street dated 5 November 2003 (as amended and novated from time to time).
Government Agency	any government or governmental, semi-governmental, administrative, political, fiscal or judicial body, department, commission, authority, tribunal, agency or entity, or any minister of the Crown in right of the Commonwealth of Australia or any State, and any other federal, state, provincial, or local government of any country.

9. Glossary and Interpretation

Term	Meaning
GST	Australian goods and services tax.
Holding Company	has the meaning given in the Corporations Act, but as if references to: <ol style="list-style-type: none"> 'body corporate' were to 'Entity'; and 'subsidiaries' include Subsidiaries as defined in this document.
ICPF	the Investa Commercial Property Fund (ARSN 103 041 505) acting through its responsible entity, IWFML.
ICPF Holdings	ICPF Holdings Limited (ACN 610 989 805).
ILFML	Investa Listed Funds Management Limited (ACN 149 175 655) in its capacity as responsible entity of IOF or any replacement of it from time to time.
ILFML Board	the board of directors of ILFML or a committee of that board.
Implementation Agreement	the implementation agreement dated 12 June 2018 between ILFML and the Acquirer relating to the implementation of the Proposal and summarised in Section 8.3 of this Explanatory Memorandum.
Implementation Date	the date that the Proposal is implemented, being the third Business Day following the Record Date or such other date as ILFML, BidCo and Bid Trust agree in writing (expected to be 5 September 2018).
Independent Expert	KPMG Corporate Finance.
Independent Expert's Report	the report in respect of the Proposal prepared and issued by the Independent Expert for inclusion in the Explanatory Memorandum (or any update or variation to that report). A copy of the Independent Expert's Report is contained in Schedule 2 of this Explanatory Memorandum.
Investa Property Group	the stapled group comprising ICPF and ICPF Holdings, and including (where the context requires) each of their Controlled Entities.
IOF	Investa Office Fund, which comprises the AJO Fund and the PCP Trust.
IOF Constitutions	the constitutions of the AJO Fund and PCP Trust from time to time and IOF Constitution means both or either of them (as the context requires).
IOF Group	IOF and each of its and each of its Controlled Entities (which, for this purpose, is a reference to an Entity that is a Controlled Entity of ILFML by reason of the fact that ILFML is the responsible entity of IOF and IOF Group Member means any member of the IOF Group).
IOF Material Adverse Change	has the meaning given in the Implementation Agreement, which is summarised below: One or more events, changes or circumstances occurring between the date of the Implementation Agreement and 8am on the Second Judicial Advice Date which, whether individually or when aggregated with like events, changes or circumstances, are reasonably likely to have, a negative impact (excluding mark to market movements relating to investment properties, financial derivatives, hedge accounted interest bearing liabilities and foreign exchange rates) on the net tangible assets of IOF of at least \$150 million or on recurring FFO of at least \$12.5 million, other than events, changes or circumstances: <ol style="list-style-type: none"> expressly required or permitted by the Implementation Agreement, the Proposal, or the transactions contemplated by either; done or not done at the written request or with the written acknowledgement and approval of the Acquirer; resulting from changes in generally accepted accounting principles; arising from a change in law or governmental policy;

Term	Meaning
IOF Material Adverse Change <i>continued</i>	<p>e. arising from changes in economic or business conditions or securities markets in general; or</p> <p>f. fairly disclosed in an announcement by ILFML to ASX or lodged in a document with ASIC, prior to the date of the Implementation Agreement or in the due diligence material, including as set out in the budget for FY19 disclosed to the Acquirer,</p> <p>but in respect of paragraphs (c), (d), and (e), in each case excluding any change, event, occurrence, circumstance or matter which has a disproportionate adverse effect on IOF, taken as a whole as compared to other participants in the principal business segments in which IOF operates.</p>
IOF Prescribed Occurrences	<p>has the meaning given in the Implementation Agreement, which is summarised below:</p> <ol style="list-style-type: none"> a. (conversion) IOF converts all or any of its securities into a larger or smaller number of securities or a resolution is passed to do so; b. (reduction of capital) IOF reduces or resolves to reduce its capital in any way or resolves to do any of the preceding; c. (redemption) IOF redeems any IOF Units or resolves to redeem any IOF Units; d. (buy back) IOF buys back or agrees to buy back any IOF Units; e. (issuing units or options) IOF issues securities or grants an option over its securities, or agrees to make such an issue or grant such an option; f. (convertible securities) IOF issues or agrees to issue convertible notes or other security or instrument convertible into its securities; g. (encumbrances) IOF creates, or agrees to create, any encumbrance over any of its business or assets; h. (actions or events) any member of the IOF Group (acting through its respective trustee) enters into, amends, discharges a liability under (other than in accordance with its terms and consistently with past practice), or waives any material claim under a contract, arrangement or understanding, other than: <ol style="list-style-type: none"> i. subject to paragraph (ii), any event, action, plan, intention or proposal: <ol style="list-style-type: none"> A. as set out in the its budget for FY19 as disclosed to the Acquirer; B. within the delegation authority disclosed to the Acquirer; or C. which is fairly disclosed in the due diligence materials provided to the Acquirer; ii. provided that ILFML has, prior to the relevant action, consulted with the Acquirer in good faith, anything: <ol style="list-style-type: none"> D. which does not fall within the disclosed delegation authority and must be referred to the ILFML Board (including all related party transactions), even where the relevant matter is provided for in the FY19 budget; or E. in relation to the properties located at 388 George Street, Sydney or 347 Kent Street, Sydney where the relevant matter is outside the valuation and feasibility work for such projects as fairly disclosed in the due diligence material provided to the Acquirer. i. (Co-owned Sub-Trusts) the termination, variation, amendment, or exercise of rights by ILFML or any IOF Group Member, without the prior written consent of the Acquirer, under: <ol style="list-style-type: none"> i. a co-ownership or joint venture agreement in relation to a co-owned sub-trust or the property which is owned by the relevant co-owned sub-trust; or ii. the constitution of any co-owned sub-trust.

9. Glossary and Interpretation

Term	Meaning
IOF Prescribed Occurrences <i>continued</i>	<p>j. (termination of contracts, arrangements or understandings) any IOF Group Member terminates:</p> <ul style="list-style-type: none"> i. any lease which represents greater than 2% of the gross income of the relevant property without the prior written consent of the Acquirer; or ii. any supply contract, arrangement or understanding, pursuant to which the IOF Group is, or is reasonably likely to incur, a liability of more than \$500,000 in any one year, other than: <ul style="list-style-type: none"> A. in the ordinary course of IOF's business; and B. provided that the contract, undertaking or arrangement or understanding may be terminated by IOF on no more than 30 days' notice without any penalty or payment required as a result of such termination; <p>k. (arrangements with the manager) any member of the IOF Group enters into or amends any contract or commitment (or any series of related contracts or commitments) which involve IOM, Investa Office Management Holdings Pty Ltd, Investa Asset Management Pty Ltd, Investa Asset Management (QLD) Ltd, Investa Property Group Holdings Pty Ltd or any of their Related Bodies Corporate;</p> <p>l. (insolvency) ILFML or any member of the IOF Group or any co-owned sub trust becomes the subject of an insolvency event, other than in respect of IOF Finance Pty Ltd (ACN 099 531 585), the Belconnen Trust (ABN 38 819 083 520) or the Toorak Road Toorong Trust (ABN 61 653 004 425);</p> <p>m. (constitution) ILFML modifies, repeals or replaces the IOF Constitutions (or any provision of those constitutions) or the constitution of any other IOF Group Member, or the constitution of ILFML or the trustee of any IOF Group Member (or any provision of those constitutions), or a unitholder meeting is convened to consider any such modification, repeal or replacement;</p> <p>n. (distributions) IOF agrees to pay, declares, pays or makes, or incurs a liability to pay or make, a distribution of income, profits, assets or capital to any entity;</p> <p>o. (trusts) ILFML ceases to be the responsible entity of IOF or steps are taken to remove ILFML as responsible entity of IOF, including a meeting being convened to consider a resolution for the removal, retirement or replacement of ILFML as responsible entity of IOF;</p> <p>p. (indemnity) ILFML (or its Representatives) doing or failing to do anything that could restrict ILFML's right of indemnity from the trust property of IOF in respect of the obligations incurred by ILFML under the documents to which it is a party;</p> <p>q. (termination) ILFML (or its Representatives) effects or facilitates the termination or winding up of IOF or any IOF Group Member or any co-owned sub trust;</p> <p>r. (resettlement) ILFML (or its Representatives) effects or facilitates the resettlement of the trust property of IOF;</p> <p>s. (delisting and extended suspension) IOF ceases to be admitted to the official list of ASX or IOF Units cease to be quoted by ASX or IOF is suspended from trading by ASX for a consecutive period of more than 2 weeks;</p> <p>t. (deregistration) any IOF Group Member or any co-owned sub trust becomes or takes steps to become deregistered as a registered managed investment scheme or is otherwise dissolved;</p> <p>u. (financial accommodation) any IOF Group Member enters into a new loan, advance or financing arrangement (other than with another IOF Group Member), or guarantees or indemnifies the obligations of any other person other than an IOF Group Member, or amends (or waives any right under) any existing financing arrangements;</p>

Term	Meaning
IOF Prescribed Occurrences <i>continued</i>	<ul style="list-style-type: none"> v. (financing) in respect of any financing arrangement, agreement or instrument which any IOF Group Member has with any person, any IOF Group Member: <ul style="list-style-type: none"> i. breaches any covenant or makes any misrepresentation which is not remedied in accordance with the cure rights under the arrangement, agreement or instrument; ii. relies on any waiver or amendment to avoid the potential breach of any covenant or to avoid the making of any misrepresentation or to avoid an event of default or potential event of default occurring; iii. allows an event of default or potential event of default to occur which is not remedied in accordance with the relevant cure rights under the arrangement, agreement or instrument; iv. allows an obligation to pay any amount to be accelerated; or v. permanently reduces the amount of debt ahead of a maturity date; w. (derivative instruments) any IOF Group Member enters into any agreement, arrangement or transaction with respect to derivative instruments or similar instruments, except foreign currency hedges or interest rate hedges made to replace existing foreign currency or interest rate hedges in the ordinary course of business consistent with past practice and in accordance with existing policy as at the date of this agreement; x. (accounting policies) there is a change to the existing accounting policies of IOF other than required by law or the Australian Accounting Standards; y. (debt forgiveness) any IOF Group Member and any service providers acting on their behalf waive, forgive, settle or compromise claims that they have against any other person between the date of this agreement and the Implementation Date with an aggregate value in excess of \$500,000 compared to the full compensation due to IOF; z. (claim) a claim is brought against any IOF Group Member or any co-owned sub trust or in respect of a Property (other than a frivolous or vexatious claim) which will or is likely to involve criminal and/or non-monetary penalties; aa. (ceases business) IOF, ILFML or any of their Controlled Entities ceases, or threatens to cease, to carry on business; bb. (division 6C) ILFML or the relevant sub-trustee approves or takes any action or makes any investment that could reasonably result in IOF or any member of the IOF Group commencing to carry on a trading business within the meaning of Division 6C of the <i>Income Tax Assessment Act 1936</i> (Cth) or controlling or having the ability to control, directly or indirectly the affairs or operations of another person in respect of the carrying on by that other person of a trading business (within the meaning of that Division); and cc. (resolutions) ILFML or its Representatives or any IOF Group Member (acting through its respective trustee) agrees or resolves to any of the foregoing, provided that an IOF Prescribed Occurrence will not include a matter: <ul style="list-style-type: none"> i. that is required to be undertaken or procured by pursuant to, or otherwise as contemplated by, the Implementation Agreement, the Supplemental Deed or the Deed Poll; ii. with the exception of (c) and (d) above, to the extent that it was fairly disclosed to the Acquirer in the due diligence material or in announcements to ASX made by IOF, prior to the date of the Implementation; or iii. approved in writing by the Acquirer.
IOF Register	the register of IOF Unitholders of IOF maintained by the IOF Registry in accordance with the Corporations Act.
IOF Registry	Link Market Services Limited (ACN 083 214 537).
IOF Unit	a stapled security in IOF consisting of one unit in the AJO Fund and one unit in the PCP Trust.

9. Glossary and Interpretation

Term	Meaning
IOF Unitholder	each person who is registered as the holder of an IOF Unit in the IOF Register (at the relevant time).
IOM	Investa Office Management Pty Limited (ACN 161 354 016).
IWFML	Investa Wholesale Funds Management Limited (ACN 149 681 390).
KPMG Corporate Finance	KPMG Financial Advisory Services (Australia) Pty Limited (ACN 007 363 215).
Last Practicable Trading Date	18 July 2018, being the last practicable trading date before the date of this Explanatory Memorandum.
Listing Rules	the official listing rules of ASX, as amended or replaced from time to time except to the extent of any express written waiver by ASX.
Meeting	the extraordinary general meeting of IOF Unitholders convened by the Notice of Meeting attached to this Explanatory Memorandum.
Meeting Date	the date on which the Meeting is held.
Net Lettable Area (or NLA)	total lettable floor area less common areas, in square metres.
Notice of Meeting	the notices of meeting relating to the Proposal Resolutions which is contained in Schedule 1.
NTA	net tangible asset value per security.
PCA	Property Council of Australia.
PCP Constitution Amendment Resolution	Resolution 4 in the Notice of Meeting and is summarised in Section 3.4 of this Explanatory Memorandum.
PCP De-Stapling Resolution	Resolution 6 in the Notice of Meeting and is summarised in Section 3.4 of this Explanatory Memorandum.
PCP Supplemental Deed Poll	the deed poll to be entered into by ILFML amending the constitution of PCP Trust pursuant to section 601GC(1) as set out in Schedule 4 of this Explanatory Memorandum.
PCP Trust	Prime Credit Property Trust (ARSN 089 849 196).
PCP Trust Acquisition Resolution	Resolution 2 in the Notice of Meeting and is summarised in Section 3.4 of this Explanatory Memorandum.
PCP Unit	an ordinary unit in the PCP Trust.
Premium Grade	has the meaning given in the PCA's 'A Guide to Office Building Quality'.
Pro Forma Financial Information	the pro-forma summary of key pro-forma financial performance measures for the year ending 30 June 2018 and the pro-forma statement of financial position as at 30 June 2018 as set out in Sections 4.6(a) and 4.6(b).
Pro Forma Unaudited NTA	means the pro forma unaudited NTA as at 30 June 2018 of \$5.47 per IOF Unit, as detailed in Section 4.6 of this Explanatory Memorandum.
Process Deed	the Process Deed dated 28 May 2018 between ILFML and Quartz Holding (NQ) Pte. Limited.

Term	Meaning
Proposal	the arrangement, the detailed terms of which are substantially set out in the Explanatory Memorandum, under which the Acquirer acquires all of the IOF Units from the Proposal Participants by way of a trust scheme to be implemented in accordance with Guidance Note 15, facilitated by the de-stapling of IOF units, amendments to the IOF Constitutions and a resolution pursuant to section 611 item 7 of the Corporations Act.
Proposal Consideration	for every IOF Unit, the cash payment of \$5.1485.
Proposal Participants	each person who is an IOF Unitholder at the Record Date.
Proposal Resolutions	the resolutions to be considered at the Meeting, as set out in the Notice of Meeting.
Proxy Form	the proxy form for the Meeting accompanying this Explanatory Memorandum.
Record Date	7.00pm on the fifth Business Day following the Effective Date, or such other date as agreed between the Acquirer and ILFML (expected to be 29 August 2018).
REIT	real estate investment trust.
Related Body Corporate	has the meaning given in the Corporations Act, but as if references to: <ul style="list-style-type: none"> a. 'body corporate' and 'body' were to 'Entity'; b. 'subsidiary' include Subsidiaries as defined in this document; and c. 'holding company' include Holding Companies as defined in this document.
Relevant Foreign Resident Declaration Form	the form to be sent with or following this Explanatory Memorandum to each IOF Unitholder which the Acquirer has determined is a 'relevant foreign resident'.
Relevant Interest	has the meaning given in sections 608 and 609 of the Corporations Act.
Representative	in relation to a person, means: <ul style="list-style-type: none"> a. a Controlled Entity of the person; or b. an officer of the person or any of the person's Controlled Entities; or c. an adviser to the person or the person's Controlled Entities.
Return on Equity	calculated as '(Change in NTA + total distributions declared)/opening NTA for the relevant period', with returns being annualised.
S&P	Standard & Poor's.
S&P/ASX 100 Index	S&P's index of the largest 100 vehicles listed on ASX by market capitalisation.
Second Judicial Advice	the confirmation obtained by ILFML from the Court confirming, amongst other things, that ILFML would be justified in proceeding to implement the Proposal.
Second Judicial Advice Date	the date on which the Second Judicial Advice is obtained (expected to be 22 August 2018).
sqm	square metre.
Stapling	the stapling of units in two or more separate trusts so that those may not be traded separately and are quoted together on ASX.

9. Glossary and Interpretation

Term	Meaning
Subsidiary	<p>has the meaning given in the Corporations Act, but an Entity will also be taken to be a Subsidiary of an Entity if it is Controlled by that Entity and, without limitation:</p> <ol style="list-style-type: none"> a trust may be a Subsidiary, for the purposes of which a unit or other beneficial interest will be regarded as a share; an Entity may be a Subsidiary of a trust if it would have been a Subsidiary if that trust were a corporation; and where a trust is a Subsidiary, the trustee of that trust (acting in that capacity) will also be a Subsidiary.
Superior Proposal	<p>a bona fide written Competing Proposal that the ILFML Board, acting in good faith and after taking advice from its legal and financial advisors, determines is:</p> <ol style="list-style-type: none"> reasonably capable of being completed, including its conditions; and of a higher financial value and is more favourable to IOF Unitholders than the Proposal, in each case, taking into account all aspects of the Competing Proposal, including the terms and conditions of the Competing Proposal, the price and/or financial value of the Competing Proposal, timing considerations and any other matters relevant to the Competing Proposal being contemplated (including the identity, expertise, reputation, and financial condition of the person making such proposal and legal, regulatory, and financial matters).
Supplemental Deed Poll	the AJO Supplemental Deed Poll and/or the PCP Supplemental Deed Poll.
Taxation Report	the report prepared by Allens dated 24 July 2018 set out in Section 7 of this Explanatory Memorandum.
Third Party	<p>means any of the following:</p> <ol style="list-style-type: none"> a person other than an Acquirer Group Member; or a consortium, partnership, limited partnership, syndicate, trust or other group in which no Acquirer Group Member has agreed to be a participant.
Trust Account	the trust account nominated by ILFML, the details of which must be notified in writing to BidCo and Bid Trust at least 10 Business Days before the Implementation Date.
Trust Acquisition Resolutions	means the AJO Trust Acquisition Resolution and the PCP Trust Acquisition Resolution.
Trust Constitution Amendment Resolutions	means the AJO Constitution Amendment Resolution and the PCP Constitution Amendment Resolution.
USPP	US private placement.
Voting Record Date	the time and date for determining eligibility to vote at the Meeting (expected to be 7.00pm, 19 August 2018).
VWAP	volume weighted average price.
WALE	weighted average lease expiry.

9.2 Interpretation

In this Explanatory Memorandum, unless the context otherwise appears:

- a. words and phrases have the same meaning (if any) given to them in the Corporations Act;
- b. words importing a gender include any gender;
- c. words importing the singular include the plural and vice versa;
- d. an expression importing a natural person includes any company, partnership, joint venture, association, corporation or other body corporate and vice versa;
- e. a reference to a clause, attachment or schedule is a reference to a clause of and an attachment and schedule to this Explanatory Memorandum as relevant;
- f. a reference to any statute, regulation, proclamation, ordinance or by law includes all statutes, regulations, proclamations, ordinances, or by laws amending, varying, consolidating or replacing it and a reference to a statute includes all regulations, proclamations, ordinances and by laws issued under that statute;
- g. headings and bold type are for convenience only and do not affect the interpretation of this Explanatory Memorandum;
- h. a reference to time is a reference to time in Sydney, Australia;
- i. a reference to writing includes electronic and digital communications; and
- j. a reference to dollars, \$, A\$, cents, ¢ and currency is a reference to the lawful currency of the Commonwealth of Australia.

Notice of Meeting

Schedule



Investa Office Fund comprising Armstrong Jones Office Fund (ARSN 090 242 229) and Prime Credit Property Trust (ARSN 089 849 196)

Investa Listed Funds Management Limited (ACN 149 175 655) (**ILFML**) as responsible entity of Armstrong Jones Office Fund (ARSN 090 242 229) (**AJO Fund**) and Prime Credit Property Trust (ARSN 089 849 196) (**PCP Trust**) hereby gives notice that a meeting of the unitholders of AJO and PCP will be held concurrently at:

Time: 10.00am (Sydney time)

Date: 21 August 2018

Place: Swissotel, Maple Room, 68 Market Street, Sydney NSW 2000

1 Business of the meeting

Capitalised terms used but not defined in this Notice of Meeting have the meaning given in the Explanatory Memorandum accompanying, and forming part of, this Notice of Meeting.

The business to be considered at the concurrently held meetings is to consider, and if thought fit, to pass the following resolutions of members of the AJO Fund and PCP Trust (as applicable).

2 Proposal Resolutions

2.1 Resolution 1 AJO Trust Acquisition Resolution

To consider, and if thought fit, to pass the following resolution as an ordinary resolution of the members of the AJO Fund:

“That, subject to and conditional on all other Resolutions set out in the notice convening this meeting being passed, for the purposes of item 7, section 611 of the Corporations Act 2001 (Cth) and for all other purposes:

- a. *the acquisition of all units on issue in Armstrong Jones Office Fund (ARSN 090 242 229) (the **AJO Fund**) by Quartz BidCo Pty Ltd (ACN 626 431 927) and Quartz Sub TC Pty Limited (ACN 626 431 963) in its capacity as trustee of the Quartz Bid Trust (the **Acquisition**), be approved; and*
- b. *ILFML, as responsible entity of the AJO Fund, be authorised to do all things which it considers necessary, desirable, or reasonably incidental to give effect to the Acquisition.”*

2.2 Resolution 2 PCP Trust Acquisition Resolution

“That, subject to and conditional on all other Resolutions set out in the notice convening this meeting being passed, for the purposes of item 7, section 611 of the Corporations Act 2001 (Cth) and for all other purposes:

- a. *the acquisition of all units on issue in Prime Credit Property Trust (ARSN 089 849 196) (the **PCP Trust**) by Quartz BidCo Pty Ltd (ACN 626 431 927) and Quartz Sub TC Pty Limited (ACN 626 431 963) in its capacity as trustee of the Quartz Bid Trust (the **Acquisition**), be approved; and*
- b. *ILFML, as responsible entity of the PCP Trust, be authorised to do all things which it considers necessary, desirable, or reasonably incidental to give effect to the Acquisition.”*

2.3 Resolution 3 AJO Trust Constitution Amendment Resolution

To consider, and if thought fit, to pass the following resolution as a special resolution of the members of the AJO Fund:

“That, subject to and conditional on all other Resolutions set out in the notice convening this meeting being passed:

- a. *the constitution of the AJO Fund be modified as set out in the Supplemental Deed tabled at this meeting and initialled by the Chairman for the purposes of identification (**AJO Supplemental Deed Poll**), with effect from the date on which the AJO Supplemental Deed Poll is lodged with the Australian Securities and Investments Commission (**ASIC**) in accordance with section 601GC(2) of the Corporations Act 2001 (Cth); and*
- b. *ILFML as responsible entity of IOF, be authorised to execute and lodge with ASIC, the AJO Supplemental Deed Poll.”*

2.4 Resolution 4 PCP Trust Constitution Amendment Resolution

To consider, and if thought fit, to pass the following resolution as a special resolution of the members of the PCP Trust:

“That, subject to and conditional on all other Resolutions set out in the notice convening this meeting being passed:

- a. *the constitution of the PCP Trust be modified as set out in the Supplemental Deed tabled at this meeting and initialled by the Chairman for the purposes of identification (**PCP Supplemental Deed Poll**), with effect from the date on which the PCP Supplemental Deed Poll is lodged with the Australian Securities and Investments Commission (**ASIC**) in accordance with section 601GC(2) of the Corporations Act 2001 (Cth); and*
- b. *ILFML as responsible entity of IOF, be authorised to execute and lodge with ASIC, the PCP Supplemental Deed Poll.”*

Schedule 1. Notice of Meeting

2.5 Resolution 5 AJO De-Stapling Resolution

To consider, and if thought fit, to pass the following resolution as special resolution of the members of the AJO Fund.

“That, subject to and conditional on all other resolutions set out in the notice convening this meeting, for the purposes of clause 20.5 of the constitution of the AJO Fund:

- a. *the units in the AJO Fund cease to be stapled to units in the PCP Trust; and*
- b. *ILFML, as the responsible entity of the AJO Fund, be authorised to determine that the stapling provisions in the constitution of the AJO Fund will cease to apply and that a particular date is to be the unstapling date.”*

2.6 Resolution 6 PCP De-Stapling Resolution

To consider, and if thought fit, to pass the following resolution as special resolution of the members of the PCP Trust.

“That, subject to and conditional on all other resolutions set out in the notice convening this meeting, for the purposes of clause 20.5 of the constitution of the PCP Trust:

- a. *the units in the PCP Trust cease to be stapled to units in the AJO Fund; and*
- b. *ILFML, as the responsible entity of the PCP Trust, be authorised to determine that the stapling provisions in the constitution of the PCP Trust will cease to apply and that a particular date is to be the unstapling date.”*

3 Reasons for the Proposal

The Proposal Resolutions should be read in conjunction with the Explanatory Memorandum which sets out a detailed explanation of the reasons for the Proposal.

4 Eligibility to vote

Subject to the voting exclusions outlined below in Section 5, IOF Unitholders registered as holders of IOF Units in each of AJO Fund the PCP Trust as at 7.00pm on 19 August 2018 will be entitled to attend and vote at the Meeting.

Accordingly, transfers of IOF Units registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

5 Majorities required

For the Proposal Resolutions to be approved:

- a. The **Trust Acquisition Resolutions** must be passed by at least 50% of the total number of votes cast on the resolution by IOF Unitholders entitled to vote on the resolution at the Meeting. For the purposes of this Proposal Resolution:
 - In accordance with item 7, section 611 of the Corporations Act, the Acquirer and its Associates must not cast any votes in favour of the resolution.
 - In accordance with section 253E of the Corporations Act, ILFML and its Associates are not entitled to vote their interests if they have an interest in the resolution other than as a member of IOF.
- b. The **Trust Constitution Amendment Resolutions** must each be passed by at least 75% of the total number of votes cast on the relevant resolution by IOF Unitholders entitled to vote on the resolution at the Meeting. For the purposes of this Proposal Resolution, in accordance with section 253E of the Corporations Act, ILFML and its Associates are not entitled to vote their interests if they have an interest in the resolution other than as a member of IOF.
- c. The **De-Stapling Resolutions** must each be passed by at least 75% of the total number of votes cast on the relevant resolution by IOF Unitholders entitled to vote on the resolutions at the Meeting. For the purposes of these Proposal Resolutions, in accordance with section 253E of the Corporations Act, ILFML and its Associates are not entitled to vote their interests if they have an interest in the resolutions other than as a member of IOF.

Voting will be conducted by poll.

6 Voting

6.1 Voting in person

To vote in person at the Meeting, IOF Unitholders must attend the Meeting in person. An IOF Unitholder entitled to attend and vote at the Meeting will be admitted to the Meeting upon providing evidence of their name and address at the point of entry to the Meeting. Registration for the Meeting commences at 9.30am (Sydney time).

6.2 Voting by proxy

- a. Each IOF Unitholder entitled to attend and vote has a right to appoint a proxy, and you may appoint the Chairman of the Meeting as your proxy.
- b. If an IOF Unitholder appoints two proxies, the IOF Unitholder may specify the proportion or number of votes each proxy holder is entitled to exercise. Where two proxies are appointed and the appointment does not specify the proportion or number of the IOF Unitholder's votes, each proxy may exercise half of the votes.
- c. A proxy need not be a IOF Unitholder.
- d. The Proxy Form, which accompanies this Notice of Meeting, includes instructions on how to vote and appoint a proxy.
- e. The Chairman intends to vote all undirected proxies in favour of the Proposal Resolutions.
- f. To ensure that all IOF Unitholders can exercise their right to vote on the Proposal Resolutions, a Proxy Form is enclosed together with a reply paid envelope.

In order to be valid, Proxy Forms should be completed and received no later than 10.00am, on 19 August 2018. The Proxy Form can be lodged using the reply paid envelope or:

Mail	Fax	By hand
Investa Office Fund C/- Link Market Services Limited Locked Bag A14 Sydney South NSW 1235 Australia	Fax: +61 2 9287 0309	Investa Office Fund C/- Link Market Services Limited 1A Homebush Bay Drive Rhodes NSW 2138 Australia

- g. **Power of Attorney:** to sign the Proxy Form under power of attorney you must lodge the power of attorney with IOF's registry, Link Market Services Limited. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to your Proxy Form when you return it.
- h. **Companies:** where the company has a sole director who is also the sole company secretary, the Proxy Form must be signed by that person. If the company (pursuant to section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone.
- i. Otherwise the Proxy Form must be signed by a director with either another director or a company secretary. Please indicate the office held by signing in the appropriate place.

6.3 Voting by attorney

You may appoint an attorney to attend and vote at the Meeting on your behalf. Such an appointment must be made by a duly executed power of attorney, which must be received by ILFML at its registered office by 10.00am, 19 August 2018, unless it has been previously provided to ILFML.

6.4 Voting by corporate representative

- a. IOF Unitholders who are bodies corporate may have a corporate representative attend and vote at the Meeting on their behalf. The appointment must comply with section 253B of the Corporations Act. Persons attending the Meeting as a corporate representative should bring to the Meeting evidence of their appointment, including any authority under which the document appointing them as corporate representative was signed.
- b. If a representative of the corporation is to attend the Meeting the appropriate 'Certificate of Appointment of Corporate Representative' should be produced prior to admission to the Meeting. A form of the certificate may be obtained from IOF's registry, Link Market Services Limited. If such evidence is not received, then the representative will not be permitted to act as a representative at the Meeting.

By order of the Board of Investa Listed Funds Management Limited as responsible entity of each of Armstrong Jones Office Fund and Prime Credit Property Trust.



Andrew Murray
Company Secretary
INVESTA LISTED FUNDS MANAGEMENT LIMITED
24 July 2018

Independent Expert's Report

Schedule





KPMG Corporate Finance
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The Directors
Investa Listed Funds Management Limited as responsible
entity for Investa Office Fund
Level 6, Deutsche Bank Place
126 Phillip Street
SYDNEY NSW 2000

For the attention of the Directors

24 July 2018

Dear Directors

PART ONE – INDEPENDENT EXPERT’S REPORT

1 Introduction

On 28 May 2018, Investa Listed Funds Management Limited (ILFML), as responsible entity of the Investa Office Fund (IOF), announced that it had entered into a Process Deed with an affiliate of Quartz BidCo Pty Ltd and Quartz Sub TC Pty Ltd as trustee of the Quartz Bid Trust (together, the Acquirer) in relation to an unsolicited, indicative and non-binding proposal (the Proposal) for the acquisition of all the units in IOF (IOF Units) by way of a trust scheme (Scheme).

Subsequently, on 13 June 2018, ILFML announced that it had entered into a Scheme Implementation Agreement with the Acquirer in relation to the Proposal. The Scheme Implementation Agreement contains a number of conditions as set out in Section 5.3 of this report.

Under the terms of the Proposal, the holders of IOF Units (IOF Unitholders) will receive \$5.25 in cash per IOF Unit held reduced by any distributions declared or paid by IOF after 4 May 2018 and prior to the completion of the Scheme. On 18 June 2018, ILFML, as responsible entity for IOF, declared a distribution of 10.15 cents per IOF Unit for the second half of FY18 (2H18), and IOF Unitholders will receive \$5.1485 cash per IOF Unit from the Acquirer (Proposal Consideration). The distribution is expected to be paid on or before 27 August 2018.

IOF comprises the stapled entities Armstrong Jones Office Fund (AJO Fund) and Prime Credit Property Trust (PCP Trust). The responsible entity of IOF is ILFML, a wholly owned subsidiary of Investa Office Management Pty Ltd (IOM). Currently, ILFML, as responsible entity of IOF, has engaged IOM to act as the manager of IOF pursuant to an Amended and Restated Management Deed dated 21 September 2017

Schedule 2. Independent Expert's Report



*Independent Expert's Report
24 July 2018*

to provide IOF with asset, portfolio and capital management services. IOM is ultimately owned by the investors of Investa Property Group (IPG).

IOF is an Australian real estate investment trust (A-REIT) listed on the Australian Securities Exchange (ASX). It had a market capitalisation of \$2.8 billion¹ as at 25 May 2018, the last trading day before the announcement of the Proposal. IOF is the owner of investment grade office buildings that are primarily located in the Sydney and North Sydney central business districts (CBDs), as well as Brisbane and Melbourne CBDs, which are predominantly tenanted by government and blue chip clients. At 31 May 2018, IOF had total property assets of approximately \$4.3 billion.

The Acquirer is affiliated with The Blackstone Group L.P. and entities which are ultimately owned and/or controlled by The Blackstone Group L.P. (together, Blackstone). Blackstone is a global investment firm with approximately \$450 billion of assets under management as at 31 March 2018. It is listed on the New York Stock Exchange (NYSE) and had a market capitalisation of US\$43.1 billion as at 18 July 2018.

The Proposal is described more fully in Section 5 of this report and Section 3 of the Notice of Meeting and Explanatory Memorandum (Explanatory Memorandum).

On, or about, 21 August 2018, a Scheme Meeting² will be held to consider and vote on the Proposal. IOF Unitholders will be entitled to attend and vote on the resolutions to implement the Proposal. The resolutions are comprised of a number of ordinary and special resolutions (Scheme Resolutions). An ordinary resolution may only be passed by at least 50% of votes cast by IOF Unitholders, in person or by proxy, entitled to vote on such resolutions. A special resolution may only be passed by at least 75% of the votes cast by IOF Unitholders, in person or by proxy, entitled to vote on such resolutions. The Proposal will only proceed if the requisite majorities for the resolutions are met by IOF Unitholders, voting either in person or by proxy at the Scheme Meeting.

The Independent Directors of ILFML (Directors) have stated that they unanimously recommend that IOF Unitholders vote in favour of the Proposal in the absence of a superior proposal and subject to an independent expert opinion that the Scheme is in the best interests of IOF Unitholders.

In order to assist IOF Unitholders in assessing the Proposal, the Directors of ILFML, as the responsible entity of IOF, have appointed KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) to prepare an Independent Expert's Report (IER) setting out whether, in our opinion, the Proposal is in the best interests of IOF Unitholders.

This report sets out KPMG Corporate Finance's opinion as to the merits or otherwise of the Proposal and will be included in the Explanatory Memorandum to be sent to IOF Unitholders.

Further information regarding KPMG Corporate Finance, as it pertains to the preparation of this report, is set out in Appendix 1.

KPMG Corporate Finance's Financial Services Guide is contained in Part Two of this report.

2 Scope of Report

The Proposal is to be implemented via trust schemes in respect of AJO Fund and PCP Trust. There is no specific statutory framework for a trust scheme as there is for a Scheme of Arrangement between companies and their members. As such, the Takeovers Panel has issued Guidance Note 15 (Guidance Note) outlining the recommended procedures for a trust scheme. The Guidance Note suggests that a notice of meeting and explanatory memorandum for a trust scheme should contain a report by an

¹ Calculated as closing price on 25 May 2018 of \$4.63 multiplied by 598,418,985 IOF Units on issue.

² The extraordinary general meeting of IOF Unitholders convened by the notice of meeting accompanying the Explanatory Memorandum.



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independent expert that states whether, in the expert's opinion, the terms of the trust scheme are fair and reasonable, and therefore consistent with determining whether it is in the best interests of the members.

In undertaking our work, we have referred to guidance provided by the Australian Securities and Investments Commission (ASIC) in its Regulatory Guides, in particular Regulatory Guide 111 'Content of expert reports' (RG 111) which outlines the principles and matters which it expects a person preparing an IER to consider when providing an opinion on whether a transaction is "fair and reasonable, and therefore in the best interests" of IOF Unitholders. Further details of the relevant technical requirements and the basis of assessment in forming our opinion are set out in Section 6 of this report.

3 Summary of opinion

In our opinion, the Scheme is **in the best interests of IOF Unitholders in the absence of a superior proposal**.

In arriving at this opinion, **we have assessed the Scheme to be not fair but reasonable and, in accordance with RG 111, in the best interests of IOF Unitholders**. Our analysis considers:

- fairness, by comparing the Proposal Consideration to our assessed value of an IOF Unit on a controlling interest basis. This approach is in accordance with the guidance set out in RG 111, and
- reasonableness, by assessing the implications of the Scheme for IOF Unitholders, the alternatives to the Scheme which are available to IOF and the consequences for IOF Unitholders of not approving the Scheme.

The principal matters we have taken into consideration in forming this opinion are summarised below.

Assessment of fairness

Our valuation of an IOF Unit is based on the net assets methodology. The net assets methodology is appropriate for IOF as its value lies in its underlying properties and not the ongoing operations of the trusts. The values derived from a net asset approach are on a controlling basis, which is consistent with the requirements of RG 111. In addition, we have taken into account cost savings that would generally be available to a pool of purchasers. We have not taken into account other potential synergies available to a particular acquirer.

The values derived from a net assets approach are not necessarily consistent with the prices at which IOF Units are expected to trade on the sharemarket. The prices at which IOF Units trade on the sharemarket reflect minority parcels of IOF Units and will also reflect expectations as to the level of distributions.

We have assessed the value of an IOF Unit to be in the range \$5.38 to \$5.41. The range of values is extremely narrow (0.6%), reflecting that the property values, which comprise a majority of the value, represent the pro forma and unaudited book value of the properties at 30 June 2018 (including the impact of the 31 May 2018 property valuations).

As the Proposal Consideration of \$5.1485 per IOF Unit is below our assessed value range for an IOF Unit, we consider the Scheme is **not fair**.

Our analysis of the fairness of the Scheme is detailed further in Section 3.1 below.

Assessment of reasonableness

In accordance with RG 111, an offer is reasonable if it is fair. An offer might also be reasonable if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer. RG 111.21 states that if an expert would conclude that a proposal was 'not fair but reasonable' if it was in the form of a takeover bid, it is still open to the expert to also conclude that the scheme is 'in the best interests' of the members of the company.

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KPMG Corporate Finance has considered a range of factors which, despite the Scheme being 'not fair', on balance, support a reasonableness conclusion. We recognise that in forming this view, there is a level of subjectivity involved and that IOF Unitholders may form a different view in relation to these matters. We also note that the relevant assessment is whether there are sufficient reasons to accept the Proposal in the absence of a superior Proposal. It is not a question of whether this Proposal represents the best offer that might be theoretically possible.

Based on the factors below we are of the view that there are sufficient reasons that the Proposal is reasonable:

- the property values in our fairness assessment represent a single point estimate as they are based on the pro forma and unaudited book value of the properties at 30 June 2018. The independent valuations of the properties performed by a selection of valuers include a number of assumptions, however, only a single point estimate is adopted. If even a small range for the property values was utilised (+/-3.3% relative to the point estimate), the Proposal would be fair
- although the Proposal Consideration represents a 5.9% discount to pro forma and unaudited NTA at 30 June 2018 of \$5.47, it offers a substantial premium (16.0% to 18.4%) to the trading price of IOF Units over a one month, three month and six month period prior to the announcement of the Proposal. We note that the substantial premium may reflect an expectation that property valuations would result in a significant uplift in NTA. In this regard, all but five of IOF's properties had not been valued since April 2017 and from then until the announcement of the Proposal, there had been further contraction in capitalisation rates, a strong Sydney market and significant leasing activity
- the Proposal Consideration is in cash and allows IOF Unitholders to immediately realise value from their investment. It provides certainty as to the pre-tax amount they will receive
- IOF Unitholders will no longer be exposed to the risks to which IOF is exposed, in particular re-letting risk whereby 18% of the portfolio is off lease in FY19³ in addition to the current 3% vacancy⁴ and 1% of leases expiring in June 2018. A further 17% of the property under development, Barrack Place, 151 Clarence Street, Sydney, which is expected to be completed in October 2018, remains to be let. The property valuations assume that releasing occurs at a high point in the property cycle and Barrack Place, 151 Clarence Street, Sydney is valued on an 'as if complete' basis. As such, the Proposal effectively crystallises a majority of the value arising from IOF's development and refurbishment activities
- in the absence of the Proposal or a superior alternative proposal, the IOF Unit price is likely to fall. In the three months prior to the announcement of the Proposal, IOF Units traded at a discount in the range of 6.5% to 16.2% to NTA at 31 December 2017, with an average discount of 12.4%. In particular, IOF's near term FFO⁵ growth is negative and distribution growth is limited as a result of its development activities and repositioning of key assets, which effectively places a cap on the IOF Unit price. The Proposal Consideration implies a low yield which is unlikely to be replicated in the trading price in the short term in the absence of the Proposal or a superior alternative proposal, and
- no superior alternative proposal has emerged since the announcement of the Proposal. It is open for IOF Unitholders to vote against the Proposal in the expectation that the IOF Unit price will increase in the future as property valuations continue to increase, however, future growth is not certain. Furthermore, IOF's Unit price is influenced by other factors such as distribution yields. A wind up of

³ The 18% takes into account the recently announced ANZ agreement for lease over 68% of 347 Kent Street, Sydney.

