360 Capital

360 Capital Mortgage REIT (ASX:TCF)

(Formerly 360 Capital Enhanced Income Fund)

FY23 Results Presentation

7 August 2023

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1. Snapshot and key highlights

360 Capital Mortgage REIT (ASX:TCF) – value proposition

"360 Capital Mortgage REIT is an ASX-listed mortgage REIT which invests in a range of credit opportunities secured by Australian real estate assets"

7.5%
Distribution yield in FY23 (based on 39.0cpu distribution and ASX Security price on 30 June 2023[1])

(10.8%)
Trading price discount to NTA per unit (based on ASX security price on 4 August 2023 vs NTA of $5.94 per unit)

41
Portfolio of individual mortgages as at 7 August 2023

100%
All loans are secured via registered first mortgages over completed Sydney residential dwellings

Nil
Current exposure to construction and development financing

Aligned Sponsor
360 Capital Group largest securityholder with 16.4% of TCFs securities as long-term co-investment

41.8%
Increase in distributions since 360 Capital taking over TCF in 2020.

7.9%
Forecast distribution yield for FY24 (based on 42.0cpu forecast distribution and ASX security price on 4 August 2023)

1. Based on the 30 June 2023 closing price of $5.21 per TCF Unit

FY23 operational highlights

	FY23 highlights	
FY23 earnings up 7.7% on FY22, with distributions up 8.3% on FY22	**39.0cpu** Earnings	**39.0cpu** Distributions
Total of $34.8m was lent in FY23, and a further $10.7m post period, with new loans secured by registered, first ranking mortgages, being general security agreements and guarantees. Average loan term 15 months.	**41 first mortgages** 100% of mortgages to completed Sydney residential dwellings at average LVR of 69.6% - diversified portfolio of underlying apartment / house types	
Preservation of capital with NTA maintained at FY22 level	**$5.94 NTA per unit**	
Transitioned from cashflow lending to corporates to real estate lending to completed projects in strong Sydney affordable residential market	**No construction or development loans** All mortgages are first mortgages registered on titles	

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2. Current investment focus

Opportunity and strategy

- Australian Deposit-taking Institutions (banks) had A$432bn[1] of commercial real estate facilities as of March 2023
- Traditional lenders' exposure to Commercial Real Estate Debt (CRED) has declined since the GFC and Basel III
- Australian non-bank market potentially up to 20% of overall CRED market (up to A$80 billion market)
- Higher cash rate and reduced liquidity is leading to higher returns for CRED investors
- Current supply chain disruptions, TCF is currently focused on financing built-form assets, no construction or land banking exposures

Residential

The opportunity to provide stretched senior first mortgage financing to completed residential projects in Australian capital cities

- Population growth and housing shortage drive demand for residential property.
- Limited new supply due to rising construction and interest costs, inability to secure pre-sales.
- Focus on financing completed apartments, townhouses, and houses with conservative LTV ratios.
- Typical tenor: 12-24 months, self-liquidating through sales.

Commercial

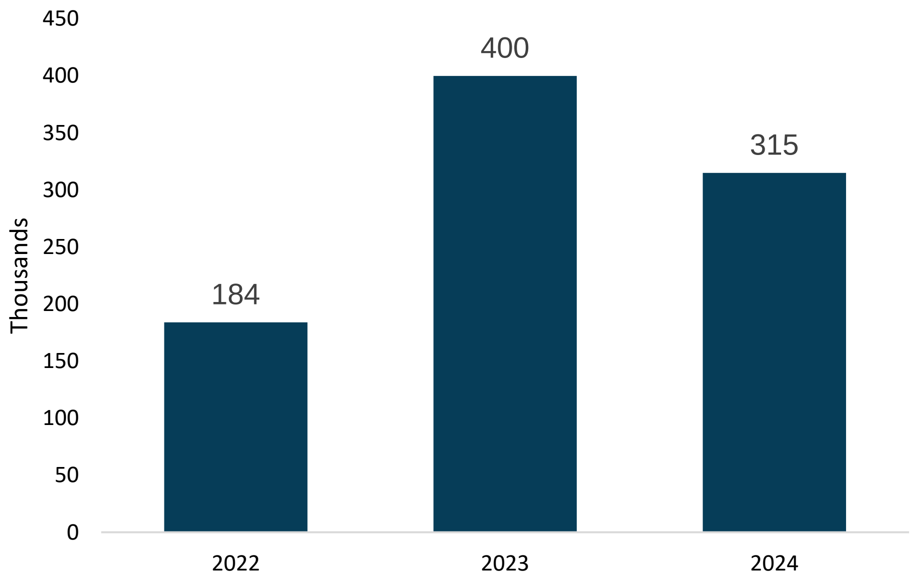
The opportunity to provide stretched senior and mezzanine finance to, income producing assets in capital cities

- Rising interest rates impact ICRs and capitalisation rates, leading to declining values and potential LVR/ICR breaches.
- Bridging loans or assets where landlords need to improve environmental credentials, amenity, and incentives for tenants.
- Typical tenor: 12-36 months, exit through asset sale or refinancing after market stabilisation.
- Provides a solution to owners in breach of LVR and ICR covenants needing to source new funds to remedy these breaches without having to provide more equity
- Funding will be used to assist owners to refurbish and reposition assets to enable a refinance and exit into a stronger market

