

360 Capital Office Fund



16 December 2016

Additional Information in Relation to Explanatory Memorandum

360 Capital Investment Management Limited (360CIML) as responsible entity of 360 Capital Office Fund (TOF or the Fund) advises the following additional information has been dispatched to Unitholders.

More information on the Fund can be found on the ASX's website at www.asx.com.au using the Fund's ASX code "TOF", on the Fund's website www.360capital.com.au, by calling the 360 Capital investor enquiry line on 1800 182 257 or emailing investor.relations@360capital.com.au

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About 360 Capital Office Fund (ASX code TOF)

360 Capital Office Fund is the only ASX-listed office sector A-REIT focused on suburban A grade and CBD B grade rent collecting properties in Australia in the \$30 to \$100 million asset value range. The Fund has a diversified \$208 million portfolio of three quality assets, a weighted average lease expiry of 4.7 years, occupancy of 99.2%, gearing of approximately 17.8% and a forecast 1H17 distribution of 8.50cpu. The Fund is externally managed by 360 Capital Group, a leading ASX-listed real estate investor and fund manager, that operates under a transparent fee structure and is the largest unitholder in the Fund with a co-investment stake of circa 30% to ensure ongoing alignment of interests with Unitholders.

About 360 Capital Group (ASX code TGP)

360 Capital Group is an ASX-listed, property investment and funds management group concentrating on strategic investment and active investment management of property assets. The company actively invests in direct property assets, property securities and various corporate real estate acquisitions within Australian real estate markets on a private equity basis. 360 Capital Group's 15 full time staff have significant property, funds and investment management experience. 360 Capital Group manages nine investment vehicles holding assets valued at over \$1.48 billion on behalf of over 12,000 investors and has over \$220 million worth of co-investments across the 360 Capital Group.



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Dear Unitholder,

Please find enclosed additional information which supplements the Explanatory Memorandum sent to Unitholders and lodged with the ASX on 7 December 2016.

The additional information is designed to assist Members in deciding how to vote at the upcoming Member meeting in relation to the Resolution.

We confirm the Member Meeting date of 30 December 2016.

Your vote is important and we encourage you to vote.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Aanholt'.

David van Aanholt

Independent Chairman

360 Capital Investment Management Limited as responsible entity for 360 Capital Office Fund

ADDITIONAL INFORMATION FOR MEMBERS OF 360 CAPITAL OFFICE FUND

360 Capital Investment Management Limited as responsible entity of the 360 Capital Office Fund refers to the Notice of Meeting and Explanatory Memorandum of 360 Capital Office Fund dated 7 December 2016.

As disclosed to Members in the Explanatory Memorandum, the purpose of the Meeting is to seek the approval of Members for the acquisition by Centuria of 28.8% of the Units in the Office Fund held by 360 Capital Group.

This document supplements the Explanatory Memorandum and provides additional information for Members to consider in deciding how to vote in relation to the Resolution. Capitalised terms used but not otherwise defined have the same meaning as in the Explanatory Memorandum.

Background

As referred to in section 2.4 of the Explanatory Memorandum, 360 Capital Group entered into a heads of agreement with Centuria in August 2016 in connection with the transactions contemplated by the Share Sale Agreement, including the sale of 28.8% of the Units to Centuria. Under the heads of agreement, it was proposed that 360 CIML and CPFL investigate a potential merger (whether by takeover bid or a "trust scheme") on an NTA-for-NTA basis and in the interests of both CMA and Office Fund securityholders. It was not proposed that the sale of management rights and co-investment interests under the Share Sale Agreement be conditional on any such merger proposal being approved by Members and no proposal has ever existed for such a merger in the absence of the broader Centuria Group acquisition of 360 Capital Group's property funds management platform. Alternative merger proposals based on predominantly scrip consideration and reflective of the respective NTA value of the underlying property portfolios were considered.

First Proposal

CPFL provided 360 CIML with a letter dated 27 September 2016 with an indicative, non-binding, incomplete and confidential proposal for the Office Fund with an indicative price of \$2.25 per unit by way of an off-market takeover offer (**First Proposal**). Both the value of the Units and the value of the CMA stapled securities being offered were calculated by reference to the underlying net asset value of the two funds.