⁴ As at 31 May 2018.

⁵ Property Council FFO consistent with funds from operations presented using principles of Property Council of Australia White Paper released in December 2017.



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the portfolio is unlikely to realise a return to IOF Unitholders in excess of the cash payment under the Proposal. Sale of the portfolio and the distribution of the net proceeds would involve costs and risks and could be lengthy.

IOF Unitholders should also consider the general tax implications associated with the Scheme, the number of conditions, which if not satisfied, will result in the Scheme not being implemented and the transaction costs that will be incurred irrespective of whether the Scheme is implemented.

Our analysis of the reasonableness of the Scheme is detailed further in Section 3.2 below.

The decision of whether or not to approve the Scheme is a matter for individual IOF Unitholders based on their views as to value, expectations about future market conditions and their particular circumstances including their investment strategy and portfolio, risk profile and tax position. If in doubt, IOF Unitholders should consult their own professional adviser regarding the action they should take in relation to the Scheme.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2 of the attached report. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information as set out in Section 6.3 of our report.

3.1 The Scheme is not fair

Our valuation of an IOF Unit is based on the net assets methodology. A-REITs, particularly those which passively hold portfolios of properties, are commonly valued with reference to net asset values. Property investments are reflected on the balance sheet at market value based on property valuations provided by property valuation specialists. When valuing A-REITs, it is general market practice for independent experts to adopt this market value in their assessment of adjusted NTA.

We have assessed an adjusted NTA for IOF in the range of \$5.38 to \$5.41 per IOF Unit. This estimate is based on IOF's pro forma and unaudited NTA as at 30 June 2018 of \$3,271 million (\$5.47 per IOF Unit⁶). Various adjustments have been made to derive an adjusted NTA per IOF Unit as summarised in the following table.

Table 1: Valuation of IOF Units

\$ million unless otherwise stated	Section reference	Low	High
Pro forma and unaudited NTA at 30 June 2018	8.3	3,270.5	3,270.5
Less: Capitalised corporate overheads (net of savings)	8.4	(46.2)	(27.4)
Less: Capitalised borrowing costs	8.5	(3.6)	(3.6)
Adjusted NTA		3,220.7	3,239.6
IOF Units on issue (million)		598.4	598.4
Adjusted NTA per IOF Unit (excluding premium)		\$5.38	\$5.41
Premium to adjusted NTA	8.6	-	-
Adjusted NTA per IOF Unit (including premium)		\$5.38	\$5.41

Source: KPMG Corporate Finance analysis.

Notes: Table may not add due to rounding.

All properties were independently valued at 31 May 2018, resulting in a \$316.1 million (7.9%) uplift in the carrying value of the portfolio from 31 May 2018. The pro forma and unaudited NTA as at 30 June 2018 is based on book values for each of IOF's properties which reflect valuations undertaken by independent valuers as at 31 May 2018 plus capital expenditure and payments for incentives and leasing

⁶ Calculated as pro forma and unaudited net tangible assets as at 30 June 2018 of \$3,270.5 million divided by 598,418,985 IOF Units on issue.

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fees (net of amortisation) since the valuation date. We have reviewed a selection of these valuations, taking into account the nature and quality of IOF's property portfolio and associated risks and the outlook for the A-REIT industry and the office property sector.

The following adjustments were made to the pro forma and unaudited NTA as at 30 June 2018:

- NTA includes a provision for the distribution for 2H18 and, therefore, no adjustment is required
- NTA does not reflect the cost structure associated with being a listed investment vehicle. Corporate overheads are a cost of IOF's operating structure and include responsible entity fees, listed entity costs and other trust expenses. It is estimated that in FY18, IOF will incur responsible entity fees of \$14.8 million and other expenses of \$2.3 million⁷ (a total of \$17.1 million). There are a number of potential acquirers of 100% of IOF that have existing property funds management platform in Australia (e.g. GPT, DEXUS, Brookfield Australia, Mirvac Group, Stockland Group, Charter Hall Group) and which could likely save a substantial share of responsibility entity fees, trust expenses and listing costs. Acquirers in recent transactions have generally⁸ estimated that they can save around 70% to 80% of costs (refer to Section 8.4 of this report). We recognise that Blackstone is unlikely to be able to achieve this level of savings, however, in accordance with the requirements of RG111, KPMG Corporate Finance has assumed residual corporate overheads on the basis that the acquirer has an existing management platform in Australia. Consequently, we have incorporated residual overheads in the range of \$3.4 to \$5.1 million per annum (i.e. net cost savings of 70% to 80%). We have capitalised the residual overheads at a multiple in the range of 8 to 9 times to arrive at a value in the range of \$27.4 to \$46.2 million. This value has been deducted from the pro forma and unaudited NTA as at 30 June 2018, and
- borrowing costs capitalised for accounting purposes do not have a realisable value and, therefore, have been excluded in calculating the adjusted pro forma and unaudited NTA.

Adjusted NTA represents the aggregate full underlying value of IOF. As it is based on estimates of the full underlying value of each property in the portfolio, it is already a 'control' value (i.e. it assumes 100% ownership of the assets). Nevertheless, in certain situations, it is appropriate to apply a premium or discount to adjusted NTA. KPMG Corporate Finance considers that in this instance, no further adjustment is required, having regard to the specific attributes of IOF at this point in time, as well as the reduction in premiums to NTA observed in recent control transactions involving passive, office A-REITs (refer to Section 8.6 of this report for a discussion of premium and discounts to NTA).

Our assessed value of an IOF Unit on an adjusted NTA basis of \$5.38 to \$5.41 implies the following FFO⁹ multiples and distribution yields:

⁷ Not including \$0.4 million of one-off project costs.

⁸ An exception is Growthpoint, which estimated it could save 50% of costs in relation to the acquisition of GPT Metro Office Fund, however, the independent expert assumed that 72% to 86% of costs were saved.

⁹ Property Council FFO consistent with funds from operations presented using principles of Property Council of Australia White Paper released in December 2017.



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Table 2: IOF implied multiples cross check

Implied metrics	Section Reference	Parameter (per Unit)	Low	High
Value per IOF Unit	8.2		\$5.38	\$5.41
FY18 FFO multiple (times) ¹	7.11	30.6¢	17.6	17.7
FY19 FFO multiple (times) ²	7.11	29.2¢	18.4	18.5
FY18 distribution yield	7.11	20.3¢	3.8%	3.8%
FY19 distribution yield ²	7.11	20.3¢	3.8%	3.8%

Sources: KPMG Corporate Finance Analysis

Notes:

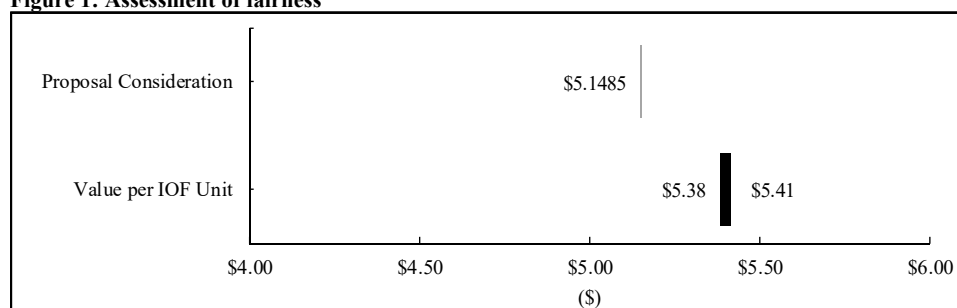
1. Pro forma and unaudited FY18 FFO
2. IOF FY19 preliminary guidance

An FFO or distribution yield are essentially the inverse of a multiple of FFO or distributions, with a lower yield indicating a higher value relative to the FFO or distributions. IOF's implied forecast FFO multiples are high and its distribution yields are below the multiples observed in recent control transactions involving externally managed, passive A-REITs. We consider a high FFO multiple and low distribution yield appropriate, having regard to IOF's exposure to the strongly performing Sydney and Melbourne CBD office markets and relatively low exposure to the weaker Brisbane and Perth markets, substantial yield compression in recent years and the quality of IOF's portfolio. However, we note that these multiples also reflect the forecast decline in FFO and curtailment of distributions as a result of IOF's development and refurbishment activities.

The valuation of an IOF Unit is set out in Section 8 of this report.

A comparison of our assessed value per IOF Unit on a control basis to the Proposal Consideration is illustrated below.

Figure 1: Assessment of fairness



Source: KPMG Corporate Finance analysis

As the Proposal Consideration of \$5.1485 per IOF Unit falls below our assessed value range for an IOF Unit of \$5.38 to \$5.41, we consider that the Scheme is not fair.

The range of values is extremely narrow (0.6%), reflecting that the property values, which comprise a majority of the value, represent the pro forma and unaudited book value of the properties at 30 June 2018 (including the impact of the 31 May 2018 property valuations). The Proposal Consideration of \$5.1485 represents a 4.3% discount to the low end of the range of adjusted NTA (\$5.38).

The property valuers have provided a point estimate when valuing properties which is consistent with market practice for these type of valuations (although the valuation reports typically include sensitivities in values to changes in key assumptions). These point estimates are adopted as the book value of the properties as at that date. When valuing A-REITs, it is market practice for independent experts to adopt this point estimate in their assessment of adjusted NTA. This is in contrast to other valuations where a range of values is usually selected for the operating business (typically 5% to 15% depending on the level of risk inherent in the cash flows and range of potential outcomes). After allowing for the impact of

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financial leverage, this range can be substantially wider. For example, for a company with 25% gearing (net debt to enterprise value), the range of values at an equity level is magnified by a factor of 1.33 (i.e. the range of equity values would be 7% to 20%).

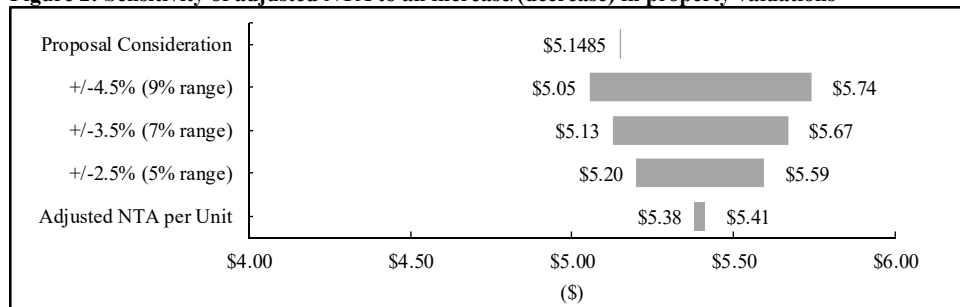
We note that the property values have increased materially as a result of the 31 May 2018 revaluations. This has resulted in a 7.9% uplift in the carrying value of the properties as at 31 May 2018 and a decrease in the weighted average capitalisation rate (WACR) from 5.65% to 5.48%.

Property valuers usually apply discounted cash flow (DCF) and capitalisation of earnings valuation methodologies. Application of these methodologies requires a number of assumptions (e.g. re-leasing, capital expenditure, capitalisation rates, discount rates, rental growth and incentives), many of which are uncertain and involve substantial judgement, particularly as cash flow models typically extend for 10 years. A small change in assumptions can result in a large change in values. For example, the sensitivity analysis provided in the property valuer's report for 567 Collins Street, Melbourne, indicates that a 0.25% change in the terminal yield will result in a 3% change in the present value of the cash flows derived from the DCF methodology. There are a range of potential outcomes for a number of assumptions in the property valuations and even more combinations of those outcomes.

Fairness, as assessed by an independent expert, should consider the possibility of potential outcomes and the likelihood of those outcomes. It is not possible to accurately assess all potential outcomes and their likelihood. As such, a sensitivity may be undertaken around a point estimate on the basis of an even distribution. In adopting this approach, we have considered the sensitivity of the adjusted NTA per IOF Unit to a percentage increase and decrease in the value of the properties.

The following sensitivity table illustrates changes in KPMG Corporate Finance's range of adjusted NTA of \$5.38 to \$5.41 per IOF Unit for a 5%, 7% or 9% range in the value of the properties (in aggregate) around the point estimates provided (i.e. +/-2.5%, +/-3.5%, +/-4.5%).

Figure 2: Sensitivity of adjusted NTA to an increase/(decrease) in property valuations



Source: KPMG Corporate Finance analysis.

The chart illustrates that had the property valuers provided a range of values for the properties of 7% (i.e. +/-3.5%) around their point estimate, the low end of the adjusted NTA range (\$5.13) would be below the Proposal Consideration of \$5.1485 and the Proposal would be considered fair. The break even range of property valuations for which the Proposal would be considered to be fair is 6.6% (i.e. +/-3.3%). After allowing for financial leverage and other assets and liabilities, the range of adjusted NTA would be 8.8%. This range is still relatively low in comparison to valuations prepared more generally (i.e. other than in the context of independent expert reports for A-REIT transactions).



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3.2 The Scheme is reasonable

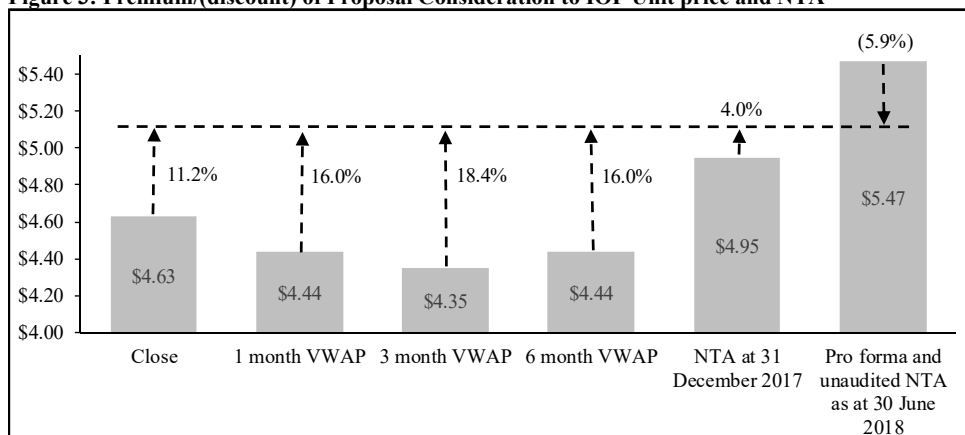
In accordance with RG 111, an offer is reasonable if it is fair. An offer might also be reasonable if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer. RG 111.21 states that if an expert would conclude that a proposal was 'not fair but reasonable' if it was in the form of a takeover bid, it is still open to the expert to also conclude that the scheme is 'in the best interests' of the members of the company.

KPMG Corporate Finance has considered a range of factors as set out below which, despite the Scheme being 'not fair', on balance, in our opinion support a reasonableness conclusion. We recognise that in forming this view, there is a level of subjectivity involved and that IOF Unitholders may form a different view in relation to these matters. We also note that the relevant assessment is whether there are sufficient reasons to accept the Proposal in the absence of a superior alternative proposal. It is not a question of whether this Proposal represents the best theoretical offer that might be possible.

The Proposal Consideration represents a discount to pro forma and unaudited NTA as at 30 June 2018, however, a substantial premium to the trading price of IOF Units prior to the announcement of the Proposal

The implied premium/(discount) of the Proposal Consideration relative to the IOF Unit price and NTA is illustrated in the following chart.

Figure 3: Premium/(discount) of Proposal Consideration to IOF Unit price and NTA



Source: IRESS, KPMG Corporate Finance analysis.

Note: The premiums illustrated above have been calculated based on the volume weighted average price (VWAP) of IOF Units up to and including 25 May 2018, the last trading day prior to the announcement of the Proposal.

Premium/(discount) to IOF Unit price

With regard to our assessment of the premiums to trading prices implied by the Proposal Consideration, we note:

- it is commonly accepted that acquirers of 100% of a business should pay a premium over the value implied by the trading price of a security to reflect their ability to obtain control over the target's strategy and operations, as well as extract synergies from integration. In the case of IOF, it is a passive, externally managed A-REIT with no operating business or third party mandates and consequently, potential synergies available to an acquirer are limited to responsible entity fees, listing costs and other trust expenses
- the Proposal Consideration of \$5.1485 per IOF Unit represents a premium to the recent trading price of IOF Units prior to the announcement of the Proposal in the range of 11.2% (or 13.2% after

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removing the impact of the distribution to 25 May 2018 on the closing price¹⁰) to 18.4%. These premiums:

- compare favourably to premiums observed in successful control transactions involving A-REITs since 2013 in the range of 6% to 23% (refer to Appendix 4 of this report)
- are substantially greater than the 3.6% premium based on the standard consideration under the DEXUS Proposal for IOF in 2015¹¹
- the premiums to trading prices implied by the Proposal Consideration likely reflect Blackstone's expectation of a significant uplift in property valuations, as all but five of IOF's properties had not been valued since April 2017 and from then until the announcement of the Proposal, there had been further contraction in capitalisation rates, a strong Sydney market and significant leasing activity. On 26 June 2018, ILFML, as responsible entity for IOF, announced a 7.9% valuation uplift (a pro forma December NTA of \$5.48), of which 95% relates to properties that had not been valued since April 2017
- on the announcement of the property valuations on 26 June 2018, the IOF Unit price reached a high of \$5.39, before declining on 28 June 2018 (ex distribution date) to trade in the range of \$5.11 to \$5.27 (at a VWAP of \$5.20) until 18 July 2018. Trading has mostly been above the Proposal Consideration of \$5.1485 and represents a discount in the range of 3.8% to 6.8% to pro forma NTA as at 31 December 2017 of \$5.48. Recent pricing likely reflects speculation that Blackstone will increase its offer or that another bidder will make a superior proposal
- prior to the announcement of the Proposal, IOF Units had not traded as high as \$5.1485 since the onset of the global financial crisis in October 2008. The IOF Unit price reached a high of \$4.89 on 7 and 14 December 2017, however, we note that at this time, it was likely impacted by the buyback program and IOF Units were trading 'cum distribution'.

Premium/(discount) to NTA

- premiums/(discounts) to NTA largely reflect the stage of the property cycle at the time of the transaction as well as factors specific to each A-REIT. Transactions from 2013 to 2015 occurred at a significant premium to reported NTA, reflecting an expectation of rising property valuations (with a lag). Premiums to NTA observed in transactions that occurred from 2016 are generally lower, with the premiums decreasing over time potentially reflecting an expectation that property valuations are nearing peak.¹² This may suggest that the price paid in a current transaction for a passive investment trust should be closer to NTA (prior to taking into account the specific attributes of the transaction)
- the 5.9% discount of the Proposal Consideration to pro forma and unaudited NTA at 30 June 2018 of \$5.47 is:
 - below the low end of the range implied by transactions involving passive, externally managed office A-REITs since 2010 of (3.9%) to 8.2% (refer to Section 8.6 of this report), noting that the high end of this range (GPT Metro Office Fund and Commonwealth Property Office Fund) involved competitive bidding situations. Excluding those transactions, the range is (3.9%) to 3.1%. In addition, we note that premiums to NTA implied by the two most recent transactions are relatively low ((2.5%) and 0.4%)

¹⁰ Based on the closing price of \$4.63 on 25 May 2018 less the pro rata distribution to 25 May 2018 of 8.1312 cents (calculated as the 10.15 cent distribution multiplied by 145 days to 25 May 2018, divided by 181 days for the six months to 30 June 2018).

¹¹ Based on the midpoint of the independent expert's assessed value for the Standard Consideration of \$3.995.

¹² For example: "Are we there yet? Office prices to peak in 2018", Australian Financial Review, 11 January 2018.



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- within the range of discounts at which listed passive, primarily office A-REITs are trading of 2.0% to 15.9%¹³ (refer to Section 8.7 of this report), however, we note that the low end is represented by Investec Australia Property Group, which is listed on the Johannesburg Stock Exchange and does not have an ASX listing and for which trading is illiquid. Excluding Investec Australia Property Group, the range of discounts to NTA is 2.0% to 2.7%, although these A-REITs are not particularly comparable to IOF
- significantly below the premium of 0.4% represented in the DEXUS Proposal for IOF in 2015¹⁴ (although we note that since that time, there have been significant increases in IOF's property valuations), and
- more favourable than the average 12.4% discount to NTA at 31 December 2017 (\$4.95) at which IOF was trading in the three months prior to the announcement of the Proposal.

The Proposal Consideration offered represents an attractive exit yield

The calculation of adjusted NTA per IOF Unit is a limited analysis in so far as it does not capture the extent to which sharemarket investors may attribute a higher or lower value than NTA to reflect expectations as to the level of earnings or distributions. Earnings and distribution yields and growth in yields are also important metrics.

The Proposal Consideration of \$5.1485 implies the following FFO multiples and distribution yields.

Table 3: FFO multiples and distribution yield implied by the Proposal Consideration

Implied metrics	Section Reference	Parameter (per Unit)	Implied multiple or yield
Proposal Consideration			\$5.1485
FY18 FFO multiple (times) ¹	7.11	30.6¢	16.8
FY19 FFO multiple (times) ²	7.11	29.2¢	17.6
FY18 distribution yield	7.11	20.3¢	3.9%
FY19 distribution yield ²	7.11	20.3¢	3.9%

Sources: KPMG Corporate Finance Analysis

Notes:

3. Pro forma and unaudited FY18 FFO

4. IOF FY19 preliminary guidance

The implied FFO multiples are:

- high in comparison to forecast FFO multiples implied by transactions involving passive, externally managed office A-REITs (12.8 to 20.9 times, noting that the high end of the range is represented by GPT Metro Office Fund which involved a competitive bidding situation) (refer to Section 8.7 of this report)
- substantially above the forecast FFO multiples implied by sharemarket evidence for primarily office A-REITs (14.6 to 15.2 times¹⁵) (refer to Section 8.7 of this report)
- above the forecast FFO multiple at which IOF was trading prior to the announcement of the Proposal (15.1 times FY18 FFO and 15.9 times FY19 FFO)¹⁶, and

¹³ As at 18 July 2018. Other than IOF, the only listed passive, primarily office A-REITs are Investec Australia Property Fund, Centuria Metropolitan REIT and Australian Unity Office Fund.

¹⁴ Based on the midpoint of the independent expert's assessed value for the Standard Consideration of \$3.995 and an NTA per IOF Unit (including property valuations at 30 November 2015) of \$3.98.

¹⁵ As at 18 July 2018.

¹⁶ Based on the closing price of IOF Units on 25 May 2018 of \$4.63, the pro forma and unaudited FFO for FY18 of 30.6 cents and the FY19 preliminary guidance of 29.2 cents.

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- above the 14.1 times forecast FFO multiple implied by the DEXUS Proposal.¹⁷

The implied distribution yields are:

- substantially below the low end of distribution yields implied by transactions involving passive, externally managed office A-REITs (5.0% to 8.1%¹⁸) (refer to Section 8.7 of this report)
- substantially below forecast distribution yields implied by sharemarket evidence for primarily office A-REITs (5.0% to 7.5%¹⁹) (refer to Section 8.7 of this report)
- below the distribution yield at which IOF was trading prior to the announcement of the Proposal (4.4% based on both the FY18 distribution and FY19 distribution preliminary guidance²⁰), and
- below the 4.9% yield implied by the DEXUS Proposal.²¹

The high FFO multiples and low distribution yields implied by the Proposal Consideration reflect a number of factors, including:

- the high quality of IOF's property portfolio
- the need to retain cash in the next two years given the level of capital expenditure required for major refurbishments as well as the development of Barrack Place, 151 Clarence Street, Sydney. Although the value of these developments is included in the overall property values, no property income is currently being received, and
- the impact of the substantial compression in capitalisation rates over the last few years (from 6.9% at 30 June 2015 to 5.5% at 31 May 2018) which has resulted in continued increases in property values. The Proposal provides an opportunity for IOF Unitholders to capture most of the benefit of these valuation uplifts. It is unlikely that this compression in capitalisation rates will continue to occur at levels seen in recent years.

The Proposal Consideration provides certainty of value

The cash nature of the Proposal Consideration offers IOF Unitholders an opportunity to exit their investment in IOF at a price that is certain and which incorporates a premium for control. In the absence of the Proposal or a similar transaction, IOF Unitholders could only realise their investment by selling their IOF Units on market at a price that does not include a premium for control and would incur transaction costs (e.g. brokerage). There is no certainty as to the price at which IOF Unitholders would be able to realise their investment in the future, particularly given the IOF Unit price has tended to be fairly volatile (refer to Section 7.10 of our report). Furthermore, market commentators have noted that property valuations may be approaching a peak.²² Government bond yields have recently increased and new supply is expected to come on in the Sydney CBD (beyond 2020) and the Melbourne CBD (from 2019) (refer to Appendix 3 of this report).

¹⁷ Based on the midpoint of the independent expert's assessed value of the Standard Consideration of \$3.995 divided by FY16 FFO per Unit guidance of 28.4 cents.

¹⁸ Excluding Brookfield Prime Property Fund for which we consider the yields are distorted by the very low payout ratio and for which a forecast distribution yield is not available.

¹⁹ As at 18 July 2018.

²⁰ Based on the closing price of IOF Units on 25 May 2018 of \$4.63, the FY18 distribution of 20.3 cents and FY19 preliminary distribution guidance of 20.3 cents.

²¹ Based on FY16 distribution per unit guidance of 19.6 cents divided by the midpoint of independent expert's assessed value of the Standard Consideration of \$3.995.

²² For example: "Are we there yet? Office prices to peak in 2018", Australian Financial Review, 11 January 2018.



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IOF Unitholders will no longer be exposed to the risks to which IOF is exposed, in particular re-letting risk whereby 18% of the portfolio is off lease in FY19²³ in addition to the current 3% vacancy²⁴ and 1% of leases expiring in June 2018. A further 17% of the development property, Barrack Place, 151 Clarence Street, expected to be complete in November, remains to be let. The property valuations assume that releasing occurs at a high point in the property cycle and Barrack Place, 151 Clarence Street, is valued on an 'as if complete' basis, thereby the Proposal effectively crystallises a majority of the value arising from IOF's development and refurbishment activities.

The Proposal follows a period of sustained increases in property values as a result of capitalisation rate compression from 7.3%²⁵ at 30 June 2014 to 5.5% at 31 May 2018, strong growth in rental income and supply shortages in key markets. This has resulted in IOF's NTA increasing by 63.1% from \$3.35 at 30 June 2014 to \$5.47 at 30 June 2018 (pro forma and unaudited). The Proposal Consideration of \$5.145 captures a majority, but not all, of this growth in property valuations.

The IOF Unit price will likely fall in the absence of the Proposal

On the announcement of the property valuations on 26 June 2018 (which indicated a 7.9% uplift in the carrying value of the properties as at 31 May 2018) the IOF Unit price closed at \$5.32, a 2.9% discount to pro forma NTA as at 31 December 2017 of \$5.48 (including the 7.9% uplift in the property values). From 28 June 2018 (ex distribution date) until 18 July 2018, the IOF Unit price closed in the range of \$5.13 to \$5.23. Trading has mostly been above the Proposal Consideration of \$5.1485 and represents a discount in the range of 4.6% to 6.4% to pro forma NTA as at 31 December 2017. This is a lower discount to NTA than the discount at which IOF Units were trading prior to the announcement of the Proposal, and likely reflects speculation that Blackstone will increase its offer or that another bidder will make a superior proposal.

In the absence of the Proposal, a superior alternative proposal or speculation concerning a superior alternative proposal and assuming no changes in management structure, growth outlook or sharemarket conditions, the IOF Unit price is likely to fall, potentially to levels below the Proposal Consideration (\$5.1485 per IOF Unit) but likely above the level it was trading at prior to the announcement of the Proposed Transaction as a consequence of the 7.9% uplift in property values.

The discount at which IOF Units have traded relative to NTA increased from mid-2017 to 25 May 2018 (immediately prior to the announcement of the Proposal), potentially reflecting:

- market conditions:
 - an expectation that property values are approaching a peak²⁶ and continued soft demand and high vacancy in Perth and Brisbane
 - an increase in government bond yields, effectively reducing the attractiveness of A-REITs
 - an appreciation of the Australian dollar relative to the US dollar, making Australian dollar investments more expensive for foreign investors

In the 12 months to 25 May 2018, the premium/(discount) to NTA for other predominantly office A-REITs decreased/(increased) from (1.9%) to 26.2% (a median premium of 14.7%) to (7.8%) to 17.2% (a median premium of 6.4%).

²³ The 18% takes into account the recently announced ANZ agreement for lease over 68% of 347 Kent Street, Sydney.

²⁴ As at 31 May 2018.

²⁵ Australian portfolio only.

²⁶ For example: "Are we there yet? Office prices to peak in 2018", Australian Financial Review, 11 January 2018.

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- IOF's near term decline in FFO per IOF Unit and limited distribution growth as a result of its development activities and repositioning of key assets. Over the next two financial years, capital expenditure requirements in relation to these projects is estimated to be in the range of \$162 to \$192 million, not including lease incentives (refer to Section 7.6 of this report). Also, during the development and repositioning period, rental income will be reduced. ILFML, as responsible entity for IOF, has provided preliminary guidance indicating a 4.6% decline in FFO per IOF Unit from 30.6 cents in FY18 to 29.2 cents in FY19, while distributions are expected to remain flat at 20.3 cents. Management has not provided preliminary AFFO²⁷ guidance for FY19, however, we note that growth in AFFO per IOF Unit is expected to also be impacted by lease incentives in relation to development and repositioning projects. Consequently, distributions per IOF Unit over the next two years will need to be partially funded by an increase in borrowings
- continuing uncertainty as to the ownership of IOF and its management rights. ICPF's 19.9973% relevant interest in IOF is also likely to be a deterrent to an acquisition proposal by another party (although ICPF may be prevented from voting on a proposal), and
- IOF's external management structure, which is increasingly out of favour with investors.

In the three months prior to the announcement of the Proposal, IOF Units traded at a discount in the range of 6.5% to 16.2% (and an average of 12.4%) relative to NTA at 31 December 2017 of \$4.95. It is likely that in the absence of the Proposal, IOF would continue to trade at a discount to NTA as the factors which contributed to the discount continue to exist (in particular, the limited FFO and distribution growth). A 12.4% discount to pro forma and unaudited NTA at 30 June 2018 of \$5.47 (including the impact of the revaluations) suggests a trading price of \$4.79, which is below the Proposal Consideration of \$5.1485.

Since the announcement of the Proposal until 18 July 2018, the S&P/ASX200 A-REIT Index has increased by 2.0% and the trading price premiums/(discounts) to NTA for predominantly office A-REITs have generally²⁸ decreased/(increased) from (7.8%) to 17.2% (a median premium of 6.4%), to (15.9%) to 21.5% (a median premium of 3.9%). However, we note that this period corresponds with valuation uplifts for a number of the A-REITs, partially offset by the impact of the ex distribution dates for all of the A-REITs during this period.

Alternatives available to IOF

In weighing up any offer, IOF Unitholders should have regard to the alternatives that are available to IOF, including:

- remaining as a listed A-REIT
- liquidation/wind up, and
- a superior alternative acquisition proposal.

With regard to each of these alternatives, we note the following:

Remaining as a listed A-REIT

It is open for IOF Unitholders to vote against the Proposal and retain their investment in IOF in the expectation that the IOF Unit price will increase in future as property valuations continue to increase, however, future growth is not certain. Bond yields have recently increased and new supply is expected to come on in Sydney and Melbourne in the next few years. Furthermore, IOF's Unit price is influenced by other factors such as distribution yields.

²⁷ AFFO is FFO after maintenance capital expenditure and incentives.

²⁸ Premiums for Cromwell and Growthpoint increased over this period, potentially as the market is anticipating a valuation uplift. As at 18 July 2018, no uplift had been announced.



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IOF is an externally managed A-REIT, which is increasingly out of favour with investors, and we are not aware of any option to internalise management.

Wind up

A wind up of the portfolio is unlikely to realise a return to IOF Unitholders in excess of the cash payment under the Proposal. Sale of the portfolio and the distribution of the net proceeds would involve costs and risks including:

- sale of the portfolio is likely to take a considerable amount of time given the size of the portfolio (20 properties) and the existence of pre-emptive rights under co-investor agreements for some of the most attractive assets (e.g. 10-20 Bond Street, Sydney and 126 Phillip Street, Sydney)
- there would need to be a strategy around how to best sell the portfolio. For instance it may be difficult to sell the portfolio in a single transaction as the process would be complicated by pre-emptive rights under co-investor agreements. The portfolio includes six assets which are held in joint ventures, each of which are some of the most attractive assets. Further, the portfolio had a book value at 31 May 2018 of \$4.3 billion. There are a limited number of potential buyers that would have the financial capacity to undertake an acquisition of this size. If, on the other hand, the properties were sold individually, IOF may be able to sell the attractive properties relatively easily and at a premium to book value but may also be left with lower quality, more difficult to sell, assets, and
- the net proceeds from sale would be reduced by selling costs, break fees and taxes:
 - while the independent property valuations include selling costs, additional selling costs (e.g. legal and agents fees and some broker fees) would likely be incurred and there would be additional costs (e.g. legal) associated with the subsequent winding up of the trusts
 - break fees may be payable on the early repayment of the debt facilities, and
 - sale of the portfolio at book value would realise a substantial capital gain for tax purposes and bidders would incur greater stamp duty than under a sharemarket offer.

Likelihood of a superior alternative proposal

In assessing the merits of the Proposal, we have considered the likelihood of a superior alternative proposal. A number of parties (DEXUS and Cromwell) have expressed an interest in acquiring IOF in the past (refer to Section 5.1 of this report). The DEXUS Proposal was not successful and Cromwell did not proceed to make a binding offer. ICPF's 19.9973% relevant interest in IOF is also likely to be a deterrent to an acquisition proposal by another party (although ICPF may be prevented from voting on a proposal).

Under the Scheme Implementation Agreement, IOF is restricted from either soliciting or entering into discussions with third parties in relation to alternative proposals (other than the director fiduciary duty carve out). IOF is also required to notify the Acquirer should it become aware of any possible alternative proposal and the Acquirer has a last right to match a competing proposal. Further, under certain circumstances IOF would be required to pay a break fee of \$20 million.

Although the likelihood of a superior alternative proposal is impacted by these terms, it does not preclude an alternative proposal from being made. We note that the Directors would be required under their fiduciary duties to consider the merits of an alternative proposal should it arise.

The Proposal Consideration of \$5.1485 represents a 5.9% discount to the pro forma and unaudited NTA as at 30 June 2018 of \$5.47. This may provide an opportunity for an alternative bidder to offer a higher price. As noted previously, from 28 June 2018 (which follows the announcement of the property valuations on 26 June 2018 and the ex distribution date) until 18 July 2018, IOF Units have mostly²⁹

²⁹ During this period, IOF Units traded in range of \$5.11 to \$5.27, at a VWAP of \$5.20.

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traded above the Proposal Consideration of \$5.1485 and likely reflects speculation that Blackstone will increase its offer or that another bidder will make a superior proposal.

There will continue to be opportunity for interested parties to put forward a superior proposal until the Scheme Meeting. However, we are not aware of a superior alternative proposal as at the date of this report and there is no evidence that Blackstone would be prepared to pay a higher price. There has already been an increase in the offer price from \$5.05 (pre distributions) on 5 April 2018 to \$5.25 (pre distributions) on 4 May 2018 as a consequence of negotiations between Blackstone and the Directors.

3.3 Other considerations

In forming our opinion, we have also considered a number of other factors, as detailed below. Although we do not consider these factors impact our assessment of the reasonableness of the Scheme, we consider it appropriate for IOF Unitholders to consider these factors in assessing the Scheme.

Transaction costs associated with the Scheme

IOF management has estimated that in the event the Proposal does not proceed, IOF will have incurred or committed costs of approximately \$5.1 million (plus GST, excluding any break fee) in relation to the Proposal. One-off transaction costs associated with the Proposal primarily relate to legal, accounting and expert fees and other costs associated with the Proposal.

Taxation implications for IOF Unitholders

Allens has provided tax advice for IOF Unitholders who hold their IOF Units on capital account and who acquired their IOF Units post 20 September 1985 (other than pursuant to an employee share, option or rights plan) and who are not subject to "taxation of financial arrangement" rules. For Australian resident IOF Unitholders, the Proposal will give rise to two separate capital gains tax events in relation to the disposal of AJO Units and PCP Units for cash. Unitholders may make a capital gain or loss depending on the cost base or reduce cost base of their holding. The distribution for 2H18 should not be included in the capital proceeds. Further details of the tax consequences for Australian resident IOF Unitholders, as well as the tax consequences for non-Australian resident IOF Unitholders are set out in Section 7 of the Explanatory Memorandum.

3.4 Consequences if the Scheme does not proceed

In the event that the Scheme is not approved or any conditions precedent prevent the Scheme from being implemented, IOF will continue to operate in its current form and remain listed on the ASX. As a consequence:

- IOF will continue to operate as a standalone entity and remain listed on the ASX. Transaction costs of \$5.1 million will also have been incurred or committed
- IOF Unitholders will not receive the Proposal Consideration. IOF would not be liable to pay a break fee
- IOF Unitholders will continue to be exposed to the benefits and risks associated with an investment in IOF
- in the absence of a superior alternative proposal, the IOF Unit price will likely fall, for the reasons set out previously
- if the Proposal does not proceed due to certain specified events as described in Section 8.3 of the Explanatory Memorandum, such as any of the Directors ILFML, as responsible entity for IOF failing



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to recommend the Proposal or withdrawing their recommendation (with certain exceptions³⁰), ILFML must pay to the Acquirer a break fee of \$20 million.

4 Other matters

In forming our opinion, we have considered the interests of IOF Unitholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual IOF Unitholders. It is not practical or possible to assess the implications of the Proposal on individual IOF Unitholders as their financial circumstances are not known. The decision of IOF Unitholders as to whether or not to approve the Proposal is a matter for each IOF Unitholder based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual IOF Unitholders should therefore consider the appropriateness of our opinion to their specific circumstances before acting on it. As an individual's decision to vote for or against the Scheme Resolutions may be influenced by his or her particular circumstances, we recommend that individual IOF Unitholders including residents of foreign jurisdictions seek their own independent professional advice.

Our report has also been prepared in accordance with the relevant provisions of the Corporations Act 2001 (Cth) (the Act) and other applicable Australian regulatory requirements. This report has been prepared solely for the purpose of assisting IOF Unitholders in considering the Proposal. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

All currency amounts in this report are denominated in Australian dollars unless otherwise stated. References to the financial year to 30 June have been abbreviated to FY.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Explanatory Memorandum to be sent to IOF Unitholders in relation to the Proposal, without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears. KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Explanatory Memorandum.

Our opinion is based solely on information available as at the date of this report as set out in Appendix 2. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information section as set out in Section 6.3 of our report.

The above opinion should be considered in conjunction with, and not independently of, the information set out in the remainder of this report, including the appendices.

Yours faithfully

Ian Jedlin
Authorised Representative

Joanne Lupton
Authorised Representative

³⁰ Other than in the event of the independent expert concluding the Proposal is not in the best interests of IOF Unitholders or ILFML has terminated the Implementation Agreement due to the material breach by the Acquirer of its obligations or warranties, or due to the Proposal not being approved by the requisite majorities.

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5 The Proposal

5.1 Background

The Proposal follows several years of actual and proposed changes of ownership of IOF, its responsible entity, ILFML, and property manager, IOM.

Ownership of management rights

In March 2011, ING Real Estate Investment Management sold the management rights of IOF to IPG. IPG was owned by funds managed by Morgan Stanley Real Estate Investing (Morgan Stanley). As part of the transaction, IOF was granted a call option over 50% of the IOM platform, exercisable within 12 months of the date on which the value of IOF's Australian assets exceeded \$3.5 billion.