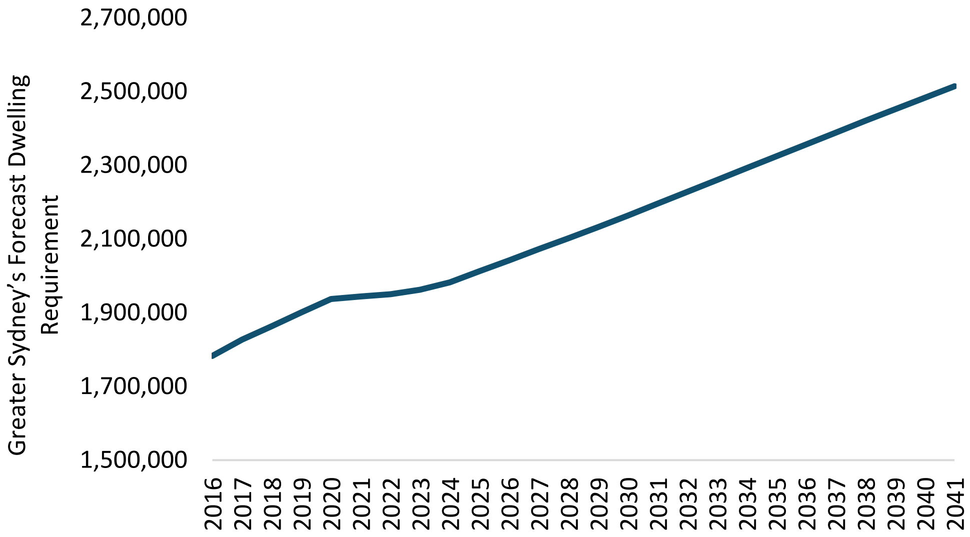
1. Source: https://www.apra.gov.au/news-and-publications/apra-releases-quarterly-authorised-deposit-taking-institution-statistics-15 - Commercial Property Limits

Residential – net overseas migration driving population growth

Australian Net Overseas Migration Forecasts[1,2]



Based on Population Growth[3]



Australia's migrant population is expected to have grown by more than 700,000 between the 2022 and 2024 financial years.

- Return of students and working holiday-makers
- Australia is expected to catch up to its pre-pandemic levels by 2029-30
- Net Overseas Migration (NOM) is expected to be 400,000 in 2022-23 and 315,000 in 2023-24[1,2]

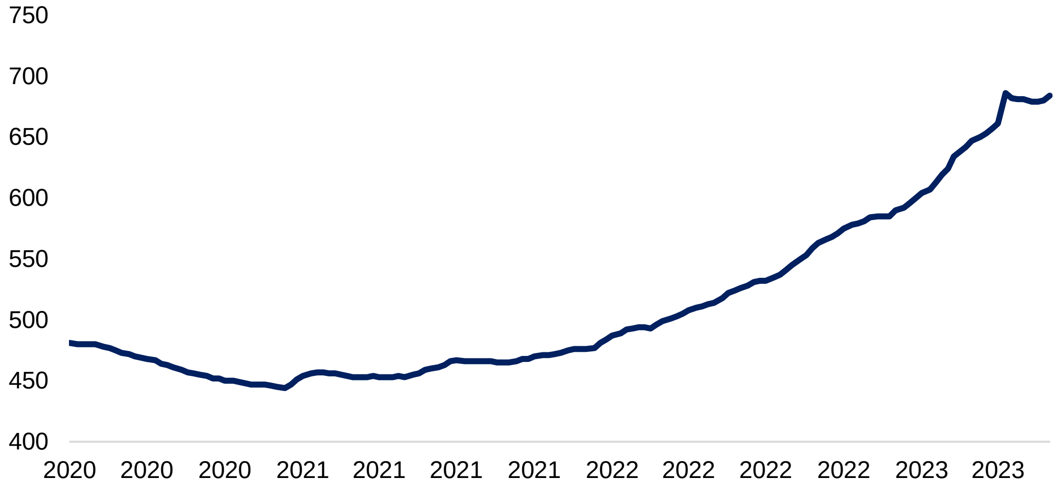
Australia is heading towards a severe housing crisis, with a projected shortage of 106,000 homes by 2027

- Rising interest rates, increased construction costs and NSW's onerous planning regime continue to constrain new supply
- Sydney requires 29,000 new dwellings every year for the next 25-years to keep up with population growth[3]

1. Source: https://www.abs.gov.au/statistics/people/population/overseas-migration/latest-release
2. Budget Paper No. 1 – 2023-24 Pg. 58, Table 2.2 https://budget.gov.au/content/bp1/download/bp1_2023-24.pdf
3. Source: https://www.planning.nsw.gov.au/Research-and-Demography/Population-Projections/Explore-the-data

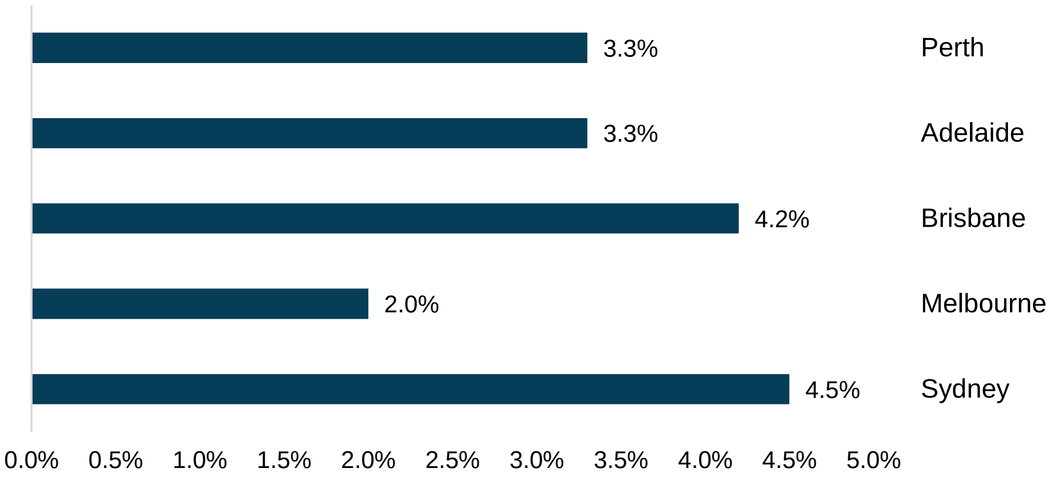
Residential – housing shortage, rising rents, stabilising housing market

Median Sydney Two-bedroom Apartment Rental[1]