The indicative consideration proposed consisted of \$0.55 cash and 0.78 CMA stapled security. This offer was conditional on the acquisition of 360 Capital Group's 19.9% interest in the Office Fund. 360 Capital Group's remaining 8.76% was unrestricted in terms of accepting the proposal, selling on-market or retaining the stake.

360 CIML engaged Lonergan Edwards to prepare an independent expert report as to whether the First Proposal was fair and reasonable to Members, however this report did not progress. The First Proposal was abandoned as a result of Centuria Group's requirement to own 28.8% of the Office Fund and for all the transactions contemplated by the Share Sale

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Agreement (ie. the sale of 360 Capital Group's property funds management platform and associated unit sale agreements) to be conditional on the approval of the sale of 360 Capital Group's 28.8% stake in the Office Fund to Centuria Group. The rules regarding collateral benefits in control transaction, and the specific benefits to be obtained by 360 Capital Group that would not be obtained by Members, were key considerations in requiring Member approval for Centuria Group's acquisition of 28.8% of the Office Fund.

Second Proposal

The negotiations between 360 Capital Group and Centuria Group continued in relation to the sale of the 360 Capital Group property funds management platform, including associated co-investment stakes.

On 16 October 2016, CPFL sent 360 CIML an indicative, non-binding and incomplete proposal for a trust scheme (**Second Proposal**) under which Centuria Group would acquire 28.8% of the Units (of which 8.8% was to be subject to Member approval) and Members would be offered \$2.25 per Unit consisting of \$0.38 cash and 0.86 CMA securities.

The main differences between the First Proposal and the Second Proposal were:

- the Second Proposal would be effected through an amendment to the constitution of the Office Fund which requires the approval of Members by a special resolution, which is less than the 90% threshold for compulsory acquisition under an off-market takeover offer;
- the mix of cash and CMA securities offered to Members had changed. The scrip component was increased from 0.78 CMA Stapled Securities to 0.86 CMA Stapled Securities and the cash component was reduced from \$0.55 to \$0.38; and
- the Second Proposal was conditional on the acquisition of the additional 8.8% of the Units held by 360 Capital Group for all cash consideration in accordance with Member approval.

360 CIML engaged Lonergan Edwards to prepare an independent expert report on whether the Second Proposal was fair and reasonable in addition to its report in relation to the sale of 28.8% of Units to Centuria. However, the Second Proposal was abandoned for the reasons set out in section 2.4 of the Explanatory Memorandum and no expert report was prepared.

Proposed Acquisition

On 23 November 2016, Centuria Group and 360 Capital Group reached agreement on the terms of the sale of 360 Capital Group's property funds management platform to Centuria Group and this was announced to the ASX.

By that point, the negotiations between 360 CIML and CPFL had resulted in the parties supporting the Proposed Acquisition as outlined in the Explanatory Memorandum. The terms of the Proposed Acquisition effectively substitutes Centuria Group as owner of both the responsible entity of Office Fund and of 360 Capital Group's stake in the Office Fund.

As set out in section 4.3.2 of the Explanatory Memorandum, CMA intends to develop a merger proposal for the merger of the Office Fund and CMA, but Members should note that

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there is no certainty that a TOF/CMA merger will be proposed or, if so, the terms of any such offer. Past negotiations are not a reliable indicator of whether an offer will be made, and if made, what the terms of any future proposal might be.

In the meantime, as disclosed in the Explanatory Memorandum, should the Proposed Acquisition proceed, CPFL currently intends to:

- maintain CMA's investment in the Office Fund as a long term strategic investment;
- maximise the return on CMA's investment through supporting active asset management and strategic initiatives;
- vote its 8.76% interest in the Office Fund in, and having regard solely to, the best interests of CMA Stapled Securityholders if a corporate action was to arise; and
- support the on-going management of the Office Fund by 360 CIML (and CPFL expects that it will generally (but not necessarily always) agree with the decisions of 360 CIML).