In February 2015, Morgan Stanley advised that it had commenced a formal process to sell its interest in IPG (which included Investa Office Management Holdings Pty Limited (IOMH) (the owner of IOM) and its 8.94% interest in IOF, Investa Property Trust and the Investa Land business).

In August 2015, ILFML announced that Morgan Stanley had advised that it would not entertain an offer from IOF to acquire IOM and that it intended to complete a sale of IOM in a manner that did not trigger IOF's pre-emptive rights.

In October 2015, ILFML announced that Morgan Stanley had entered into a non-binding term sheet with Investa Commercial Property Fund (ICPF) to acquire the management platform.

In March 2016, IPG, now comprising ICPF and ICPF Holdings Ltd, acquired IOMH, the owner of IOM, from Morgan Stanley for \$90 million. The sale did not trigger IOF's pre-emptive right to acquire a 50% interest in IOM.

In November 2016, ICPF acquired Morgan Stanley's 8.94% interest in IOF.

Strategic Review in 2015 and DEXUS Proposal

On 14 August 2015, the independent directors of ILFML at the time announced that it had commenced a process to undertake a full strategic review with the objective of maximising value for IOF Unitholders and explore management and ownership options of IOF.

The strategic review resulted in a proposal from DEXUS Property Group (DEXUS Proposal) in December 2015 to acquire all of the IOF Units in IOF for standard cash and scrip consideration comprising 0.4240 DEXUS securities and \$0.8229 in cash for each IOF Unit. As an alternative to the standard consideration, the DEXUS Proposal offered a 'mix and match' facility where IOF Unitholders were able to elect to receive all-cash or all-scrip consideration, subject to a scale-back mechanism. The proposal allowed IOF Unitholders a cash alternative of up to \$4.11 per IOF Unit.

On 12 April 2016, Cromwell Property Group (Cromwell) acquired a 9.83% interest in IOF from CBRE Clarion Securities LLC. The sale of IOM in March 2016 allowed Morgan Stanley to vote its interest in relation to the DEXUS Proposal. In April 2016, the DEXUS Proposal was rejected by IOF Unitholders.

IOM Joint Venture Proposal

In August 2016, the value of IOF's commercial office assets exceeded \$3.5 billion and IOMH offered to IOF a 50% interest in IOM for \$45 million plus other agreed adjustments, such that IOMH would be 50% owned by each of IPG and IOF. The joint venture proposal transaction was rejected by IOF Unitholders on 31 May 2017.



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Cromwell indicative and non-binding proposal

On 30 November 2016, ILFML advised that it had received a highly conditional, non-binding and indicative letter from Cromwell referring to the conditional possibility of an arrangement to acquire all of the IOF Units for \$4.45 per IOF Unit in cash. ILFML did not grant due diligence as it considered that the offer price undervalued IOF.

On 4 April 2017, ILFML advised that it had received an unsolicited, indicative and non-binding proposal from Cromwell to acquire all of the IOF Units for \$4.85 per IOF Unit (inclusive of a 10.0 cent distribution). After signing a confidentiality agreement with ILFML and commencing due diligence, Cromwell did not proceed to make a binding offer and sold its interest in IOF to ICPF on 4 October 2017, increasing ICPF's interest in IOF to 19.95%.

5.2 Overview of the Proposal

On 5 April 2018, the Directors of ILFML received an unsolicited, confidential, indicative and non-binding proposal from the Acquirer to acquire IOF for cash consideration of \$5.05 per IOF Unit, reduced by any distributions declared or paid by IOF on or after 5 April 2018. On 4 May 2018, ILFML, on behalf of IOF, and the Acquirer entered into a confidentiality and standstill agreement which resulted in the increased proposal to \$5.25 per IOF Unit, less any distributions declared or paid by IOF on or after 4 May 2018.

On 28 May 2018, ILFML, as responsible entity of IOF, announced that it had entered into a Process Deed with the Acquirer in relation to the Proposal for the acquisition of all the IOF Units by way of a trust scheme. Under the Process Deed, the Acquirer was granted a further four weeks to complete any outstanding confirmatory due diligence and finalise binding documentation with ILFML and the Directors of ILFML agreed, among other matters, to a 'no shop' provision during this period.

Subsequently, on 13 June 2018, ILFML announced that it had entered into a Scheme Implementation Agreement with the Acquirer in relation to the Proposal. The Scheme Implementation Agreement contains a number of conditions as set out in Section 5.3 of this report.

Under the terms of the Proposal, IOF Unitholders will receive \$5.25 in cash for each IOF Unit held on the Record Date³¹ reduced for distributions declared or paid by IOF after 4 May 2018 and prior to the implementation of the Proposal. On 18 June 2018, ILFML, as responsible entity for IOF, declared a distribution of 10.15 cents per IOF Unit for the second half of FY18 (2H18), such that IOF Unitholders registered as such on the Record Date will receive \$5.1485 cash per IOF Unit from the Acquirer on implementation of the Proposal. The distribution is expected to be paid on or before 27 August 2018.

If the Scheme is approved by the IOF Unitholders and the Court, and if all other conditions are satisfied or waived, IOF will be de-stapled and delisted from the ASX. If the Scheme is not approved or any other conditions are not satisfied or waived, the Proposal will not proceed, and IOF will continue as a standalone stapled group listed on the ASX.

The Directors have stated that they unanimously recommend that IOF Unitholders vote in favour of the Proposal in the absence of superior proposal and subject to an independent expert opining that the Scheme is in the best interests of IOF Unitholders.

³¹ Record Date refers to 7.00pm on the fifth business day following the Effective Date or such other date as ILFML and the Acquirer agree in writing.

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5.3 Conditions of the Proposal

The Proposal is subject to a number of conditions precedent which, if not satisfied or waived (if applicable), may result in the Proposal not proceeding. These conditions precedent are set out in detail in Clause 3.1 of the Scheme Implementation Agreement and Section 8.3 of the Explanatory Memorandum and are summarised below:

- Foreign Investment Review Board (FIRB) approval
- regulatory approvals required to implement the Proposal are obtained and not withdrawn, cancelled or revoked
- IOF Unitholder approval of the Scheme Resolutions by the requisite majorities
- execution and lodgement of a deed poll to amend the Constitutions of AJO Fund and PCP Trust
- other customary conditions, including 'no prescribed occurrence', 'no restraints' and 'no material adverse change' before the date of the Scheme Meeting
- each member of the ILFML Board has, in the Explanatory Memorandum, stated that they recommend that the IOF Unitholders vote in favour of the Proposal, in the absence of a Superior Proposal³² and subject to an independent expert report opining that the Scheme is in the best interests of IOF Unitholders, and no member of the ILFML Board has withdrawn, qualified or varied their recommendation before the Scheme Meeting³³
- the Supreme Court of New South Wales (Court) granting the First Judicial Advice and the Second Judicial Advice³²
- the independent expert provides the IER to ILFML stating that in its opinion the Proposal is in the best interests of IOF Unitholders and does not change its conclusion before the Scheme Meeting, and
- the Acquirer's warranty that it has a reasonable basis to expect that it will, by the business day prior to the Implementation Date (expected to be 5 September 2018), have funds sufficient to perform its obligations if the Proposal becomes Effective, is true and correct on the Second Judicial Advice Date³².

Clause 11 of the Scheme Implementation Agreement and Section 8.3 of the Explanatory Memorandum also contains certain exclusivity provisions that apply during the Exclusivity Period³⁴ including 'no existing discussions', 'no shop', 'no talk' and 'no due diligence' restrictions, a notification obligation and a matching right, subject (in the case of the 'no talk' and 'no due diligence' restrictions and notification obligation) to the Directors' fiduciary obligations. A break fee of \$20 million will be payable to the Acquirer by IOF in certain circumstances. Further details of the break fee are contained in Clause 12 of the Scheme Implementation Agreement and Section 8.3 of the Explanatory Memorandum.

IOF Unitholders should also be aware that the Scheme Implementation Agreement may be terminated in certain circumstances including in the event that a condition precedent is not satisfied or waived, if the Scheme does not become effective by 12 December 2018 (or such later date as agreed in writing between the parties) or if the Scheme Resolutions are not approved by the requisite majority of IOF Unitholders at

³² As defined by the Scheme Implementation Agreement.

³³ Scheme Meeting means the meeting of IOF Unitholders to consider the Scheme Resolutions, and includes any adjournment of that meeting.

³⁴ The period commencing on 13 June 2018 and ending on the earlier of the date on which the Scheme Implementation Agreement is terminated, the Implementation Date of the Scheme and 12 December 2018.



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the Scheme Meeting as set out in Clause 13 of the Scheme Implementation Agreement and summarised in Section 8.3 of the Explanatory Memorandum. If the Scheme Implementation Agreement is terminated, the Scheme will not proceed.

5.4 Transaction costs

IOF management has estimated total one-off transaction costs in relation to the Proposal to be in the range of \$5.1 million to \$17.6 million on a pre-tax basis, of which approximately \$5.1 million will have been incurred or committed prior to the Scheme Meeting of IOF Unitholders. One-off transaction costs associated with the Proposal primarily relate to adviser, legal, accounting and expert fees and other costs associated with the Proposal.

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6 Scope of the report

6.1 Purpose

This report is to be included in the Explanatory Memorandum to be sent to the IOF Unitholders and has been prepared for the purpose of assisting IOF Unitholders in their consideration of the Proposal.

There is no specific statutory framework for a trust scheme as there is for a scheme of arrangement between companies and their members. As such, the Takeovers Panel has issued Guidance Note 15 outlining the recommended procedures for a trust scheme. This Guidance Note suggests that the notice of meeting and explanatory memorandum for a trust scheme should contain a report by an independent expert that states whether, in the expert's opinion, the terms of the trust scheme are fair and reasonable, and therefore consistent with determining whether it is in the best interests of the members.

6.2 Basis of assessment

RG 111, issued by ASIC, indicates the principles and matters which it expects a person preparing an independent expert's report to consider. RG 111.18 states that where a scheme of arrangement is used as an alternative to a takeover bid, the form of analysis undertaken by the expert should be substantially the same as for a takeover bid. That form of analysis considers whether the transaction is "fair and reasonable" and, as such, incorporates issues as to value. In particular:

- 'fair and reasonable' is not regarded as a compound phrase
- an offer is 'fair' if the value of the offer price or consideration is equal to or greater than the value of the shares subject to the offer
- an offer is 'reasonable' if it is 'fair'
- an offer might also be 'reasonable' if, despite being 'not fair', the expert believes that there are sufficient reasons for shareholders to accept the offer in the absence of any higher bid before the close of the offer.

RG 111 provides that an offer is fair if the value of the consideration is equal to or greater than the value of the shares subject to the offer. It is a requirement of RG 111 that the comparison be made assuming 100% ownership of the 'target' and irrespective of whether the consideration is scrip or cash and without regard to the percentage holding of the bidder or its associates in the target prior to the bid. That is, RG 111 requires the value of the target to be assessed as if the bidder was acquiring 100% of the issued equity (i.e. on a controlling interest basis). In addition to the points noted above, RG 111 notes that the weight of judicial authority is that an expert should not reflect 'special value' that might accrue to the acquirer.

Accordingly, when assessing the full underlying value of IOF, we have considered those synergies and benefits which would be available to more than one potential purchaser (or a pool of potential purchasers) of IOF. As such, we have not included the value of special benefits that may be unique to the Acquirer. Accordingly, our valuation of IOF has been determined without regard to the specific bidder, and any special benefits have been considered separately.

Reasonableness involves an analysis of other factors that shareholders might consider prior to accepting an offer, such as:

- the bidder's pre-existing shareholding in the target
- other significant shareholdings in the target
- the liquidity of the market in the target's shares
- any special value of the target to the bidder



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- the likely market price of the target's shares in the absence of the offer
- the likelihood of an alternative offer being made
- any other advantages, disadvantages and risks associated with accepting the offer.

RG 111.20 states that if an expert would conclude that a proposal was 'fair and reasonable' if it was in the form of a takeover bid, it will also be able to conclude that the scheme is 'in the best interests' of the members of the company. Further, RG111.21 states that if an expert would conclude that the proposal was 'not fair but reasonable' ... it is still open to the expert to also conclude that the scheme is 'in the best interests of the members of the company'.

6.3 Limitations and reliance on information

In preparing this report and arriving at our opinion, we have considered the information detailed in Appendix 2 of this report. In forming our opinion, we have relied upon the truth, accuracy and completeness of any information provided or made available to us without independently verifying it. Nothing in this report should be taken to imply that KPMG Corporate Finance has in any way carried out an audit of the books of account or other records of IOF or IOM for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion is comprised of the opinions and judgements of management. In addition, we have also had discussions with IOM as manager of IOF in relation to the nature of the business operations, specific risks and opportunities, historical results of IOF and prospects for the foreseeable future of IOF. This type of information has been evaluated through analysis, enquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

ILFML has been responsible for ensuring that information provided by it or its representatives is not false or misleading or incomplete. Complete information is deemed to be information which at the time of completing this report should have been made available to KPMG Corporate Finance and would have reasonably been expected to have been made available to KPMG Corporate Finance to enable us to form our opinion.

We have no reason to believe that any material facts have been withheld from us but do not warrant that our inquiries have revealed all of the matters which an audit or extensive examination might disclose. The statements and opinions included in this report are given in good faith, and in the belief that such statements and opinions are not false or misleading.

The information provided to KPMG Corporate Finance included forecasts/projections and other statements and assumptions about future matters in relation to IOF (forward-looking financial information) prepared by representatives of ILFML. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, ILFML remains responsible for all aspects of this forward-looking financial information. The forecasts and projections as supplied to us are based upon assumptions about events and circumstances which have not yet transpired. We have not tested individual assumptions or attempted to substantiate the veracity or integrity of such assumptions in relation to any forward-looking financial information, however we have made sufficient enquiries to satisfy ourselves that such information has been prepared on a reasonable basis.

Notwithstanding the above, KPMG Corporate Finance cannot provide any assurance that the forward-looking financial information will be representative of the results which will actually be achieved during the forecast period. Any variations in the forward looking financial information may affect our valuation and opinion.

The opinion of KPMG Corporate Finance is based on prevailing market, economic and other conditions at the date of this report. Conditions can change over relatively short periods of time. Any subsequent

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changes in these conditions could impact upon our opinion. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion.

6.4 Disclosure of information

In preparing this report, KPMG Corporate Finance has had access to all financial information considered necessary in order to provide the required opinion. ILFML has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to IOF. This request has been made on the basis of the commercially sensitive and confidential nature of the operational and financial information of the operating entities comprising IOF. As such the information in this report has been limited to the type of information that is regularly placed into the public domain by ILFML.



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7 Profile of IOF

7.1 Overview

IOF is an ASX listed A-REIT that is externally managed by IOM, a wholly owned subsidiary of IOMH. A wholly owned subsidiary of IOM, ILFML, is the responsible entity of IOF. Since February 2016, IOM has been owned by ICPF Holdings Limited. IOF holds a portfolio of 20 investment grade office properties located in CBDs throughout Australia. As at 31 May 2018, the properties had a book value of approximately \$4.3 billion. Prior to the announcement of the Proposal on 28 May 2018, IOF had a market capitalisation of approximately \$2.8 billion.³⁵

IOF was formed in January 2000 as a result of the stapling of the units in two Australian registered property schemes, being the AJO Fund and the PCP Trust, and was externally managed by Mercantile Mutual Holdings Limited (Mercantile Mutual). IOF was renamed 'ING Office Fund' in 2001 when Mercantile Mutual changed its name to 'ING Australia Holdings Limited'. IOF's portfolio was expanded in both Europe and the United States up until the onset of the global financial crisis in 2008.

In March 2011, ING Real Estate Investment Management sold the management rights of IOF to a wholly owned subsidiary of ING. IPG was owned by funds managed by Morgan Stanley Real Estate Investing (Morgan Stanley), and IOF was renamed 'Investa Office Fund'. The strategy of IOF was refined to focus on the Australian office property sector. All offshore assets were divested (the sale of the final asset, a 50% interest in the Bastion Tower, Belgium, was completed in March 2015) and the proceeds reinvested in high quality Australian office properties that were mainly located in the Sydney and Melbourne CBDs.

In March 2016, ICPF Holdings Limited (an entity stapled to ICPF) acquired IOMH, the owner of IOM, from Morgan Stanley Real Estate Investing for \$90 million. The sale did not trigger IOF's pre-emptive right to acquire 50% of IOM.

Since FY14, IOF has experienced net property income (NPI)³⁶ growth as vacancy rates have declined and face rents have increased. Strong growth in property valuations has also occurred as a result of the NPI growth and yield compression.

In FY17, the \$211 million proceeds from the sale of two non-core assets in Melbourne (383 La Trobe Street and 800 Toorak Road) were reinvested in a new office development at Barrack Place, 151 Clarence Street (estimated total cost \$130 million excluding incentives) and incentive capital expenditure at 242 Exhibition Street, Melbourne and 126 Phillip Street, Sydney and will be used to support the repositioning of 347 Kent Street, Sydney and 388 George Street, Sydney from FY19 and FY20. In addition, IOF bought back \$70 million of IOF Units in FY18.³⁷

7.2 Strategy

IOF's strategy is focused on³⁸:

- enhancing the property portfolio returns through active asset management
- identifying and implementing value add and development opportunities to create quality core assets

³⁵ Calculated as closing price on 25 May 2018 of \$4.63 multiplied by 598,418,985 IOF Units on issue.

³⁶ NPI includes income from consolidated and equity accounted properties.

³⁷ On 24 August 2017, ILFML, as the responsible entity of IOF, announced its intention to buy-back IOF Units. In the period following announcement of the buy-back until 31 December 2017, IOF purchased 15,628,473 IOF Units for a total value of \$70.1 million, representing 2.5% of the 614 million IOF Units on issue at 30 June 2017.

³⁸ Investa Office Fund Property Portfolio Book 30 June 2017, IOF Management.

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- enhancing portfolio quality, scale and diversification with selective acquisitions and divestments
- applying a focused approach to capital and risk management, and
- ensuring responsible investment from environmental, social and governance perspectives.

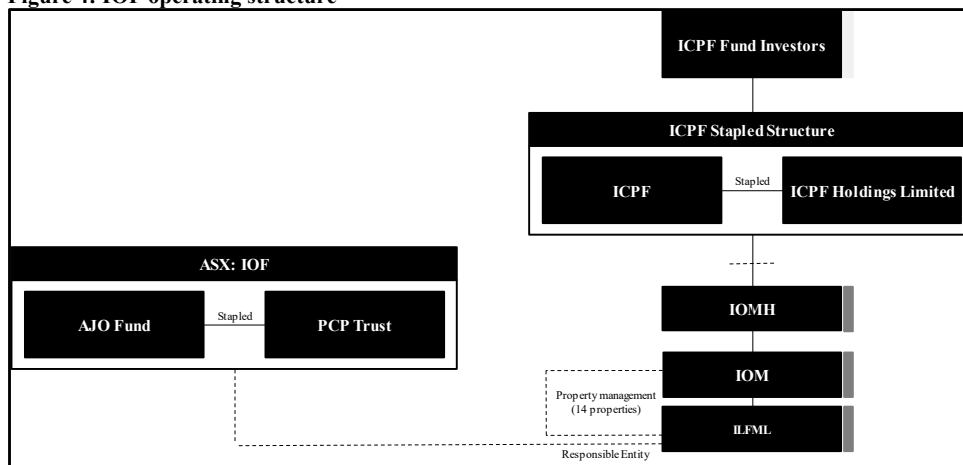
7.3 Operating structure

IOF is a stapled entity comprised of AJO Fund and PCP Trust (the Trusts) and trades on the ASX (ASX:IOF).

As stated previously, the responsible entity for the Trusts is ILFML. As the responsible entity, ILFML has engaged IOM to act as the manager of IOF pursuant to an Amended and Restated Management Deed dated 21 September 2017. Other subsidiaries of IOM undertake property management, project development and other general and administration services.

ICPF has a 19.9973% relevant interest in IOF. The operating structure of IOF is summarised as follows.

Figure 4: IOF operating structure



Source: IOF management

The rights and obligations of ILFML as responsible entity are set out in the Act and the constitutions of the respective Trusts approved by IOF Unitholders on 6 December 2011 (the Constitutions). ILFML's role as responsible entity of IOF is subject to the provisions of the Act relating to the retirement and removal of responsible entities for listed managed investment schemes. ILFML effectively has indefinite tenure unless it retires or is removed (including due to a change of control clause). Either of these changes may occur following an ordinary resolution of IOF Unitholders (i.e. at least 50% of votes cast).

ILFML has delegated certain responsibilities to related and other entities, including:

- **funds management services:** have been delegated to IOM under an Amended and Restated Management Deed, dated 21 September 2017. The agreement continues until the earlier of a wind up of the AJO Fund and the PCP Trust and the date on which ILFML ceases to be the responsible entity of IOF (and is not replaced by a member of IPG)
- **property management services:** in relation to 11 wholly owned properties in Sydney/North Sydney and Brisbane, Investa Asset Management Pty Ltd (IAMPL) or Investa Asset Management (QLD) Pty Ltd (IAMPL - QLD), subsidiaries of IOM, under a Property Management Agreement, dated 23



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December 2014. The agreement specifies a minimum term of five years from commencement. The commencement dates vary by property and range from 24 July 2013 to 1 January 2015.

In addition, IAMPL is responsible for property management of three jointly owned properties that are held through trusts (126 Phillip Street, Sydney, 567 Collins Street, Melbourne and 242 Exhibition Street, Melbourne). Management agreements for these jointly owned properties can be terminated by any party for material breach by another party or by providing prior written notice of 30 or 90 days (as applicable).

The property management agreements also provide for leasing fees.

IAMPL undertakes property management with respect to the office component of Piccadilly Complex, Sydney under separate property management agreements. The retail component of Piccadilly Complex is managed externally. The management agreement for Piccadilly Complex can be terminated by either co-owner with a 90 day notice period. The remaining five properties (including wholly owned properties in Perth and Canberra as well as jointly owned properties, 10-20 Bond Street, Sydney, and 388 George Street, Sydney) are externally managed

- **project management services:** in relation to 11 wholly owned properties in Sydney/North Sydney and Brisbane, Investa Office Development Pty Limited (a subsidiary of IOM) under a Project Management Agreement dated 23 December 2014. The agreement specifies a minimum term of five years from commencement. The commencement dates vary by property and range from 24 July 2013 to 1 January 2015.

In addition, IAMPL is responsible for the project management of four jointly owned properties that are held through trusts (242 Exhibition Street, Melbourne, 567 Collins Street, Melbourne, 126 Phillip Street, Sydney and the Piccadilly Complex, 133 Castlereagh Street, Sydney).

- **development management services:** in relation to 567 Collins Street, Melbourne, Investa Office Development Pty Ltd. The development was completed in July 2016 and the agreement expired on 31 August 2016.

Development management services in relation to the redevelopment of 151 Clarence Street, Sydney, are provided pursuant to a Development Management Services Agreement dated 16 October 2012 (subsequently novated to Investa Office Development Pty Limited on 15 June 2015, and later amended on 2 April 2017). This agreement can be terminated in certain circumstances (including for the convenience by the owner, as well as by the owner on 7 days' notice where the Manager is in default of the agreement. The development of Barrack Place is due to be completed in October 2018.

Development management services in relation to IOF's interest in the major refurbishment of 388 George Street, Sydney, are provided by Investa Office Development Pty Limited pursuant to a Development Management Services Agreement dated 1 September 2017. The agreement will expire three months following practical completion of the project, or in certain circumstances including if the Manager is in default of the agreement, with one month's notice if the Owners are no longer proceeding with the project or with six months' notice at the Owner's discretion.

Investa Office Developments Pty Limited is also providing development management services in relation to the potential opportunities at 105 Miller Street, North Sydney. The services are being provided by way of an hourly rate agreement, with a capped maximum spend. The services can be terminated by IOF with one month's notice.

- **management commissioning services:** in relation to 151 Clarence Street, Sydney, IAMPL, pursuant to an agreement dated 12 August 2016 and will terminate on the date of practical completion unless terminated earlier in accordance with the terms of the agreement.

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- **IAMPL is appointed as Joint Leasing Agent** on 347 Kent Street, Sydney, 151 Clarence Street, Sydney and 105 Miller Street, North Sydney. The agreement for 347 Kent Street, Sydney is dated 1 November 2016 and has a term of 6 months which then extends to a rolling 6 monthly hold over. The agreement for 151 Clarence Street, Sydney is dated 26 October 2016 and has a term of 6 months which then extends to a rolling 6 monthly hold over. The agreement for 105 Miller Street, North Sydney is currently being negotiated with the Joint Agent and has not been signed.
- it does not currently have any other funds management, property management, lease services or project management agreements in place.

7.4 Fee structure

ILFML and other subsidiaries of IOM are entitled to certain fees in relation to the services provided to IOF as summarised in the following table.

Table 4: Summary of management fees payable by IOF

Type of fee or cost	Entitlement
Responsible entity fees	0.1375% of the previous quarter's VWAP market capitalisation, with a cap/floor representing +/- 2.5% of the prior quarter's invoiced fees
Project management fees	- For works <\$51,000: 1.8% of the cost of capital works - For works \$51,000 to \$200,000: fixed at \$3,600 - For works >\$200,000: 1.8% payable on a sliding scale dependant on the project stage
Property management fees	
Management fees, general	The higher of, 2% of gross income or, \$10 per square metre
Management fees, specific	- Piccadilly Complex, Sydney: 1% of gross income - 242 Exhibition Street, Melbourne: \$435,000 p.a. - 567 Collins Street, Melbourne: \$350,200 p.a. - 126 Phillip Street, Sydney: \$607,704 p.a. - 347 Kent Street, Sydney: \$270,000 p.a. - 6 O'Connell Street, Sydney: \$245,000 p.a. - 99 Walker Street, North Sydney: \$242,448 p.a.
Leasing fees	
Leasing fees, general	- New/relocation fees: 10% to 15% of first year income based on lease term less than 3 years to more than 7 years - Lease renewal fees: 7.5% of first year gross income - Fee for additional space: 7% of first year gross income - Fee for market rent review: 10% of first year gross income
Leasing fees, specific	- 242 Exhibition Street and 567 Collins Street, Melbourne: lease renewals are 5% to 7.5%. - 126 Phillip Street, Sydney: relocations 2.5% to 15%, lease renewals are 5% - Overrider 20% on all
Management Commission	- 151 Clarence Street, Sydney: \$5,500 per month
Other fees	- Safety Health and Environmental Management Systems fee of \$10,000 p.a. - Employment costs are on-charged in addition to the fees

Source: The Constitutions, Project and Property Management Agreements of IOF

7.5 Board of directors and senior management

IOM is responsible for appointing or removing the board members of ILFML, however, the appointment of independent directors is subject to ratification by the IOF Unitholders at an annual general meeting. IOF Unitholders have no ability to nominate, appoint or remove board members.



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ILFML's current Board of Directors and senior management are summarised in the following table:

Table 5: IOF directors and senior management

Board members	Senior management
Richard Longes (Independent Non-Executive Chairman)	Penny Ransom (Group Executive, IOF Fund Manager)
John Fast (Independent Non-Executive Director)	
Robert Seidler AM (Independent Non-Executive Director)	
Geoffrey Kleemann (Independent Non-Executive Director)	
Gai McGrath (Independent Non-Executive Director)	

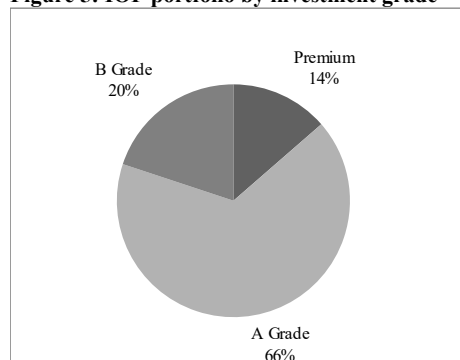
Source: IOF Financial Statement for 1H18

7.6 Investment property portfolio

Portfolio overview

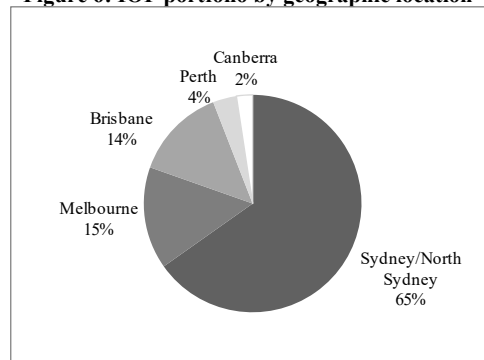
IOF holds a portfolio of 20 investment-grade office properties located in CBD's throughout Australia. As at 31 May 2018, the properties had a book value of approximately \$4.3 billion. The composition of IOF's investment property portfolio as at 31 May 2018 by investment grade and location (by carrying value) is illustrated in the following charts.

Figure 5: IOF portfolio by investment grade



Source: IOF management

Figure 6: IOF portfolio by geographic location



The portfolio is heavily weighted towards A-grade office assets, which represented approximately 66% of the portfolio at 31 May 2018. Additionally, around 80% of the portfolio is located in the strongly performing Sydney/North Sydney and Melbourne CBDs. IOF's exposures to office property in the weaker Brisbane, Perth and Canberra markets are 14%, 4% and 2%, respectively.

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IOF's portfolio listing as at 31 May 2018 is summarised in the following table.

Table 6: IOF portfolio listing as at 31 May 2018

Property	Ownership percentage (%)	Grade	31-May-18 book value (\$m)	Capitalisation rate (%)	Percent of total (%)
Sydney and North Sydney					
Piccadilly Complex, Sydney ¹	50%	A	323.0	5.5%	7.4%
6 O'Connell Street, Sydney	100%	B	275.0	5.0%	6.3%
10-20 Bond Street, Sydney ²	50%	A	310.0	5.0%	7.1%
388 George Street, Sydney ³	50%	A	244.0	5.1%	5.6%
347 Kent Street, Sydney	100%	A	350.0	5.1%	8.1%
151 Clarence Street, Sydney ⁴	100%	A	335.0	4.9%	7.7%
99 Walker Street, North Sydney	100%	A	267.0	5.6%	6.2%
105-151 Miller Street, North Sydney	100%	B	233.0	5.8%	5.4%
111 Pacific Highway, North Sydney	100%	A	236.0	6.0%	5.4%
Total			2,573.0	5.4%	59.3%
Brisbane					
239 George Street, Brisbane	100%	B	136.0	6.5%	3.1%
15 Adelaide Street, Brisbane	100%	B	60.5	7.5%	1.4%
140 Creek Street, Brisbane	100%	A	237.5	6.0%	5.5%
295 Ann Street, Brisbane	100%	B	138.6	6.3%	3.2%
232 Adelaide Street, Brisbane	100%	B	20.5	7.0%	0.5%
Total			593.1	6.4%	13.7%
Perth					
66 St Georges Terrace, Perth	100%	A	65.0	7.5%	1.5%
836 Wellington Street, Perth	100%	A	89.0	6.3%	2.1%
Total			154.0	6.8%	3.5%
Canberra					
16-18 Mort Street, Canberra	100%	A	104.5	5.9%	2.4%
Total consolidated			3,424.6	5.6%	78.9%
126 Phillip Street, Sydney ⁵	25%	Premium	258.5	4.8%	6.0%
567 Collins Street, Melbourne ⁶	50%	Premium	331.5	5.0%	7.6%
242 Exhibition Street, Melbourne ⁷	50%	A	326.5	5.0%	7.5%
Total equity accounted			916.5	4.9%	21.1%
Total investment property portfolio			4,341.1	5.5%	100.0%

Source: IOF management, table may not add due to rounding

Notes:

1. Co-investor is Stockland
2. Co-investor is Mirvac Group
3. Co-investor is Brookfield
4. Development property. Book value reflects valuation on an 'as if complete' basis, less costs to complete.
5. Co-investors are ICPF (50%) and CIC (25%)
6. Co-investors is ICPF
7. Co-investor is ICPF

During FY17, IOF completed the sale of the following B-grade Melbourne properties:

- 383 La Trobe Street on 17 January 2017 for \$70.7 million, representing a 31% premium to book value, and
- 800 Toorak Road on 23 February 2017 for \$140.5 million, at a 10.5% premium to book value.

On 18 July 2018, ILFML, as the responsible entity of IOF, announced that it had entered into a conditional agreement to sell 836 Wellington Street, Perth, for \$91.325 million, representing a 20% premium to IOF's 31 December 2017 book value and a \$2.325 million increase on the 31 May 2018 valuation. The sale is subject to FIRB approval and the settlement is expected to occur in October 2018. All information included in this report referring to information as at 31 May 2018 includes 836 Wellington Street, Perth.



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Development and refurbishments

IOF has one development project in progress and three refurbishment projects planned or underway. As at 31 May 2018, it had estimated capital commitments of between \$162 and \$192 million (not including lease incentive capital expenditure) over the next two financial years.

The development of Barrack Place, 151 Clarence Street, Sydney, an A-grade tower, is expected to be completed in October 2018 at a remaining cost in the range of \$45 to \$50 million (excluding incentives). The 31 May 2018 book value reflects the valuation on an 'as if complete' basis, less costs to complete in line with market practice.

IOF also has three refurbishment projects planned or underway including:

- \$34 million refurbishment of 242 Exhibition Street, Melbourne, which commenced in FY17 and is expected to be completed in FY21, with an estimated remaining cost of \$22 million (50% share, excluding incentives) as at 31 May 2018
- refurbishment of 388 George Street, Sydney, which is expected to commence upon the departure of IAG in October 2018 and take 15-18 months to complete, at a total estimated cost of \$55 to \$75 million (50% share, excluding tenant incentives and dependent on extent of retail development). A development approval has been submitted for a potential retail development and lobby upgrade works, and
- refurbishment of 347 Kent Street, Sydney, which is expected to commence at the end of ANZ's current lease in January 2019 and be completed by the end of 2019, at an estimated cost of \$40 to \$45 million (excluding incentives). ANZ has executed an agreement for lease over 17,143 square meters (68% of the building's office net lettable area) for five years from January 2019 (i.e. during the refurbishment period).

These projects are summarised in the following table.

Table 7: IOF development projects as at 31 May 2018

Property	Commence- ment date	Estimated completion date	Total cost ¹		Remaining cost ¹	
			Low	High	Low	High
Development						
151 Clarence Street, Sydney	May 16	Oct 18	130.0	130.0	45.0	50.0
Refurbishments						
242 Exhibition Street	Oct 16	May 21	34.0	34.0	22.0	22.0
388 George Street, Sydney	Oct 18	Jan 20 to Apr 20	55.0	75.0	55.0	75.0
347 Kent Street, Sydney	Jan 19	Sept 19 to Dec 19	40.0	45.0	40.0	45.0
Total	n/a	n/a	259.0	284.0	162.0	192.0

Source: IOF management, table may not add due to rounding

Note 1: IOF share, excluding incentives.

Co-investor agreements

A number of properties are held jointly with third parties under co-investor agreements. Certain agreements provide third parties with pre-emptive rights to acquire IOF's interest in the property under specified conditions. In particular, in the event of a change of control of IOF, Mirvac has a pre-emptive right to acquire IOF's 50% interest in 10-20 Bond Street, Sydney.

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Key statistics

A summary of the key statistics of the Australian portfolio as at 30 June 2014, 30 June 2015, 30 June 2016, 30 June 2017 and 31 May 2018 is presented in the following table.

Table 8: IOF portfolio summary

As at	30-Jun-14	30-Jun-15	30-Jun-16	30-Jun-17	31-May-18
Weighted average capitalisation rate (by book value) ¹	7.3%	6.9%	6.2%	5.7%	5.5%
Occupancy (by income) ¹	93%	93%	96%	97%	97%
Tenant retention (by income)	68%	62%	77%	89%	78%
Weighted average lease expiry ¹	5.0 years	5.2 years	4.8 years	5.1 years	5.0 years
Number of investments	23	22	22	20	20

Source: IOF Results Presentations for FY15, FY16 and FY17, IOF management.

Note 1: Excludes properties under development

From 30 June 2014 to 31 May 2018, the performance of IOF's portfolio improved substantially:

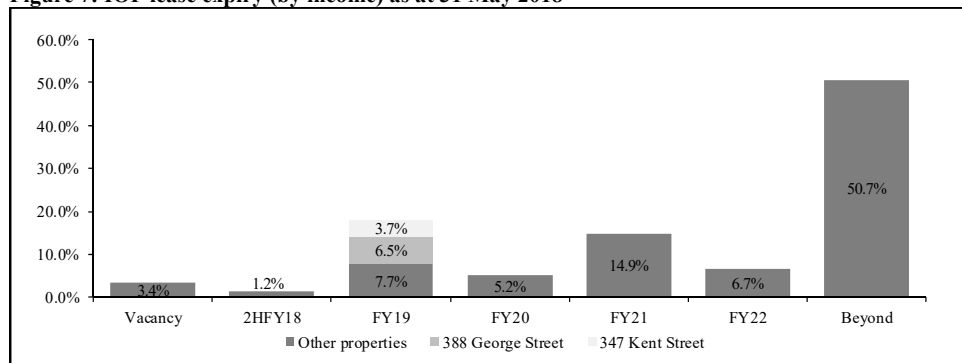
- weighted average capitalisation rate (by book value) compressed substantially from 7.3% to 5.5%, reflecting compression across all markets
- occupancy increased from 93% to 97%, mainly as a result of reduced vacancies in Brisbane and with the majority of vacancies at 31 May 2018 in Perth (17%) and Brisbane (5%)
- tenant retention increased from 68% to 89% at 30 June 2017 (an unusually high level as a result of two whole of building lease renewals) then declined to 78% at 31 May 2018, and
- weighted average lease expiry (WALE) remained relatively steady.

In the 11 months to 31 May 2018, leasing risk at Barrack Place, 151 Clarence Street, Sydney, was substantially reduced as IOF entered into lease agreements with tenants. The most recent agreement was with Mills Oakley Lawyers Pty Ltd (announced on 7 June 2018) and increased pre-commitments to 83% of the total net lettable area with a weighted average lease term of 9.8 years.

Lease expiry profile

IOF's lease expiry (by income) as at 31 May 2018 is illustrated in the following chart.

Figure 7: IOF lease expiry (by income) as at 31 May 2018¹



Source: IOF management.

Note 1: Excludes Barrack Place, 151 Clarence Street, Sydney

As at 31 May 2018, a number of leases had either expired or were due to expire in by the end of FY19. Approximately 22% of income is at risk, comprising current vacancies (3%), leases due to expire in June 2018 (1%) and leases (mainly including 388 George Street, Sydney and a portion of net lettable area of 347 Kent Street, Sydney) due to expire in FY19 (18%).



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Property lease expiries to FY19 (as at 31 May 2018) are presented in the following table.

Table 9: IOF property lease vacancies and expiry summary to FY19 (as at 31 May 2018)

Property	Location	Tenant	Area (sqm) ¹	Expiry
Vacant				
239 George Street	Brisbane	n/a	2,830	Vacant
126 Phillip Street	Sydney	n/a	2,048	Vacant
66 St Georges Terrace	Perth	n/a	6,129	Vacant
15 Adelaide Street	Brisbane	n/a	2,228	Vacant
FY18				
66 St Georges Terrace	Perth	Dimension Data	1,007	Jun 18
99 Walker Street	North Sydney	Various	1,015	Jun 18
FY19				
111 Pacific Highway	North Sydney	Broadspectrum	6,337	Jul 18
388 George Street	Sydney	IAG	35,817	Oct 18
10 - 20 Bond Street	Sydney	AICD	3,071	Dec 18
347 Kent Street	Sydney	ANZ	7,665	Jan 19
15 Adelaide Street	Brisbane	Federal Government	2,167	Mar 19
10 - 20 Bond Street	Sydney	Hudson	2,903	Jun 19

Source: IOF management. Table includes only expiries that have not been replaced.

Note 1: Building area is shown on a 100% basis.

Tenant composition

The composition of tenants is relatively concentrated. IOF's largest three tenants (ANZ Banking Corporation, Telstra Corporation and the Commonwealth of Australia) represented 32.0% of the portfolio (by income) in the 11 months to 31 May 2018.

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7.7 Financial performance

The financial performance of IOF for FY15, FY16, FY17 and 1H18 and selected pro forma and unaudited financial information for FY18 is summarised in the following table.