- A shortage of rental accommodation and a resumption in immigration has resulted in a dramatic increase in residential rentals
- Median Sydney two-bedroom apartment rents are were $689 per week at the end of June, equating to a 44.6% or 14.5% pa. increase since June 2020
- Rental growth is expected to exceed inflation over the next five-years

Capital City Housing Price Changes Qtr on Qtr[2]



- Over the past quarter, dwelling price growth has turned positive across all capital cities with Sydney posting a 4.5% qtr on qtr gain
- Whilst serviceability remains constrained, pent up demand from population growth, rising rents and a housing shortage appears to have stalled price falls with most capital cities posting positive gains

1. Source: SQM Research Weekly Rents https://sqmresearch.com.au/weekly-rents.php?region=nsw%3a%3aSydney&type=c
2. Source: https://www.corelogic.com.au/our-data/corelogic-indices as at 4 August 2023

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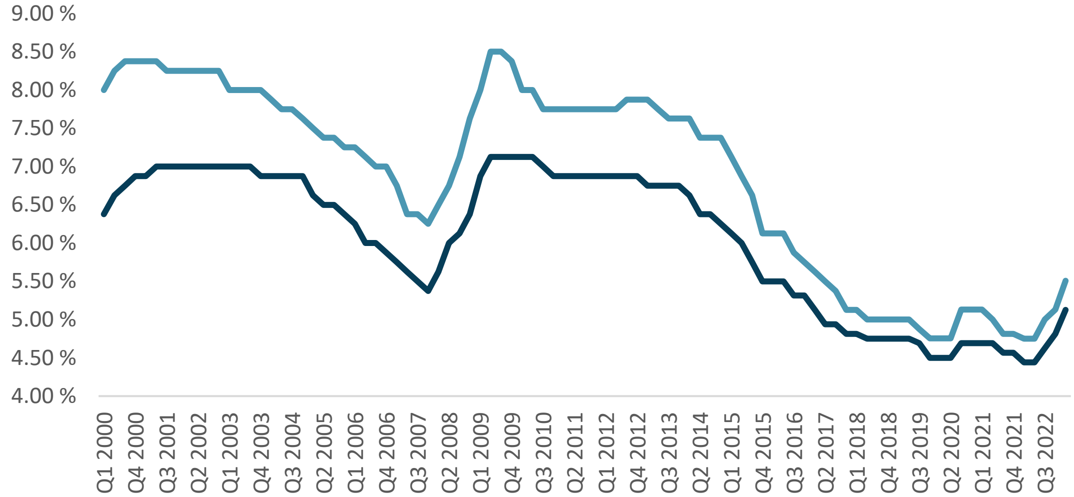
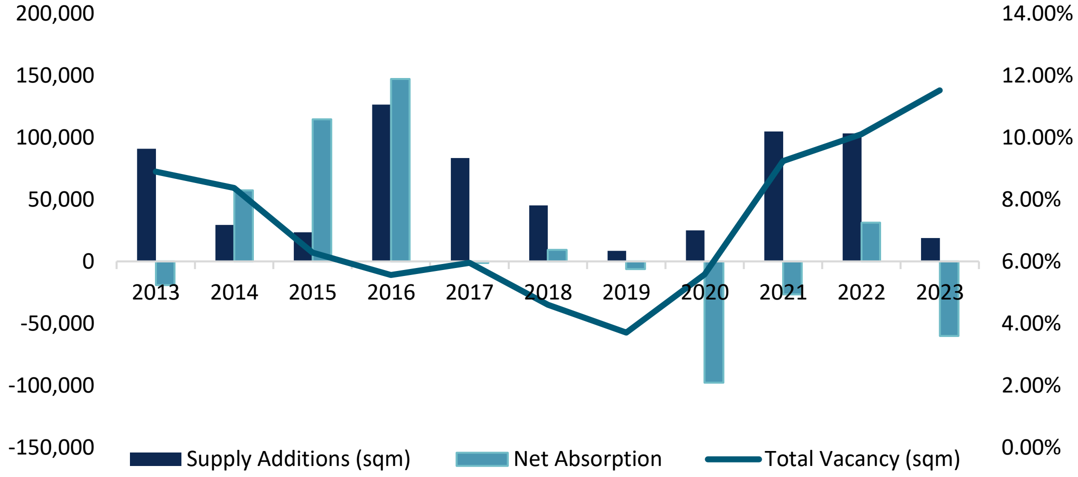
Commercial – yields diverging, flight to quality gaining momentum

Sydney CBD Prime and Secondary Yield Spreads[1]



Sydney CBD Office Market Vacancy[2]



- Commercial assets were aggressively acquired over the three years prior to Covid off the back of low vacancy levels and anticipated strong rental growth.
- Traditional gap between prime and secondary yields was greatly reduced
- Post COVID occupiers undertaken a "Flight to Quality" rental reversion now negative
- B-grade and secondary assets likely to be most severely impacted as tenants move to higher quality accommodation

- PCA advised vacancy rates have jumped from 3.4% pre Covid in Melbourne and 3.7% in Sydney to 15.0% and 11.5% respectively at the end of July-23[2]
- Bifurcation of assets emerging as a key occupier trend
- Premium and A-grade (Prime) assets are expected to be more resilient as occupiers take advantage of market conditions to upgrade premises
- Secondary asset owners will be required to increase environmental credentials / amenity and provide greater incentives to attract and retain tenants

