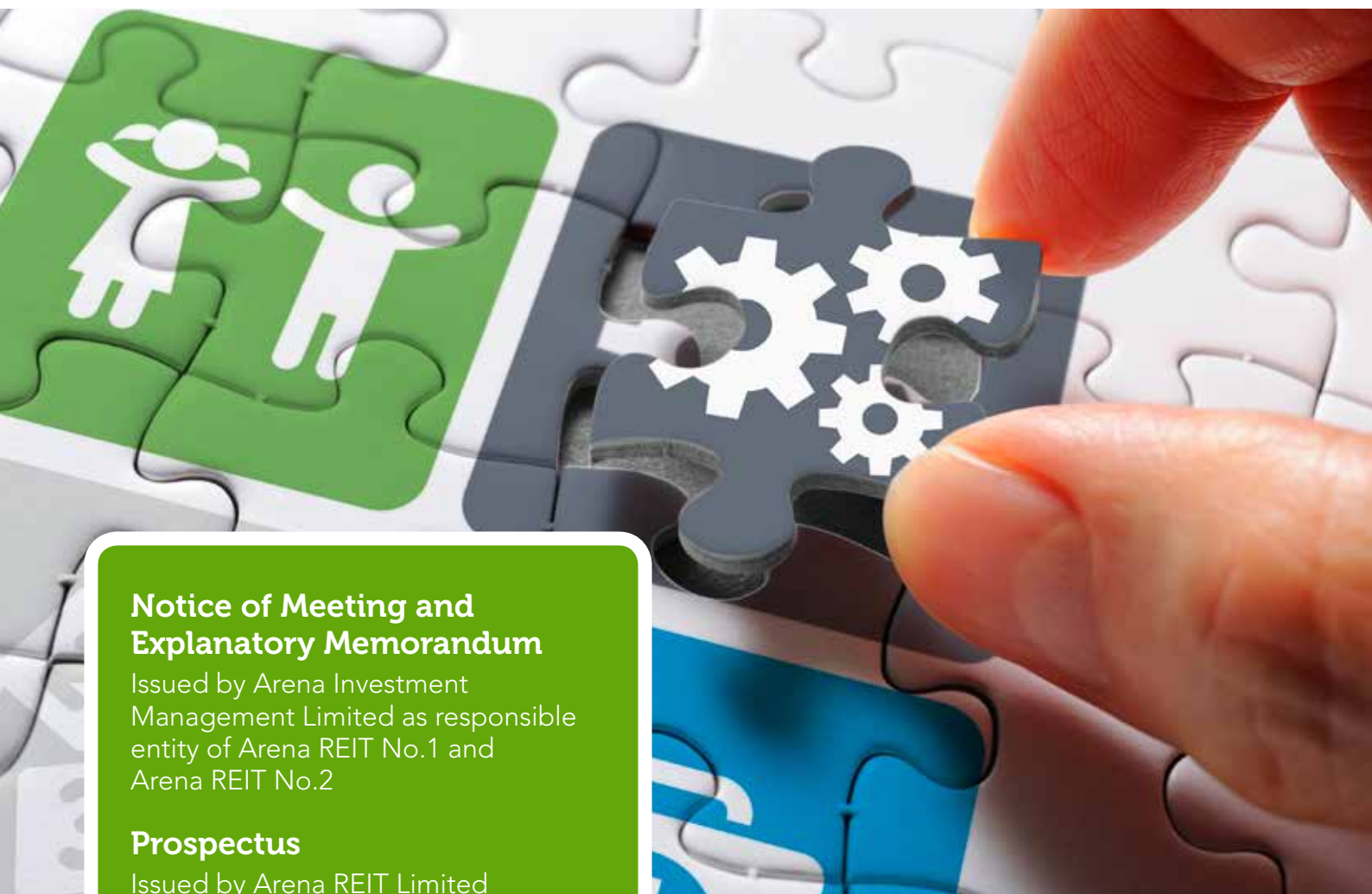


# Arena REIT

## Meeting Booklet

### Internalisation Proposal:

Creating enhanced alignment and competitive advantages



#### **Notice of Meeting and Explanatory Memorandum**

Issued by Arena Investment Management Limited as responsible entity of Arena REIT No.1 and Arena REIT No.2

#### **Prospectus**

Issued by Arena REIT Limited

#### **Meeting date:**

**Friday 5 December 2014**

11.00am (AEDT)

Sofitel Hotel, West Tower Suite  
Level 35, 25 Collins Street  
Melbourne

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THE AIML INDEPENDENT DIRECTORS  
UNANIMOUSLY RECOMMEND INVESTORS  
VOTE IN FAVOUR OF ALL RESOLUTIONS  
IN THE ABSENCE OF A SUPERIOR  
ALTERNATIVE

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This is an important document and requires your immediate attention.

Please read this document in full and consult your professional adviser if you have any queries.