Table 10: Financial performance of IOF

Period \$ million unless otherwise stated	FY15 Audited	FY16 Audited	FY17 Audited	1H18 Reviewed	FY18 pro forma and unaudited
NPI¹	189.1	200.1	201.2	99.0	
Responsible entity's fees	(11.1)	(12.3)	(13.5)	(7.3)	
Other expenses ²	(3.2)	(2.2)	(3.1)	(1.2)	
EBIT	174.6	185.6	184.6	90.5	
Net interest expense	(31.7)	(42.4)	(37.8)	(17.1)	
Amortisation of incentives	26.4	32.3	36.0	19.7	
Other income/(expenses)	0.6	0.1	(0.2)	(0.2)	
FFO³	169.9	175.6	182.6	92.9	184.0
Net gain/(loss) on change in fair value of:					
Investment properties ⁴	129.5	316.2	360.4	86.6	
Derivative financial instruments ⁵	87.8	56.5	(47.5)	(10.7)	
Net foreign exchange gain/(loss)	(77.0)	(14.4)	15.1	5.7	
Amortisation of incentives	(26.4)	(32.3)	(36.0)	(19.7)	
Straight lining of lease revenue	(1.4)	(3.6)	(3.8)	(5.8)	
Transfer of foreign currency translation reserve to profit and loss on sale of Bastion Tower	(104.7)	-	-	-	
Transaction costs	-	(5.5)	(2.5)	-	
Tax benefit	6.2	-	-	-	
Other	(4.7)	1.3	3.3	2.2	
Net profit attributable to IOF Unitholders	179.2	493.8	471.6	151.2	518.3
Statistics					
NPI growth ⁶	8.0%	5.8%	0.5%	(4.2%)	
Like-for-like NPI growth ⁷	(1.3%)	3.1%	4.7%	2.0%	
Look through interest cover ratio (times) ⁸	4.4x	4.3x	4.8x	5.0x	4.9x

Source: IOF Annual Reports for FY15, FY16 and FY17, IOF Financial Report for 1H18 and FY18 pro forma and unaudited accounts, and IOF management

Notes:

1. NPI is net property income and includes consolidated and equity accounted properties
2. Other includes ASX listing fees, audit fees, external valuation fees, legal and tax consultant fees, as well as disposal costs for 800 Toorak Street and 383 La Trobe Street.
3. Property Council FFO consistent with funds from operations presented using principles of Property Council of Australia White Paper released in December 2017
4. Includes the fair value of investment properties held by IOF and investment properties held through equity accounted investments
5. Includes the fair value of derivatives held by the Group and derivatives held by equity accounted investments
6. Continuing operations only (i.e. excludes the impact of European operations in FY15).
7. Includes properties owned for the full 12 month period, excludes the impact of changes in ownership and developments
8. Calculated as earnings before interest and tax (EBIT) divided by net interest expense

In relation to the financial performance of IOF, we note:

- NPI remained broadly stable in FY17 as growth in the Sydney and Brisbane markets was offset by two divestments (383 La Trobe Street and 800 Toorak Street, Melbourne) and the redevelopment of Barrack Place, 151 Clarence Street. Excluding the impact of these transactions, like-for-like NPI increased by 4.7% as a result of a 1% increase in occupancy across the portfolio (to 97%) and lease increases
- NPI decreased by 4.2% in 1H18 (relative to the corresponding period in the prior year), driven largely by the sale of the two Melbourne properties in January and February 2017



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- responsible entity fees were 9.8% higher in FY17 as a result of strong growth in IOF's market capitalisation. In line with the fee structure, the fee was capped at 2.5% per quarter. Further detail on this pricing structure is found in Section 7.4 of this report
- other expenses in FY17 of \$3.1 million (including \$0.8 million of one off project fees) includes fees relating to external service providers (e.g. audit, tax, legal, valuation, consulting, property due diligence), public company costs and other expenses. In addition, IOF incurred \$2.5 million of transaction costs related to the IOM Joint Venture Proposal in FY17 (\$5.5 million related to the DEXUS Proposal in FY16)
- net interest expense increased in FY16 as interest on the loan to 567 Collins Street Trust was reclassified as NPI from completion of development on 7 July 2015, and decreased in FY17 and 1H18 (relative to the corresponding period in the prior period) as IOF reduced gearing to support future capital expenditure. The weighted average cost of debt remained relatively stable. Look-through interest cover of 4.9 times in FY18 was well above covenants (2.5 times)
- IOF is exposed to interest rate risk on its floating rate loans and interest rate and foreign exchange risk on the USPPs. It hedges these risks using interest rate derivative contracts and cross currency interest rate swaps. In each period, foreign exchange gains/(losses) resulting from the translation of US dollar denominated debt were largely offset by (losses)/gains in the mark-to-market of the cross currency interest rate swaps
- all properties were independently valued at 31 May 2018, resulting in a \$316.1 million (7.9%) uplift in the carrying value of the portfolio from 31 May 2018. Asset values in Sydney, North Sydney, Melbourne and Perth increased by 11.6%, 7.4%, 4.9% and 8.5%, respectively. Growth in the Sydney market reflects capitalisation rate compression (41% of the uplift) and market rental growth, with significant leasing and development activity. Growth in the North Sydney market reflects capitalisation rate compression (23% of uplift), higher market rents and reduced incentives. Growth in the Melbourne market reflects market rental growth, with capitalisation rates unchanged, while growth in the Perth market reflects strong interest in 836 Wellington Street, Perth since the asset divestment campaign began in Q2 2018, and
- under the current income tax legislation, IOF is not liable for Australian income tax as IOF Unitholders are presently entitled at year end to the income of the trust calculated in accordance with the Constitutions and applicable tax law.

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Distributions

Distributions paid or declared by IOF for FY15, FY16, FY17 and FY18 are set out in the following table.

Table 11: IOF distributions

Period \$ million unless otherwise stated	FY15 Audited	FY16 Audited	FY17 Audited	FY18 pro forma and unaudited
Weighted average number of Units entitled to distributions (000s)	614,047	614,047	614,047	602,085
FFO	169.9	175.6	182.6	184.0
Less:				
Maintenance capital expenditure	(10.9)	(6.7)	(10.5)	(13.2)
Total incentives	(41.5)	(31.7)	(37.1)	(52.1)
AFFO	117.5	137.2	135.0	118.7
Distributions for the period	118.2	120.4	124.0	121.5
Basic and diluted earnings per Unit (cents)	29.2	80.4	76.8	86.1
FFO per Unit (cents)	27.7	28.6	29.7	30.6
AFFO per Unit (cents)	19.1	22.3	22.0	19.7
Distributions per Unit (cents)	19.3	19.6	20.2	20.3
Payout ratio (FFO basis) ¹	70%	69%	68%	66%
Payout ratio (AFFO basis) ²	101%	88%	92%	103%

Source: IOF Annual Reports for FY15, FY16 and FY17 and FY18 pro forma and unaudited accounts; KPMG Corporate Finance analysis

Notes

1. Payout ratio was calculated as distributions per IOF Unit divided by FFO per IOF Unit
2. Payout ratio was calculated as distributions per IOF Unit divided by AFFO per IOF Unit

In FY17, FFO per IOF Unit increased by 4.0%, however, AFFO per IOF Unit declined by 1.3% as a result of a 17.0% increase in lease incentives provided for new leases at 126 Phillip Street and 242 Exhibition Street and a 56.7% increase in maintenance capital expenditure.

While FFO is expected to increase marginally by 0.8% in FY18, FFO per IOF Unit is expected to increase by 3.0% predominantly reflecting the impact of the buyback. AFFO per IOF Unit is, however, expected to decline by 10.5% as a result of a 40.4% increase in lease incentives (Telstra lease renewal at 242 Exhibition Street, Sydney, Commonwealth Government lease renewal at 836 Wellington Street, Perth and new leases at 140 Creek Street, Brisbane and 295 Ann Street, Brisbane) and a 25.7% increase in maintenance capital expenditure largely resulting from 'end of life' projects at 347 Kent Street, Sydney, 239 George Street, Brisbane and 6 O'Connell Street, Sydney.

Preliminary FFO preliminary guidance for FY19 is forecast to be 29.2 cents per IOF Unit, a 4.6% decrease on FY18. This reflects the impact of downtime due to the refurbishment activity at 388 George Street and 347 Kent Street, Sydney and takes into account the conditional agreement to divest 836 Wellington Street, Perth, which is anticipated to settle in October 2018. AFFO is also anticipated to be impacted in FY19 by elevated incentives and maintenance expenditure relating to the abovementioned projects and other leasing activity. This guidance is subject to prevailing market conditions and assumes no further acquisitions or disposals, other than the anticipated divestment of 836 Wellington Street, Perth.

Since FY15, IOF has targeted a distribution payout ratio of 95% to 100% of AFFO through the cycle (previously 90% to 100%). From FY12 to FY17 inclusive, IOF paid out average distributions of 91% of AFFO. In FY16 and FY17, the AFFO payout ratio was below this target. In FY18, distributions increased only marginally as they were constrained by the AFFO decline. In order to maintain distribution per IOF Unit the payout ratio increased to 103% of AFFO. The preliminary distribution guidance for FY19 is 20.3 cents per IOF Unit (subject to prevailing market conditions and assumes no further acquisitions or disposals, other than the anticipated divestment of 836 Wellington Street, Perth).



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7.8 Financial position

The audited financial position of IOF as at 30 June 2015, 30 June 2016, 30 June 2017 and the pro forma and unaudited financial position as at 30 June 2018 is summarised in the following table.

Table 12: Financial position of IOF

As at	30 June 2015	30 June 2016	30 June 2017	FY18 pro forma and unaudited
\$ million unless otherwise stated	Audited	Audited	Audited	
Cash and cash equivalents	3.6	2.1	4.0	5.0
Trade and other receivables	18.2	12.6	8.1	7.6
Derivative financial instruments	-	-	0.9	-
Assets classified as held for sale ¹	-	70.5	-	91.3
Current assets	21.8	85.2	13.0	103.9
Investment properties	2,554.9	2,752.9	2,973.2	3,353.3
Equity accounted investments	543.7	801.8	848.6	914.7
Derivative financial instruments	86.6	143.5	88.2	79.8
Non-current assets	3,299.4	3,698.2	3,910.0	4,347.8
Total assets	3,321.2	3,783.4	3,923.0	4,451.7
Trade, other payables and provisions	29.9	25.7	24.2	28.4
Borrowings	61.9	337.0	125.0	50.0
Derivative financial instruments	2.5	4.2	1.7	0.4
Distribution payable	59.6	60.2	62.6	60.7
Current liabilities	153.9	427.1	213.5	139.5
Derivative financial instruments	9.1	7.8	3.4	3.7
Borrowings	935.3	752.2	762.2	1,038.0
Total non-current liabilities	944.4	760.0	765.6	1,041.7
Total liabilities	1,098.3	1,187.1	979.1	1,181.1
Net assets	2,222.9	2,596.3	2,943.9	3,270.5
Equity				
Contributed equity	2,142.3	2,142.3	2,142.3	2,072.3
Retained Earnings	80.6	454.0	801.6	1,198.2
Total equity	2,222.9	2,596.3	2,943.9	3,270.5
Statistics				
Number of stapled securities ('000) ²	614,047	614,047	614,047	598,419
NTA per Unit (\$) ³	3.62	4.23	4.79	5.47
Gearing (look-through) ⁴	28.8%	27.7%	21.4%	23.2%

Source: IOF Annual Reports for FY15, FY16 and FY17 and FY18 pro forma and unaudited accounts; KPMG Corporate Finance analysis

Notes:

- Assets held for sale at 30 June 2016 relates to 383 La Trobe Street, Melbourne, for which settlement occurred in January 2017. Assets held for sale at 30 June 2018 is 836 Wellington Street, Perth. On 18 July 2018, ILFML, as responsible entity for IOF, announced that it had entered into a conditional sale agreement for 836 Wellington Street, Perth, for \$91.325 million. Settlement is expected to occur in October 2018.
- IOF Units are as at period end.
- NTA per IOF Unit calculated as net tangible assets divided by the number of IOF Units at period end.
- Look-through gearing is determined as total look-through debt divided by total look through assets. Total look-through debt is based on the A\$ exposure of the USPPs after applying cross currency hedging arrangements. Total look-through assets comprise total assets adjusted for fair value of foreign currency derivatives. IOF's interest in joint venture arrangements and associates are proportionately consolidated based on IOF's ownership interest.

In relation to the pro forma and unaudited financial position of IOF as at 30 June 2018, we note:

- IOF's 20 investment properties include direct ownership interests in 17 properties that are consolidated (\$3,445 million) and three properties that are held through trusts and are equity accounted (\$915 million). The pro forma and unaudited book value at 30 June 2018 reflects the

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independent valuations at 31 May 2018, plus forecast capital expenditure and movements in tenant incentives during June 2018.

- equity accounted investments include:

Table 13: Equity Accounted Investments

Equity accounted investment (ownership interest %)	Underlying property (ownership interest %)	Pro forma and unaudited book value at 30 June 2018 (\$m)
242 Exhibition Street Trust (50%)	242 Exhibition Street, Melbourne (100%)	326.4
Phillip Street Trust (25%)	126 Phillip Street, Sydney (55%)	142.3
Macquarie Street Trust (25%)	126 Phillip Street, Sydney (45%)	116.5
567 Collins Street Trust (50%)	567 Collins Street, Melbourne (100%)	329.5
Total		914.7

Source: IOF management

- as at 30 June 2018, IOF had commitments for capital expenditure on investment properties for which no provision had been made of \$3.6 million
- on 18 June 2018, IOF declared a distribution of 10.15 cents for the 2H18. The distribution has been provided for in the financial position at 30 June 2018
- NTA increased strongly from \$3.62 at 30 June 2015 to \$5.47 at 30 June 2018 (pro forma and unaudited), predominantly as a result of:
 - substantial increases in property valuations
 - other increases in retained earnings, and
 - a share buy-back in FY18 under which IOF purchased 15,628,473 IOF Units for a total value of \$70.1 million, partly offset by
 - movement in amortisation of tenant incentives and fair value movements on derivatives and foreign currency translation of USPPs.

Interest bearing liabilities

IOF has access to diverse capital markets. Details of the pro forma and unaudited committed financing facilities available and debt maturity profile of IOF as at 30 June 2018 are set out in the following table.

Table 14: IOF pro forma and unaudited financing facilities as at 30 June 2018

\$ million	Total facility	Amount drawn	Available facility	Maturity	Security
Bank debt (A\$)	816.0	511.9	304.1	Jun'19 - Feb'23	Unsecured
Medium term notes (A\$)	150.0	150.0	-	Apr'24	Unsecured
USPP (US\$) ¹	429.7	429.7	-	Apr and Aug'25, Apr'27 and Apr'29	Unsecured
Total borrowings	1,395.7	1,091.6	304.1		
Less: capitalised borrowing costs		(3.6)			
Balance sheet debt		1,088.0			

Source: IOF management

Note 1: USPP debt is denominated in US\$, and converted to A\$ at the prevailing exchange rate at period end

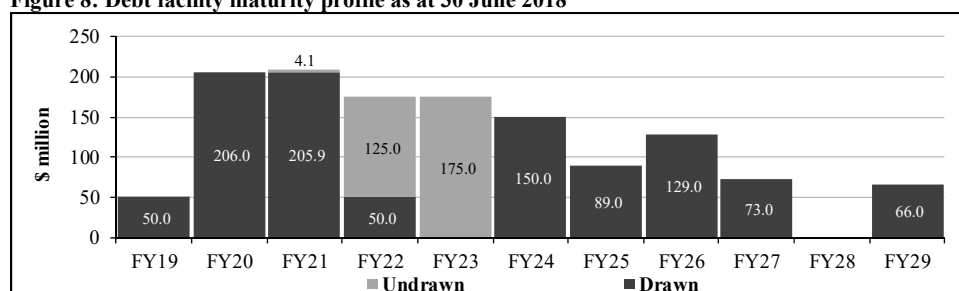
As at 30 June 2018, IOF had \$304 million of undrawn facilities and the weighted average maturity on IOF's borrowings was 4.7 years.



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The following figure presents the debt facility maturity profile.

Figure 8: Debt facility maturity profile as at 30 June 2018



Source: IOF management

Note 1: The debt facility maturity profile represents the Group's look-through drawn debt, based on the Australian dollar exposure on the US Private Placements after applying cross currency swap hedging arrangements

As at 30 June 2018, IOF had \$50 million of bank debt expiring in FY19, with an additional \$206 million and \$210 million of bank debt due to expire in FY20 and FY21.

IOF has a BBB+ Standard & Poor's credit rating. On 14 June 2018, Standard & Poor's placed IOF on credit watch as the Scheme Implementation Agreement indicates that the Acquirer has the ability to prepay the existing debt of IOF and withdraw the credit rating. IOF targets look-through gearing in the range of 25% to 35%. Gearing declined from 30 June 2016 to 30 June 2017 as a result of the sale of the two Melbourne properties. As at 30 June 2018 (pro forma and unaudited), look-through gearing of 26.5% was towards the low-end of this range.

The financial covenants relating to IOF's debt facilities, together with its actual performance with respect to each of these covenants, are set out in the following table.

Table 15: Financial covenants

Financial covenant	Covenant	30 June 2015	30 June 2016	30 June 2017	30 June 2018
Bank debt, medium term notes and USPP					
Look through gearing ratio ¹	less than 50%	33.1%	31.4%	25.1%	26.5%
Look through interest cover	greater than 2.5x	4.4x	4.3x	4.9x	4.9x

Source: IOF Management

Note 1: Calculated as total liabilities divided by total assets on a look through basis

Interest rate swaps

IOF uses derivative financial instruments to hedge its exposure to interest rate and foreign exchange risk on borrowings (some of which is denominated in US dollars). IOF's policy is to hedge 50% to 80% of interest rate exposures occurring in the first three years, 20% to 60% of exposures occurring between four and five years and between nil and 60% of exposures occurring after five years. Based on the pro forma and unaudited financial position as at 30 June 2018, interest rate exposures were 87.3% hedged³⁹. The pro forma and unaudited net balance (mark-to-market) of derivatives as at 30 June 2018 was an asset of \$75.7 million.

³⁹ Translated at 31 May 2018 spot rate.

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7.9 Capital structure

As at 18 July 2018, IOF had 598,418,985 IOF Units on issue and 12,472 registered IOF Unitholders. The top 10 registered IOF Unitholders accounted for 85.2% of IOF Units on issue and retail investors (holdings of less than 10,000 IOF Units) accounted for 5.4% of IOF Units on issue.

Substantial IOF Unitholders based on ASX announcements lodged on or prior to 18 July 2018 are presented in the following table:

Table 16: Substantial IOF Unitholders of IOF as at 18 July 2018

Name of substantial Unitholder	Date of notice	Number of Units held	Percentage of issued capital
IWFML as responsible entity of ICPF and associates	6 October 2017	119,667,397	19.9973% ¹
The Vanguard Group, Inc	11 March 2016	50,058,157	8.15%
BlackRock, Inc. and subsidiaries	1 December 2017	30,020,782	5.00%

Source: ASX Website, substantial holder notifications as at 18 July 2018.

Note 1: Updated to reflect the impact of the on-market buyback of IOF Units.

Directors' interests

As at 18 July 2018, the Directors of IOF held the following IOF Units (directly or indirectly).

Table 17: Director's relevant interests at 18 July 2018

Name	Position	No. of IOF Units
Richard Longes	Independent Non-Executive Chairman	15,000
John Fast	Independent Non-Executive Director	15,000
Geoffrey Kleemann	Independent Non-Executive Director	15,000
Robert Seidler	Independent Non-Executive Director	11,579
Gai McGrath	Independent Non-Executive Director	2,000

Source: IOF management

7.10 IOF Unit price performance

7.10.1 Sharemarket trading

The IOF Unit price increased strongly from a low of \$3.00 on 6 February 2014 to reach a high of \$4.60 on 22 July 2016, mainly reflecting:

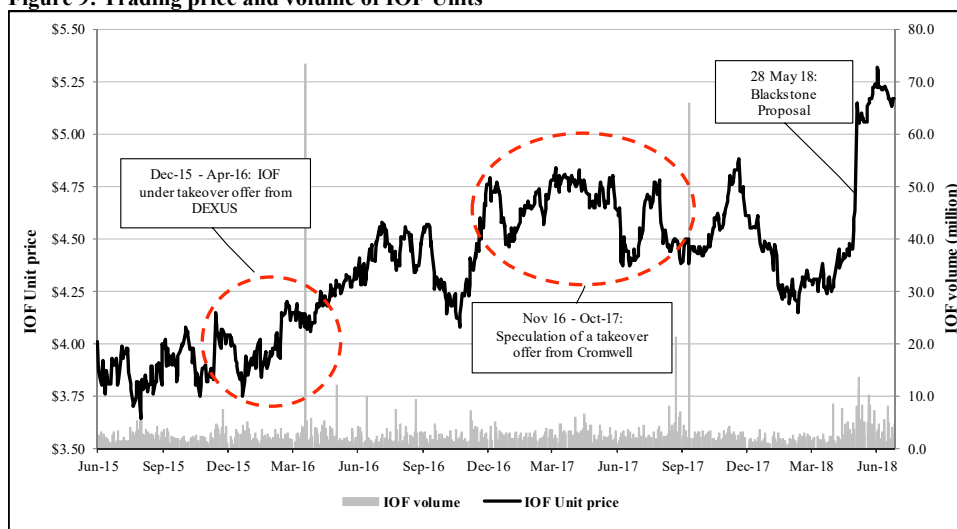
- IOF's consistently strong valuation uplifts and distribution growth driving higher returns for IOF Unitholders
- positive re-rating of the A-REIT sector:
 - the historically low cash rate increasing demand for higher yielding securities such as REITs
 - the depreciation of the Australian dollar increasing the attractiveness of Australian property to foreign investors, and
- speculation as to consolidation in the sector, including in relation to IOF (in particular, DEXUS' offer to acquire all of the IOF Units announced on 7 December 2015, which was ultimately rejected by IOF Unitholders in April 2016).



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The trading price and volume of IOF Units from 1 July 2015 to 18 July 2018 is set out as follows.

Figure 9: Trading price and volume of IOF Units



Source: IRESS; KPMG Corporate Finance analysis

Heavy trading volume on 12 April 2016 reflects Cromwell's acquisition of a 9.83% interest in IOF from CBRE Clarion Securities LLC.

The IOF Unit price declined in October and November 2016 in line with other A-REITs and reached a low of \$3.99 on 14 November 2016. The IOF Unit price then increased strongly to reach a high of \$4.85 on 28 December 2016 and remained elevated until August 2017, trading broadly within a range of \$4.35 to \$4.85. The elevated, albeit volatile, trading was likely influenced by:

- continued strong growth in property valuations and outperformance of the office A-REIT sector
- in August 2016, the value of IOF's commercial office assets exceeded \$3.5 billion and ICPF offered to IOF a 50% interest in IOMH (Joint Venture Proposal), which was rejected by IOF Unitholders on 31 May 2017
- speculation as to a potential takeover offer from Cromwell from November 2016 until October 2017⁴⁰
- the IOF Unit price reached a high of \$4.89 on 24 March 2017 following the announcement of the sale of 800 Toorak Road for a 10.5% premium to the 30 June 2016 book value.

Heavy trading on 4 October 2017 relates to Cromwell's sale its 9.83% interest in IOF to IPG at \$4.65 per IOF Unit, increasing IPG's interest in IOF to 19.95%.

⁴⁰ On 30 November 2016, ILFML advised that it had received a highly conditional, non-binding and indicative letter from Cromwell referring to the conditional possibility of an arrangement to acquire all of the IOF Units for \$4.45 per IOF Unit in cash. ILFML did not grant due diligence as it considered that the offer price undervalued IOF. On 4 April 2017, ILFML advised that it had received an unsolicited, indicative and non-binding proposal from Cromwell to acquire all of the IOF Units for \$4.85 per IOF Unit (inclusive of a 10.0 cent distribution). After signing a confidentiality agreement with ILFML and commencing due diligence, Cromwell did not proceed to make a binding offer and sold its interest in IOF to IPG on 4 October 2017, increasing IPG's interest in IOF to 19.95%.

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The IOF Unit price reached a high of \$4.89 on 7 and 14 December 2017 in line with increases in the A-REIT Index. The increase may also reflect:

- announcement on 1 November 2017 of a new Heads of Agreement with tenants, in particular with ANZ at 347 Kent Street for five years from the current lease expiry of January 2019⁴¹
- announcement on 6 December 2017 that it had signed Pfizer Australia Pty Ltd as a tenant at Barrack Place, increasing pre-commitments to 57% of total net lettable area
- the announcement on 14 December 2017 of strong valuation uplifts across the portfolio (including an increase of between \$78 million and \$83 million for five properties across Sydney and Brisbane representing 23% of IOF's portfolio at December 2017)⁴²
- IOF's ongoing share buy-back program from August 2017 to December 2017, and
- IOF Units trading 'cum distribution' until 29 December 2017 (ex-distribution date).

From the high on 14 December 2017, the IOF Unit price declined by around 15.5% to reach a low of \$4.13 on 7 March 2018, broadly tracking the A-REIT Index. This decline may have reflected:

- increases in government bond yields in early 2018, making A-REITs less attractive and increasing borrowing costs
- an increase in the A\$/US dollar exchange rate, making Australian dollar investments more expensive for foreign investors
- an increasing view that the office property market is approaching a peak,⁴³ and
- IOF Units trading ex distribution (for IOF: 29 December 2017).

The IOF Unit price subsequently increased, closing at \$4.63 on 25 May 2018, the last trading day prior to the announcement of the Proposal. In the month to 25 May 2018, IOF Units traded in the range of \$4.27 to \$4.64 at a VWAP of \$4.44, which represented a 10.3% discount to NTA at 31 December 2017 of \$4.95.

On the announcement of the Proposal on 28 May 2018, the IOF Unit price increased strongly to close at \$5.15 on 28 May 2018, then traded in the range of 5.05 to \$5.26 until the announcement on 26 June 2018 of the property valuations as 31 May 2018, which indicated a 7.9% uplift in the carrying value of the portfolio at 31 May 2018 and a pro forma NTA as at 31 December 2017 of \$5.48 per IOF Unit. On the announcement of the property valuations on 26 June 2018, IOF Units reached a high of \$5.39, before declining on 28 June 2018 (ex distribution date) to trade in a range of \$5.11 to \$5.27 until 18 July 2018. Trading during this time may also reflect speculation that the Acquirer will increase its offer or that another bidder will make a superior proposal.

⁴¹ ASX announcement on 1 November 2017.

⁴² IOF 1H18 Results Presentation, pg. 7.

⁴³ For example: "Are we there yet? Office prices to peak in 2018", Australian Financial Review, 11 January 2018.



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7.10.2 Liquidity

An analysis of the volume of trading in the IOF Units, including the volume weighted average price (VWAP) for the period up to 25 May 2018 (the last trading day before the announcement of the Proposal) and the period after this date until 18 July 2018, is set out in the following table.

Table 18: Volume of trading in IOF Units

Period	Price (high) (\$)	Price (low) (\$)	Price VWAP (\$)	Cumulative value (\$ million)	Cumulative volume (million)	% of issued capital
28 June 2018 ¹ to 18 July 2018	5.27	5.11	5.20	244.3	47.0	7.9%
26 June 2018 ² to 27 June 2018	5.39	5.22	5.29	40.5	7.7	1.3%
28 May 2018 ³ to 25 June 2018	5.26	5.05	5.12	607.3	118.5	19.8%
Period ended 25 May 2018⁴						
1 day	4.64	4.57	4.62	11.7	2.5	0.4%
1 week	4.64	4.42	4.52	62.1	13.7	2.3%
1 month	4.64	4.27	4.44	271.1	61.1	10.2%
3 months	4.64	4.13	4.35	609.0	140.0	23.4%
6 months	4.89	4.13	4.44	1,130.4	254.4	42.5%
12 months	4.89	4.13	4.51	2,941.4	651.8	108.9%

Source: IRESS; KPMG Corporate Finance analysis

Notes:

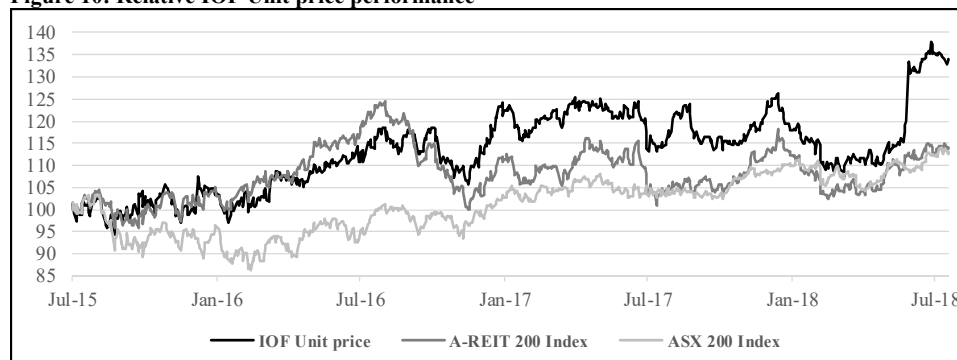
1. 28 June 2018 is the ex distribution date
2. 26 June 2018 is the date on which 31 May 2018 property valuations were announced
3. 28 May 2018 is date of announcement of Proposal
4. 25 May 2018 represents the last trading day prior to the announcement of the Proposal

During the 12 month period prior to 25 May 2018, 108.9% of issued IOF Units were traded. This level of liquidity indicates that there is an active market for IOF Units notwithstanding IOF's limited free float of 80.0027% (based on ICPF's 19.9973% substantial holding).

7.10.3 Relative IOF Unit price performance

IOF is a member of a number of various indices, including the S&P/ASX 200 Index (ASX 200 Index) (0.2%) and A-REIT 200 Index (2.6%). The performance of IOF Units from 1 July 2015 to 18 July 2018, relative to the ASX 200 Index and A-REIT Index (rebased to 100) is illustrated in the following chart.

Figure 10: Relative IOF Unit price performance



Source: IRESS; KPMG Corporate Finance analysis

The IOF Unit price generally mirrored the broader A-REIT Index up to around October 2016, each outperforming the ASX 200 Index until August 2016 as record low interest rates coupled with the availability of credit, as well as tightening bond yields and volatile equity markets resulted in investors paying a premium to purchase higher yielding asset classes such as property and infrastructure.

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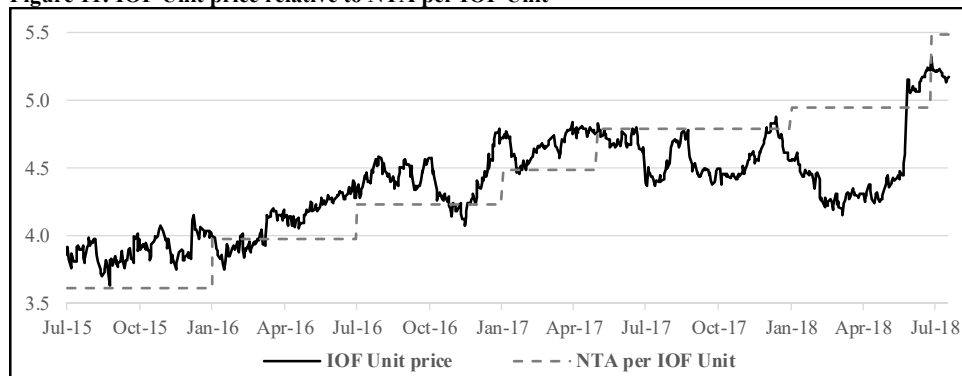
From October 2016 until September 2017, the IOF Unit price outperformed the broader A-REIT Index as a result of the outperformance of the office sector (particularly in Sydney) relative to the overall A-REIT sector and substantial increases in office property valuations. In addition, this period coincided with speculation as to a potential higher offer price from Cromwell, the potential for a partial internalisation of the management rights, announcement of the sale of 800 Toorak Road for a significant premium.

In August to December 2017, IOF and the A-REIT Index outperformed the ASX 200 Index as securities traded cum distribution. This period also coincided with IOF's share buyback program and de-risking of the portfolio by entering into leasing agreements with tenants. From December 2017 until March 2018 IOF Unit price broadly tracked the A-REIT sector in decline.

7.10.4 IOF Unit price relative to NTA

The price of the IOF Units relative to reported NTA per IOF Unit from 1 July 2015 to 18 July 2018 is illustrated in the following chart.

Figure 11: IOF Unit price relative to NTA per IOF Unit



Source: IRESS; IOF Annual Reports for FY16 and FY17 and Financial Statements for 1H18; KPMG Corporate Finance analysis

Consistent with most listed REITs, IOF Units generally traded at a premium to NTA from early 2014 until early 2016 as a result of an expectation of further increases in property values and positive economic sentiment. From early 2016 until June 2017, IOF Units traded at around NTA. In addition, the IOF Unit price was impacted by market speculation of potential takeovers of IOF as discussed in Section 7.10.3 of this report. Since mid-2017, IOF Units have generally traded at a discount to NTA whilst other office A-REITs have traded closer to NTA.

In the three months prior to the announcement of the Proposal, IOF Units traded at a discount in the range of 6.5% to 16.2% relative to the NTA at 31 December 2017 of \$4.95, representing an average discount of 12.4%. While difficult to quantify, reasons for the discount may include:

- market conditions:
 - an expectation that property values are approaching a peak⁴⁴ and continued soft demand and high vacancy in Perth and Brisbane
 - an increase in government bond yields, effectively reducing the attractiveness of A-REITs

⁴⁴ For example: "Are we there yet? Office prices to peak in 2018", Australian Financial Review, 11 January 2018.



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- an increase in the A\$/US dollar exchange rate, making Australian dollar investments more expensive for foreign investors

In the 12 months to 25 May 2018, the premium/(discount) to NTA for other predominantly office A-REITs decreased/(increased) from (1.9%) to 26.2% (an average premium of 13.0%) to (13.2%) to 17.2% (an average premium of 5.3%).

- an anticipated near term earnings impact for IOF due to the repositioning of key assets, effectively placing a cap on the IOF Unit price
- continuing uncertainty as to the ownership of IOF and its management rights, and
- IOF's external management structure, which is increasingly out of favour with investors.

On the announcement of the Proposal on 28 May 2018, IOF Units closed at \$5.15 (cum distribution) and a 4.0% premium to NTA at 31 December 2017 of \$4.95 per IOF Unit. The IOF Unit price drifted lower, before increasing to close at \$5.22 on 25 June 2018 (the last trading day before the announcement of the property valuations at 31 May 2018), a 5.5% premium to NTA at 31 December 2017, likely reflecting an expectation that property valuations would result in significant uplift in NTA. In particular, all but five of IOF's properties had not been valued since April 2017, during which time there had been further contraction in capitalisation rates, a strong Sydney market and significant leasing activity. Furthermore, on 19 June 2018, DEXUS announced a revaluation uplift which would bring the valuation uplift for the 12 months to 30 June 2018 to 9.3%.

On the announcement of IOF's property valuations on 26 June 2018 (which indicated a 31 December 2017 pro forma NTA of \$5.48), the IOF Unit price closed at \$5.32, a 2.9% discount to pro forma NTA at 31 December 2017. From 28 June 2018 (ex distribution date) until 18 July 2018, the IOF Unit price closed at a discount to NTA in the range of 4.6% to 6.4%, and an average discount of 5.2%. This lower discount (relative to trading prior the announcement of the Proposal) may reflect speculation that Blackstone will increase its offer or that another bidder will make a superior proposal.

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8 Valuation of IOF

8.1 Approach

Our valuation of an IOF Unit is based on the net assets methodology. A-REITs, particularly those which passively hold portfolios of properties, are commonly valued with reference to net asset values. Property investments are reflected on the balance sheet at market value based on property valuations provided by property valuation specialists. When valuing A-REITs, it is general market practice for independent experts to adopt this market value in their assessment of adjusted NTA.

The net assets methodology is appropriate for IOF as its value lies in its underlying properties and not the ongoing operations of the trusts. The net assets methodology requires a valuer to determine the market value of the assets and liabilities at the valuation date, before deducting an allowance for corporate costs incurred to manage the portfolio. This approach represents the market value of the underlying assets, which is different to the net proceeds derived on the winding up of an entity (where CGT and other wind-up costs may apply).

8.2 Summary

KPMG Corporate Finance has assessed an adjusted NTA for IOF in the range of \$5.38 to \$5.41 per IOF Unit. This estimate is based on IOF's pro forma and unaudited NTA as at 30 June 2018 of \$3,271 million (\$5.47 per IOF Unit⁴⁵). Various adjustments have been made to derive adjusted NTA per IOF Unit as summarised in the following table:

Table 19: Valuation of IOF Units

\$ million unless otherwise stated	Section reference	Low	High
Pro forma and unaudited NTA at 30 June 2018	8.3	3,270.5	3,270.5
Less: Capitalised corporate overheads (net of savings)	8.4	(46.2)	(27.4)
Less: Capitalised borrowing costs	8.5	(3.6)	(3.6)
Adjusted NTA		3,220.7	3,239.6
IOF Units on issue (million)		598.4	598.4
Adjusted NTA per IOF Unit (excluding premium)		\$5.38	\$5.41
Premium to adjusted NTA	8.6	-	-
Adjusted NTA per IOF Unit (including premium)		\$5.38	\$5.41

Source: KPMG Corporate Finance analysis

Notes: Table may not add due to rounding.

The range of values is narrow, reflecting that property values, which comprise a majority of the value, represent the pro forma and unaudited book value of the properties at 30 June 2018.

Adjusted NTA represents the aggregate full underlying value of IOF. As it is based on estimates of the full underlying value of each property in the portfolio, it is already a 'control' value (i.e. it assumes 100% ownership of the assets). Nevertheless, in certain situations, it is appropriate to apply a premium or discount to adjusted NTA. KPMG Corporate Finance considers that in this instance, no further adjustment is required, having regard to the specific attributes of IOF at this point in time, as well as the reduction in premiums to NTA observed in recent control transactions involving passive, office A-REITs (refer to Section 8.6 of this report for a discussion of premiums and discounts to adjusted NTA).

⁴⁵ Calculated as pro forma and unaudited net tangible assets as at 30 June 2018 of \$3,270.5 million divided by 598,418,985 Units on issue.



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8.3 Net tangible assets

IOF's pro forma and unaudited financial position as at 30 June 2018 is set out in detail in Section 7.8 of this report and is summarised as follows.

Table 20: IOF pro forma and unaudited NTA as at 30 June 2018

As at	30 June 2018
\$ million	pro forma and unaudited
Cash	5.0
Investment properties	3,353.3
Equity accounted investments	914.7
Asset held for sale	91.3
Other assets	87.4
Total assets	4,451.7
Borrowings	(1,088.0)
Distribution payable	(60.7)
Other liabilities	(32.5)
Total liabilities	(1,181.1)
NTA	3,270.5

Source: IOF management

Investment properties

The pro forma and unaudited NTA as at 30 June 2018 is based on book values for each of IOF's properties which reflect valuations undertaken by independent valuers as at 31 May 2018 plus capital expenditure and payments for incentives and leasing fees (net of amortisation) since the valuation date.

All properties in the investment property portfolio were independently valued as at 31 May 2018, resulting in a \$316.1 million (7.9%) uplift in the carrying value of the portfolio from 31 May 2018. Asset values in Sydney, North Sydney, Melbourne and Perth increased by 11.6%, 7.4%, 4.9% and 8.5%, respectively. Growth in the Sydney market reflects capitalisation rate compression (41% of the uplift) and market rental growth, with significant leasing and development activity. Growth in the North Sydney market reflects capitalisation rate compression (23% of uplift), higher market rents and reduced incentives. Growth in the Melbourne market reflects market rental growth, with capitalisation rates unchanged, while growth in the Perth market reflects strong interest in 836 Wellington Street, Perth since the asset divestment campaign began in Q2 2018.

KPMG Corporate Finance has relied on the independent valuations for the purposes of its report and did not undertake its own valuations of the properties. KPMG Corporate Finance does not have any reason to believe that it is not reasonable to rely on these valuations for this purpose. KPMG Corporate Finance has undertaken a review of the independent valuations. In particular, we have, analysed in detail a selection of the valuations, reviewed them for outliers, compared assumptions between valuers, identified the reasons for substantial changes in values over time, compared assumptions (e.g. capital expenditure) with IOF's FY19 budget and considered leasing assumptions for properties under development or refurbishment.