1. Source: JLL REIS
2. Source: PCA Office Market Report – July 2023

3. Loan portfolio

New loan – first mortgage Sydney residual apartment stock

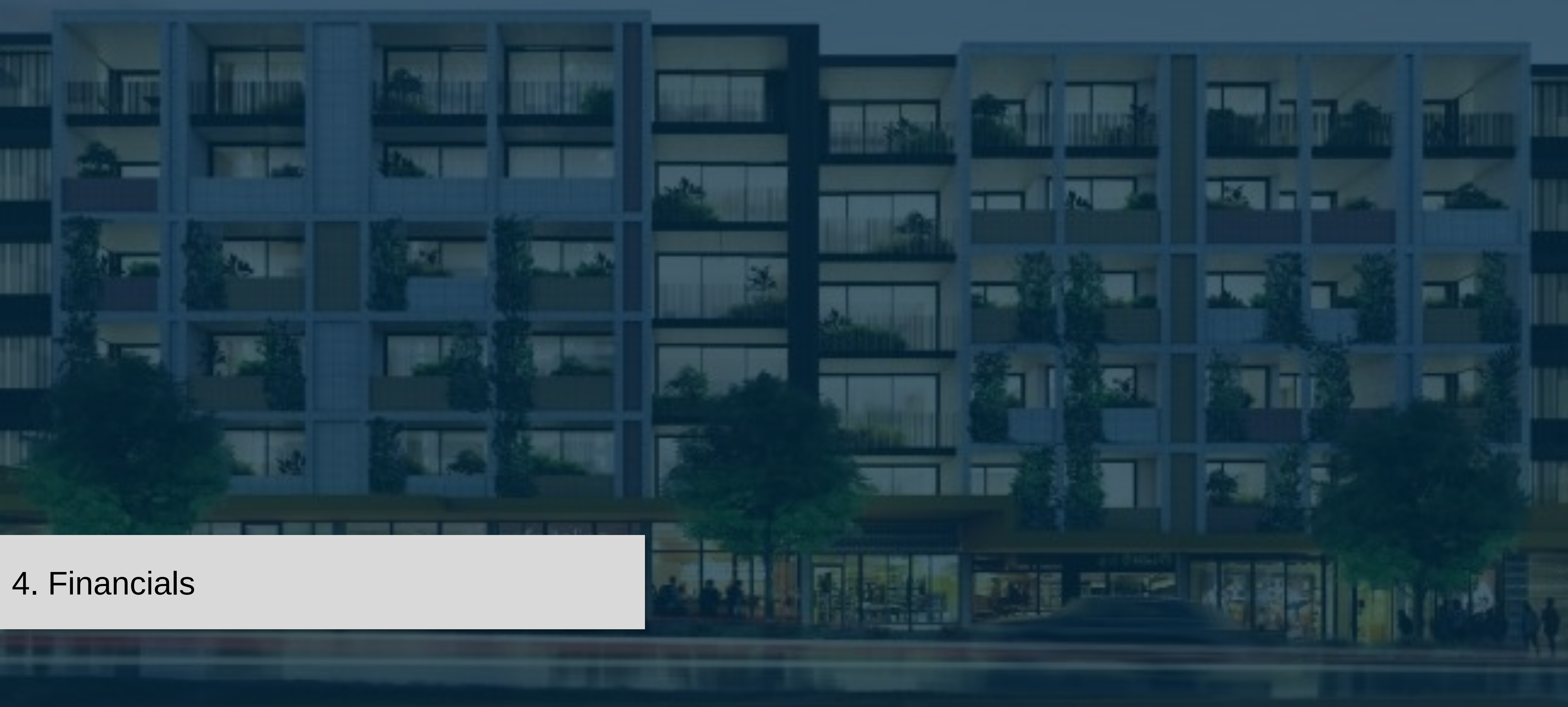
Location:	South-western Sydney
Property:	29[1] completed and strata titled apartments with average debt value of $346,000 each verses Sydney outer ring apartment price of $675,000
Loan type:	First mortgage
Facility amount:	$10.4m
TCF exposure:	100%
Independent valuation:	$14.9m
Interest rate:	5.0% over BBSW (initially 9.35% p.a.) with 9.0% floor paid monthly in advance
Forecast term:	18 months
Security:	-Registered first mortgage -First ranking general security deed -Personal guarantee -Corporate guarantee
Loan to value ratio:	69.1% (as at 7 August 2023)

1. Note: one apartment was sold post period

New loan – first mortgage Sydney residual house stock- post period



Location:	North-western Sydney
Property:	12 completed four and five-bedroom houses on freehold land with average debt value of $894,000
Loan type:	First mortgage
Facility amount:	$10.7m
TCF exposure:	100%
Independent valuation:	$15.3m
Interest rate:	6.5% over BBSW (initially 10.85% p.a.) with 10.0% floor paid monthly in advance
Forecast term:	12 months
Security:	-Registered first mortgage -First ranking general security deed -Personal guarantee -Corporate guarantee
Loan to value ratio:	70.0% (as at 7 August 2023)



4. Financials

FY23 profit & loss highlights

Total revenue

$1.99m

(June 2022: $1.59m)

FY23 revenue increased by 25.1% as a result of higher interest rates received on real estate mortgage investments.

Operating profit

$1.6m

(June 2022: $1.4m)

Operating profit increased by 16.8% year on year, driven by higher returns generated from real estate credit investing.

Distributions per unit

39.0cpu

(June 2022: 36.0cps)

360 Capital has increased distributions by 41.8% p.a. since taking over in September 2020. Year on year increase of 8.3% between FY23 and FY22.

Profit & loss statement	FY23 ($'000)	FY22 ($'000)	Change ($'000)	Change (%)
Real estate mortgage interest income	980	-	980	
Corporate loan interest income	900	1,584	(684)	
Interest on cash balances	106	3	103	
Total revenue	**1,986**	**1,587**	**399**	**25.1%**
Management fees	(211)	(134)	(77)	
Trust expenses	(166)	(75)	(91)	
Total expenses	**(377)**	**(209)**	**(168)**	**80.4%**
Operating profit [1]	**1,609**	**1,378**	**231**	**16.8%**
Weighted average securities on issue	4,131	3,803	328	
Operating eps	**39.0 cpu**	**36.2 cpu**	**2.8 cpu**	**7.7%**
Distribution cps	**39.0 cpu**	**36.0 cpu**	**3.0 cpu**	**8.3%**

[1] Operating profit is a financial measure which is not prescribed by Australian Accounting Standards (AAS) and represents the profit under AAS adjusted for non-operating items. The Responsible Entity considers operating profit to reflect the core earnings of TCF and it is used as a guide to assess TCF's ability to pay distributions to securityholders. The operating profit is currently equivalent to the profit for the year attributable to the unitholders of 360 Capital Mortgage REIT.