Benefits to Centuria Group from the Proposed Acquisition of 28.8%

Benefits that may accrue to Centuria Group and CPFL assuming that the Resolution and the Proposed Acquisition of 28.8% is implemented include:

- a combined stake of 28.8% would prevent a bidder acquiring the minimum 90% to enact the compulsory acquisition provisions;
- it may be seen as making it more difficult for an entity to replace a Centuria entity as the responsible entity of the Office Fund;
- it would permit Centuria and CPFL to acquire 28.8% of the Office Fund now, as compared to acquiring the remaining 8.8% pursuant to the 3% creep rule (which permits acquisitions of 3% over a 6 month period), a process which would take 18 months to complete. Accordingly if the Resolution is not passed, Centuria and CPFL may need to consider other alternatives to acquire a holding of 20% or more in the Office Fund; and
- in the event a Centuria entity ceases to be a responsible entity of the Office Fund, it would also constitute a blocking stake preventing any scheme of arrangement being implemented, which requires a 75% vote. Whilst a Centuria entity is responsible entity, the Corporations Act may operate to preclude that stake from being voted.

This is compared to the situation where the Share Sale Agreement proceeds and only 19.9% of the Office Fund is transferred to Centuria in the absence of the Resolution being passed. In that instance, although a 20% holding would still prevent a bidder moving to compulsory acquisition, such a holding would not deliver the other above mentioned benefits to Centuria to the same extent.

Benefits to 360 Capital Group from the Proposed Acquisition of 28.8% compared with consideration available under First Proposal

The benefits to 360 Capital in selling its 28.8% as contemplated by the heads of agreement in which Members will not share also include that it will receive cash in respect of its entire holding at an agreed price of \$2.25. This is in contrast to what 360 Capital would have received in the First Proposal where it would receive \$2.25 cash for 19.9% of Units, but the consideration in respect of any disposal of its remaining 8.8% would be uncertain.

For example, if 360 Capital Group received the consideration in the First Proposal, it would have received \$0.55 cash and 0.78 CMA securities per Unit for that 8.8% holding. The value of cash consideration under the First Proposal in respect of the 8.8% holding would have been \$3,532,696. The value of that scrip consideration would be dependent on the trading price of CMA securities from time to time which may be more or less than an effective \$2.25 price. In contrast, under the Second Proposal, and the Proposed Acquisition, 360 Capital would receive \$14,451,939 in cash for the 8.8% holding in the Office Fund. Although the offer price of \$2.25 per Unit did not change, the total cash component of the consideration that Centuria proposed to offer Members under the Second Proposal (which had a greater scrip and lower cash consideration mix) was \$12,457,558 less than that under the First Proposal.

To the extent 360 Capital Group receives cash in lieu of any CMA securities which Members may receive under a CMA/TOF merger, the receipt of cash may constitute a benefit to 360 Capital Group which is not received by other Members. The amount of CMA securities relative to cash offered under any future merger proposal may be more or less than that referred to in the scenarios above.

If 360 Capital Group sought to sell CMA securities it had received under the First Proposal (depending on the amount it wished to sell and the liquidity of CMA stock) it may have a negative impact on the trading price of CMA securities and hence the price 360 Capital Group would receive.

Similarly where the Share Sale Agreement proceeded on the basis of a 19.9% sale to Centuria only, if 360 Capital Group sought to sell the balance of the Units on the market, the price it received would be dependent on the trading price of Units from time to time. In addition, if 360 Capital Group sought to sell those Units (depending on the amount it wished to sell and the liquidity of Units) it may have a negative impact on the trading price of Units and hence the price 360 Capital Group would receive.

360 Capital wishes to provide this additional disclosure to Members as you may consider the above benefit to Centuria Group and 360 Capital Group to be reasons to vote against the resolution.

Potential conflict associated with CMA and the Office Fund having responsible entities which are related

There is also the potential for conflicts to arise as the result of CMA and the Office Fund having responsible entities which are related, in circumstances where CMA intends to seek a develop merger proposal in the near term. As referred to in section 4.3.2 of the Explanatory Memorandum, CPFL will put in place appropriate corporate governance arrangements to ensure that the interests of the Members and CMA Stapled Securityholders are independently considered and promoted in relation to any merger proposal. The responsible entities of CMA and the Office Fund must respectively act in the best interests of the CMA Stapled Securityholders and the Members. Should any merger proposal eventuate, Members will be provided with all relevant information at that time.

If the Proposed Acquisition does not proceed, Centuria's acquisition of share in 360 CIML will not proceed. 360 CIML would remain as responsible entity of the Office Fund and would be in a position to negotiate any subsequent whole of fund merger proposal should a subsequent proposal arise.

Independent Expert

Lonergan Edwards has considered these additional disclosures of which it was both aware and had regard to in reaching its option and has confirmed that it does not require any amendments to its independent expert report which remains valid.