We have concluded that:

- the property valuers were independent of IOF
- the engagement instructions were appropriate and did not limit the scope of the valuations
- the property valuations were completed by reputable valuation companies and by valuers who have the appropriate qualifications in accordance with the standards of the Australian Property Institute, and

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- the valuation methods appear to be consistent with those generally applied in the industry (i.e. discounted cash flow, capitalisation of net income and direct comparison (i.e. value per square metre of net lettable area)), with valuation conclusions selected having regard to the results of each methodology. 151 Clarence Street, Sydney, was valued on an 'as if complete' basis, less costs to complete in line with market practice.

This review does not, however, imply that the valuations have been subject to any form of audit or due diligence.

In addition, we note that the valuations:

- only provide a point estimate of value for the properties, although sensitivity tables are usually provided. We note that cash flows utilised for the purpose of a discounted cash flow analysis are generally long term (10 years) and rely on a number of assumptions (e.g. re-leasing, capital expenditure, capitalisation rates, discount rates, rental growth and incentives)
- were undertaken on a going concern basis in accordance with current use
- assume that the properties are sold on an individual basis (and not sold in one line)
- deduct the net present value of unexpired tenant incentives
- incorporate property management fees in relation to each property net of the recovery of these costs from tenants, and
- allow for selling costs, in accordance with normal property valuation methodologies.

On this basis, KPMG Corporate Finance considers that the valuations of the investment properties are not unreasonable and are therefore appropriate for use in a net assets based valuation approach.

Given the short time that has elapsed since 31 May 2018 and the nature of the assets being valued (i.e. passive investments in office property assets for which there is no liquid market), there is unlikely to have been any material change in the market value of these assets since they were valued.

Equity accounted investments

The pro forma and unaudited NTA as at 30 June 2018 includes IOF's share of the NTA of equity accounted investments at that date. NTA reflects the most recent independent valuation for these properties as at 31 May 2018 plus capital expenditure and payments for incentives and leasing fees (net of amortisation) since the valuation date.

8.4 Capitalised corporate overheads

NTA does not reflect the cost structure associated with being a listed investment vehicle. Corporate overheads are a cost of IOF's operating structure and include:

- responsible entity fees and custodian fees
- listed entity costs (such as annual reports, directors fees, IOF Unitholder communications and listing fees, etc.), and
- other trust expenses (e.g. audit, tax, legal, valuation, property due diligence).

The independent property valuations reflect only costs associated with the management of the properties and do not reflect any corporate overhead costs. We therefore consider it appropriate to adjust the NTA value to reflect the capitalised value of these costs.



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It is estimated that in FY18, IOF will incur responsible entity fees of \$14.8 million and other expenses (including listing costs and other operating expenses) of \$2.3 million (not including \$0.4 million one off project costs) (i.e. a total of \$17.1 million).

Any acquirer of 100% of IOF could eliminate listed entity costs, however, an acquirer with an existing funds management platform in Australia could likely save substantially more costs. There are a number of potential acquirers of 100% of IOF that have existing property funds management platforms in Australia (e.g. GPT, DEXUS, Brookfield Australia, Mirvac Group, Stockland Group, Charter Hall Group) and which could likely save a substantial share of responsible entity fees and trust expenses as well as listing costs. In regard to the quantum of potential cost savings, we note that:

- DEXUS, in seeking to acquire IOF with CPPIB in 2016, expected to be able to save 73% of management expenses⁴⁶
- Growthpoint, in seeking to acquire GPT Metro Office Fund, announced that it expected to be able to save 50% of management expenses⁴⁷
- in seeking to acquire Commonwealth Property Office Fund in 2013, both GPT and DEXUS announced that they expected to save approximately 80% of management costs⁴⁸, and
- in recent transactions involving A-REITs, independent experts have assumed cost savings in order of 70% to 80%, on the basis that there is a pool of potential acquirers that have an existing funds management platform in Australia.⁴⁹ This includes in relation to Growthpoint's acquisition of GPT Metro Office Fund, whereby the independent expert adopted savings in the order of 72% to 86% despite Growthpoint's expectation that it could save 50% of corporate overheads.

We recognise that Blackstone is unlikely to be able to achieve this level of savings, however, in accordance with the requirements of RG111, KPMG Corporate Finance has assumed residual corporate overheads on the basis that the acquirer has an existing management platform in Australia. Consequently, we have incorporated residual corporate overheads in the range of \$3.4 to \$5.1 million per annum (i.e. net cost savings of 70% to 80%).

We have capitalised the residual overheads at a multiple in the range of 8 to 9 times, which is consistent with multiples typically applied for costs of this nature in the context of A-REITs and consistent with multiples applied in other independent expert reports involving A-REITs. In addition, we note that the acquisition of 100% of IOM by ICPF in 2017 implied multiples of 8.7 times historical EBITDA and 8.8 times forecast EBITDA.

⁴⁶ DEXUS announced that it expected to be able eliminate responsible entity fees as well as other expenses but would incur incremental corporate overheads of \$4 million per annum (i.e. net cost savings of \$11 million per annum out of a total of \$15 million or 73%).

⁴⁷ Growthpoint announced that it expected that post acquisition, management expenses in relation to GPT Metro Office Fund would reduce to 0.4% of gross asset value (or overheads of \$1.8 million per annum out of a total of \$3.6 million management expenses or 50%).

⁴⁸ Commonwealth Property Office Fund's management fees were \$17 million in FY13 and were expected to be around \$17.5 million in FY14. GPT announced on 19 November 2013 that its pro forma assumption on acquisition of Commonwealth Property Office Fund was for incremental operating expenses of \$3.0 million per annum. DEXUS announced on 11 October 2013 that post implementation, its management expense ratio would reduce to below 0.45% (from 0.53% in FY13) due to cost synergies, implying incremental operating costs of \$3.0 million.

⁴⁹ For example, Generation Healthcare (75% savings), GPT Metro Office Fund (72%-86% savings), Centuria Urban (68% savings) and Brookfield Prime (69%-77% savings).

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We have assessed a value of capitalised costs to be in the range of \$27.4 to \$46.2 million as set out in the following table. This value has been deducted from the pro forma and unaudited NTA as at 30 June 2018.

Table 21: Capitalised overhead costs

\$ million unless otherwise stated	Low	High
Estimated corporate overheads (net of savings)	5.1	3.4
Capitalisation multiple (times)	9.0	8.0
Capitalised corporate overheads	46.2	27.4

Source: KPMG Corporate Finance analysis

IOF also pays property management and project management fees to third parties, including various subsidiaries of IOM. A number of IOF's property management and project management agreements are in place over an approximately five year period. A potential acquirer of IOF that has an existing office property management business (e.g. GPT, DEXUS, Brookfield Australia, Mirvac Group, Stockland Group, Charter Hall Group) may be able to save a portion of these costs once those agreements expire (or if an agreement could be reached to acquire those management rights). However, property management fees are included in IOF's NPI and development fees are capitalised or expensed as appropriate. To the extent that these fees are not in line with market rates, independent valuers adjust them for the purposes of valuation. Consequently, even if a portion of these fees could be saved, the independent property valuations would not change. Therefore, no separate adjustment has been made for these potential savings.

8.5 Other assets and liabilities

Borrowings included in the pro forma and unaudited NTA at 30 June 2018 reflects the amount drawn net of \$3.6 million of borrowing costs which have been capitalised for accounting purposes. These are not assets that are realisable and therefore have been excluded in deriving the adjusted NTA. All other assets and liabilities have been included at their face value.

8.6 Premium/(discount) to NTA

Overview

RG 111 requires that in assessing the fairness of the Proposal, it is necessary to consider the extent to which a premium for control may be appropriate.

It is commonly accepted that acquirers of 100% of a business should pay a premium over the value implied by the trading price of a share to reflect their ability to obtain control over the target's strategy and operations, as well as extract synergies from integration.

IOF's adjusted NTA per IOF Unit (excluding premium) represents the aggregate full underlying value of IOF. As it is based on estimates of the full underlying value of each property in the portfolio, it is already a 'control' value (i.e. it assumes 100% ownership of the assets). Nevertheless, a premium to NTA may be appropriate in certain situations, including:

- where property valuations are not current in a rising market
- the target has substantial other operating businesses (e.g. third party property management) that are not capital intensive and as such are not fully reflected in NTA (and, in particular, where the acquirer can derive synergies from those operations)
- the target has a substantial development pipeline, providing growth opportunities
- economies of scale can be achieved by integrating the target's business with the acquirer's operations, for example in funds management, property management and development management



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- achieving benefits of diversification
- where the portfolio is unique and has strategic value
- stamp duty savings associated with acquiring a portfolio of assets (rather than individual assets), and
- where transactions are the outcome of a competitive bidding process and bidders are prepared to accept a lower rate of return.

In other situations, a discount to NTA may be appropriate, for example:

- where property valuations are not current in a declining market
- the portfolio contains non-core assets that are not attractive to acquirers
- in the absence of substantial cost synergies, and
- the target is in financial distress.

Characteristics of IOF

There are certain factors that indicate a premium to adjusted NTA may be appropriate in the case of IOF as the acquisition provides an opportunity for an acquirer to:

- purchase one of the few remaining sector specific, high quality office portfolios that has not already been acquired. IOF's portfolio is weighted towards prime office properties in Sydney and Melbourne markets, which have been performing strongly (although there is no guarantee that they will continue to perform strongly). The asset quality of other ASX listed office specific A-REITs is generally lower than for IOF and their portfolios have a greater exposure to the weaker Brisbane and Perth markets. The attractiveness of IOF's portfolio is evident by DEXUS' takeover offer in 2015/16 and Cromwell's expression of interest in 2017, and
- potentially avoid substantial stamp duty costs by acquiring IOF's portfolio as opposed to acquiring each of the properties individually. Based on the pro forma and unaudited carrying value of IOF's properties at 30 June 2018, it is estimated that stamp duty costs saved may be in the order of \$239 million⁵⁰.

However, there are factors present within IOF that limit the amount of a premium, being:

- IOF is a passive, externally managed A-REIT with no operating business or third party mandates
- the existence of pre-emptive rights over certain jointly owned properties and change of control provisions in IOF's funding documents
- all property valuations are up to date (as at 31 May 2018), including those held jointly with third parties. Market commentators are suggesting that valuations in the office sector are becoming more cautious in nature despite recent increases⁵¹. They are also already prepared on a control basis
- IOF's relatively short WALE of 5.0 years, with 18% of leases expiring in FY19. Actual re-leasing may be more or less favourable than re-leasing assumptions applied by independent property valuers
- there are seven less attractive properties located in the underperforming Brisbane and Perth markets
- IOF has no substantial development pipeline, other than 151 Clarence Street, Sydney. The book value of \$335 million reflects the valuation on an 'as if complete' basis, less costs to complete in line with

⁵⁰ Calculated as 5.5% of \$4.3 billion property values.

⁵¹ For example: "Real estate investment banking outlook for 2018", AFR January 2018.

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market practice. As such, and given the development is almost complete, the valuation effectively captures the majority of the upside opportunity

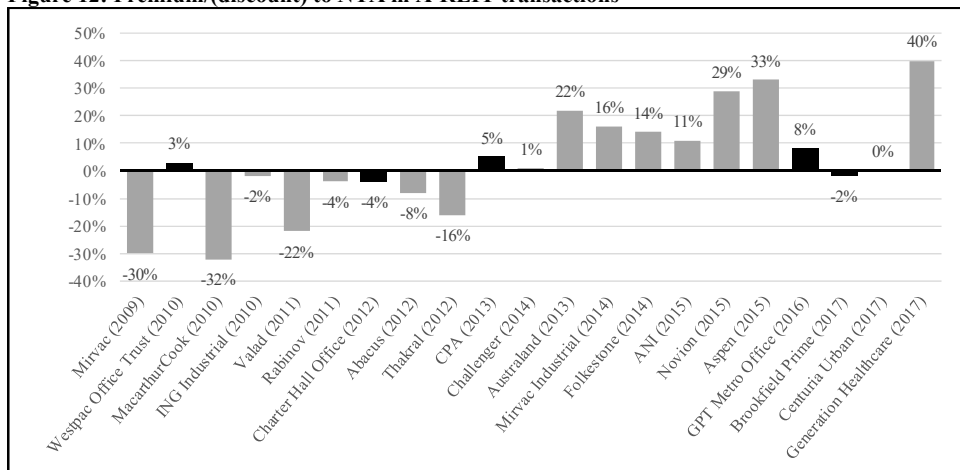
- near term distribution growth is likely to be curtailed by significant capital expenditure requirements over the next two years and will need to be partially funded by additional borrowings, and
- KPMG Corporate Finance's assessed adjusted NTA value already reflects substantial cost savings (in the order of 70% to 80%).

On balance, the specific attributes of IOF indicate that no additional premium is appropriate, particularly given that all property valuations are current and prepared on a control basis.

Comparable transactions

Premiums/discounts to NTA for transactions involving A-REITs following the onset of the global financial crisis in 2008 is illustrated as follows:

Figure 12: Premium/(discount) to NTA in A-REIT transactions



Source: KPMG Corporate Finance analysis

Premiums/(discounts) to NTA largely reflect the stage of the property cycle at the time of the transaction (as well as factors specific to each A-REIT):

- in the period from 2009 to 2012, transactions generally occurred at a discount to NTA. This period was characterised by write downs in property valuations (generally, with a lag), deleveraging and the sale of overseas and non-core assets. A number of A-REITs were likely in financial distress (Mirvac, MacarthurCook, Valad and Rabinov)
- the transactions from 2013 to 2015 occurred at a significant premium to reported NTA, largely reflecting an expectation of rising property valuations (with a lag). Other factors that have influenced premiums paid in recent transactions include the presence of substantial development activities (Australand), Novion's large third party asset management business (38% of AUM) and the competitive bidding process involved in the acquisitions of Aspen Park, Australand and Commonwealth Property Office Fund. Folkestone and Aspen were focused on specialist property sectors (social infrastructure and holiday parks, respectively), and
- premiums observed in transactions that occurred from 2016 are generally lower ((2.5)% to 8.2%), with the premiums decreasing over time potentially reflecting an expectation that property valuations



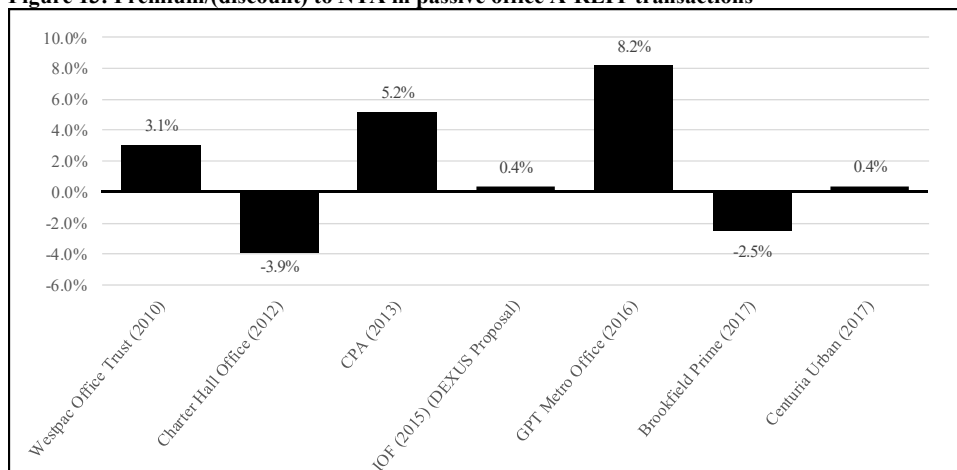
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are nearing a peak.⁵² The high end of this range is represented by GPT Metro Office Fund, which involved a competitive bidding process. Similar to IOF, each of these is a passive A-REIT. An exception to this is Generation Healthcare, which is exposed to the strongly performing healthcare sector and has a substantial development pipeline.

Market commentators are suggesting that valuations in the office sector may be approaching a peak.⁵³ This may suggest that the price paid in a current transaction for a passive investment trust should be closer to NTA.

IOF is a passive, externally managed A-REIT with no operating business or third party mandates. Premiums/(discounts) to NTA observed in acquisitions of passive office A-REITs are illustrated in the following chart.

Figure 13: Premium/(discount) to NTA in passive office A-REIT transactions



Source: KPMG Corporate Finance analysis

In regard to the observed premiums/(discounts) to NTA, we note the following:

- similar to IOF, each of the A-REITs was externally managed. In addition, Westpac Office Trust, Charter Hall Office REIT, Commonwealth Property Office Fund and Brookfield Prime each had an attractive prime (premium or A grade) CBD office portfolio that was of substantial scale and, therefore, likely had strategic value and provided economies of scale (and potentially diversification benefits) for acquirers:
 - Westpac Office Trust had a portfolio of 7 properties with a total value of \$1.1 billion and was comprised 84% of A grade properties and had 95% of properties located in New South Wales. The portfolio had a WALE of 8.7 years and a weighted average capitalisation rate of 7.4%. However, it was highly geared (62%) and had limited headroom relative to covenants. The transaction occurred at a 3.1% premium to NTA
 - Charter Hall Office REIT's portfolio comprised 18 properties which had a book value of \$1.8 billion and included predominantly prime office properties (premium, 63%, A grade, 34%) that were predominantly (84%) located in Sydney and Melbourne. It had a WALE of 4.5 years,

⁵² For example: "Are we there yet? Office prices to peak in 2018", Australian Financial Review, 11 January 2018.

⁵³ For example: "Are we there yet? Office prices to peak in 2018", Australian Financial Review, 11 January 2018.

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occupancy of 97% and weighted average capitalisation rate of 7.8%. It also had an active development pipeline. Despite these factors, the transaction occurred at a discount of 3.9% to NTA, potentially reflecting that a number of passive A-REITs were trading at a discount to NTA at the time (reflecting an expectation of declining property valuations)

- Commonwealth Property Office Fund had a portfolio of 25 office properties with a total value of \$3.8 billion (comparable in size to IOF) that included premium (13%) and A grade (76%) properties. The portfolio had a WALE of 4.7 years, occupancy of 95.6% and a weighted average capitalisation rate of 7.3%. Commonwealth Property Office Fund's property portfolio was concentrated in NSW (46%) and Victoria (31%). Although the transaction occurred at a time when a number of passive A-REITs were trading below NTA, the premium of 5.2% likely reflects that the transaction followed a competitive bidding process by DEXUS and GPT
- Brookfield Prime had interests in four A-grade office buildings in the CBDs of Sydney and Perth with a total value of \$707 million. As at 31 December 2016, its portfolio had a WALE (by income) of 4.7 years and was 91% occupied. The 2.5% discount to NTA (adjusted for property valuations as at March 2017) may reflect that it was owned 80.47% by Brookfield and had limited liquidity, low dividend payout ratio and a high management fee structure, as well as the stage of the office property cycle
- the portfolios of GPT Metro Office Fund and Centuria Urban are located outside CBDs and are substantially smaller than IOF's portfolio:
 - GPT Metro Office Fund's portfolio comprised six A-Grade metropolitan and business park office properties across Sydney, Melbourne and Brisbane with a total value of \$439 million. It had a WALE (by income) of 5.5 years and 94.9% occupancy. The relatively high premium to NTA of 8.2% reflects that the transaction occurred as part of a competitive bidding process between Growthpoint Properties Australia and Centuria Metropolitan REIT, reflecting the scarcity value of the assets. In addition, it occurred in 2016 when a number of passive office A-REITs were trading above NTA reflecting an expectation of further increases in valuations
 - Centuria Urban REIT had three A-grade suburban office properties (two in Brisbane and one in Melbourne) which had a total value of \$210 million. As at 31 December 2016, it had a WALE of 4.6 years and an occupancy by NLA of 99.2%. The transaction occurred at a modest 0.4% premium to NTA
- these transactions indicate a premium/(discount) in the range of (3.9%) to 8.2% to NTA for an office specific A-REIT. The high end of this range (GPT Metro Office Fund and Commonwealth Property Office Fund) involved competitive bidding situations. Excluding these transactions, the range is (3.9%) to 3.1%. Furthermore, the two most recent transactions are relatively low ((2.5%) and 0.4%), likely reflecting the stage of the office property cycle.

It should be noted that premiums are calculated relative to audited NTA. The equivalent premium/ (discount) to adjusted NTA would be slightly higher/(lower).

Taking into account the premiums to NTA observed in recent comparable transactions involving office specific A-REITs with passive investments in the office sector as well as the specific attributes of IOF, KPMG Corporate Finance is of the view that it is not appropriate to apply an additional premium to the adjusted NTA of IOF.



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8.7 Valuation cross-check

As a cross-check to our primary net assets methodology, we have applied a capitalisation of earnings method with reference to FFO multiples and distribution yields implied by our primary valuation approach and compared them to those of the comparable listed A-REITs and recent transactions involving A-REITs.

Our assessed value of an IOF Unit on an adjusted NTA basis of \$5.38 to \$5.41 implies the following FFO multiples and distribution yields:

Table 22: IOF implied multiples cross check

Implied metrics	Section Reference	Parameter (per Unit)	Low	High
Value per IOF Unit	8.2		\$5.38	\$5.41
FY18 FFO multiple (times) ¹	7.11	30.6¢	17.6	17.7
FY19 FFO multiple (times) ²	7.11	29.2¢	18.4	18.5
FY18 distribution yield	7.11	20.3¢	3.8%	3.8%
FY19 distribution yield ²	7.11	20.3¢	3.8%	3.8%

Sources: KPMG Corporate Finance Analysis

Notes:

1. Pro forma and unaudited FY18 FFO
2. IOF FY19 preliminary guidance

The relevant market evidence is summarised below and provided in detail in Appendix 4.

Comparable transactions

There are a number of recent transactions involving sector specific A-REITs that focus on passive investments in office properties. These transactions occurred at a forecast exit yield in the range of 5.0% to 8.1% and a forecast FFO multiple in the range of 12.8 times to 20.9 times and are summarised in the following table.

Table 23: Transaction evidence

Announcement date	Transaction	Internally/externally managed ¹	Consideration (\$ million)	Premium/ (discount) to NTA ²	Exit yield		Premium/ (discount) to VWAP ³	FFO multiple
					Historical	Forecast		
Apr 2017	Centuria Urban REIT	E	27.2	0.4%	9.1%	8.1%	na	na
Mar 2017	Brookfield Prime Property Fund	E	310.0	(2.5%)	2.9%	na	16.0%	na
Jun 2016	GPT Metro Office Fund	E	321.3	8.2%	6.1%	6.2%	21.4%	20.9
Dec 2013	CPA	E	2,910.0	5.2%	5.3%	5.0%	14.8%	12.8
Jan 2012	Charter Hall Office REIT	E	1,228.4	(3.9%)	na	5.3-6.5%	22.9%	14.0
Apr 2010	Westpac Office Trust	E	417.0	3.1%	7.7%	7.7%	14.2%	na
Low			27.2	(3.9%)	2.9%	5.0%	14.2%	12.8
High			2,910.0	8.2%	9.1%	8.1%	22.9%	20.9
Median			369.2	1.8%	6.1%	6.2%	16.0%	14.0

Source: S&P Capital IQ, Company financial statements; KPMG Corporate Finance analysis

Notes:

1. "I" denotes internally managed A-REIT and "E" denotes externally managed A-REIT
2. NTA from the last financial report for each target entity
3. One month VWAP prior to the announcement of the transaction or notable corporate activity.

In relation to the above, we note:

- the quality of Centuria Urban's property portfolio is substantially different from IOF's (located outside CBDs) and consequently, a lower yield is appropriate for IOF

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- Brookfield Prime Property Fund's low exit yield is distorted by its very low payout ratio (16% of EPS in FY17) and high management fee structure
- GPT Metro Office Fund was substantially smaller than IOF and unlike IOF, its assets include business parks. Consequently, the transaction occurred at a relatively high exit yield (despite it occurring as part of a competitive bidding situation)
- Commonwealth Property office Fund's \$3.8 billion investment portfolio was of a similar scale to IOF's portfolio (\$4.3 billion) and the portfolio was of similar quality. The acquisition occurred at a relatively low exit yield of 5.0% (although this may also reflect that the transaction occurred as part of a competitive bidding situation)
- Charter Hall Office Fund's portfolio had a greater share of premium grade property than IOF, suggesting a higher yield is appropriate for IOF, and
- the relatively high yield for Westpac Office Trust may reflect that the transaction occurred during a weaker stage of the property cycle and was over geared.

Comparable companies

There are no directly comparable sector specific A-REITs focused on passive investment in the office sector. Multiples for listed A-REITs with substantial interests in office properties in Australia (over 60% of their portfolio) are set out in the following table.

Table 24: Sharemarket evidence for primarily office A-REITs

	Management basis ¹	Market capitalisation (\$ million)	Premium/ (discount) to NTA (%) ²	Book gearing ²	2 year Distribution CAGR ³	Distribution yield			FFO multiple		
						FY17	FY18	FY19	FY17	FY18	FY19
Investa Office Fund	E	2,771	(6.5%)	34.1%	1.1%	4.4%	4.4%	4.5%	15.6	15.2	15.7
Primarily Office REITs⁴											
DEXUS	I	10,101	3.9%	38.3%	4.0%	4.6%	4.8%	5.0%	16.4	15.6	15.2
Growthpoint Properties Australia	I	2,458	18.2%	59.7%	3.4%	5.9%	6.1%	6.3%	14.8	15.0	14.6
Cromwell Property Group	I	2,243	21.5%	70.7%	(.6%)	7.4%	7.3%	7.3%	15.1	14.3	14.7
GDI Property Group	I	671	4.8%	11.4%	n/a	6.2%	n/a	n/a	15.1	n/a	n/a
Investec Australia Property Fund	E	519	(15.9%)	54.6%	n/a	9.0%	n/a	n/a	n/a	n/a	n/a
Centuria Metropolitan REIT	E	592	(2.0%) ⁴	42.7%	2.0%	7.2%	7.4%	7.5%	n/a	n/a	n/a
Australian Unity Office Fund	E	407	(2.7%)	50.3%	n/a	6.0%	n/a	n/a	17.0	n/a	n/a

Source: S&P Capital IQ, Company financial statements; KPMG Corporate Finance analysis. Multiples are based on security prices as at 18 July 2018 except for IOF, which is based on the IOF Unit price at 25 May 2018.

Notes:

- ¹ "I" denotes internally managed A-REIT and "E" denotes externally managed A-REIT.
- ² Based on book value as at 31 December 2017.
- ³ Compound annual growth rate for distributions from FY17 to FY19.
- ⁴ Centuria Metropolitan REIT NTA per unit has been updated to reflect 19 July 2018 announcement.

- other than IOF, office sector A-REITs include Cromwell Property Group (Cromwell) (94% office properties), GDI Property Group Limited (GDI), Investec Australia Property Fund (Investec), Centuria Metropolitan REIT (Centuria Metropolitan) and Australian Unity Office Fund (Australian Unity). In regard to these A-REITs:
 - similar to IOF, Investec, Centuria Metropolitan and Australian Unity are externally managed, whereas Cromwell and GDI are internally managed
 - both Cromwell and GDI have third party asset management activities and the quality of the office portfolios are generally lower than IOF. The portfolios of both have relatively low occupancy and Cromwell also has a high payout ratio. Consequently, their distribution yields are relatively high (7.4% and 6.2% historical yields)



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- Investec is listed on the Johannesburg Stock Exchange. The high distribution yield likely reflects its absence of an ASX listing, illiquid trading, external management structure and, potentially, currency risk exposure
- Centuria's relatively high yield likely reflects that its property assets are outside the core CBD locations as well as its relatively short WALE
- Australian Unity's dividend yield is moderate, reflecting the impact of having a large share of properties outside core CBD markets, offset by a high distribution payout ratio.
- DEXUS and Growthpoint's portfolios are focused on office properties (84% and 66%, respectively), however, they also comprise industrial properties. Furthermore, both are internally managed and DEXUS has a substantial development pipeline and third party funds management business. DEXUS' relatively low yields likely reflect its high quality property portfolio and weighting towards the Sydney office market, the fundamentals of which continue to be favourable. Growthpoint's relatively high yield likely reflects its greater exposure to the industrial property sector, greater share of properties outside the Sydney CBD and high payout ratio.

Conclusion

IOF's implied forecast FFO multiple of 18.4 to 18.5 times is towards the high end of the range of the transaction evidence (12.8 to 20.9 times), with the high end of the range represented by the acquisition of GPT Metro Office Fund, which occurred as part of a competitive bidding situation, and higher than forecast multiples for listed A-REITs which focus on the office property sector (14.6 to 15.2 times).

IOF's implied forecast distribution yield of 3.8% is substantially below the low end of the transaction evidence (5.0% to 8.1%, excluding Brookfield Prime Property Fund for which yields are distorted by the very low payout ratio) and sharemarket evidence (5.0% to 7.5%).

A high FFO multiple and low distribution yield are appropriate, having regard to IOF's exposure to the strongly performing Sydney and Melbourne CBD office markets and relatively low exposure to the weaker Brisbane and Perth markets, substantial yield compression in recent years and the quality of IOF's portfolio. However, we note that these multiples also reflect the forecast decline in FFO and curtailment of distributions as a result of IOF's development and refurbishment activities.

On that basis, we consider the implied FFO multiple and distribution yield support our value range of \$5.38 to \$5.41 per IOF Unit.

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Appendix 1 – KPMG Corporate Finance Disclosures

Qualifications

The individuals responsible for preparing this report on behalf of KPMG Corporate Finance are Ian Jedlin and Joanne Lupton. Ian is a member of Chartered Accountants Australia and New Zealand, a Senior Fellow of the Financial Securities Institute of Australia and holds a Master of Commerce from the University of New South Wales. He is also a member of the Standards Review Board of the International Valuations Standards Council. Joanne is a member of the Institute of Chartered Accountants in Australia and a Fellow of the Financial Securities Institute Australasia and holds a Bachelor of Commerce degree. Both Ian and Joanne have a significant number of years' experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than KPMG Corporate Finance's opinion as to whether the Proposal is in the best interests of IOF Unitholders. KPMG Corporate Finance expressly disclaims any liability to any IOF Unitholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Other than this report, neither KPMG Corporate Finance nor the KPMG Partnership has been involved in the preparation of the Explanatory Memorandum or any other document prepared in respect of the Proposal. Accordingly, we take no responsibility for the content of the Explanatory Memorandum as a whole or other documents prepared in respect of the Proposal.

Independence

In addition to the disclosures in our Financial Services Guide, it is relevant to a consideration of our independence that, during the course of this engagement, KPMG Corporate Finance provided draft copies of this report to management of IOF for comment as to factual accuracy, as opposed to opinions which are the responsibility of KPMG Corporate Finance alone. Changes made to this report as a result of those reviews have not altered the opinions of KPMG Corporate Finance as stated in this report.

Consent

KPMG Corporate Finance consents to the inclusion of this report in the form and context in which it is included with the Explanatory Memorandum to be issued to IOF Unitholders. Neither the whole nor the any part of this report nor any reference thereto may be included in any other document without the prior written consent of KPMG Corporate Finance as to the form and context in which it appears.

Declarations

Our report has been prepared in accordance with professional standard APES 225 "Valuation Services" issued by the Accounting Professional & Ethical Standards Board (APESB). KPMG Corporate Finance and the individuals responsible for preparing this report have acted independently.



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Appendix 2 – Sources of information

In preparing this report we have been provided with and considered the following sources of information:

Publicly available information

- Explanatory Memorandum and Notice of Meeting
- annual results and financial statements of IOF for FY15, FY16 and FY17
- financial results of IOF for 1H18
- pro forma and unaudited financial statements for IOF for FY18
- ASX announcements, press releases, media and analyst presentations and other public filings by IOF including information available on its website
- broker reports and recent press articles regarding IOF
- information sourced from S&P Capital IQ
- various reports published by IBISWorld Pty Ltd

Non-public information

- Board papers and other internal briefing papers prepared by ILFML in relation to the Proposal
- Other confidential documents, presentations and workpapers.

In addition, we have had discussions with, and obtained information from, senior management of ILFML as responsible entity for IOF. We have also had discussions with the Directors of ILFML.

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Appendix 3 – Industry overview

Overview

IOF is an A-REIT that invests in office buildings in CBDs in Sydney and North Sydney (63%), Melbourne (16%), Brisbane (15%), Perth (4%) and Canberra (3%). In order to provide context with regard to the current economic and industry factors relevant to IOF, we have provided an overview of the A-REIT industry and then provided further detail in relation to the Australian office sector within the A-REIT industry.

A-REIT industry

A-REITs are trust structures that provide security holders with an opportunity to invest in a vehicle that holds investments in property assets. Investors generally evaluate A-REITs by assessing the security of the rental and other property income, quality of the individual properties and tenants, degree of diversification, lease expiry profile, level of gearing and quality of management. The relative risk of these elements will generally be reflected in the yield of the individual A-REITs. A-REITs may be able to access tax concessions (such as capital allowances and tax deferral on rental income) which are generally passed onto security holders through tax deferred distributions.

A-REITs invest in a range of properties in various sub-sectors and geographic locations. The sectors within the property market and the type of properties within each include the following:

- Retail: investment in shopping malls, outlet malls, neighbourhood and community shopping centres
- Diversified: investment across a range of property sectors
- Industrial: investment in industrial warehouse and distribution properties
- Office: investment in office buildings and office parks
- Residential: investment in residential properties including housing, apartments and student housing
- Hotel: investment in properties that provide accommodation on a room and/or suite basis
- Bulky goods: investment in retail warehouse which contain white goods and hardware
- Specialised: includes investment in physical and electronic record storage centres, childcare and early learning, agricultural land as well as retirement communities, aged care and other seniors living and agricultural land among others.

As at 18 July 2018, the A-REIT Index had a market capitalisation of \$118.0 billion and comprised 19 constituents. A total of 12 of the 19 A-REITs in the index are sector specific, concentrating on a particular sector of the property market while the remaining seven were diversified. The index is dominated by retail A-REITs (40.6% of the index) and diversified A-REITs (30.7% of the index) while predominantly office A-REITs comprised only 13.1% of the index (including DEXUS, IOF and Cromwell).

Historical performance

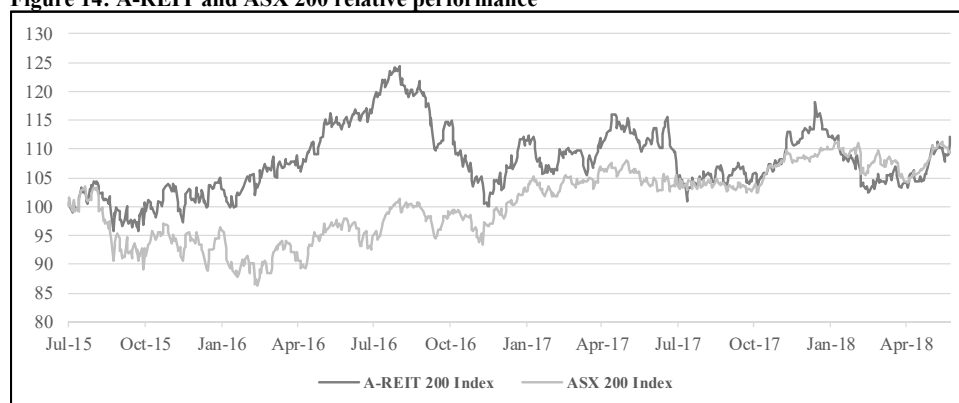
From January 2014 until mid-2016, record low interest rates coupled with the availability of credit, as well as tightening bond yields and volatile equity markets resulted in investors paying a premium to purchase higher yielding asset classes such as property and infrastructure. The outperformance of the A-REIT Index was greatest from mid-2014 as the depreciation of the Australian dollar increased the relative attractiveness of A-REITs to foreign investors.



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From mid-2016 until mid-2017, the A-REIT Index generally underperformed the broader sharemarket, as illustrated in the following chart:

Figure 14: A-REIT and ASX 200 relative performance



Source: S&P Capital IQ

The total value of the A-REIT index began to decline from August 2016 mainly due to weaker retail conditions dragging down the security prices of the large retail A-REITs that dominate the index as well as the impact of increases in Australian Government 10-year bond yields and an appreciation of the Australian dollar from around A\$1=US\$0.70 to around A\$1=US\$0.75 throughout 2016. From August 2016 to November 2016, the A-REIT Index underperformed the ASX 200 Index by 17%.

From November 2016 until mid-2017, strong performances across international equity markets (including the ASX 200) against slow income growth in retail REITs and the further appreciation of the Australian dollar from mid-2017 to around A\$=US\$0.80 in early 2018 contributed to the underperformance. From mid-2016 until mid-2017, the A-REIT Index had underperformed the ASX 200 Index by 23%.

From mid-2017 until 18 July 2018, the A-REIT Index has tracked the broader ASX 200 Index (other than a brief period of outperformance in December 2017).

Office property sector

The office property sector comprises entities engaged in the ownership and management of office property such as CBD, suburban and regional office buildings. The quality of office properties is distinguished by investment grade (i.e. premium, A, B grade).

Recent performance

The office property market in Australia has, broadly speaking, experienced capital value increases over the past three years due to limited supply and strong tenant demand resulting in yield compression. This is particularly true in respect of Sydney and Melbourne, which have each experienced strong face and effective rental growth. In the three years to March 2018, prime grade CBD office values increased by 34%, with secondary grade values increasing 41% in the same period.⁵⁴ Strong sector growth has predominantly resulted from significant demand for prime CBD assets in Sydney and Melbourne where growth rates have exceeded national levels considerably. Over the six months to 31 December 2017, vacancy rates in the Sydney and Melbourne CBD markets declined by 1.2% and 1.3%, respectively to 4.6% in each market. In contrast, there has been oversupply in Brisbane, Adelaide, Perth and Canberra

⁵⁴ Source: Colliers International, "2018 Office Investment Outlook, Sydney CBD".

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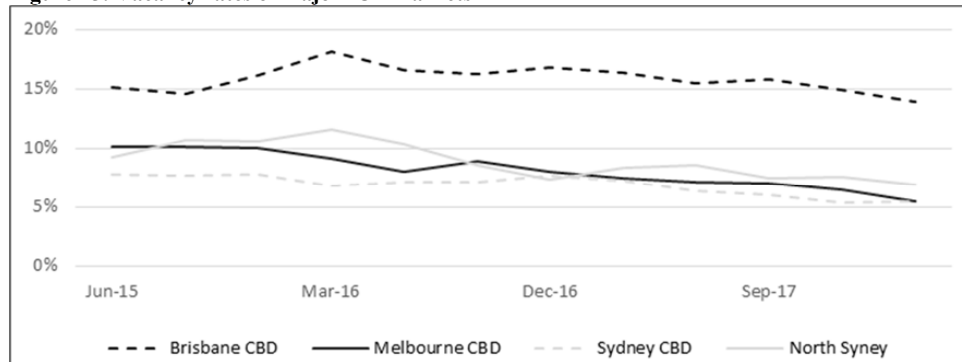


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CBDs and outer metropolitan areas resulting in high vacancy levels of between 11% and 20%. In particular, continued weakness in the mining sector has resulted in vacancy rates in Perth of 19.8% in the six months to 31 December 2017.⁵⁵

Vacancy rates of IOF's major office property markets have generally been on a downward trend since March 2016, as illustrated in the following chart:

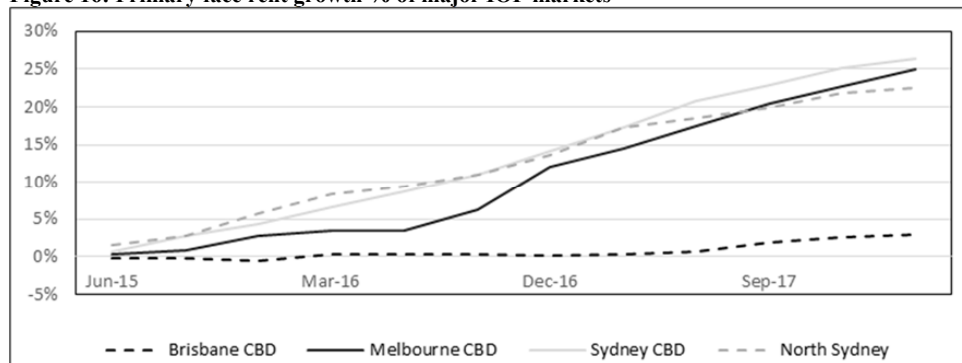
Figure 15: Vacancy rates of major IOF markets



Source: JLL

Primary face rent has grown steadily since June 2015 in the Sydney CBD, North Sydney CBD and Melbourne CBD. Face rent growth in the Brisbane CBD has been more subdued in the period as illustrated in the following chart:

Figure 16: Primary face rent growth % of major IOF markets



Source: JLL

Outlook

Continued growth in white-collar employment⁵⁶ and forecast reductions in commercial building vacancy rates are expected to support future revenue growth⁵⁷. IBISWorld estimates office sector revenue to increase annually by 3.8% over the five years to September 2022 underpinned by employment growth in the Sydney and Melbourne markets⁵⁸. Over the next five years, average annual growth in white-collar

⁵⁵ Source: Colliers International, "CBD Office Research and Forecast First Half 2018"

⁵⁶ Source: Colliers International, "2018 Office Investment Outlook, Sydney CBD"

⁵⁷ Source: IBISWorld, "Office Property Operators in Australia Industry Report", September 2017.