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FY23 balance sheet highlights

Loan investments

$10.4m

(June 2022: $24.5m)

TCF settled a $10.4m residual stock loan in south-western Sydney in late June 2023. As at 30 June 2023 the loan was secured against 30 strata titled apartments.

Cash

$14.4m

(June 2022: $0.2m)

Post period, TCF partnered with 360 Capital Private Credit Fund to deploy a further $10.7m of its $14.4m cash balance into a new master residual stock loan investment and is expected to be fully deployed shortly.

NTA per unit

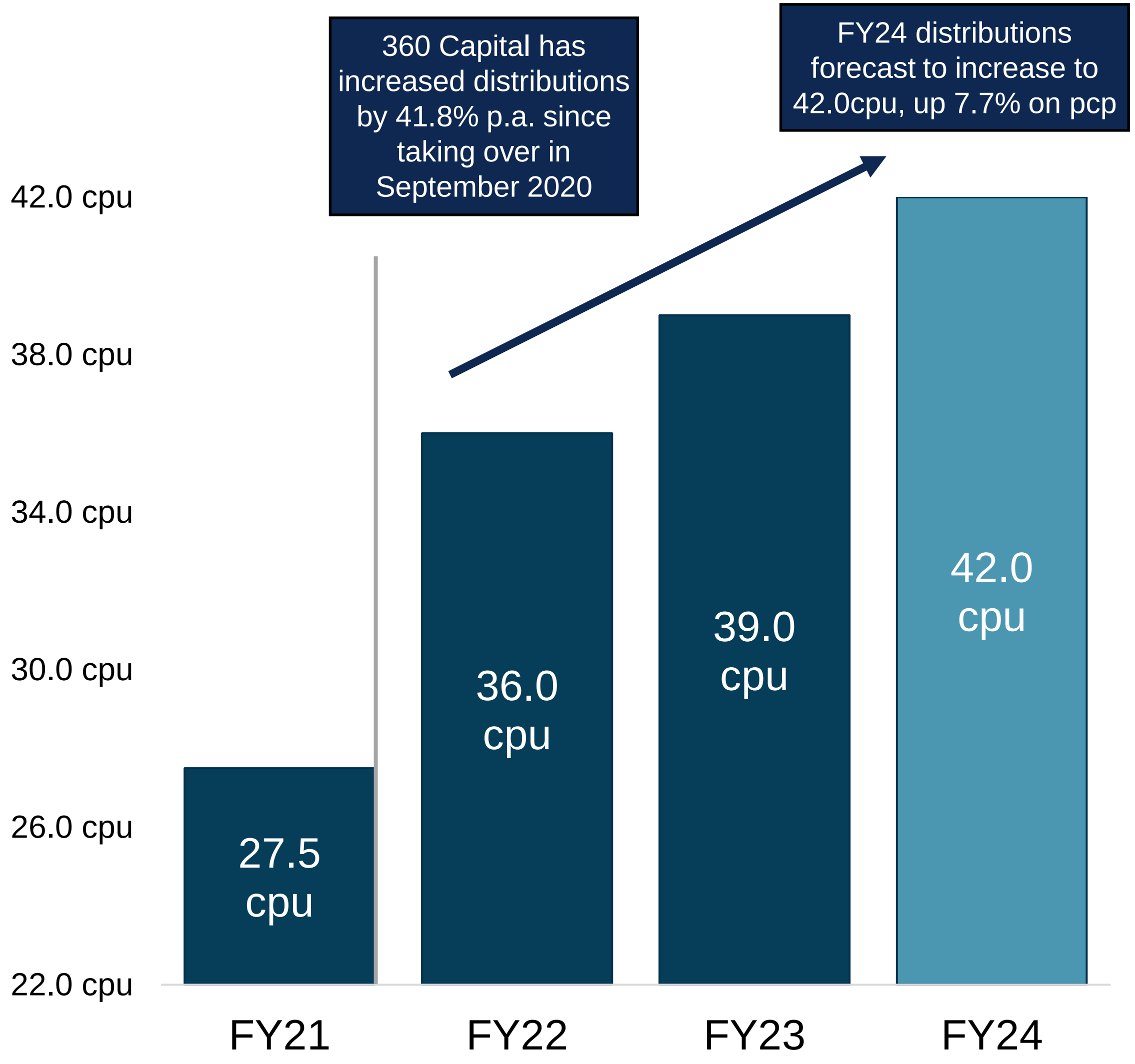
$5.94

(June 2022: $5.94)