# About this Document

This Document comprises a **Notice of Meeting** and **Explanatory Memorandum** and **Prospectus**, which contains detailed information about the Internalisation Proposal, the impacts it will have on Investors and the Resolutions to be voted on.

## What should you do?

The Internalisation Proposal requires the approval of Investors. **You should:**



## 1. Read

Read this **Notice of Meeting** and **Explanatory Memorandum** and the accompanying **Prospectus**.

Investors should read the Prospectus carefully before making any decision about how to vote. All New ARL Shares issued to implement the Internalisation Proposal shall be taken to be received by Investors pursuant to, and on the basis they have taken into account the contents of, the Prospectus.



## 2. Vote

Investors wishing to vote on the Resolutions must **either** attend the Meeting **or** return their proxy form by 11:00am AEDT on **Wednesday, 3 December 2014**.

## Further information

If you have further enquiries please contact the toll free Information Line on 1800 008 494 between 8:30 am and 5:00 pm (AEDT) Monday to Friday (excluding public holidays).

If you have queries or uncertainties relating to any matter you should consult your stockbroker, accountant or other professional adviser.

Any material amendment to the Internalisation Proposal will be announced to the market through ASX and posted on the AIML website at [www.arenainvest.com.au](http://www.arenainvest.com.au).

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## Notice of Meeting and Explanatory Memorandum

### Internalisation Proposal: Creating Enhanced Alignment and Competitive Advantages

THIS IS AN IMPORTANT DOCUMENT AND  
REQUIRES YOUR IMMEDIATE ATTENTION.  
PLEASE READ THIS DOCUMENT IN FULL  
AND CONSULT YOUR PROFESSIONAL  
ADVISER IF YOU HAVE ANY QUERIES.

**Date of meeting:**

Friday, 5 December 2014

**Time of meeting:**

11:00am AEDT

**Venue:**

West Tower Suite, Level 35,  
Sofitel Hotel, 25 Collins Street,  
Melbourne Victoria 3000

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THE AIML INDEPENDENT DIRECTORS  
UNANIMOUSLY RECOMMEND INVESTORS  
VOTE IN FAVOUR OF ALL RESOLUTIONS  
IN THE ABSENCE OF A SUPERIOR  
ALTERNATIVE

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The Independent Expert has concluded  
that the Internalisation Proposal is “fair and  
reasonable and in the best interests” of  
Investors.

You should read this Notice of Meeting and  
Explanatory Memorandum in full together with  
the Prospectus before deciding whether or not  
to vote in favour of the Resolutions.

## Important Notices

### What is this Document?

On 4 November 2014, the Board of Arena Investment Management Limited ACN 077 235 879 (**AIML**) announced a proposal for the internalisation of Arena REIT's corporate governance and management function to create an internally-managed stapled ASX listed A-REIT (**New ARF**) and to assume the management of two unlisted wholesale syndicates. It is proposed that New ARF will be listed on ASX under the existing name "Arena REIT" and ASX code 'ARF'.

This Document is a Notice of Meeting and Explanatory Memorandum dated 4 November 2014 and is issued by AIML in its capacity as responsible entity of Arena REIT No. 1 (ARSN 106 891 641) and Arena REIT No. 2 (ARSN 101 067 878) (each a **Trust** and collectively **Arena REIT**).

This Document provides information for Investors to consider and vote on the resolutions to approve the Internalisation Proposal (the **Internalisation Resolutions**) at the Meeting to be held at 11:00 am AEDT on Friday, 5 December 2014 at West Tower Suite, Level 35, Sofitel Hotel, 25 Collins Street, Melbourne Victoria 3000, Melbourne, Victoria. This Document also contains information in relation to Resolution 3 which seeks the approval of the grant of Performance Rights and Recognition Rights to Bryce Mitchelson, the Managing Director of ARL if the Internalisation Proposal is implemented. The meetings of ARF1 and ARF2 investors to consider and vote on the Resolutions will be held concurrently as the Meeting.

This Document should be read with the Prospectus dated 4 November 2014 relating to Arena REIT Limited (**Prospectus**) that accompanies this Document. The Prospectus provides a detailed overview of Arena REIT Limited (**ARL**) if the Internalisation Proposal is approved and implemented.

Investors as at the Voting Record Date will have the right to vote on the Resolutions, subject to the voting exclusions set out in the Notice of Meeting in Section 9.

### No investment advice – voting decisions and investment

If the Internalisation Proposal is implemented, an investment in New ARF will be subject to investment and other risks, including loss of income and the principal invested. AIML does not provide any guarantee or assurance as to the performance of Arena REIT, ARL or New ARF or the repayment of capital.

The information contained in this Document and the Prospectus is not personal financial product advice and does not take into account the investment objectives, tax position, financial situation and particular needs of Investors. Accordingly, before voting on the Resolutions you should read this Document, the Prospectus and any supplementary or replacement Prospectus in full. It is recommended that before a decision in relation to the Resolutions is

made Investors should consult their financial or other professional adviser.