⁵⁸ Source: IBISWorld, "Office Property Operators in Australia Industry Report", September 2017.



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employment of 1.6%⁵⁹ is expected to contribute to continued property sector revenue growth. However, given the sustained low interest rate environment, investors have lowered return expectations for risk assets which will impact asset pricing models. Return expectations for Australian office property are roughly 1.5% lower than during 2017.⁶⁰

As the drive towards more customer focussed and flexible working environments becomes more prominent, landlords that can offer these environments (shared facilities, customer experience, technology platforms, end of trip services, health & wellness spaces) are expected to have greater ability to attract and retain the best tenants, therefore future-proofing their assets and building strong investment portfolios.

Sydney Outlook

CBD

Sydney has been the best performing market nationally across all indicators, however, this has predominantly been driven by a supply shortage with supply levels reaching their lowest point in 20 years. Supply in the CBD is expected to be constrained in the next two years with the next supply cycle forecast to be approximately three years away.

This will act as a stimulus for tenants with larger requirements entering the market. Despite the new supply cycle being a few years away, competition to secure tenants is already underway, particularly for Premium grade buildings where the vacancy rate is higher than the average. Landlords will favour longer leases for security, and those that can meet tenant expectation in regard to building design and amenity will be able to attract and retain quality tenants.

In the short-term, incentives are expected to trend downwards, although incentives being offered for new developments could reach up to approximately 44% which developers can afford to give, whilst still achieving a 15% feasibility margin on the current land purchase rates⁶¹. Vacancy is also projected to trend downwards from 4.6% in January 2018 to circa 3.5% over the next two years⁶². Beyond 2020, the level of supply is anticipated to gradually increase. Decentralisation could emerge as a growing trend as tenants are constrained by availability of space and affordability issues in the CBD, and accessibility to metro areas is improved.

With positive expectations of vacancy and incentive levels in the short-term, net effective rental growth of 3% is forecast until 2019⁶³, however, as the effects of the aforementioned trends emerge, net effective rental growth is forecast to become negative over the new supply pipeline cycle.

Metro

Sydney metro markets will continue to gain popularity with investors due to the value add opportunities, which points to yield compression in the future. Constrained supply will continue to place upward pressure on net effective rents, which will be further impacted by infrastructure and amenity investments, such as the metro line, that are attracting tenants⁶⁴ to metro areas.

The North Sydney vacancy rate remained at 7.9% in the three months to April 2018 as certain Sydney CBD tenants continue to look to North Sydney as a viable option for some operations. The North Sydney

⁵⁹ Source: IBISWorld, "Total number of non-manual employees in the workforce", June 2015.

⁶⁰ Source: JLL, "Australian Office Investment Review and Outlook 2018", April 2018.

⁶¹ Source: Credit Suisse, "Office A-REITS: One more good year for Sydney", 22 January 2018.

⁶² Source: Knight Frank, "Sydney CBD Office Market Overview", March 2018.

⁶³ Source: Credit Suisse, "Office A-REITS: One more good year for Sydney", 22 January 2018.

⁶⁴ Source: Colliers, "Metro Office First Half 2018", 2018.

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vacancy rate is forecast to decline in the short term to 7.6% by December 2018⁶⁵ with prime gross effective rents expected to increase by 2.7% each year during the rest of 2018 and between January and December 2019.⁶⁶

Melbourne Outlook

Similar to Sydney, the Melbourne CBD has also experienced a supply shortage, however, the supply pipeline is expected to increase significantly over the next five years. In contrast to Sydney, future supply has been supported by tenant demand with 76% of new developments already pre-committed⁶⁷, as well as much of the associated backfill space having secured tenants. Over the short-term, demand is expected to remain strong and vacancy rates are expected to continue to remain low, however the increased supply levels from 2019 onwards are expected to result in the vacancy rate rising from current levels of circa 6% to approximately 9%⁶⁸. With the vacancy rate remaining below historical levels until new supply comes on stream, prime net face rents are expected to grow by approximately 7% by January 2019. Scarcity of investment product will limit transaction volumes going forward, however investor demand for CBD assets is expected to remain prominent.

Brisbane Outlook

Improving economic conditions for Queensland will drive recovery in the commercial property market in Brisbane. In the absence of supply in the short-term, the vacancy rate is expected to trend downwards from the unprecedented high of 16.2% at the beginning of 2018 to below 13.5% by the end of the year⁶⁹. Due to the lack of supply, effective rents are expected to experience growth as incentives are eroded. A favourable market for tenants is expected to encourage leasing activity, as tenants seek to relocate to the CBD or upgrade their premises to a higher grade.⁷⁰ Longer term, significant supply is forecast for 2021-2022 which will impact the total vacancy rate, however the prime vacancy rate is expected to outperform the secondary. Further yield decreases are expected in the future as offshore investors without a presence in Brisbane are expected to enter the market contributing to an effective rental growth of 4% being anticipated over the next two years as a result.

Perth Outlook

Signs of recovery are emerging in the Perth office market, following the downturn in mining activity. Whilst general demand remains subdued, tenants from metro markets have begun to move in to the CBD capitalising on favourable leasing conditions. Demand is expected to outweigh supply, which in turn is expected to drive down vacancy rates from the historic high of 21.1% during 2016 to approximately 14% in 2020.⁷¹ As the prime leasing market in Perth improves, prime gross effective rents are forecast to show potential growth of 2.9% throughout 2018, as incentives moderate⁷².

Canberra Outlook

Falling vacancy rates and strong absorption are signs that conditions are improving to support speculative development in Canberra with the development pipeline forecast to increase, particularly in the top-end of the market. Growth in effective rents is forecast to be approximately 2% over the next two years, with

⁶⁵ Source: Property Council Office Market Report, December 2017.

⁶⁶ Source: JLL, Australia North Shore Office Report 1Q18, 2018.

⁶⁷ Source: Knight Frank, Melbourne CBD Office Market Overview, March 2018.

⁶⁸ Source: Credit Suisse, Office A-REITS: One more good year for Sydney, 22 January 2018.

⁶⁹ Source: Knight Frank, Brisbane CBD, Office Market overview, April 2018.

⁷⁰ Source: Credit Suisse, "Office A-REITS: One more good year for Sydney," 22 January 2018.

⁷¹ Source: Credit Suisse, "Office A-REITS: One more good year for Sydney," 22 January 2018.

⁷² Source: JLL, Perth CBD Office Report 1Q18.



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incentives remaining stable or perhaps increasing marginally to attract new tenants as availability increases.⁷³

Positive sentiment in the Canberra market continues to drive investment demand and buyer depth, as it attracts both private and institutional investors seeking opportunistic assets. As a consequence yields are expected to tighten across all sub-markets of Canberra.

⁷³ Source: Knight Frank, "Canberra Office Brief", April 2018.

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Appendix 4 – Market evidence

Comparable companies

The following table sets out the market metrics for the comparable companies, as at the latest reporting date.

Table 25: Comparable company analysis

	Management basis ¹	Market capitalisation (\$ million)	Premium/ (discount) to NTA (%) ²	Book gearing ²	2 year Distribution CAGR ³	Distribution yield			FFO multiple		
						FY17	FY18	FY19	FY17	FY18	FY19
Investa Office Fund	E	2,771	(6.5%)	34.1%	1.1%	4.4%	4.4%	4.5%	15.6	15.2	15.7
Primarily Office REITs⁴											
DEXUS	I	10,101	3.9%	38.3%	4.0%	4.6%	4.8%	5.0%	16.4	15.6	15.2
Growthpoint Properties Australia	I	2,458	18.2%	59.7%	3.4%	5.9%	6.1%	6.3%	14.8	15.0	14.6
Cromwell Property Group	I	2,243	21.5%	70.7%	(.6%)	7.4%	7.3%	7.3%	15.1	14.3	14.7
GDI Property Group	I	671	4.8%	11.4%	n/a	6.2%	n/a	n/a	15.1	n/a	n/a
Investec Australia Property Fund	E	519	(15.9%)	54.6%	n/a	9.0%	n/a	n/a	n/a	n/a	n/a
Centuria Metropolitan REIT	E	592	(2.0%) ⁵	42.7%	2.0%	7.2%	7.4%	7.5%	n/a	n/a	n/a
Australian Unity Office Fund	E	407	(2.7%)	50.3%	n/a	6.0%	n/a	n/a	17.0	n/a	n/a
Diversified REITs											
Stockland	I	10,021	(1.2%)	35.0%	4.4%	6.2%	6.4%	6.7%	12.5	11.6	11.0
GPT Group	I	9,277	2.0%	37.1%	3.9%	4.8%	4.9%	5.2%	16.7	16.2	15.5
Mirvac Group	I	8,310	1.8%	38.2%	4.3%	4.6%	4.9%	5.1%	15.2	14.0	13.4
Charter Hall Group	I	3,069	78.6%	(4.6%)	7.5%	4.6%	4.9%	5.3%	20.5	17.7	17.5
Abacus Property Group	I	2,167	19.5%	28.3%	3.2%	4.7%	4.8%	5.0%	27.3	n/a	n/a
Charter Hall Long WALE REIT	E	966	3.5%	30.8%	93.7%	1.7%	6.3%	6.5%	25.2	n/a	n/a
Propertylink Group	I	639	1.9%	44.5%	6.5%	6.0%	6.7%	6.8%	n/a	n/a	n/a
Industria REIT	E	427	1.9%	49.5%	3.4%	6.1%	6.3%	6.5%	15.3	14.2	13.6

Source: S&P Capital IQ, Company financial statements; KPMG Corporate Finance analysis

Notes:

Multiples are based on security prices as at 18 July 2018 except for IOF, which is based on the security price at 25 May 2018.

1. "I" denotes internally managed A-REIT, while "E" denotes externally managed A-REIT
2. Based on book value as at 31 December 2017
3. Two year distribution CAGR relates to FY17 to FY19
4. Primarily Office A-REITs comprise at least 60% office properties
5. Centuria Metropolitan REIT NTA per unit has been updated to reflect 19 July 2018 announcement.

Primarily Office REITs

Dexus Property Group

Dexus is an internally managed office A-REIT listed on the ASX. At 31 December 2017, it had \$26.4 billion in AUM comprising a \$13.1 billion investment property portfolio and \$13.4 billion in third party funds. Dexus' investment portfolio comprises 84% office properties with the rest of the portfolio weighted towards mostly industrial properties. It also had a \$4.2 billion development pipeline at 31 December 2017, of which \$2.1 billion sits within the Dexus portfolio. The office portfolio consists primarily of prime CBD office properties. Premium and A-grade office assets represent approximately 35% and 57% of the portfolio, respectively. Dexus has a 70% exposure to the Sydney office market, 15% in Queensland and 8% in Victoria. As at 31 December 2017, the office portfolio had average occupancy (by income) of 96.5% and a WALE of 4.6 years. Dexus is trading at premium to NTA, reflecting its large development pipeline and third party funds management business. Its relatively low yields likely reflect its high quality property portfolio and weighting towards the Sydney office market, the fundamentals of which continue to be favourable.

Growthpoint Properties Australia

Growthpoint Properties Australia (Growthpoint) is an internally managed A-REIT. Its \$3.3 billion property portfolio comprises 56 properties across the office (66%) and industrial (34%) sectors. As at 31 December 2017, the portfolio had an average occupancy of 98% and a WALE of 5.6 years. The interim



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FY18 results presentation noted a development opportunity of 20,000 square metres in Richmond, Victoria. At the time of the interim report, work was not underway at this site. Growthpoint's properties are located in Victoria (29%), NSW (27%), Queensland (26%), South Australia (6%), Western Australia (6%), the ACT (5%) and Tasmania (1%). The majority of Growthpoint's tenants (57%) are listed companies with a further 24% of properties occupied by government owned entities. The company's substantial premium to NTA likely reflects development opportunities associated with the industrial sites and potentially, an expectation of a valuation uplift (noting that as at 18 July 2018, it had not announced a valuation uplift). Its relatively high yield likely reflects its exposure to the industrial property sector and high payout ratio.

Cromwell Property Group

Cromwell Property Group (Cromwell) is an internally managed office A-REIT. At 31 December 2017, it had a \$2.5 billion investment property portfolio and \$11.1 billion in properties managed on behalf of third parties. AUM include the company's new European REIT (CEREIT) launched on 30 November 2017 and listed in Singapore. These assets are mostly focused in the Office and Retail sectors with a value of \$2.2 billion at 31 December 2017. Cromwell's investment portfolio comprises 94% office properties and is located throughout Australia including NSW (48.9%), the ACT (19.7%), Queensland (17.8%) and Victoria (9.6%). As at 31 December 2017, its \$2.3 billion property portfolio had an occupancy of 85.9%, WALE of 7.2 years. Cromwell's substantial premium to NTA reflects the value attributed to its third party funds management activities, relative to its investment property portfolio and potentially, an expectation of a valuation uplift (noting that as at 18 July 2018, it had not announced a valuation uplift). Its yield is relatively high, reflecting the quality of its investment property portfolio, low occupancy and high payout ratio.

GDI Property Group Limited

GDI Property Group Limited (GDI) is an internally managed office A-REIT. At 31 December 2017, it had over \$1.1 billion in AUM, including a \$728 million investment property portfolio and \$370 million of third party funds. GDI's investment portfolio comprises six properties, two in Perth CBD and Surfers Paradise and one in each of Sydney and Townsville. The portfolio has an average occupancy of 85% and WALE of 2.5 years. No significant development activities were noted at 31 December 2017, however, GDI intends to partner together with Lendlease to explore the development potential of creating a leading commercial and retail precinct in the City of Perth at the site of its Mill Green property. As part of its 1H18 results, GDI announced an extension to its share buy-back scheme originally announced on 20 February 2017 whereby the company intends to purchase a maximum of 5% of GDI securities. A premium to NTA likely reflects the impact of the buyback and the extent of its third party funds management activities. Its relatively high yield reflects its lower quality investment property portfolio, low occupancy, short WALE and high payout ratio.

Investec Australia Property Fund

Investec Australia Property Fund (IAPF) is an externally managed diversified A-REIT invested in office (77%) and industrial (23%) property in Australia and New Zealand. At 31 March 2018, IAPF had a portfolio of 26 properties with a value of \$987 million. Occupancy (by revenue) was 98.5% with a WALE (by revenue) of 5.1 years at 31 March 2018. IAFP's properties are located in NSW (38%), QLD (20%), VIC (19%) and New Zealand (12%) among others. The fund is currently listed on the Johannesburg Stock Exchange (JSE), however at the announcement of interim results to 30 September 2017, management stated that it was considering a dual listing on the JSE and ASX. This option is still being explored by

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management. The significant discount to NTA and high distribution yield likely reflects its absence of an ASX listing, illiquid trading, external management structure and, potentially, currency risk exposure.

Centuria Metropolitan REIT

Centuria Metropolitan REIT (CMA) is an externally managed A-REIT that owns a portfolio of 19 metropolitan office building assets. At February 2018 it had a \$0.9 billion diversified investment property portfolio and a relatively small development pipeline of \$60 million. The portfolio focuses on A-grade metro assets and has an average occupancy of 97.8% and a 4.3 year WALE. It is trading at around NTA reflecting that it is a passive, externally managed A-REIT. Its relatively high yield likely reflects that its property assets are outside the core CBD locations as well as its relatively short WALE.

Australian Unity Office Fund

Australian Unity Office Fund (Australian Unity) is an externally managed A-REIT that owns a portfolio of 9 metropolitan office assets across Australian metropolitan and CBD markets. At 30 June 2017 it had \$0.4 billion invested in its office property portfolio. The portfolio has an average occupancy of 94.4% and a 4.5 year WALE. The portfolio is relatively small, holding only 9 investments. Australian Unity has no assets under construction but is exploring other growth opportunities such as acquisitions. Australian Unity's portfolio is located across five states, NSW (39%), SA (22%), Queensland (26%), Victoria (9%) and ACT (4%). In June 2016, it announced that property revaluations are expected to result in an increase in NTA of 26 cents. NTA has been adjusted to include this uplift. It is trading at a discount to adjusted NTA, reflecting that it is a relatively small, externally managed, passive A-REIT. Its dividend yield is moderate, reflecting the impact of having a large share of properties outside core CBD markets, offset by a high distribution payout ratio.

Diversified REIT's

Stockland

Stockland Corporation Limited (Stockland) is an internally managed A-REIT that is engaged in investment, management and development of properties across a range of sectors. As at 31 December 2017, Stockland's \$9.2 billion investment portfolio was diversified across mostly retail (50%), logistics and business parks (14%), office (5%) residential communities (21%) and retirement living communities (10%). The Stockland portfolio is geographically diverse, with assets in NSW (52%), Queensland (21%), Victoria (17%), Western Australia (9%) and South Australia and the ACT with average occupancy (by income) of 98.7% and a WALE (by income) of 5.8 years. Stockland is trading slightly below with NTA likely as value associated with development activities is more than offset by the softness in the retirement living and retail sectors.

GPT Group

GPT Group (GPT) is an internally managed diversified A-REIT with \$21.5 billion of assets under management including a \$12.3 billion investment property portfolio and \$9.2 billion in third party funds. GPT's investment portfolio includes retail (47%), office (40%) and logistics (13%) properties. As at 31 December 2017, the office portfolio was diversified across NSW (56%), Victoria (32%) and Queensland (12%) with an average occupancy (by income) of 95.2% and a WALE (by income) of 5.6 years. GPT's third party funds include the GPT Wholesale Office Fund and the GPT Wholesale Shopping Centre fund with total assets of \$7.1 billion and \$4.9 billion respectively. The primary investors in each fund include domestic super funds, offshore pension funds and GPT itself (which holds a 25% ownership interest).

Mirvac Group

Mirvac Group (Mirvac) is an internally managed diversified A-REIT. Mirvac has a \$9.1 billion investment portfolio and a further \$0.7 billion of development assets under management on behalf of



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third parties. Mirvac's investment portfolio includes office (57%), retail (34%) and industrial (9%). The office portfolio mainly includes 36% premium office properties, 59% A-Grade, 2% B-Grade and 3% C-Grade properties. The office portfolio is geographically diverse with properties in NSW (58%), Victoria (24%), Western Australia (9%), the ACT (6%) and Queensland (3%). As at 31 December 2017, the portfolio had average occupancy of 98.8% and a WALE of 5.8 years. Mirvac is trading almost at par to NTA, likely as the value associated with its development activities is offset by the weak performance of the retail A-REIT sector.

Charter Hall Group

Charter Hall Group (Charter Hall) is an internally managed diversified A-REIT. At 31 December 2017, Charter Hall had \$1.6 billion in direct investment holdings and \$21.9 billion in funds under management. Its direct investments comprised properties in the office (38%), retail (25%) and industrial (25%) sectors, with the remainder invested in long WALE diversified REITs. Charter Hall's properties are located in NSW, Queensland, Victoria, Western Australia, South Australia, Tasmania and the ACT. At 31 December 2017, the investment portfolio had a WALE of 7.4 years and occupancy of 97.8%. Charter Hall trades at a substantial premium to NTA, reflecting the value attributed to its extensive third party funds management business, the income from which significantly outweighs that of direct property investments.

Abacus Property Group

Abacus Property Group (Abacus) is an internally managed diversified A-REIT with \$2.9 billion in AUM, including a \$1.9 billion investment property portfolio and \$1.0 billion of third party funds. The investment portfolio comprises commercial (66%) and storage property assets (34%) while third party funds are primarily in the retail sector. As at 31 December 2017, Abacus' portfolio included assets located in NSW (29%), Victoria (26%), Queensland (23%), the ACT (10%), South Australia (4%) as well as New Zealand (7%). The investment portfolio had an average occupancy of 90.4% and a WALE of 4.1 years. The premium to NTA likely reflects the extent of the group's extensive third party funds management activities.

Charter Hall Long WALE REIT

Charter Hall Long WALE REIT (WRT) is an externally managed A-REIT investing in a variety of office, industrial and retail properties leased to corporate and government tenants on long-term leases. At 31 December 2017, WRT had occupancy of 100% and a WALE of 11.3 years. The \$1.5 billion property portfolio comprises 81 properties across the industrial (45%), office (31%) and retail (24%) sectors. The portfolio is geographically diverse with properties in Western Australia (23%), South Australia (22%), Victoria (22%), Queensland (21%), NSW (11%) and Tasmania (1%). It is trading at a substantial premium to NTA, potentially reflecting its exposure to the industrial sector.

Propertylink Group

Propertylink Group (Propertylink) is an internally managed real estate group that owns and manages a diversified portfolio of logistics, business park and office properties. At 31 December 2017, Propertylink had a \$0.9 billion investment property portfolio as well as \$1.0 billion in third party funds under management. At this date the portfolio, comprising 30 properties, had occupancy of 99.3% and a WALE of 4.0 years. Asset type included logistics (31%), business park (25%), industrial (22%) and unit estate (18%), made up of 78% prime and 18% secondary assets. Propertylink's portfolio is located across four states, NSW (49%), Victoria (34%), Queensland (13%) and Western Australia (4%). The Group is trading at around NTA, despite its extensive third party funds management business.

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Industria REIT

Industria REIT is an externally managed REIT managed by APN Property Group. At 31 December 2017 it had a \$0.6 billion investment property portfolio comprising 53% office and 47% industrial assets. The portfolio has an average occupancy of 95% and a 7.3 year WALE. Industria's properties are located in NSW (58%), Queensland (24%), Victoria (16%) and South Australia (2%).

Comparable transactions

The following table sets out a summary of transactions that have taken place since 2009 involving A-REITs.

Table 26: Comparable Transaction analysis

Announcement date	Transaction	Internally/ externally managed ¹	Consideration (\$ million)	Premium/ (discount) to NTA ²	Exit yield		Premium/ (discount) to VWAP ³
					Historical	Forecast	
May 2017	Generation Healthcare REIT	E	507.5	39.5%	3.9%	3.9%	13.3%
Apr 2017	Centuria Urban REIT	E	27.2	0.4%	9.1%	8.1%	na
Mar 2017	Brookfield Prime Property Fund	E	310.0	(2.5%)	2.9%	na	16.0%
Jun 2016	GPT Metro Office Fund	E	321.3	8.2%	6.1%	6.2%	21.4%
Sep 2015	The Aspen Group	E	149.8	33.0%	6.3%	6.3%	na
Jun 2015	Novion Property Group	I	8,045.5	29.4%	5.3%	5.4%	15.7%
Mar 2015	Australian Industrial REIT	E	203.3	10.8%	8.3%	8.7%	6.9%
Nov 2014	Folkestone Social Infrastructure	E	70.2	14.0%	6.5%	6.1%	15.4%
Oct 2014	Mirvac Industrial Trust	E	77.6	16.1%	na	na	22.8%
Jun 2014	Australand Property Group	I	2,606.5	21.7%	4.7%	na	14.6%
Apr 2014	Challenger Diversified Property	E	586.6	1.1%	6.7%	6.8%	6.4%
Dec 2013	Commonwealth Property Office	E	2,910.0	5.2%	5.3%	5.0%	14.8%
Apr 2012	Thakral Holdings Ltd	I	507.0	(15.6%)	na	na	32.3%
Jan 2012	Charter Hall Office REIT	E	1,228.4	(3.9%)	na	5.3-6.5%	22.9%
Jan 2012	Abacus Storage Fund	I	132.0	(8.2%)	7.4%	na	n/a
Apr 2011	Valad Property Group	I	209.0	(22.1%)	na	na	52.0%
Apr 2011	Rabinov Property Trust	E	50.0	(4.3%)	10.0%	8.6%	35.8%
Dec 2010	ING Industrial Fund	E	1,395.0	(1.5%)	3.0%	6.0%	11.9%
Jul 2010	MacarthurCook Industrial Fund	E	43.3	(32.1%)	4.1%	4.1%	46.7%
Apr 2010	Westpac Office Trust	E	417.0	3.1%	7.7%	7.7%	14.2%
Oct 2009	Mirvac Real Estate Trust	E	373.0	(29.9%)	5.5%	5.5%	56.0%

Source: S&P Capital IQ, Company financial statements; KPMG Corporate Finance analysis

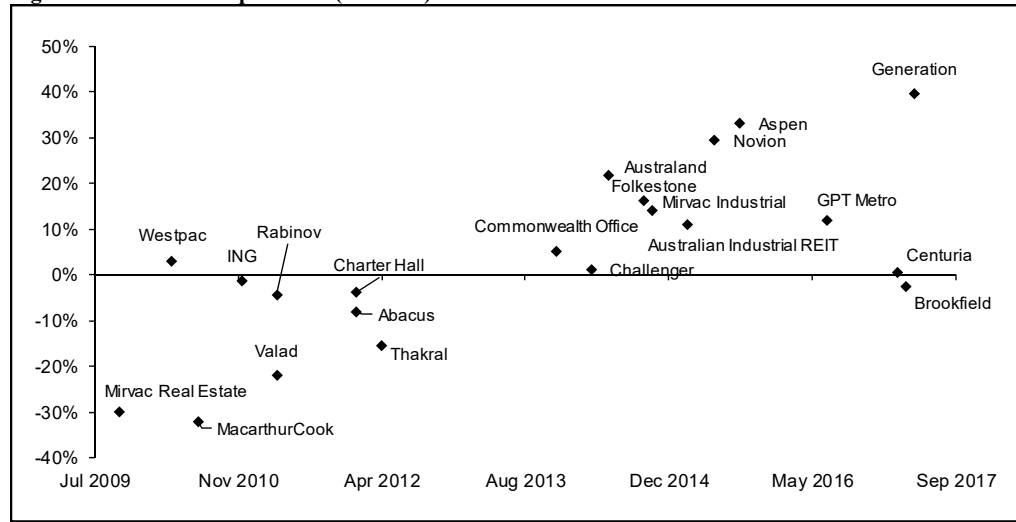
Notes:

1. "I" denotes internally managed A-REIT and "E" denotes externally managed A-REIT
2. NTA from the last financial report for each target entity
3. One month VWAP prior to the announcement of the transaction or notable corporate activity.



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Figure 17: Transaction premium/(discount) to NTA distribution over time



Source: S&P Capital IQ, Company financial statements; KPMG Corporate Finance analysis

Acquisition of Generation Healthcare REIT by Northwest Australia

On 5 May 2017, Northwest Australia (Northwest) announced that it had achieved a 50.25% majority stake in Generation Healthcare REIT (Generation Healthcare) and made an all-cash unconditional offer to buy all remaining units for \$2.30 per unit. The offer price of \$2.30 per unit represented a premium of 49.3% to Generation Healthcare's NTA per unit of \$1.54 reported at 31 December 2016 and a 13.4% premium to its one day and one month VWAPs at 21 April 2017 (the last trading day prior to the announcement of the proposal). At the time of receiving the offer, Generation Healthcare was an externally managed A-REIT with interests in a portfolio of property assets in the healthcare sector including hospitals, medical centres and residential aged care facilities and a \$110 million development pipeline. At 31 December 2016 the fund had assets under management of \$621 million located in Victoria, Queensland and NSW. The portfolio had a WALE of 12.1 years and occupancy of 98.7%. The transaction occurred at a material premium to NTA, reflecting the strong growth outlook for the healthcare sector and its substantial development pipeline. Its relatively low yield reflects the high occupancy, long WALE of the portfolio, relatively low distribution payout ratio and the stage of the property cycle.

Merger of Centuria Urban REIT and Centuria Metropolitan REIT

On 3 March 2017, Centuria Property Funds announced that it had entered an agreement where Centuria Metropolitan REIT (CMA) would acquire all of the issued units in Centuria Urban REIT (CUA) by way of a proposed trust scheme. As part of the scheme, CUA unit holders would receive 0.88 new CMA units plus \$0.23 cash consideration for every CUA unit held. CUA is a passive, externally managed REIT that was previously listed on the ASX focusing on Australian A-grade suburban and B-grade CBD office properties. In advance of the merger, its portfolio consisted of three A-grade suburban office properties (two in Brisbane and one in Melbourne). At 31 December 2016, CUA had a WALE of 4.6 years and an occupancy by NLA of 99.2%. The mid-point value of the scheme consideration of \$2.28 per unit (as assessed by the independent expert) was in line with reported NTA of \$2.27 at 31 December 2016. The limited premium to NTA reflects that it is a passive, externally managed A-REIT. Implied yields are

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relatively high, reflecting the nature of the portfolio, its small scale, short WALE and high distribution payout ratio.

Acquisition of Brookfield Prime Property Fund by Brookfield BPPF Investments Trust

On 7 April 2017, the directors of Brookfield Prime Property Fund (BPA) announced that it had received a proposal from Brookfield BPPF Investments Trust (BPPF) to acquire the remaining units of BPA with an all-cash conditional offer of \$8.89 per unit less the amount of any distributions paid or payable on or after 28 March 2017. The adjusted offer price of \$8.815 per unit represented a 2.5% discount compared with adjusted NTA (adjusted for property valuations as at March 2017) and a premium of 16% to the 30 day VWAP to 6 April 2017 of \$7.59 per unit and 18% compared with the ASX closing price of \$7.50 on 6 April 2017 (although we note that BPA was illiquid and had a limited free float). BPA was a passive, externally managed A-REIT with a portfolio of interests in four A-grade office buildings in the CBDs of Sydney and Perth. At 31 December 2016, the fund's three properties had a total value of \$707 million. The portfolio had a WALE by income of 4.7 years and was 91% occupied. The discount to NTA likely reflects that it is a passive, externally managed A-REIT which was owned 80.47% by Brookfield Group with limited liquidity. Implied yields are low, mainly reflecting its very low payout ratio (16% of EPS in FY17) as well as its high management fee structure.

Acquisition of GPT Metro Office Fund by Growthpoint Properties Australia

On 5 April 2016, Growthpoint Properties Australia (Growthpoint) announced a proposal to acquire all outstanding units in GPT Metro Office Fund by way of an off-market takeover bid. The initial consideration was 0.3756 Growthpoint securities plus \$1.185 cash for each GPT Metro Office Fund unit. Following an increase in property valuations, the consideration was increased to 0.3968 Growthpoint securities plus \$1.25 cash per GPT Metro unit and a cash option of \$2.50 per GPT Metro Office Fund unit was offered. The transaction occurred as part of a competitive bidding process with Centuria Metropolitan REIT. Based on the mid-point of the consideration (as assessed by the independent expert) of \$2.52, the implied value of the mixed consideration represented an 8.2% premium to NTA as at 30 June 2016, a 21.4% premium compared with the ASX closing price of GPT Metro Office Fund on 1 April 2016 and the one month VWAP. GPT Metro Office Fund was a passive, externally managed A-REIT and owned six A-Grade metropolitan and business park office properties across Sydney, Melbourne and Brisbane. At 30 June 2016, GPT Metro Office Fund had a WALE by income of 5.5 years and 94.9% occupancy. The company had no significant development activity in the year to 30 June 2016. The relatively high premium to NTA given the passive nature of the fund likely reflects the impact of the competitive bidding process as well as that it occurred at a time when A-REITs were trading above NTA.

Acquisition of Aspen Parks Property Fund by Discovery Parks Group

On 14 September 2015, Aspen Group and Aspen Parks Property Fund (Aspen Parks) announced that they had entered into a merger implementation deed whereby the two entities would merge to create a quadruple stapled group in a cash and scrip transaction. Subsequent to this offer, Discovery Parks Group made two unsolicited takeover offers for the fund. On 23 December 2015, Discovery Parks Group had received acceptances from 90% of the unit holders. Aspen Parks at that time owned 26 holiday parks, valued at \$190 million, including caravan parks, cabins, camping and self-contained facilities. The significant premium to NTA likely reflects the competitive bidding process and the positive re-rating of A-REITs during this period.

Merger of Novion Property Group and Federation Centres

On 3 February 2015, Novion Property Group (Novion) announced its intention to enter into a merger implementation agreement with Federation Centres. Pursuant to the deal Novion security holders would own 64% of the merged entity following the transaction. Novion is an internally managed retail property group listed on the ASX. It was a stapled entity comprising Novion Limited and Novion Trust and had at



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that time \$14.9 billion of retail AUM, including a \$9.1 billion investment portfolio and \$5.7 billion of third party funds management. The transaction occurred at a material premium to NTA, likely reflecting the extent of Novion's third party funds management activities and positive re-rating of A-REITs at this time.

Acquisition of Australian Industrial REIT by 360 Capital Industrial Fund

On 18 December 2014, Fife Capital Funds Limited (Fife Capital), the responsible entity for Australian Industrial REIT (ANI) announced that it had received an unsolicited, indicative and non-binding proposal from 360 Capital, as the responsible entity for 360 Capital Industrial Fund (360 Industrial), to acquire 100% of the units in ANI by way of a trust scheme. On 19 December 2014, 360 Capital announced an unsolicited off-market takeover offer for ANI for consideration of 0.89 units in 360 Industrial Fund plus 3 cents for each ANI unit if before the end of the offer period a member of 360 Capital Group is appointed responsible entity of ANI or in excess of 50% of ANI unitholders accept the offer. On 24 March 2015, the offer was increased to 0.9 units in 360 Industrial Fund plus 4.5 cents for each ANI unit plus 10 cents cash if before the end of the offer period a member of 360 Capital Group was appointed responsible entity of ANI or in excess of 50% of ANI unitholders accepted the offer. As at 31 December 2014, ANI held a portfolio of 16 industrial properties with a combined carrying value of \$320.4 million. The substantial premium to NTA likely reflects the revised terms of the offer, the potential to further develop the industrial sites and re-rating of the A-REIT sector over this period.

Acquisition of Folkestone Social Infrastructure Trust with Folkestone Education Trust

On 13 November 2014, Folkestone Real Estate Management Limited, in its capacity as responsible entity of Folkestone Social Infrastructure Trust (FST), announced a merger by way of a trust scheme that would result in Folkestone Education Trust (FET) acquiring 100% of the units in FST. The offer consideration included a cash component of \$0.675 per FST unit held and 1.32 securities in FET for every one FST unit held. FST primarily invested in properties within the early education, government and healthcare sectors. As at 30 June 2014, FST reported \$116.1 million in total assets.

Acquisition of Mirvac Industrial Trust by AustFunding Pty Limited

On 19 September 2014, Mirvac Funds Management Limited (MFML), the responsible entity of Mirvac Industrial Trust (MIX) announced that it had agreed to a transaction whereby AustFunding Pty Limited would acquire all of the units of MIX in a cash transaction via a trust scheme. The principal activity of MIX was the ownership of an industrial property portfolio in the greater Chicago metropolitan region in the US. As at 30 June 2014, MIX held gross assets of \$192.0 million.

Acquisition of Australand Property Group by Frasers Centrepoint Limited

On 4 June 2014, Australand Property Group (Australand) received a conditional proposal from Frasers Centrepoint Limited (Frasers) for the acquisition of all of Australand's securities. The offer consideration was \$4.48 per security for a total of \$2.6 billion. Australand was a diversified REIT that was involved in property investment and development, property trust management and property management. Its primary focus was around commercial and industrial sectors with some focus on residential development. Australand's property investment division was comprised of 68 industrial and office assets located mostly in Melbourne, Sydney and Brisbane. The significant premium to NTA likely reflects Australand's significant development pipeline as well as the competitive bidding process.

Acquisition of Challenger Diversified Property Group by Challenger Life Company Limited

On 11 April 2014, Challenger Australia Listed Property Holding Trust, a related entity of Challenger Life Company Limited, announced an off-market takeover offer for all units of Challenger Diversified Property Group (CDI), for cash consideration of \$2.74 per unit. CDI was a diversified REIT with an interest in 27 office, retail and industrial properties located in Australia and France. CDI also held the

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lease on Sydney's Domain car park and engaged in property development activities. CDI was largely a passive investment vehicle, with the majority of earnings generated from its investment properties. As at 31 December 2013, CDI had a total asset value of \$888 million. CDI's property portfolio was diversified across the office (59%), retail (19%), industrial (18%) and hi-tech office (4%) sectors predominantly focussed in Victoria, NSW and ACT.

Acquisition of Commonwealth Property Office Fund by DEXUS and CPPIB

On 11 December 2013, DEXUS, in conjunction with CPPIB, announced its intention to make a conditional off-market takeover offer for all of the outstanding units in Commonwealth Property Office Fund for cash and scrip consideration for approximately \$1.24 per unit. As at 31 December 2013, Commonwealth Property Office Fund had 25 office assets with a total value of \$3.8 billion and WACR of 7.3%. Its property portfolio was concentrated in NSW and Victoria, comprising 46.0% and 30.7% of the total portfolio value respectively. Its property portfolio comprised 13% premium grade property assets and 76% A Grade properties. The transaction followed a competitive bidding process by DEXUS and The GPT Group (GPT). Commonwealth Property Office Fund had a WALE of 4.7 years and an occupancy of 95.6%.

Acquisition of Thakral Holdings Limited by Brookfield Asset Management Inc.

On 19 April 2012, Brookfield Asset Management Inc. (Brookfield) announced a takeover offer of Thakral Holdings Limited (Thakral) at \$0.70 per stapled security. On the same date, Brookfield enforced security under debentures which provided Brookfield with a relevant interest in 38.6% of Thakral. The directors unanimously recommended that shareholders reject the Brookfield offer. On 22 August 2012, Brookfield and Thakral entered into an implementation deed whereby Brookfield agreed to increase its offer to \$0.81 per stapled security if it became entitled to 90% of Thakral securities, which occurred on 11 September 2012. Thakral's primary activity was investment in hotel, leisure, retail and commercial properties and the management of hotels in Australia. In addition, Thakral was engaged in property development activities. For the year ended 30 June 2012, Thakral's revenue comprised 79% from hotel, retail and commercial investments, and 21% from property development activities.

Acquisition of Charter Hall Office REIT by a Consortium including Charter Hall Group

On 3 January 2012, the Charter Hall Office REIT's (CQO) independent directors announced they had entered into a scheme implementation agreement with a consortium including Charter Hall Group, under which CQO, would receive a cash payment of \$2.49 per CQO unit. CQO invested predominantly in high grade office buildings and at 31 December 2011, had an Australian property portfolio with total value of \$1.8 billion, geographically diversified across NSW, Victoria, Queensland, South Australia and the ACT. The office portfolio was predominantly high grade assets, with 63% Premium properties and 34% A Grade assets. The portfolio had a WALE of 4.5 years, and an occupancy of 97% and a WACR of 7.8%.

Merger of Abacus Storage Fund with Abacus Property Group

On 13 January 2012, Abacus Property Group (APG) announced its intention to merge with Abacus Storage Fund (Abacus). APG was an internally managed listed stapled entity, with exposure to a diversified portfolio of commercial, retail and industrial property, mortgage investments and property development ventures and property funds management activities. Abacus was an unlisted stapled entity and is one of the largest participants in the Australasian self-storage sector, owning at that time a portfolio of 41 self-storage facilities with 30 in Australia and 11 in New Zealand and a commercial property with a total value of approximately \$332 million. Abacus' income was generated from storage rental income, which is subject to fluctuations as a result of the short term nature of the contracts. As such, the discount to NTA in part likely reflected this inherent risk in Abacus' income stream.



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Acquisition of Valad Property Group by Blackstone Real Estate Advisors LLC

On 29 April 2011, Valad Property Group (Valad) announced that it had entered into a scheme of arrangement with Blackstone Real Estate Advisors LLC to acquire all of the issued shares in Valad for \$1.80 per Valad security. At 31 December 2013, Valad's property portfolio consisted of 27 properties, valued at \$569 million in across the office (31%), industrial (28%), bulky goods (24%) and hotel and residential sectors in Australia (88%) and New Zealand (12%). Valad was highly geared and had not paid a distribution since 2008.