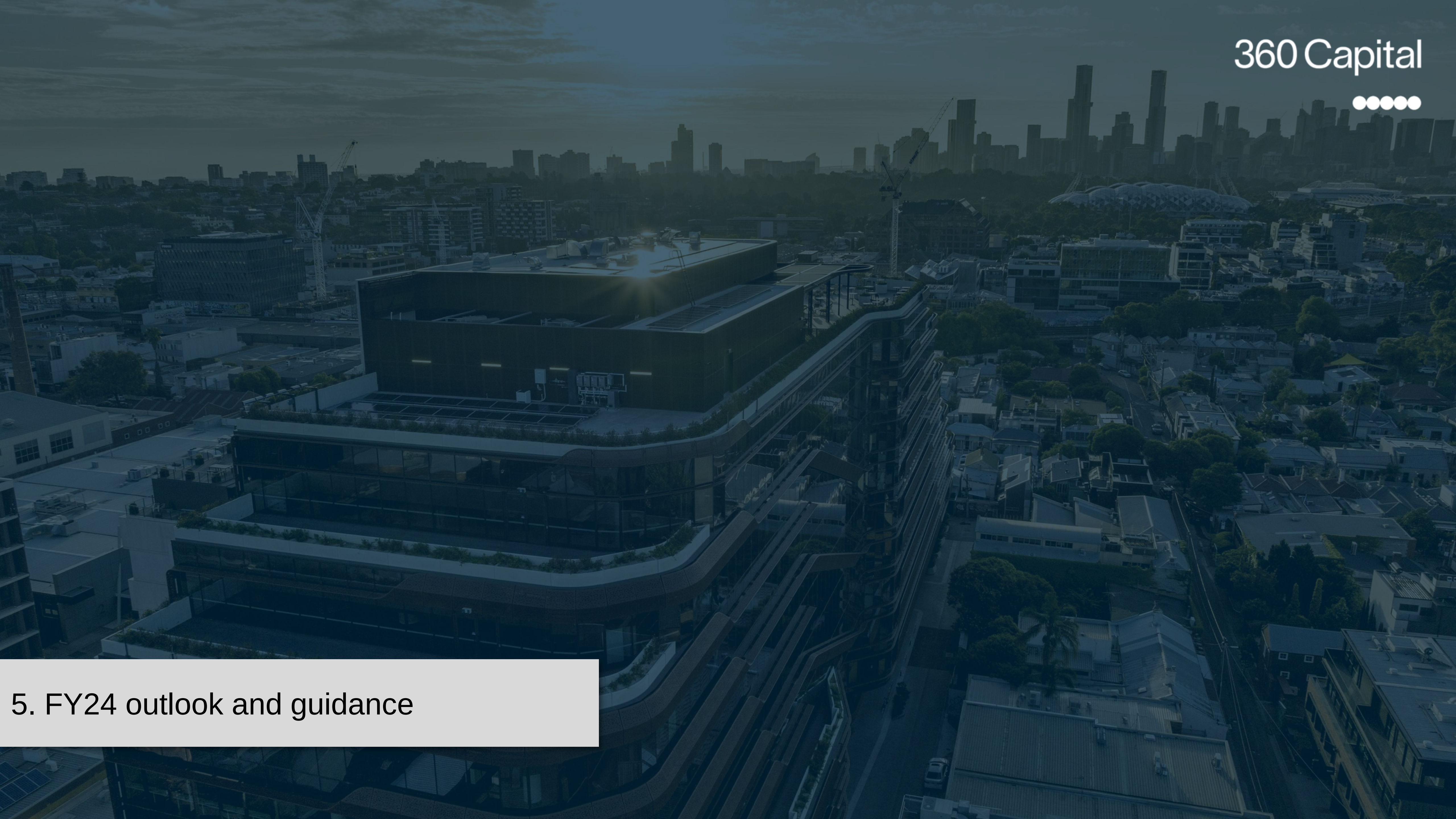
TCF focus on capital preservation with NTA maintained across periods.

Balance sheet	**30-Jun-23 ($’000)**	**30-Jun-22 ($’000)**	**Change ($’000)**	**Change (%)**
Cash and cash equivalents	14,408	171	14,237	8,326%
Trade and other receivables	9	6	3	50%
Loan investments	10,400	24,500	(14,100)	(58)%
Total assets	**24,817**	**24,677**	**140**	**1%**
Trade and other payables	145	24	121	504%
Provision for distributions	145	124	21	17%
Total liabilities	**290**	**148**	**142**	**96%**
Net tangible assets	**24,527**	**24,529**	**(2)**	**-**
Units on issue	4,131	4,131	-	
NTA per security	**$5.94**	**$5.94**	**-**	**-**

Eliminating cash drag increasing distributions and improving diversification



- As loans get repaid, TCF has times of high cash levels (such as 30 June 2023) before it makes a new investment in a new loan
- FY23 TCF was only 86% invested creating cash drag impacting returns
- TCF is now partnering with 360 Capital Private Credit Fund (PCF) in loan investments ensuring TCF remains near fully invested:
  - TCF can sell down up to 90% (maintaining 10% co-investment)
  - Recycling its capital without sitting on cash – maximising deployed capital
  - Increase diversification across multiple loans by building diversified portfolio
  - No extra fees to TCF investors
- As new loans investments approved, TCF recycles capital back out of other loans via PCF and invests into new loans creating diversification
- PCF is continually raising to ensure it can fund sell down



5. FY24 outlook and guidance

FY24 outlook and guidance

Growth	1	Growth objective of building and delivering a diversified loan portfolio
		Measured growth profile with strong pipeline of executable investment opportunities when public capital markets normalise
Diversification	2	Target of 5-15 loan investments, further diversified by geography asset class and loan type
		Diversification through co-investing with the unlisted 360 Capital Private Credit Fund and deal by deal loan syndication
Liquidity	3	Increase market capitalisation and diversity of investor base
		Growth and diversification over time will improve liquidity
Forecast FY24 Distribution	4	Distribution guidance forecast to be 42 cpu, up 7.7% on FY23 distribution (7.9% on TCF trading price[1])
		Current loans written with rate floor, low cash drag may provide further upside

1. Based on TCF's closing price on the ASX on 4 August 2023 of $5.30 per unit

Disclaimer

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Identifying
strategic investment
opportunities

Appendix A. Manager’s Track Record

Appendix A: manager’s track record





Progressively drawn senior	Cash advance senior	Cash advance senior	Mezzanine	Progressively drawn senior
Development of 94 apartments in Western Sydney	Construction of 30 residential apartments in Western Sydney.	Medium density complex comprising 22 luxury apartments in New Farm, QLD	Construction of pre-leased hotel in Perth, WA	Development of 28 room residential accommodation facility in Coogee NSW
Net Realisation[1]: $46.7m Facility Amount[2]: $31.8m (68% LVR / 79% LTC)	Net Realisation[1]: $16.8m Facility Amount[2]: $ 8.2m (48.9% LVR)	Net Realisation[1]: $8.0m Facility Amount[2]: $4.7m (58% LVR)	Net Realisation[1]: $76.0m Facility Amount[2]: $7.6m (70% LVR / 78% LTC)	Net Realisation[1]: $11.4m Facility Amount[2]: $8.0m (70% LVR / 80% LTC)
Term: 24 months	Term: 10 months	Term: 12 months	Term: 24 months	Term: 20 months
IRR: 15.5% p.a.	IRR: 13.5% p.a.	IRR: 10.5% p.a.	IRR: 16.8% p.a.	IRR: 15.1% p.a.

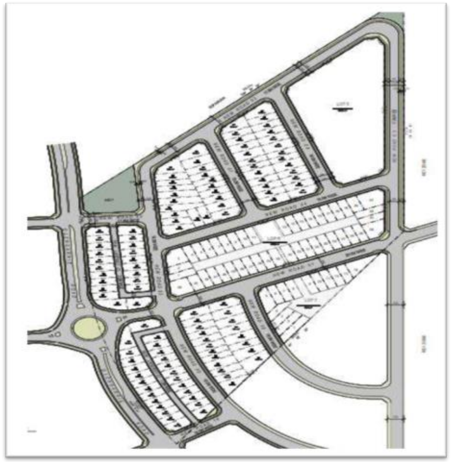
1. Net Realisation based on “As If Complete” valuation (net of GST & selling costs)
2. Facility amount including capitalised interest and fees

Appendix A: manager's track record

				
Progressively drawn senior	**Progressively drawn senior**	**Cash advance senior**	**Cash advance senior**	**Cash advance senior**
Development of 162 room 4-star hotel in Melbourne CBD	Development of 27 townhouses in Greenway, ACT	Bridging facility for portfolio of seven (7) childcare assets leased to Affinity Education	Medium density complex comprising 109 waterfront, residential apartments in Port Coogee, W.A.	Medium density complex comprising 16 apartments and two (2) townhouses in Bulimba, QLD
Net Realisation[1]: $53.0m Facility Amount[2]: $36.3m (68% LVR / 79% LTC)	Net Realisation[1]: $13.5m Facility Amount[2]: $ 9.7m (72% LVR)	Current Valuation: $35.6m Facility Amount[2]: $23.1m (65% LVR)	Net Realisation[1]: $13.2m Facility Amount[2]: $ 8.0m (61% LVR)	Net Realisation[1]: $33.8m Facility Amount[2]: $23.7m (70% LVR)
Term: 12.5 months	Term: 6 months	Term: 12 months	Term: 18 months	Term: 18 months
IRR: 16.8% p.a.	IRR: 58% p.a.	IRR: 11.5% p.a.	IRR: 13.3% p.a.	IRR: 9.25% p.a.

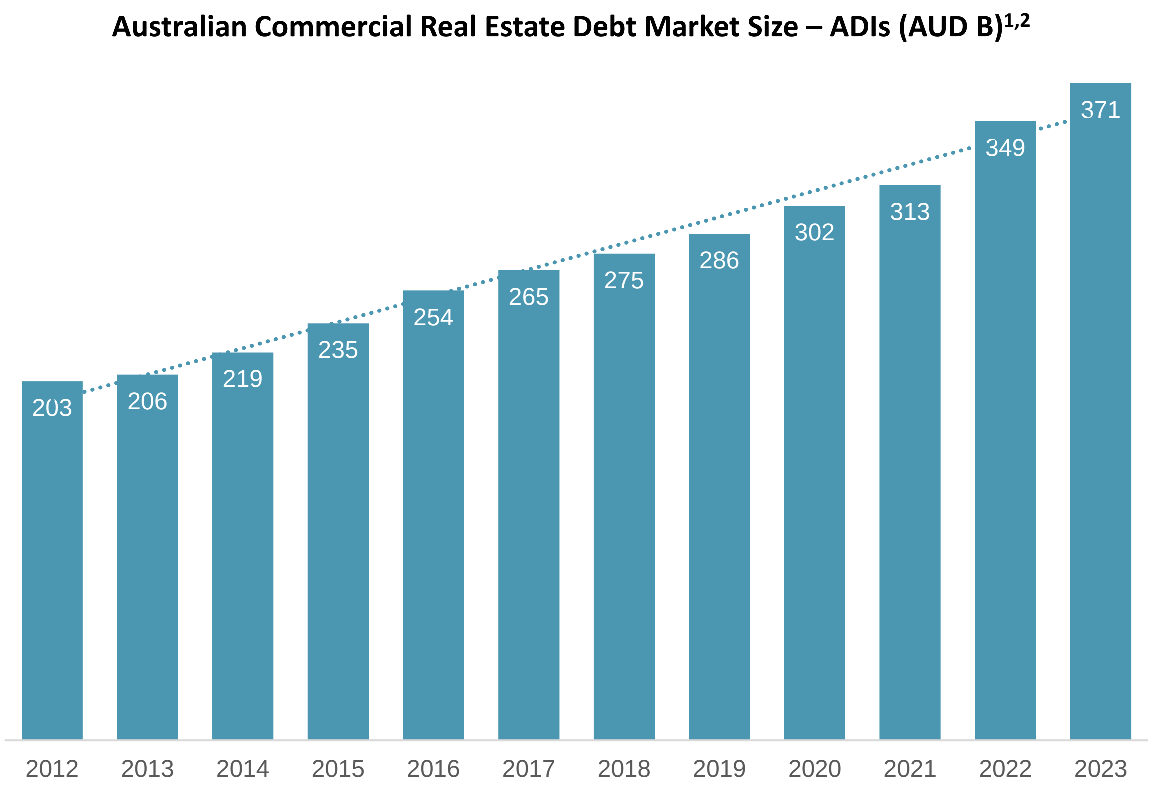
1. Net Realisation based on "As If Complete" valuation (net of GST & selling costs)
2. Facility amount including capitalised interest and fees