Acquisition of Rabinov Property Trust by Growthpoint Properties Australia

On 13 April 2011, Growthpoint Properties Australia and Rabinov Property Trust (Rabinov) jointly announced an off-market takeover by Growthpoint Properties Australia for 100% of Rabinov via a scrip offer. Rabinov was a diversified property investment vehicle which, as at 31 December 2010, had a portfolio of 12 properties valued at \$235 million comprising office (69.8%), industrial (28.3%) and retail (2.1%) properties. Whilst spread across Australia, the properties were concentrated in Victoria (70.6% of the property portfolio).

Acquisition of ING Industrial Fund by a Consortium led by Goodman Group

On 24 December 2010, ING Industrial Fund (ING) announced that it had entered into an implementation agreement with Goodman Group and a Consortium, to acquire all the units in ING for cash consideration of \$0.546 per ING unit. ING developed, owned and managed a diversified portfolio of industrial properties and business parks, and as at 31 December 2013, had a portfolio of 61 properties valued at \$2.5 billion, WALE of 4.5 years and a portfolio WACR of 8.4%.

Acquisition of MacarthurCook Industrial Property Fund by Commonwealth REIT

On 12 July 2010, MacarthurCook Industrial Property Fund (Macarthur) announced that it had received a proposal from Commonwealth REIT to acquire all the units in Macarthur for cash consideration of \$0.44 per unit. Macarthur, an unlisted property fund had, as at 30 June 2010, a portfolio of 10 industrial properties valued at \$106.1 million across Australia and WALE of 4.6 years.

Acquisition of Westpac Office Trust by Mirvac Group

On 28 April 2010, Westpac Office Trust (WOT) announced it had entered into a scheme implementation agreement with Mirvac Group in relation to an offer by Mirvac Group to acquire all WOT units and instalment receipts for cash or scrip. At 31 December 2009, WOT had a portfolio of 7 properties with a total value of \$1.1 billion, WALE of 8.7 years and portfolio WACR of 7.4%. Sydney CBD properties comprised the majority of WOT's property portfolio value, representing 62% of the total portfolio value.

Acquisition of Mirvac Real Estate Investment Trust by Mirvac Group

On 12 October 2009, Mirvac Real Estate Investment Trust (Mircac REIT) announced that it had received a proposal from Mirvac Group to acquire all the issued units in Mirvac REIT for scrip, or a combination of cash and scrip. As at 30 June 2009, Mirvac REIT had a total portfolio value of \$1.0 billion across the retail (36%), commercial (31%), industrial (17%) and hotel (16%) sectors and a WALE of 4.8 years. At the time, Mirvac REIT was in financial distress.

Schedule 2. Independent Expert's Report



Independent Expert's Report
24 July 2018

PART TWO – FINANCIAL SERVICES GUIDE

Dated 24 July 2018

What is a Financial Services Guide (FSG)?

This FSG is designed to help you to decide whether to use any of the general financial product advice provided by KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215, Australian Financial Services Licence Number 246901 (of which KPMG Corporate Finance is a division) (KPMG Corporate Finance) and Mr Ian Jedlin as an authorised representative of KPMG Corporate Finance, authorised representative number 404177 and Mrs Joanne Lupton as an authorised representative of KPMG Corporate Finance, authorised representative number 449593 (Authorised Representative).

This FSG includes information about:

- KPMG Corporate Finance and its Authorised Representative and how they can be contacted
- the services KPMG Corporate Finance and its Authorised Representative are authorised to provide
- how KPMG Corporate Finance and its Authorised Representative are paid
- any relevant associations or relationships of KPMG Corporate Finance and its Authorised Representative
- how complaints are dealt with as well as information about internal and external dispute resolution systems and how you can access them; and the compensation arrangements that KPMG Corporate Finance has in place.

The distribution of this FSG by the Authorised Representative has been authorised by KPMG Corporate Finance.

This FSG forms part of an Independent Expert's Report (Report) which has been prepared for inclusion in a disclosure document or, if you are offered a financial product for issue or sale, a Product Disclosure Statement (PDS). The purpose of the disclosure document or PDS is to help you make an informed decision in relation to a financial product. The contents of the disclosure document or PDS, as relevant, will include details such as the risks, benefits and costs of acquiring the particular financial product.

Financial services that KPMG Corporate Finance and the Authorised Representative are authorised to provide

KPMG Corporate Finance holds an Australian Financial Services Licence, which authorises it to provide, amongst other services, financial product advice for the following classes of financial products:

- deposit and non-cash payment products;
- derivatives;
- foreign exchange contracts;
- government debentures, stocks or bonds;
- interests in managed investment schemes including investor directed portfolio services;
- securities;
- superannuation;
- carbon units;
- Australian carbon credit units; and
- eligible international emissions units,

to retail and wholesale clients. We provide financial product advice when engaged to prepare a report in relation to a transaction relating to one of these types of financial products. The Authorised Representative is authorised by KPMG Corporate Finance to provide financial product advice on KPMG Corporate Finance's behalf.

KPMG Corporate Finance and the Authorised Representative's responsibility to you

KPMG Corporate Finance has been engaged by ILFML (Client) to provide general financial product advice in the form of a Report to be included in the Notice of Meeting and Explanatory Memorandum (Document) prepared by the Client in relation to the proposed acquisition by Blackstone of all the issued IOF Units of IOF (Proposal).

You have not engaged KPMG Corporate Finance or the Authorised Representative directly but have received a copy of the Report because you have been provided with a copy of the Document. Neither KPMG Corporate Finance nor the Authorised Representative are acting for any person other than the Client.

KPMG Corporate Finance and the Authorised Representative are responsible and accountable to you for ensuring that there is a reasonable basis for the conclusions in the Report.

General Advice

As KPMG Corporate Finance has been engaged by the Client, the Report only contains general advice as it has been prepared without taking into account your personal objectives, financial situation or needs.

You should consider the appropriateness of the general advice in the Report having regard to your circumstances before you act on the general advice contained in the Report.

You should also consider the other parts of the Document before making any decision in relation to the Proposal.

Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives

KPMG Corporate Finance charges fees for preparing reports. These fees will usually be agreed with, and paid by, the Client. Fees are agreed on either a fixed fee or a time cost basis. In this instance, the Client has agreed to pay KPMG Corporate Finance \$375,000 for preparing the Report. KPMG Corporate Finance and its officers, representatives, related entities and associates will not receive any other fee or benefit in connection with the provision of the Report.

KPMG Corporate Finance officers and representatives (including the Authorised Representative) receive a salary or a partnership distribution from KPMG's Australian professional advisory and accounting practice (the KPMG Partnership). KPMG Corporate Finance's representatives (including the Authorised Representative) are eligible for bonuses based on overall productivity. Bonuses and other remuneration and benefits are not provided directly in connection with any engagement for the provision of general financial product advice in the Report.

Further details may be provided on request.

Referrals

Neither KPMG Corporate Finance nor the Authorised Representative pay commissions or provide any other benefits to any person for referring customers to them in connection with a Report.



Independent Expert's Report
24 July 2018

Associations and relationships

Through a variety of corporate and trust structures KPMG Corporate Finance is controlled by and operates as part of the KPMG Partnership. KPMG Corporate Finance's directors and Authorised Representatives may be partners in the KPMG Partnership. The Authorised Representative is a partner in the KPMG Partnership. The financial product advice in the Report is provided by KPMG Corporate Finance and the Authorised Representative and not by the KPMG Partnership. From time to time KPMG Corporate Finance, the KPMG Partnership and related entities (KPMG entities) may provide professional services, including audit, tax and financial advisory services, to companies and issuers of financial products in the ordinary course of their businesses.

KPMG entities have provided, and continue to provide, a range of advisory services to ILFML and related entities for which professional fees are received. None of those services have related to the transaction or alternatives to the transaction and these fees are not material.

No individual involved in the preparation of this Report holds a substantial interest in, or is a substantial creditor of, the Client or has other material financial interests in the transaction.

Complaints resolution

Internal complaints resolution process

If you have a complaint, please let either KPMG Corporate Finance or the Authorised Representative know. Formal complaints should be sent in writing to The Complaints Officer, KPMG, PO Box H67, Australia Square, Sydney NSW 1213. If you have difficulty in putting your complaint in writing, please telephone the Complaints Officer on 02 9335 7000 and they will assist you in documenting your complaint. Written complaints are recorded, acknowledged within 5 days and investigated. As soon as practical, and not more than 45 days after receiving the written complaint, the response to your complaint will be advised in writing.

External complaints resolution process

If KPMG Corporate Finance or the Authorised Representative cannot resolve your complaint to your satisfaction within 45 days, you can refer the matter to the Financial Ombudsman

Service (FOS). FOS is an independent company that has been established to provide free advice and assistance to consumers to help in resolving complaints relating to the financial services industry.

Further details about FOS are available at the FOS website www.fos.org.au or by contacting them directly at:

Address: Financial Ombudsman Service Limited, GPO Box 3, Melbourne Victoria 3001

Telephone: 1300 78 08 08

Facsimile: (03) 9613 6399 Email: info@fos.org.au

The Australian Securities and Investments Commission also has a freecall infoline on 1300 300 630 which you may use to obtain information about your rights.

Compensation arrangements

KPMG Corporate Finance has professional indemnity insurance cover as required by the Corporations Act 2001(Cth).

Contact Details

You may contact KPMG Corporate Finance or the Authorised Representative using the contact details:

KPMG Corporate Finance
A division of KPMG Financial Advisory Services (Australia) Pty Ltd
ITS 3, International Towers Sydney
300 Barangaroo Avenue
Sydney NSW 2000

PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7200

Ian Jedlin and Joanne Lupton
C/O KPMG
PO Box H67
Australia Square
NSW 1213
Telephone: (02) 9335 7000
Facsimile: (02) 9335 7000

*Deed
Poll*

Schedule

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Quartz BidCo Pty Ltd
Quartz Sub TC Pty Ltd as trustee of the Quartz Bid Trust

Deed Poll

In favour of each IOF Scheme Unitholder

Execution Version

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Schedule 3. Deed Poll

Deed Poll

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This Deed Poll is made on

Parties

- 1 **Quartz BidCo Pty Ltd** (ACN 626 431 927) of Suite 3901 Gateway, 1 Macquarie Place, Sydney NSW 2000 (the **BidCo**)
- 2 **Quartz Sub TC Pty Ltd** (ACN 626 431 963) **as trustee of the Quartz Bid Trust** of Suite 3901 Gateway, 1 Macquarie Place, Sydney NSW 2000 (the **BidTrust**)

In favour of

each IOF Scheme Unitholder

Recitals

- A BidCo, BidTrust, and Investa Listed Funds Management Limited (ABN 37 149 175 655) (**ILFML**) as responsible entity for the Armstrong Jones Office Fund (ARSN 090 242 229) (**AJO**) and the Prime Credit Property Trust (ARSN 089 849 196) (**PCP**) (**Target**) have entered into a scheme implementation agreement dated 12 June 2018 (the **Scheme Implementation Agreement**).
- B Target has agreed in the Scheme Implementation Agreement to propose the Scheme, pursuant to which, subject to the satisfaction or waiver of certain conditions precedent, BidCo will acquire all the AJO Scheme Units in AJO and BidTrust will acquire all of the PCP Scheme Units in PCP from IOF Scheme Unitholders for the Scheme Consideration.
- C In accordance with the Scheme Implementation Agreement, each of BidCo and BidTrust are entering into this Deed Poll for the purpose of covenanting in favour of the IOF Scheme Unitholders that they will observe and perform the obligations contemplated of them under the Scheme.

It is agreed as follows.

1 Definitions and Interpretation

1.1 Definitions

Terms defined in the Scheme Implementation Agreement, a copy of which is set out in the Schedule to this Deed Poll, have the same meaning in this Deed Poll, unless the context requires otherwise.

1.2 Interpretation

The provisions of clause 1.2 of the Scheme Implementation Agreement form part of this Deed Poll as if set out in full in this Deed Poll, and on the basis that references to 'this agreement' and 'this document' in that clause are references to 'this Deed Poll'.

2 Nature of Deed Poll

Each of BidCo and BidTrust acknowledge that:

- (a) this Deed Poll may be relied on and enforced by any IOF Scheme Unitholder in accordance with its terms, even though the IOF Scheme Unitholders are not party to it; and
- (b) under the Scheme, each IOF Scheme Unitholder appoints Target as its agent and attorney to enforce this Deed Poll against BidCo and BidTrust (as applicable) on behalf of that IOF Scheme Unitholder.

Schedule 3. Deed Poll

Deed Poll

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3 Conditions Precedent and Termination

3.1 Conditions precedent

Each of BidCo's and BidTrust's obligations (as relevant) under this Deed Poll are subject to the Scheme becoming Effective.

3.2 Termination

If the Scheme Implementation Agreement is terminated before the Effective Date or the Scheme does not become Effective on or before the End Date, the obligations of BidCo and BidTrust under this Deed Poll will automatically terminate and the terms of this Deed Poll will be of no further force or effect, unless Target and BidCo and BidTrust otherwise agree in accordance with the Scheme Implementation Agreement.

3.3 Consequences of termination

If this Deed Poll is terminated under clause 3.2, then, in addition and without prejudice to any other rights, powers or remedies available to it:

- (a) each of BidCo and BidTrust are released from their obligations under this Deed Poll, except those obligations under clause 8.6; and
- (b) each IOF Scheme Unitholder retains any rights, powers or remedies that the IOF Scheme Unitholder has against the BidCo and BidTrust in respect of any breach of its obligations under this Deed Poll that occurred before termination of this Deed Poll.

4 Compliance with Scheme Obligations

4.1 Obligations of BidCo and BidTrust

Subject to clause 3, in consideration for:

- (a) the transfer to BidCo of the AJO Scheme Units in accordance with the AJO Trust Scheme; and
- (b) the transfer to BidTrust of the PCP Scheme Units in accordance with the PCP Trust Scheme,

each of BidCo and BidTrust jointly and severally covenants in favour of each Scheme Unitholder that each will observe and perform all obligations contemplated of them under the Schemes, including in each case the relevant obligations relating to the provision of:

- (c) the AJO Scheme Consideration (being an amount equal to \$2.50 for each AJO Scheme Unit) in accordance with the terms of the AJO Trust Scheme; and
- (d) the PCP Scheme Consideration (being an amount equal to \$2.6485 for each PCP Scheme Unit) in accordance with the terms of the PCP Trust Scheme.

4.2 Manner of Payment

- (a) ILFML shall nominate a trust account (**Trust Account**) and provide notice in writing of the trust account details to BidCo and BidTrust at least ten business days before the Implementation Date.
- (b) BidCo and BidTrust's obligations to provide, or procure the provision of, the aggregate Scheme Consideration will be satisfied by BidCo and BidTrust procuring that, by no later than 12 noon on the day before the Implementation Date, an amount in Australian currency is deposited into the Trust Account in immediately available funds equal to the aggregate Scheme Consideration payable in respect of the Scheme Units.

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5 Representations and Warranties

Each of BidCo and BidTrust make the following representations and warranties:

- (a) **(Status)**
 - (i) In relation to BidCo, it is a corporation validly existing under the laws of the place of its incorporation.
 - (ii) In relation to BidTrust, it is duly established and validly subsisting.
- (b) **(Trustee)** Quartz Sub TC Pty Ltd is the trustee of BidTrust, has been validly appointed, and remains as trustee of BidTrust and no action has been taken to or proposed to be taken to remove it as trustee.
- (c) **(Trustee right of indemnity)** Quartz Sub TC Pty Ltd's right of indemnity out of, and lien over the assets of BidTrust has not been limited in any way. Quartz Sub TC Pty Ltd has no liability which may be set off against the right of indemnity.
- (d) **(Power)** It has the power to enter into and perform its obligations under this Deed Poll and to carry out the transactions contemplated by this Deed Poll.
- (e) **(Corporate authorisations)** It has taken all necessary corporate action to authorise the entry into this Deed Poll and has taken or will take all necessary corporate action to authorise the performance of this Deed Poll and to carry out the transactions contemplated by this Deed Poll.
- (f) **(Document binding)** This Deed Poll is its valid and binding obligation enforceable in accordance with its terms, subject to any necessary stamping and registration.
- (g) **(Transactions permitted)** The execution and performance by it of this Deed Poll and each transaction contemplated by this Deed Poll did not and will not violate in any respect a provision of:
 - (i) a law, judgment, ruling, order or decree binding on it; or
 - (ii) its constitution or other constituent documents.
- (h) **(Solvency)** It is solvent and no resolutions have been passed nor has any other step been taken or legal proceedings commenced or threatened against it for the winding up, dissolution or termination of itself or for the appointment of a liquidator, receiver, administrator, or similar officer over any or all of its assets.
- (i) **(No default)** This deed poll does not conflict with or result in the breach of or default under, any provision of its constitution, any material term or provision of any material agreement or any write, order or injunction, judgement, law, rule, regulation or instrument to which it is party or subject or of which it is bound.

6 Continuing Obligations

This Deed Poll is irrevocable and, subject to clause 3, remains in full force and effect until the earlier of:

- (a) each of BidCo and BidTrust having fully performed its obligations under this Deed Poll; and
- (b) termination of this Deed Poll under clause 3.

7 Further Assurances

Each of BidCo and BidTrust will, on its own behalf and, to the extent authorised by the Scheme, on behalf of each IOF Scheme Unitholder, do all things and execute all deeds, instruments,

Schedule 3. Deed Poll

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transfers or other documents as may be necessary or desirable to give full effect to the provisions of this Deed Poll and the transactions contemplated by it.

8 General

8.1 Notices

Any notice, demand, consent or other communication (a **Notice**) given or made under this Deed Poll:

- (a) must be in writing and signed by the sender or a person duly authorised by the sender (or in the case of email, set out the full name and position or title of the sender or person duly authorised by the sender);
- (b) must be delivered to the intended recipient by prepaid post (if posted to an address in another country, by registered airmail) or by hand, fax or email to the address, fax number or email address below or the address, fax number or email address last notified by the intended recipient to the sender:

(i) to the Target:

Investa Listed Funds Management Ltd
c/- Allens, 126 Phillip Street, Sydney NSW 2000
Email: rlonges@gmail.com

With a copy to: Allens
Attention: Vijay Cugati
Address: 126 Phillip Street, Sydney NSW 2000
Email: Vijay.Cugati@allens.com.au

(ii) to BidCo and BidTrust:

The Blackstone Group (Australia) Pty Limited
Attention: Chris Tynan
Address: Suite 3901 Gateway, 1 Macquarie Place, Sydney NSW 2000
Email: realestateasianotices@blackstone.com

With a copy to: Clayton Utz
Attention: David Wilkie/ Kylie de Oliveira
Address: 1 Bligh Street, Sydney NSW 2000
Email: dwilkie@claytonutz.com;
kdeoliveira@claytonutz.com

- (c) will be conclusively taken to be duly given or made and received:
 - (i) in the case of delivery in person, when delivered;
 - (ii) in the case of delivery by express post, to an address in the same country, two Business Days after the date of posting;
 - (iii) in the case of delivery by any other method of post, six Business Days after the date of posting (if posted to an address in the same country) or 10 Business Days after the date of posting (if posted to an address in another country);
 - (iv) in the case of fax, on receipt by the sender of a transmission control report from the despatching machine showing the relevant number of pages and the correct destination fax number or name of recipient and indicating that the transmission has been made without error; and

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- (v) in the case of email, at the earliest of:
 - (A) the time that the sender receives an automated message from the intended recipient's information system confirming delivery of the email;
 - (B) the time that the intended recipient confirms receipt of the email by reply email; and
 - (C) three hours after the time the email is sent (as recorded on the device from which the sender sent the email) unless the sender receives, within that three hour period, an automated message that the email has not been delivered,

but if the result is that a Notice would be taken to be given or made and received:

- (vi) in the case of delivery by hand, post or fax, at a time that is later than 5pm;
- (vii) in the case of delivery by email, at a time that is later than 7pm; or
- (viii) on a day that is not a business day,

in the place specified by the intended recipient as its postal address under clause 8.1(b), it will be conclusively taken to have been duly given or made and received at the start of business on the next business day in that place.

8.2 No waiver

No failure to exercise nor any delay in exercising any right, power or remedy by any of the BidCo and BidTrust or by any IOF Scheme Unitholder operates as a waiver. A single or partial exercise of any right, power or remedy does not preclude any other or further exercise of that or any other right, power or remedy. A waiver of any right, power or remedy on one or more occasions does not operate as a waiver of that right, power or remedy on any other occasion, or of any other right, power or remedy. A waiver is not valid or binding on the person granting that waiver unless made in writing and signed by the party granting the waiver.

8.3 Remedies cumulative

The rights, powers and remedies of the BidCo and BidTrust and of each IOF Scheme Unitholder under this Deed Poll are in addition to, and do not exclude or limit, any right, power or remedy provided by law or equity or by any agreement.

8.4 Amendment

No amendment or variation of this Deed Poll is valid or binding unless:

- (a) either:
 - (i) before the Second Court Date, the amendment or variation is agreed to in writing by Target, BidCo and BidTrust (which such agreement may be given or withheld without reference to or approval by any IOF Scheme Unitholder); or
 - (ii) on or after the Second Court Date, the amendment or variation is agreed to in writing by Target, BidCo and BidTrust (which such agreement may be given or withheld without reference to or approval by any IOF Scheme Unitholder), and is approved by the Court; and
- (b) The BidCo and BidTrust enter into a further deed poll in favour of the IOF Scheme Unitholder giving effect to that amendment or variation.

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8.5 Assignment

The rights and obligations of the BidCo and BidTrust and of each IOF Scheme Unitholder under this Deed Poll are personal. They cannot be assigned, encumbered or otherwise dealt with and no person may attempt, or purport, to do so without the prior consent of the BidCo and BidTrust and Target.

8.6 Costs and duty

BidCo and BidTrust must bear their own costs arising out of the negotiation, preparation and execution of this Deed Poll. All duty (including stamp duty and any fines, penalties and interest) payable on or in connection with this Deed Poll and any instrument executed under or any transaction evidenced by this Deed Poll must be borne by the BidCo and BidTrust. BidCo and BidTrust must indemnify each IOF Scheme Unitholder on demand against any liability for that duty (including any related fines, penalties and interest).

8.7 Governing law and jurisdiction

This Deed Poll is governed by the laws of New South Wales. The BidCo and BidTrust submits to the non-exclusive jurisdiction of courts exercising jurisdiction there in connection with matters concerning this Deed Poll.

9 Limited liability of BidTrust

- (a) This clause 9 applies in respect of the capacity of Quartz Sub TC Pty Ltd (ACN 626 431 963) as trustee for the Quartz Bid Trust and in this paragraph:
- (i) **Quartz Trust** means the Quartz Bid Trust; and
 - (ii) **Quartz Trust Deed** means the trust deed under which the Quartz Trust was constituted.
- (b) Subject to clause 9(d) of this clause, BidTrust enters into this Deed Poll only in its capacity as trustee for the Quartz Trust constituted under the Quartz Trust Deed and in no other capacity. A liability arising under or in connection with this Deed Poll is limited to and can be enforced against BidTrust only to the extent to which BidTrust is actually indemnified for that liability out of the assets of the Quartz Trust. This limitation of BidTrust's liability applies despite any other provision of this Deed Poll and extends to all liabilities and obligations of BidTrust in any way connected with any representation, warranty, conduct, omission, agreement or transaction related to this Deed Poll.
- (c) Subject to clause 9(d), no party to this Deed Poll or any person claiming through or on behalf of them will be entitled to:
- (i) claim from or commence proceedings against BidTrust in respect of any liability in any capacity other than as the trustee of the Quartz Trust;
 - (ii) seek the appointment of a receiver, receiver and manager, liquidator, an administrator or any similar office-holder to BidTrust, or prove in any liquidation, administration or arrangement of or affecting BidTrust, except in relation to the assets of the Quartz Trust; or
 - (iii) enforce or seek to enforce any judgment in respect of a liability under this Deed Poll or otherwise against BidTrust in any capacity other than as trustee of the Quartz Trust.
- (d) This clause 9 does not apply to any obligation or liability of BidTrust to the extent to which there is, in respect of that obligation or liability, whether under the Quartz Trust Deed or by operation of law:

Deed Poll

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- (i) a reduction in the extent of BidTrust's indemnification as a result of BidTrust acting other than in the proper performance of its duties as trustee of the Quartz Trust;
 - (ii) loss of BidTrust's right of indemnification as a result of BidTrust acting other than in the proper performance of its duties as trustee of the Quartz Trust; or
 - (iii) any failure by BidTrust to exercise its right of indemnity,
out of the assets of the Quartz Trust.
- (e) BidTrust is not obliged to do or refrain from doing anything under this Deed Poll (including incur any liability) unless BidTrust's liability is limited in the same manner as set out in paragraphs (a) to (d) above.

Schedule 3. Deed Poll

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Schedule

Scheme Implementation Agreement

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Executed and delivered as a Deed

Executed as a deed in accordance with section 127 of the *Corporations Act 2001* by **Quartz BidCo Pty Ltd:**

Director Signature

Director/Secretary Signature

Print Name

Print Name

Executed as a deed in accordance with section 127 of the *Corporations Act 2001* by **Quartz Sub TC Pty Ltd as trustee of the Quartz Bid Trust:**

Director Signature

Director/Secretary Signature

Print Name

Print Name

Supplemental Deeds Poll

Schedule

4

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Investa Listed Funds Management Limited

AJO Supplemental Deed Poll

Amending the Constitution for Armstrong Jones Office Fund

Execution Version

Deutsche Bank Place
Corner Hunter and Phillip Streets
Sydney NSW 2000 Australia
Tel +61 2 9230 4000
Fax +61 2 9230 5333
www.allens.com.au

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Schedule 4. Supplemental Deeds Poll

AJO Supplemental Deed Poll

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This Deed Poll is made on 2018

Parties

Investa Listed Funds Management Limited (ABN 37 149 175 655) of Level 30 , 420 George Street Sydney NSW 2000 (the **Responsible Entity**).

Recitals

- A The Responsible Entity is the responsible entity of the trust known as the Armstrong Jones Office Fund (ARSN 090 242 229) (**AJO**)(the **Trust**).
- B The Trust is registered as a managed investment scheme pursuant to section 601EB of the Corporations Act.
- C The Units of the Trust are stapled to the units of the Prime Credit Property Trust (ARSN 089 849 196) (**PCP**) and are quoted and traded on ASX as stapled securities of Investa Office Fund (ASX: **IOF**).
- D The Responsible Entity and the Acquirer have agreed, by executing the Scheme Implementation Agreement, to propose and implement the Scheme.
- E The Constitution must be amended to facilitate the Scheme.
- F Section 601GC(1)(a) of the Corporations Act provides that the constitution of a registered scheme may be modified, or repealed and replaced with a new constitution by special resolution of the members of the scheme.
- G Under clause 15 of the Constitution, the Responsible Entity may, by deed, replace or amend the Constitution.
- H The Responsible Entity proposes to modify the Constitution, as set out in this Supplemental Deed Poll, to give effect to the resolutions to modify the Constitution that were passed by Unitholders at a meeting held on 21 August 2018 (**Scheme Resolutions**).

It is declared as follows.

1 Definitions and Interpretation

1.1 Definitions

In this Supplemental Deed Poll including the Recitals, the following definitions apply unless the context otherwise requires.

Acquirer means each of BidCo and BidTrust.

BidCo means Quartz Bidco Pty Ltd (ACN 626 431 927).

BidTrust means Quartz Sub TC Pty Ltd (ACN 626 431 963) as trustee of the Quartz Bid Trust.

Constitution means the trust deed constituting AJO, as approved by Unitholders on 6 December 2011(as amended).

Effective Time means the date and time on which a copy of this Supplemental Deed Poll is, or the modifications set out in it are, lodged with ASIC under section 601GC(2) of the Corporations Act.

Entity includes a natural person, a body corporate, a partnership, a trust and the trustee of a trust.

AJO Supplemental Deed Poll

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IOM means Investa Office Management Pty Limited ACN 161 354 016.

Management Deed means the amended and restated management deed between the Responsible Entity and IOM dated 21 September 2017.

Scheme means the arrangement set out in the Scheme Implementation Agreement and facilitated by the amendments to the Constitution set out in this Supplemental Deed Poll.

Scheme Implementation Agreement means the agreement of that name between the Responsible Entity and the Acquirer dated 12 June 2018, as amended from time to time.

Scheme Resolutions has the meaning given in Recital H.

1.2 Interpretation

- (a) Terms used but not defined in this Supplemental Deed Poll have the same meanings given to them in the Constitution, as amended by this Supplemental Deed Poll.
- (b) Clauses 1.1 ('Definitions'), 1.2 ('Interpretation') and 1.6 ('Inconsistency with the Listing Rules') of the Constitution apply to this Supplemental Deed Poll as if set out in this Supplemental Deed Poll.

1.3 Benefit of this Supplemental Deed Poll

This Supplemental Deed Poll is made by the Responsible Entity with the intent that the benefit of this Supplemental Deed Poll shall ensure to the benefit of the Unitholders jointly and severally.

2 Conditions

This Supplemental Deed Poll is conditional upon and will have no force or effect until, the satisfaction of each of the conditions precedent stipulated in clause 3.1 of the Scheme Implementation Agreement.

3 Amendment of Constitution

The Responsible Entity amends the Constitution so that the Constitution is amended as set out in the Schedule:

- (a) in respect of paragraphs 1, 2, 3, 4, 5, 6 and 8 of the Schedule, on and from the Implementation Date (as defined in the Schedule); and
- (b) in respect of paragraph 7, on and from the Effective Time.

4 No Resettlement

The Responsible Entity confirms that it is not by this Supplemental Deed Poll:

- (a) resettling or redeclaring the Trust declared under the Constitution;
- (b) declaring any trust; or
- (c) causing the transfer, vesting or accruing of any property comprising the assets of the Trust in any person.

5 No merger

Each obligation set out in this Supplemental Deed Poll which is capable of having future operation continues in force after the Effective Time although this Supplemental Deed Poll has otherwise been fully performed.

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6 Governing Law and Jurisdiction

This Supplemental Deed Poll is governed by the laws of New South Wales. In relation to it and related non-contractual matters each party irrevocably submits to the non-exclusive jurisdiction of courts with jurisdiction there, and waives any right to object to the venue on any ground.

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Executed and delivered as a Deed Poll in Sydney

Executed in accordance with section 127 of the *Corporations Act 2001* by **Investa Listed Funds Management Limited** (ABN 37 149 175 655) as responsible entity for the **Armstrong Jones Office Fund (ARSN 090 242 229)**:

Director Signature

Director/Secretary Signature

Print Name

Print Name

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Schedule

Amendments to the Constitution of Armstrong Jones Office Fund

The Constitution is amended as follows:

1 Clause 1.1 - Definitions

In clause 1.1 of the Constitution:

- (a) a new definition of "Affiliate" is inserted as follows:
means, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls directly or indirectly, the person or any entity directly or indirectly under common control with the person or any entity which ordinarily acts under the direction of the person. For this purpose **control** of any entity or person means ownership of a majority of the voting power of the entity or the person.
- (b) a new definition of "Encumbrance" is inserted as follows:
means any mortgage, charge, lien, pledge, trust, power or title retention, flawed deposit arrangement, "security interest" as defined in sections 12(1) or (2) of the Personal Property Securities Act 2009 (Cth), or the interest of a third party of any kind, whether legal or otherwise, or any agreement to create any of them or allowing them to exist.
- (c) a new definition of "Law" is inserted as follows:
 - (a) the Corporations Act and any statute; and
 - (b) any common law rule that applies to the Trust.
- (d) a new definition of "Management Agreement" is inserted as follows:
means any investment management agreement or asset management agreement which may be entered into (with the approval of the Unitholders) between the Trustee and the Manager relating to investment or asset management services provided by the Manager for the benefit of the Trust.
- (e) a new definition of "Manager" is inserted as follows:
means the manager or any replacement or successor appointed by the Trustee to provide investment management services for the benefit of the Trust from time to time.
- (f) a new definition of "Relevant Finance Document" is inserted as follows:
means a Trustee Finance Document or an Unitholder Finance Document.
- (g) a new definition of "Reserved Matter" is inserted as follows:
any of the following matters or actions in relation to the Trust or Fund:
 - 1 acquiring or disposing of any real or personal property or any other asset of the Fund;
 - 2 borrowing, raising money, incurring any indebtedness or entering into any financial accommodation;
 - 3 creating or permitting to exist any Encumbrance;
 - 4 entering into any guarantee, indemnity bond, security deposit, letter of credit or suretyship or any other obligation to pay, purchase or provide funds (whether by the advance of money, the purchase of or subscription for shares or other securities, the purchase of assets or services, or otherwise) for the payment or

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discharge of, to indemnify against the consequences of default in the payment of, or otherwise be responsible for, any indebtedness of, obligation of, liability of or the insolvency of any other person;

- 5 issuing any Units or the grant of any Options or issuing any units or granting any options over units in any sub-trust; and
 - 6 entering into or amending any contract or commitment (or any series of related contracts or commitments) which involves any Affiliate of the Trustee, including, for so long as Investa Listed Funds Management Limited is the trustee of the Trust, any of the following entities: Investa Office Management Limited, Investa Office Management Holdings Pty Ltd, Investa Asset Management Pty Ltd, Investa Asset Management (QLD) Ltd, Investa Property Group Holdings Pty Ltd or any of their Affiliates.
- (h) a new definition of "Trustee Finance Document" is inserted as follows:
means any facility or loan agreement entered into by the Trustee.
 - (i) a new definition of "Unitholder Finance Document" is inserted as follows:
means any facility or loan agreement entered into between a Unitholder and any one or more third party financiers, which has been provided to the Trustee in writing.

2 Clause 6 - General powers of Trustee

- (a) Clause 6.1(b) and clause 6.1(c) of the Constitution are deleted and substituted with the following clauses:
 - (b) Subject to clause 6.1(c), in the exercise of its powers the Trustee may, without limitation, acquire or dispose of any real or personal property, borrow or raise money, encumber any asset of the Fund, incur any liability, guarantee any obligations of any person, enter into joint venture arrangements or fetter any power.
 - (c) Notwithstanding any other provision of this constitution, the Trustee:
 - (i) must not exercise any power or discretion or take any action; and
 - (ii) to the extent that it is within the Trustees control, must procure that no sub-trustee exercises any power or discretion or takes any action,
 in connection with a Reserved Matter unless the Trustee has received prior written approval of the exercise or action from all Unitholders.
 - (d) The Trustee must take all such steps as practicable to direct and instruct the Manager under the Management Agreement to act consistently with the Trustee's obligations under this constitution in connection with the provision of services by the Manager under the Management Deed.
 - (e) The Trustee must:
 - (i) at all times, comply with the terms of any Relevant Finance Document; and
 - (ii) not act (or omit to act) in such a manner which would cause it or any Unitholder to be in breach of any Relevant Finance Document (whether or not the Trustee is party to any such document),
 unless taking (or failing to take) any such action would constitute a breach of the Trustee's fiduciary or statutory obligations, provided that to the extent of any

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inconsistency between the terms of a Trustee Finance Document and a Unitholder Finance Document, the terms of the Unitholder Finance Document will prevail.

- (b) Clause 6.2(b) of the Constitution is deleted and substituted with the following clause:
 - (b) Subject to clause 6.1(c), the Trustee may appoint an agent, custodian or other person, including an associate of the Trustee (each of whom may, with the approval of the Trustee, sub-delegate to any person any of its functions as it thinks fit), to acquire, hold title to, dispose of or otherwise deal with any asset of the Fund on behalf of the Trustee and perform any necessary incidental or ancillary action or other action approved by the Trustee.
- (c) A new clause 6.5 is to be inserted into the Constitution with the following clause:

6.5 Sub-Trust Constitutions

To the extent that the Trust (acting through the Trustee) is the sole unitholder of a trust (**Sub Trust**), the Trustee must, on written direction from the sole unitholder of the Trust:

- (a) consent to, and direct, the trustee of that Sub Trust to:
 - (i) make amendments to the trust deed of that Sub Trust to be consistent with clauses 6, 7.5, 12.3(d), 15 and 16.1 of this constitution (including, where applicable, the inclusion of the relevant definitions) as soon as practicable; and
 - (ii) if, for whatever reason, the trustee of that Sub Trust does not comply with the direction given under clause 6.5(a)(i):
 - (A) immediately call and convene a meeting of the unitholders of that Sub Trust; and
 - (B) pass a special resolution at that meeting to effect the changes set out in clause 6.5(a)(i); and
- (b) where the trustee of a Sub Trust is the sole unitholder in a trust (**Sub Sub Trust**), procure that the trustee of that Sub Sub Trust:
 - (i) make amendments to the trust deed of that Sub Sub Trust to be consistent with clauses 6, 7.5, 12.3(d), 15 and 16.1 (including, where applicable, the inclusion of the relevant definitions) as soon as practicable; and
 - (ii) if, for whatever reason, the trustee of any Sub Sub Trust does not comply with the direction set out in clause 6.5(b)(i):
 - (A) immediately call and convene a meeting of the unitholders of that Sub Sub Trust; and
 - (B) pass a special resolution at that meeting to effect the changes set out in clause 6.5(b)(i).

3 Clause 7.5

Clause 7.5 of the Constitution is deleted and substituted with the following clause:

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7.5 Trustee interest in Trust and transaction

- (a) Despite any other provision of this constitution, no present or future Trustee may hold Units or Options or otherwise become a beneficiary of the Trust.
- (b) Affiliates of the Trustee are not precluded from holding Units or Options or otherwise becoming a beneficiary of the Trust.
- (c) Nothing in this constitution restricts the Trustee or the Trustee's Affiliates from:
 - (i) dealing with the Trust or any Holder;
 - (ii) being interested in any contract or transaction with the Trust, any Holder, or retaining for its own benefit any profits or benefits derived from any such contract or transaction;
 - (iii) entering a contract or transaction in relation to which the Trust may become liable to pay fees, costs, brokerage, commissions or other remuneration to an Affiliate of the Trustee or an Affiliate of any of the directors of the Trustee;
 - (iv) acting in the same or a similar capacity in relation to any other trust; or
 - (v) dealing with itself in relation to the Fund where in relation to such dealings it is acting in different capacities.

4 Clause 12.3

A new clause 12.3(d) is inserted as follows:

- (d) Despite any other provision of this Constitution, the Trustee shall not decline to register any transfer of Units where such transfer is:
 - (i) to a person holding a security interest over those Units (the "**Secured Party**") or a nominee of the Secured Party;
 - (ii) delivered to the Trustee for registration by a Secured Party or its nominee in order to perfect its security over the Units; or
 - (iii) executed by a Secured Party or its nominee pursuant to a power of sale or other power or right existing under such security,

and the Trustee shall forthwith register any such transfer of Units upon receipt.

5 Clause 15 - Alterations to Trust

Clause 15 of the Constitution is deleted and substituted with the following clause:

15 Alterations to Trust

15.1 Alterations by Trustee

The Trustee may amend this constitution (including this clause 15 but excluding clause 15.2) by deed at any time, subject to any approval required by Law.

15.2 Restriction on Amendment

Subject to Law, the Trustee must not amend this constitution to remove the requirement under clause 7.5(a) that no present or future Trustee may hold Units or Options or otherwise become a beneficiary of the Trust or to remove this restriction on amendment.

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6 Clause 16.1 - Term of Trust

Clause 16.1 of the Constitution is deleted and substituted with the following clause:

16.1 Term of Trust

The term of the Trust ends on the earlier of:

- (a) a date determined by the Unitholders by special resolution directing the Trustee to terminate the Trust on that date; and
- (b) the date on which the Trust is terminated under this constitution or by Law.

7 Clause 23 – Trust Scheme

A new clause 23 is inserted immediately after clause 22 of the Constitution, as set out below:

23 Trust Scheme

23.1 Definitions

The following definitions apply in this clause 23 unless the context requires otherwise:

Acquirer means each of BidCo and BidTrust.

BidCo means Quartz Bidco Pty Ltd (ACN 626 431 927).

BidTrust means Quartz Sub TC Pty Ltd (ACN 626 431 963) as trustee of the Quartz Bid Trust.

Deed Poll means the deed poll dated on or about 24 July 2018 executed by the Acquirer in favour of the Scheme Unitholders.

Effective means, in relation to the Trust Scheme, the supplemental deed poll making amendments to this Constitution to facilitate the Trust Scheme, including the insertion of clause 23, taking effect pursuant to section 601GC(2) of the Corporations Act.

Effective Date means the date on which the Trust Scheme becomes Effective.

Implementation Date means three Scheme Business Days following the Record Date, or such other date as may be agreed in writing between the Acquirer and the Trustee or as may be required by ASX.

Record Date means 7.00pm (Sydney time) on the date that is five Business Days after the Effective Date, or such other date (after the Effective Date) as may be agreed in writing between the Acquirer and the Trustee or as may be required by ASX.

Registry means such suitably qualified person that is from time to time appointed by the Trustee to operate the Register.

Scheme Consideration means an amount equal to \$2.50 for each Scheme Unit.

Scheme Implementation Agreement means the agreement of that name between the Trustee and the Acquirer dated 12 June 2018, as amended from time to time.

Scheme Meeting means the meeting of Unitholders held on 21 August 2018 to consider the Scheme Resolutions, and includes any adjournment of that meeting.

Scheme Resolutions means the resolutions of the Unitholders to approve the Trust Scheme, including:

- (a) an ordinary resolution approving for the purpose of item 7 of section 611 of the Corporations Act the acquisition by the BidCo of all of the Scheme Units; and

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- (b) a special resolution for the purpose of section 601GC(1) of the Corporations Act to approve amendments to this Constitution to facilitate the implementation of the Trust Scheme.

Scheme Unit means a Unit on issue as at the Record Date.

Scheme Unitholders means each person who is registered on the Register as a holder of Units as at the Record Date, other than the Acquirer (if applicable).

Trust Scheme means the arrangement by which all of the Scheme Units will be transferred to BidCo for the Scheme Consideration, as set out in this clause 23.

23.2 Implementation of Trust Scheme

- (a) The definition of "Proposal" is deleted and substituted with the following new definition:
a proposal approved by special resolution of Holders, and that for this purpose, the proposal described in the notice of meeting and explanatory memorandum dated 24 July 2018 is a "Proposal".
- (b) Each Scheme Unitholder and the Trustee must do all things and execute all deeds, instruments, transfers or other documents as the Trustee considers are necessary or desirable to give full effect to the terms of the Trust Scheme and the transactions contemplated by it.
- (c) Without limiting the Trustee's other powers under this clause 23, the Trustee has power to do all things that it considers necessary, desirable or reasonably incidental to give effect to the Trust Scheme, the Scheme Implementation Agreement and the transactions contemplated by them.
- (d) Subject to the Corporations Act, the Trustee, BidCo or any of their directors, officers, employees or associates may do any act, matter or thing described in or contemplated by this clause 23 even if they have an interest (financial or otherwise) in the outcome of such exercise.
- (e) Without limiting the Trustee's powers under this clause 23, subject to the Acquirer having complied with its obligations under clause 4.2(b) of the Deed Poll:
- (i) on the Implementation Date, the Trustee must determine in accordance with clause 20.5(a) that the Stapling provisions of the Constitution will cease to apply on the Implementation Date and that the Implementation Date is to be the "Unstapling Date" for the purpose of clause 20.5 of the Constitution;
 - (ii) on the Effective Date each Holder is deemed to have irrevocably appointed the Trustee as the Scheme Unitholder's agent and attorney to transfer the Scheme Units on the Implementation Date for a price equal to the Scheme Consideration, in accordance with the terms of the Scheme Implementation Agreement and the Deed Poll; and
 - (iii) the Trustee must execute on behalf of each Scheme Unitholder a transfer of the Scheme Units in respect of which the Trustee is appointed as agent and attorney under clause 23(e)(ii) above in the manner and form which the Trustee considers necessary and deliver the transfer to the Registry for registration.
- (f) This clause 23:
- (i) binds the Trustee and all of the Holders from time to time (including those who do not attend the Scheme Meeting, those who do not vote at the Scheme Meeting and those who vote against the Scheme Resolutions); and

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- (ii) to the extent of any inconsistency, overrides the other provisions of this Constitution (but, for the avoidance of doubt, remains subject to the Corporations Act and the Listing Rules).

23.3 Warranty by Scheme Unitholders

Each Scheme Unitholder warrants to BidCo and is deemed to have authorised the Trustee to warrant to BidCo as agent and attorney for the Scheme Unitholder by virtue of this clause 23.3, that:

- (a) all their Scheme Units (including any rights and entitlements attaching to those securities) transferred to BidCo under the Trust Scheme, will, as at the date of the transfer, be fully paid and free from all Encumbrances; and
- (b) they have full power and capacity to sell and to transfer their Scheme Units (including any rights and entitlements attaching to those securities) to BidCo under the Trust Scheme.

23.4 Transfer free of Encumbrances

To the extent permitted by law, all Scheme Units (including any rights and entitlements attaching to those securities) which are transferred to BidCo under the Trust Scheme will, at the date of the transfer of them to BidCo, vest in BidCo free from all Encumbrances.

23.5 Appointment of BidCo as sole proxy

Subject to the provision of the Scheme Consideration for the Scheme Units, on and from the Implementation Date until the Trustee registers BidCo as the holder of all the Scheme Units in the Register, each Scheme Unitholder:

- (a) irrevocably appoints the Trustee as attorney and agent (and directs the Trustee in such capacity) to appoint BidCo and each of its directors from time to time (jointly and each of them individually) as its sole proxy, and where applicable, corporate representative, to attend Unitholder meetings, exercise the votes attaching to Units registered in its name and sign any Unitholder resolution, and no Scheme Unitholder may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy, or by corporate representative (other than pursuant to this clause 23.5(a); and
- (b) must take all other actions in the capacity of the registered holder of Units as BidCo directs.

The Trustee undertakes in favour of each Scheme Unitholder that it will appoint BidCo and each of its directors from time to time (jointly and each of them individually) as that Scheme Unitholder's proxy or, where applicable, corporate representative, in accordance with clause 23.5(a).

23.6 Unclaimed monies

- (a) The *Unclaimed Money Act 1995* (NSW) will apply in relation to any amount payable to a Scheme Unitholder under the Trust Scheme which becomes 'unclaimed money' (as defined in section 7 of that Act).
- (b) The Trustee may cancel a cheque issued on account of the Scheme Consideration if the cheque:
 - (i) is returned to the Trustee; or
 - (ii) has not been presented for payment within 6 months after the date on which the cheque was sent.

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23.7 Orders of a court or Government Agency

- (a) The Trustee may deduct and withhold from any Scheme Consideration which would otherwise be payable to a Scheme Unitholder any amount which BidCo or the Trustee determine is required to be deducted and withheld from that consideration under any applicable law, including any order, direction or notice made or given by a court of competent jurisdiction or by another Government Agency.
- (b) To the extent that amounts are so deducted or withheld, such deducted or withheld amounts will be treated for all purposes under the Trust Scheme as having been paid to the person in respect of which such deduction or withholding was made, provided that such deducted or withheld amounts are actually remitted to the appropriate Government Agency.
- (c) If written notice is given to the Trustee (or the Registry) of an order, direction or notice made or given by a court of competent jurisdiction or by another Government Agency that:
 - (i) requires consideration which would otherwise be payable or provided to a Scheme Unitholder under the Trust Scheme must instead be paid or provided to a Government Agency or other third party (either through payment of a sum or the issuance of a security), then, the Trustee shall be entitled to procure that payment or provision of that consideration is made in accordance with that order, direction or notice (and payment or provision of that consideration in accordance with that order, direction or notice will be treated for all purposes under the Trust Scheme as having been paid or provided to that Scheme Unitholder); or
 - (ii) prevents the Trustee from providing consideration to any particular Scheme Unitholder under the Trust Scheme, or the payment or provision of such consideration is otherwise prohibited by applicable law, the Trustee shall be entitled to retain the Scheme Consideration to which that Scheme Unitholder would otherwise be entitled to under the Trust Scheme, until such time as payment or provision of the Scheme Consideration under the Trust Scheme is permitted by that order or direction or otherwise by law.

23.8 No disposals after the Effective Date

- (a) If the Trust Scheme becomes Effective, a holder of Scheme Units (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Scheme Units or any interest in them after the Effective Date in any way except pursuant to the Trust Scheme and any such disposal will be void and of no legal effect whatsoever.
- (b) The Trustee will not accept for registration or recognise for any purpose any transmission, application or transfer in respect of Scheme Units received after the Record Date (except a transfer to BidCo pursuant to the Trust Scheme or any subsequent transfer by BidCo or its successors in title).

23.9 Lapsing

Clause 23 will lapse and have no further force or effect if the Trust Scheme lapses in accordance with the Scheme Implementation Agreement.

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8 Schedule 2 - Meetings

Paragraph of Schedule 2(b) of the Constitution is deleted and substituted with the following clause:

- (b) The quorum for any Meeting is 1 Holder.

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Investa Listed Funds Management Limited

PCP Supplemental Deed Poll

Amending the Constitution for Prime Credit Property Trust

Execution Version

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This Deed Poll is made on 2018

Parties

Investa Listed Funds Management Limited (ABN 37 149 175 655) of Level 30 , 420 George Street Sydney NSW 2000 (the **Responsible Entity**).

Recitals

- A The Responsible Entity is the responsible entity of the trust known as the Prime Credit Property Trust (ARSN 089 849 196) (**PCP**) (the **Trust**).
- B The Trust is registered as a managed investment scheme pursuant to section 601EB of the Corporations Act.
- C The Units of the Trust are stapled to the units of Armstrong Jones Office Fund (ARSN 090 242 229) (**AJO**) and are quoted and traded on ASX as stapled securities of Investa Office Fund (ASX: **IOF**).
- D The Responsible Entity and the Acquirer have agreed, by executing the Scheme Implementation Agreement, to propose and implement the Scheme.
- E The Constitution must be amended to facilitate the Scheme.
- F Section 601GC(1)(a) of the Corporations Act provides that the constitution of a registered scheme may be modified, or repealed and replaced with a new constitution by special resolution of the members of the scheme.
- G Under clause 15 of the Constitution, the Responsible Entity may, by deed, replace or amend the Constitution.
- H The Responsible Entity proposes to modify the Constitution, as set out in this Supplemental Deed Poll, to give effect to the resolutions to modify the Constitution that were passed by Unitholders at a meeting held on 21 August 2018 (**Scheme Resolutions**).

It is declared as follows.

1 Definitions and Interpretation

1.1 Definitions

In this Supplemental Deed Poll including the Recitals, the following definitions apply unless the context otherwise requires.

Acquirer means each of BidCo and BidTrust.

BidCo means Quartz Bidco Pty Ltd (ACN 626 431 927).

BidTrust means Quartz Sub TC Pty Ltd (ACN 626 431 963) as trustee of the Quartz Bid Trust.

Constitution means the trust deed constituting PCP, as approved by Unitholders on 6 December 2011(as amended).

Effective Time means the date and time on which a copy of this Supplemental Deed Poll is, or the modifications set out in it are, lodged with ASIC under section 601GC(2) of the Corporations Act.

Entity includes a natural person, a body corporate, a partnership, a trust and the trustee of a trust.

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IOM means Investa Office Management Pty Limited ACN 161 354 016.

Management Deed means the amended and restated management deed between the Responsible Entity and IOM dated 21 September 2017.

Scheme means the arrangement set out in the Scheme Implementation Agreement and facilitated by the amendments to the Constitution set out in this Supplemental Deed Poll.

Scheme Implementation Agreement means the agreement of that name between the Responsible Entity and the Acquirer dated 12 June 2018, as amended from time to time.

Scheme Resolutions has the meaning given in Recital H.

1.2 Interpretation

- (a) Terms used but not defined in this Supplemental Deed Poll have the same meanings given to them in the Constitution, as amended by this Supplemental Deed Poll.
- (b) Clauses 1.1 ('Definitions'), 1.2 ('Interpretation') and 1.6 ('Inconsistency with the Listing Rules') of the Constitution apply to this Supplemental Deed Poll as if set out in this Supplemental Deed Poll.

1.3 Benefit of this Supplemental Deed Poll

This Supplemental Deed Poll is made by the Responsible Entity with the intent that the benefit of this Supplemental Deed Poll shall enure to the benefit of the Unitholders jointly and severally.

2 Conditions

This Supplemental Deed Poll is conditional upon and will have no force or effect until, the satisfaction of each of the conditions precedent stipulated in clause 3.1 of the Scheme Implementation Agreement.

3 Amendment of Constitution

The Responsible Entity amends the Constitution so that the Constitution is amended as set out in the Schedule:

- (a) in respect of paragraphs 1, 2, 3, 4, 5, 6 and 8 of the Schedule, on and from the Implementation Date (as defined in the Schedule); and
- (b) in respect of paragraph 7, on and from the Effective Time.

4 No Resettlement

The Responsible Entity confirms that it is not by this Supplemental Deed Poll:

- (a) resettling or redeclaring the Trust declared under the Constitution;
- (b) declaring any trust; or
- (c) causing the transfer, vesting or accruing of any property comprising the assets of the Trust in any person.

5 No merger

Each obligation set out in this Supplemental Deed Poll which is capable of having future operation continues in force after the Effective Time although this Supplemental Deed Poll has otherwise been fully performed.

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6 Governing Law and Jurisdiction

This Supplemental Deed Poll is governed by the laws of New South Wales. In relation to it and related non-contractual matters each party irrevocably submits to the non-exclusive jurisdiction of courts with jurisdiction there, and waives any right to object to the venue on any ground.

PCP Supplemental Deed Poll

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Executed and delivered as a Deed Poll in Sydney

Executed in accordance with
section 127 of the *Corporations Act*
2001 by **Investa Listed Funds**
Management Limited (ABN 37 149
175 655) as responsible entity for the
Prime Credit Property Trust (ARSN
089 849 196):

Director Signature

Director/Secretary Signature

Print Name

Print Name

Schedule 4. Supplemental Deeds Poll

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Schedule

Amendments to the Constitution of Prime Credit Property Trust

The Constitution is amended as follows:

1 Clause 1.1 - Definitions

In clause 1.1 of the Constitution:

- (a) a new definition of "Affiliate" is inserted as follows:
means, in relation to any person, any entity controlled, directly or indirectly, by the person, any entity that controls directly or indirectly, the person or any entity directly or indirectly under common control with the person or any entity which ordinarily acts under the direction of the person. For this purpose **control** of any entity or person means ownership of a majority of the voting power of the entity or the person.
- (b) a new definition of "Encumbrance" is inserted as follows:
means any mortgage, charge, lien, pledge, trust, power or title retention, flawed deposit arrangement, "security interest" as defined in sections 12(1) or (2) of the Personal Property Securities Act 2009 (Cth), or the interest of a third party of any kind, whether legal or otherwise, or any agreement to create any of them or allowing them to exist.
- (c) a new definition of "Law" is inserted as follows:
 - (a) the Corporations Act and any statute; and
 - (b) any common law rule that applies to the Trust.
- (d) a new definition of "Management Agreement" is inserted as follows:
means any investment management agreement or asset management agreement which may be entered into (with the approval of the Unitholders) between the Trustee and the Manager relating to investment or asset management services provided by the Manager for the benefit of the Trust.
- (e) a new definition of "Manager" is inserted as follows:
means the manager or any replacement or successor appointed by the Trustee to provide investment management services for the benefit of the Trust from time to time.
- (f) a new definition of "Relevant Finance Document" is inserted as follows:
means a Trustee Finance Document or an Unitholder Finance Document.
- (g) a new definition of "Reserved Matter" is inserted as follows:
any of the following matters or actions in relation to the Trust or Fund:
 - 1 acquiring or disposing of any real or personal property or any other asset of the Fund;
 - 2 borrowing, raising money, incurring any indebtedness or entering into any financial accommodation;
 - 3 creating or permitting to exist any Encumbrance;
 - 4 entering into any guarantee, indemnity bond, security deposit, letter of credit or suretyship or any other obligation to pay, purchase or provide funds (whether by the advance of money, the purchase of or subscription for shares or other securities, the purchase of assets or services, or otherwise) for the payment or

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discharge of, to indemnify against the consequences of default in the payment of, or otherwise be responsible for, any indebtedness of, obligation of, liability of or the insolvency of any other person;

- 5 issuing any Units or the grant of any Options or issuing any units or granting any options over units in any sub-trust; and
 - 6 entering into or amending any contract or commitment (or any series of related contracts or commitments) which involves any Affiliate of the Trustee, including, for so long as Investa Listed Funds Management Limited is the trustee of the Trust, any of the following entities: Investa Office Management Limited, Investa Office Management Holdings Pty Ltd, Investa Asset Management Pty Ltd, Investa Asset Management (QLD) Ltd, Investa Property Group Holdings Pty Ltd or any of their Affiliates.
- (h) a new definition of "Trustee Finance Document" is inserted as follows:
means any facility or loan agreement entered into by the Trustee.
 - (i) a new definition of "Unitholder Finance Document" is inserted as follows:
means any facility or loan agreement entered into between a Unitholder and any one or more third party financiers, which has been provided to the Trustee in writing.

2 Clause 6 - General powers of Trustee

- (a) Clause 6.1(b) and clause 6.1(c) of the Constitution are deleted and substituted with the following clauses:
 - (b) Subject to clause 6.1(c), in the exercise of its powers the Trustee may, without limitation, acquire or dispose of any real or personal property, borrow or raise money, encumber any asset of the Fund, incur any liability, guarantee any obligations of any person, enter into joint venture arrangements or fetter any power.
 - (c) Notwithstanding any other provision of this constitution, the Trustee:
 - (i) must not exercise any power or discretion or take any action; and
 - (ii) to the extent that it is within the Trustees control, must procure that no sub-trustee exercises any power or discretion or takes any action,
 in connection with a Reserved Matter unless the Trustee has received prior written approval of the exercise or action from all Unitholders.
 - (d) The Trustee must take all such steps as practicable to direct and instruct the Manager under the Management Agreement to act consistently with the Trustee's obligations under this constitution in connection with the provision of services by the Manager under the Management Deed.
 - (e) The Trustee must:
 - (i) at all times, comply with the terms of any Relevant Finance Document; and
 - (ii) not act (or omit to act) in such a manner which would cause it or any Unitholder to be in breach of any Relevant Finance Document (whether or not the Trustee is party to any such document),
 unless taking (or failing to take) any such action would constitute a breach of the Trustee's fiduciary or statutory obligations, provided that to the extent of any

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- inconsistency between the terms of a Trustee Finance Document and a Unitholder Finance Document, the terms of the Unitholder Finance Document will prevail.
- (b) Clause 6.2(b) of the Constitution is deleted and substituted with the following clause:
- (b) Subject to clause 6.1(c), the Trustee may appoint an agent, custodian or other person, including an associate of the Trustee (each of whom may, with the approval of the Trustee, sub-delegate to any person any of its functions as it thinks fit), to acquire, hold title to, dispose of or otherwise deal with any asset of the Fund on behalf of the Trustee and perform any necessary incidental or ancillary action or other action approved by the Trustee.
- (c) A new clause 6.5 is to be inserted into the Constitution with the following clause:

6.5 Sub-Trust Constitutions

To the extent that the Trust (acting through the Trustee) is the sole unitholder of a trust (**Sub Trust**), the Trustee must, on written direction from the sole unitholder of the Trust:

- (a) consent to, and direct, the trustee of that Sub Trust to:
- (i) make amendments to the trust deed of that Sub Trust to be consistent with clauses 6, 7.5, 12.3(d), 15 and 16.1 of this constitution (including, where applicable, the inclusion of the relevant definitions) as soon as practicable; and
- (ii) if, for whatever reason, the trustee of that Sub Trust does not comply with the direction given under clause 6.5(a)(i):
- (A) immediately call and convene a meeting of the unitholders of that Sub Trust; and
- (B) pass a special resolution at that meeting to effect the changes set out in clause 6.5(a)(i); and
- (b) where the trustee of a Sub Trust is the sole unitholder in a trust (**Sub Sub Trust**), procure that the trustee of that Sub Sub Trust:
- (i) make amendments to the trust deed of that Sub Sub Trust to be consistent with clauses 6, 7.5, 12.3(d), 15 and 16.1 (including, where applicable, the inclusion of the relevant definitions) as soon as practicable; and
- (ii) if, for whatever reason, the trustee of any Sub Sub Trust does not comply with the direction set out in clause 6.5(b)(i):
- (A) immediately call and convene a meeting of the unitholders of that Sub Sub Trust; and
- (B) pass a special resolution at that meeting to effect the changes set out in clause 6.5(b)(i).

3 Clause 7.5

Clause 7.5 of the Constitution is deleted and substituted with the following clause:

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7.5 Trustee interest in Trust and transaction

- (a) Despite any other provision of this constitution, no present or future Trustee may hold Units or Options or otherwise become a beneficiary of the Trust.
- (b) Affiliates of the Trustee are not precluded from holding Units or Options or otherwise becoming a beneficiary of the Trust.
- (c) Nothing in this constitution restricts the Trustee or the Trustee's Affiliates from:
 - (i) dealing with the Trust or any Holder;
 - (ii) being interested in any contract or transaction with the Trust, any Holder, or retaining for its own benefit any profits or benefits derived from any such contract or transaction;
 - (iii) entering a contract or transaction in relation to which the Trust may become liable to pay fees, costs, brokerage, commissions or other remuneration to an Affiliate of the Trustee or an Affiliate of any of the directors of the Trustee;
 - (iv) acting in the same or a similar capacity in relation to any other trust; or
 - (v) dealing with itself in relation to the Fund where in relation to such dealings it is acting in different capacities.

4 Clause 12.3

A new clause 12.3(d) is inserted as follows:

- (d) Despite any other provision of this Constitution, the Trustee shall not decline to register any transfer of Units where such transfer is:
 - (i) to a person holding a security interest over those Units (the "**Secured Party**") or a nominee of the Secured Party;
 - (ii) delivered to the Trustee for registration by a Secured Party or its nominee in order to perfect its security over the Units; or
 - (iii) executed by a Secured Party or its nominee pursuant to a power of sale or other power or right existing under such security,

and the Trustee shall forthwith register any such transfer of Units upon receipt.

5 Clause 15 - Alterations to Trust

Clause 15 of the Constitution is deleted and substituted with the following clause:

15 Alterations to Trust**15.1 Alterations by Trustee**

The Trustee may amend this constitution (including this clause 15 but excluding clause 15.2) by deed at any time, subject to any approval required by Law.

15.2 Restriction on Amendment

Subject to Law, the Trustee must not amend this constitution to remove the requirement under clause 7.5(a) that no present or future Trustee may hold Units or Options or otherwise become a beneficiary of the Trust or to remove this restriction on amendment.

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6 Clause 16.1 - Term of Trust

Clause 16.1 of the Constitution is deleted and substituted with the following clause:

16.1 Term of Trust

The term of the Trust ends on the earlier of:

- (a) a date determined by the Unitholders by special resolution directing the Trustee to terminate the Trust on that date; and
- (b) the date on which the Trust is terminated under this constitution or by Law.

7 Clause 23 –Trust Scheme

A new clause 23 is inserted immediately after clause 22 of the Constitution, as set out below:

23 Trust Scheme

23.1 Definitions

The following definitions apply in this clause 23 unless the context requires otherwise:

Acquirer means each of BidCo and BidTrust.

BidCo means Quartz Bidco Pty Ltd (ACN 626 431 927).

BidTrust means Quartz Sub TC Pty Ltd (ACN 626 431 963) as trustee of the Quartz Bid Trust.

Deed Poll means the deed poll dated on or about 24 July 2018 executed by the Acquirer in favour of the Scheme Unitholders.

Effective means, in relation to the Trust Scheme, the supplemental deed poll making amendments to this Constitution to facilitate the Trust Scheme, including the insertion of clause 23, taking effect pursuant to section 601GC(2) of the Corporations Act.

Effective Date means the date on which the Trust Scheme becomes Effective.

Implementation Date means three Scheme Business Days following the Record Date, or such other date as may be agreed in writing between the Acquirer and the Trustee or as may be required by ASX.

Record Date means 7.00pm (Sydney time) on the date that is five Business Days after the Effective Date, or such other date (after the Effective Date) as may be agreed in writing between the Acquirer and the Trustee or as may be required by ASX.

Registry means such suitably qualified person that is from time to time appointed by the Trustee to operate the Register.

Scheme Consideration means an amount equal to \$2.6485 for each Scheme Unit.

Scheme Implementation Agreement means the agreement of that name between the Trustee and the Acquirer dated 12 June 2018, as amended from time to time.

Scheme Meeting means the meeting of Unitholders held on 21 August 2018 to consider the Scheme Resolutions, and includes any adjournment of that meeting.

Scheme Resolutions means the resolutions of the Unitholders to approve the Trust Scheme, including:

- (a) an ordinary resolution approving for the purpose of item 7 of section 611 of the Corporations Act the acquisition by BidTrust of all of the Scheme Units; and

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- (b) a special resolution for the purpose of section 601GC(1) of the Corporations Act to approve amendments to this Constitution to facilitate the implementation of the Trust Scheme.

Scheme Unit means a Unit on issue as at the Record Date.

Scheme Unitholders means each person who is registered on the Register as a holder of Units as at the Record Date, other than the Acquirer (if applicable).

Trust Scheme means the arrangement by which all of the Scheme Units will be transferred to BidTrust for the Scheme Consideration, as set out in this clause 23.

23.2 Implementation of Trust Scheme

- (a) The definition of "Proposal" is deleted and substituted with the following new definition:
a proposal approved by special resolution of Holders, and that for this purpose, the proposal described in the notice of meeting and explanatory memorandum dated 24 July 2018 is a "Proposal".
- (b) Each Scheme Unitholder and the Trustee must do all things and execute all deeds, instruments, transfers or other documents as the Trustee considers are necessary or desirable to give full effect to the terms of the Trust Scheme and the transactions contemplated by it.
- (c) Without limiting the Trustee's other powers under this clause 23, the Trustee has power to do all things that it considers necessary, desirable or reasonably incidental to give effect to the Trust Scheme, the Scheme Implementation Agreement and the transactions contemplated by them.
- (d) Subject to the Corporations Act, the Trustee, BidTrust or any of their directors, officers, employees or associates may do any act, matter or thing described in or contemplated by this clause 23 even if they have an interest (financial or otherwise) in the outcome of such exercise.
- (e) Without limiting the Trustees powers under this clause 23, subject to the Acquirer having complied with its obligations under clause 4.2(b) of the Deed Poll:
- (i) on the Implementation Date, the Trustee must determine in accordance with clause 20.5(a) that the Stapling provisions of the Constitution will cease to apply on the Implementation Date and that the Implementation Date is to be the "Unstapling Date" for the purpose of clause 20.5 of the Constitution.
 - (ii) on the Effective Date each Holder is deemed to have irrevocably appointed the Trustee as the Scheme Unitholder's agent and attorney to transfer the Scheme Units on the Implementation Date for a price equal to the Scheme Consideration, in accordance with the terms of the Scheme Implementation Agreement and the Deed Poll; and
 - (iii) the Trustee must execute on behalf of each Scheme Unitholder a transfer of the Scheme Units in respect of which the Trustee is appointed as agent and attorney under clause 23(e)(ii) above in the manner and form which the Trustee considers necessary and deliver the transfer to the Registry for registration.
- (f) This clause 23:
- (i) binds the Trustee and all of the Holders from time to time (including those who do not attend the Scheme Meeting, those who do not vote at the Scheme Meeting and those who vote against the Scheme Resolutions); and

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- (ii) to the extent of any inconsistency, overrides the other provisions of this Constitution (but, for the avoidance of doubt, remains subject to the Corporations Act and the Listing Rules).

23.3 Warranty by Scheme Unitholders

Each Scheme Unitholder warrants to BidTrust and is deemed to have authorised the Trustee to warrant to BidTrust as agent and attorney for the Scheme Unitholder by virtue of this clause 23.3, that:

- (a) all their Scheme Units (including any rights and entitlements attaching to those securities) transferred to BidTrust under the Trust Scheme, will, as at the date of the transfer, be fully paid and free from all Encumbrances; and
- (b) they have full power and capacity to sell and to transfer their Scheme Units (including any rights and entitlements attaching to those securities) to BidTrust under the Trust Scheme.

23.4 Transfer free of Encumbrances

To the extent permitted by law, all Scheme Units (including any rights and entitlements attaching to those securities) which are transferred to BidTrust under the Trust Scheme will, at the date of the transfer of them to BidTrust, vest in BidTrust free from all Encumbrances.

23.5 Appointment of BidTrust as sole proxy

Subject to the provision of the Scheme Consideration for the Scheme Units, on and from the Implementation Date until the Trustee registers BidTrust as the holder of all the Scheme Units in the Register, each Scheme Unitholder:

- (a) irrevocably appoints the Trustee as attorney and agent (and directs the Trustee in such capacity) to appoint BidTrust and each of its directors from time to time (jointly and each of them individually) as its sole proxy, and where applicable, corporate representative, to attend Unitholder meetings, exercise the votes attaching to Units registered in its name and sign any Unitholder resolution, and no Scheme Unitholder may itself attend or vote at any of those meetings or sign any resolutions, whether in person, by proxy, or by corporate representative (other than pursuant to this clause 23.5(a)); and
- (b) must take all other actions in the capacity of the registered holder of Units as BidTrust directs.

The Trustee undertakes in favour of each Scheme Unitholder that it will appoint BidTrust and each of its directors from time to time (jointly and each of them individually) as that Scheme Unitholder's proxy or, where applicable, corporate representative, in accordance with clause 23.5(a).

23.6 Unclaimed monies

- (a) The *Unclaimed Money Act 1995* (NSW) will apply in relation to any amount payable to a Scheme Unitholder under the Trust Scheme which becomes 'unclaimed money' (as defined in section 7 of that Act).
- (b) The Trustee may cancel a cheque issued on account of the Scheme Consideration if the cheque:
 - (i) is returned to the Trustee; or
 - (ii) has not been presented for payment within 6 months after the date on which the cheque was sent.

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23.7 Orders of a court or Government Agency

- (a) The Trustee may deduct and withhold from any Scheme Consideration which would otherwise be payable to a Scheme Unitholder any amount which BidTrust or the Trustee determine is required to be deducted and withheld from that consideration under any applicable law, including any order, direction or notice made or given by a court of competent jurisdiction or by another Government Agency.
- (b) To the extent that amounts are so deducted or withheld, such deducted or withheld amounts will be treated for all purposes under the Trust Scheme as having been paid to the person in respect of which such deduction or withholding was made, provided that such deducted or withheld amounts are actually remitted to the appropriate Government Agency.
- (c) If written notice is given to the Trustee (or the Registry) of an order, direction or notice made or given by a court of competent jurisdiction or by another Government Agency that:
 - (i) requires consideration which would otherwise be payable or provided to a Scheme Unitholder under the Trust Scheme must instead be paid or provided to a Government Agency or other third party (either through payment of a sum or the issuance of a security), then, the Trustee shall be entitled to procure that payment or provision of that consideration is made in accordance with that order, direction or notice (and payment or provision of that consideration in accordance with that order, direction or notice will be treated for all purposes under the Trust Scheme as having been paid or provided to that Scheme Unitholder); or
 - (ii) prevents the Trustee from providing consideration to any particular Scheme Unitholder under the Trust Scheme, or the payment or provision of such consideration is otherwise prohibited by applicable law, the Trustee shall be entitled to retain the Scheme Consideration to which that Scheme Unitholder would otherwise be entitled to under the Trust Scheme, until such time as payment or provision of the Scheme Consideration under the Trust Scheme is permitted by that order or direction or otherwise by law.

23.8 No disposals after the Effective Date

- (a) If the Trust Scheme becomes Effective, a holder of Scheme Units (and any person claiming through that holder) must not dispose of or purport or agree to dispose of any Scheme Units or any interest in them after the Effective Date in any way except pursuant to the Trust Scheme and any such disposal will be void and of no legal effect whatsoever.
- (b) The Trustee will not accept for registration or recognise for any purpose any transmission, application or transfer in respect of Scheme Units received after the Record Date (except a transfer to BidTrust pursuant to the Trust Scheme or any subsequent transfer by BidTrust or its successors in title).

23.9 Lapsing

Clause 23 will lapse and have no further force or effect if the Trust Scheme lapses in accordance with the Scheme Implementation Agreement.

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8 Schedule 2 - Meetings

Paragraph of Schedule 2(b) of the Constitution is deleted and substituted with the following clause:

- (b) The quorum for any Meeting is 1 Holder.

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Corporate Directory

INVESTA OFFICE FUND

Armstrong Jones Office Fund

ARSN 090 242 229

Prime Credit Property Trust

ARSN 089 849 196

FINANCIAL ADVISER

J.P. Morgan Australia Limited

Level 18, J.P. Morgan House, 85 Castlereagh Street
Sydney NSW 2000 Australia

AUDITOR

PricewaterhouseCoopers

ABN 52 780 433 757

One International Towers Sydney
Watermans Quay, Barangaroo
Sydney NSW 2000

IOF REGISTRY

Link Market Services Limited

Level 12, 680 George Street
Sydney NSW 2000 Australia

Locked Bag A14
Sydney South NSW 1235 Australia

Phone: +61 1300 851 394
Fax (general): (02) 9287 0303
Fax (voting): (02) 9287 0309

Email: investa@linkmarketservices.com.au

RESPONSIBLE ENTITY

Investa Listed Funds Management Limited

ACN 149 175 655

AFSL 401414

LEGAL ADVISER

Allens

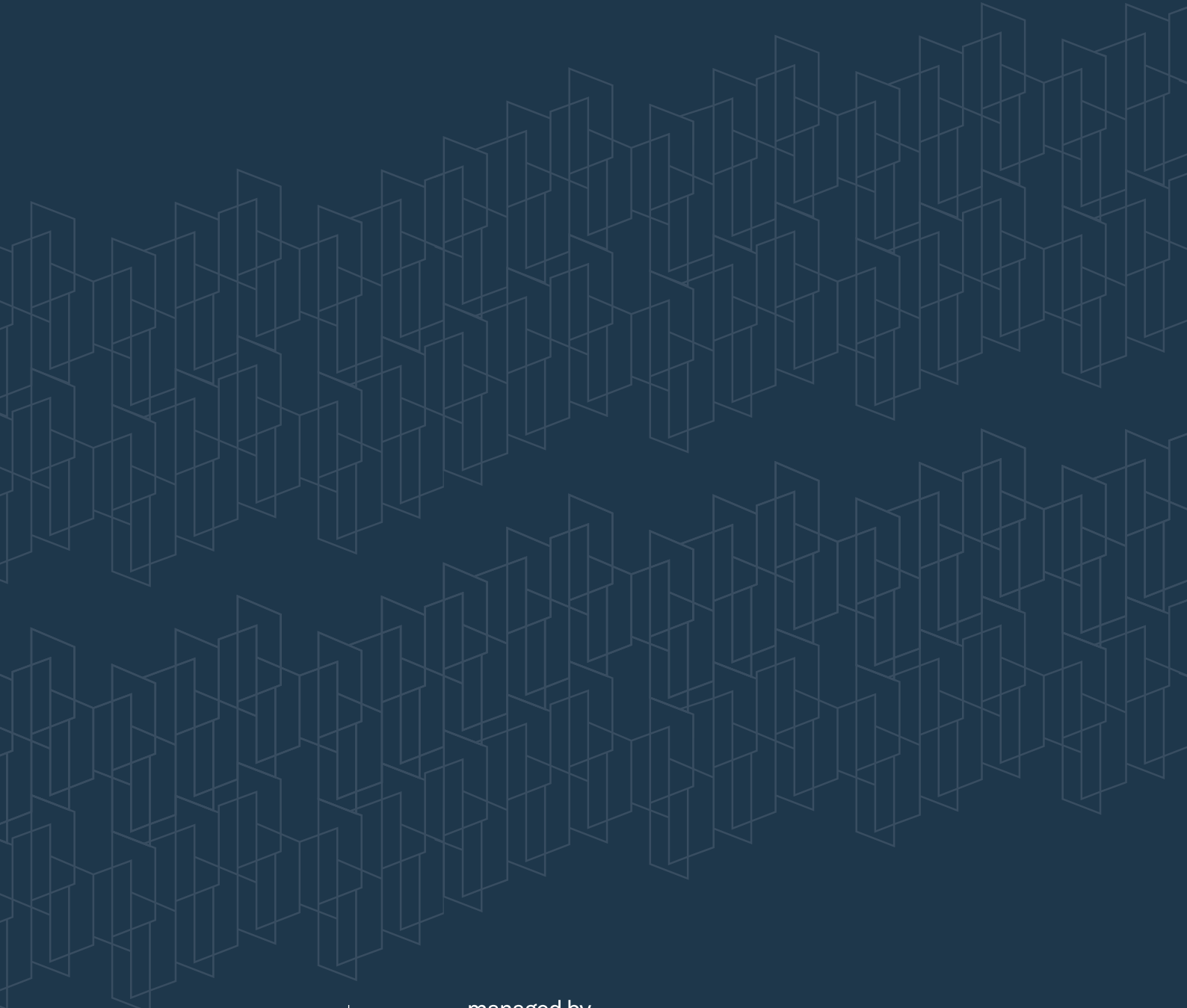
Level 28, 126 Phillip Street
Sydney NSW 2000 Australia

ACCOUNTING ADVISER

PricewaterhouseCoopers Securities Limited

ACN 003 311 617

One International Towers Sydney
Watermans Quay, Barangaroo
Sydney NSW 2000



INVESTA OFFICE FUND

ARMSTRONG JONES OFFICE FUND ARSN 090 242 229

PRIME CREDIT PROPERTY TRUST ARSN 089 849 196

RESPONSIBLE ENTITY:

INVESTA LISTED FUNDS MANAGEMENT LIMITED

ACN 149 175 655 AFSL 401414

LODGE YOUR VOTE

ONLINE
www.linkmarketservices.com.au

BY MAIL
Investa Office Fund
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia

BY FAX
+61 2 9287 0309

BY HAND
Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138

ALL ENQUIRIES TO
Telephone: +61 1300 851 394



X99999999999

PROXY FORM

I/We being a member(s) of Investa Office Fund and entitled to attend and vote hereby appoint:

APPOINT A PROXY

the Chairman of the Meeting (mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name of the person or body corporate you are appointing as your proxy

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Extraordinary General Meeting of the Company to be held at **10:00am on Tuesday, 21 August 2018 at Swissotel, Maple Room, 68 Market Street, Sydney NSW 2000** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

VOTING DIRECTIONS

Proxies will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting. Please read the voting instructions overleaf before marking any boxes with an

Resolutions

	For	Against	Abstain*		For	Against	Abstain*
1 AJO Trust Acquisition Resolution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	5 AJO De-stapling Resolution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 PCP Trust Acquisition Resolution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	6 PCP De-stapling Resolution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 AJO Trust Constitution Amendment Resolution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				
4 PCP Trust Constitution Amendment Resolution	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>				

i * If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SIGNATURE OF SECURITYHOLDERS – THIS MUST BE COMPLETED

Securityholder 1 (Individual)	Joint Securityholder 2 (Individual)	Joint Securityholder 3 (Individual)
<input type="text"/>	<input type="text"/>	<input type="text"/>
Sole Director and Sole Company Secretary	Director/Company Secretary (Delete one)	Director

This form should be signed by the securityholder. If a joint holding, either securityholder may sign. If signed by the securityholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).



HOW TO COMPLETE THIS SECURITYHOLDER PROXY FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's security register. If this information is incorrect, please make the correction on the form. Securityholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your securities using this form.**

APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name of that individual or body corporate in Step 1. A proxy need not be a securityholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Proxy Form.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the Company's security registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- on each of the first Proxy Form and the second Proxy Form state the percentage of your voting rights or number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either securityholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting the appropriate "Certificate of Appointment of Corporate Representative" should be produced prior to admission in accordance with the Notice of Meeting. A form of the certificate may be obtained from the Company's security registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A PROXY FORM

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below by **10:00am on Sunday, 19 August 2018**, being not later than 48 hours before the commencement of the Meeting. Any Proxy Form received after that time will not be valid for the scheduled Meeting.

Proxy Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Proxy Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, securityholders will need their "Holder Identifier" (Securityholder Reference Number (SRN) or Holder Identification Number (HIN) as shown on the front of the Proxy Form).



BY MOBILE DEVICE

Our voting website is designed specifically for voting online. You can now lodge your proxy by scanning the QR code adjacent or enter the voting link www.linkmarketservices.com.au into your mobile device. Log in using the Holder Identifier and postcode for your securityholding.

QR Code



To scan the code you will need a QR code reader application which can be downloaded for free on your mobile device.



BY MAIL

Investa Office Fund
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138

* During business hours (Monday to Friday, 9:00am–5:00pm)

**IF YOU WOULD LIKE TO ATTEND AND VOTE AT THE EXTRAORDINARY GENERAL MEETING, PLEASE BRING THIS FORM WITH YOU.
THIS WILL ASSIST IN REGISTERING YOUR ATTENDANCE.**