Appendix A: manager’s track record

		
Cash advance senior	**Cash advance senior**	**Cash advance senior**
Residential development land in North West Sydney	30 completed apartments in South-western Sydney	12 completed four- and five-bedroom freehold houses
Valuation: $65.0m Facility Amount: $24.4m (38% LVR)	Valuation: $14.9m Facility Amount: $10.4m (70% LVR)	Valuation: $15.3m Facility Amount: $10.7m (70% LVR)
Term: 18 months	Term: 18 months	Term: 12 months
IRR: 9.0% p.a.	IRR: TBD	IRR: TBD

Appendix B. Australian Commercial Real Estate Debt Market

Appendix B: Australian private real estate credit market

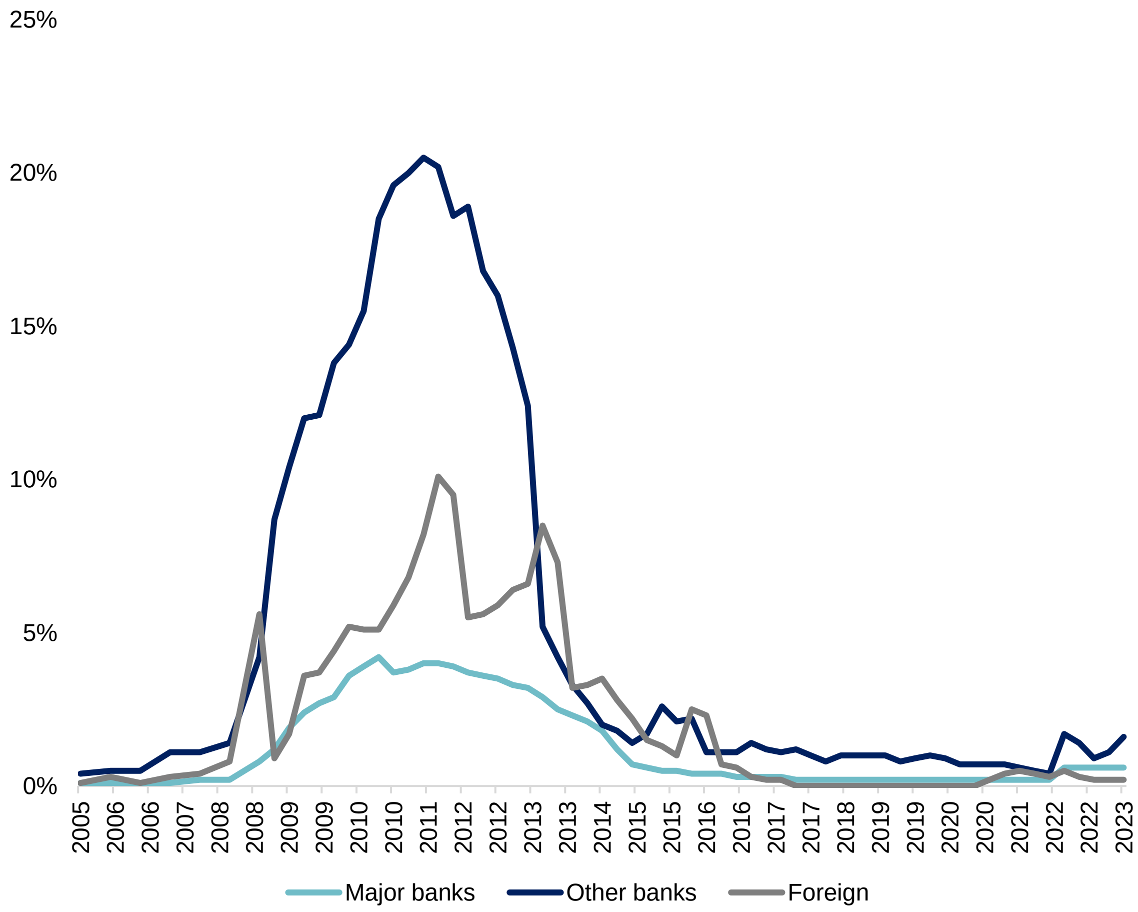


- Since the GFC, traditional lenders exposure to CRE debt as a percentage of corporate loans has declined from a peak of approximately 48% to now be around 37%, supporting the permanent shift in real estate towards private credit.
- Once focused on residential development, non-bank product offerings have now expanded across asset types and the asset lifecycles
- It is estimated that non-banks accounted for roughly 20% of the market share in 2017.
- ***Authorized deposit-taking institutions (ADI) total CRE lending exposures are A$371bn[1]***
- ***Assuming 20%[2] and based on 2022's market size, this represents ~A$80b – a significant addressable market***

1. Source: APRA Quarterly authorised deposit-taking institution statistics – March 2023 https://www.apra.gov.au/quarterly-authorised-deposit-taking-institution-statistics
2. Goldman Sachs roundtable research May 2017

Appendix B: Australian private real estate credit market

Australian CRE Debt Impairment Ratio by Type of Lender[1]



- The GFC is the best historical example of distressed real estate despite Australia not technically experiencing a recession
- APRA data indicates impaired assets as a percentage of total exposures peaked in 2010-11. Overall, Australian CRE debt impairments fared better than overseas markets during the GFC; however, foreign banks and smaller banks suffered CRE impairments of up to 20%
- Development projects generally perform the worst in downturns vs established assets
- Bifurcation of asset quality, in particular office assets will likely be a theme as this cycle plays out, potentially impacting the ability to finance secondary assets
- ***Many non-bank loans have been within the residential construction sector, it is likely some level of distress will occur across this segment due to time delays and cost overruns***
- ***Secondary assets with shorter Weighted Average Lease Expiries (WALEs) and lower occupancy will likely require alternative finance as banks reduce their exposure and encourage refinancing***

1. Source: APRA Quarterly authorised deposit-taking institution statistics – March 2023 https://www.apra.gov.au/quarterly-authorised-deposit-taking-institution-statistics

Appendix B: Australian private real estate credit market