### Responsibility statement

AIML takes full responsibility for the contents of this Document, subject to the limitations set out below.

KPMG Corporate Finance has prepared the Independent Expert's Report set out in Section 7. KPMG Corporate Finance takes responsibility for that report. Neither AIML, nor any of its representatives, Directors, officers, employees or advisers assumes any of the Independent Expert's responsibility for the accuracy or completeness of the information contained in the Independent Expert's Report, except to the extent that those parties are responsible for the factual information provided to KPMG Corporate Finance in the preparation of the Independent Expert's Report.

PwC has prepared the taxation information set out in Section 6. PwC takes responsibility for that information. Neither AIML, nor any of its representatives, Directors, officers, employees or advisers assumes any of PwC's responsibility for the accuracy or completeness of the information contained in Section 6, except to the extent that those parties are responsible for the factual information provided to PwC in the preparation of the taxation information contained in Section 6.

### Forward looking statements

This Document contains forward-looking statements in relation to the financial performance and strategy of Arena REIT and New ARF. Those forward-looking statements are made only as at the date of this Document.

Any forward-looking statements involve known and unknown risks, uncertainties, assumptions and other important factors, many of which are beyond the control of AIML concerning future results and events at the date of this Document and are not and cannot be guarantees of future performance. The actual results or outcomes for Arena REIT and/or New ARF may differ materially from the anticipated results, performance or achievements expressed, projected or implied by these forward-looking statements or forecasts. The financial information contained in this Document has been prepared by AIML and has not been externally reviewed.

Subject to any obligations under the Corporations Act or the Listing Rules, AIML and the AIML Board disclaim any obligation or undertaking to disseminate after the date of this Document any update or revisions to any forward-looking statements to reflect any change in expectations in relation to any of those statements or any change in circumstances, events or conditions on which any of those statements are based.

The risk factors and disadvantages of the Internalisation Proposal described in this Document and those described in Section 7 of the Prospectus or other factors (which could be unknown, unpredictable or result from a variation in the assumptions underlying any forecasts), could cause

actual results to differ materially from those expressed, implied or projected in any forward-looking statements or forecasts.

None of AIML, or any of its representatives, Directors, officers, employees or advisers (including any employee of CISL or any person named in this Document or any person involved in the preparation of it) gives any representation, assurance or guarantee (express or implied) that the results, performance or achievements expressed or implied by the forward-looking statements in this Document will actually occur.

### Electronic version of this Document

This Document and the Prospectus may also be viewed online at [www.arenainvest.com.au](http://www.arenainvest.com.au). If you access the electronic version of this Document or the Prospectus you should ensure that you download both documents in their entirety.

Paper copies of this Document and the Prospectus can be obtained free of charge by contacting AIML.

### Notice to Foreign Investors

This Document and the Prospectus do not in any way constitute an offer of securities or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

If the Internalisation Proposal is implemented, Foreign Investors (being those investors who are not an Australian or New Zealand resident) will not receive New Stapled Securities (due to legal restrictions), but will instead have the New Stapled Securities to which they would otherwise be entitled sold through the Sale Facility in such manner and at such price and on such terms as the Sale Nominee determines in good faith (and at the risk of Foreign Investors). The New Stapled Securities to be sold by the Sale Nominee will be sold on market and there can be no assurance as to the price at which New Stapled Securities will be sold. Sale proceeds will be paid by electronic funds transfer (if details are held by the Registry) or by cheque.

Participation in the Sale Facility is not available to Investors (other than Foreign Investors).

### Read the Prospectus

This Document contains information about the Internalisation Proposal, which if approved and implemented, will result in Investors holding New Stapled Securities. A Prospectus in relation to New ARL Shares accompanies this Document and is also available at the AIML website at [www.arenainvest.com.au](http://www.arenainvest.com.au). You should also consider the Prospectus in deciding whether to vote in favour of the Internalisation Proposal.

### Glossary

Unless otherwise defined in this Document, terms and abbreviations used in this Document have defined meanings which are set out in the Glossary in Section 10.

This Document is dated 4 November 2014.



# 01: Key dates

Prospectus lodgement date	Tuesday, 4 November 2014
Despatch of Notice of Meeting and Explanatory Memorandum and Prospectus to Investors	Thursday, 13 November 2014
Voting Record Date	11:00am Wednesday, 3 December 2014
Last time and date by which Proxy Forms must be received	
Meeting of Investors to approve the Resolutions	11:00am Friday, 5 December 2014

**If the Internalisation Proposal is approved by Investors and all other conditions in connection with the Internalisation Proposal are fulfilled:**

Last day of ASX trading in Existing Stapled Securities	Monday, 8 December 2014
Admission of New ARF to official list of ASX	Tuesday, 9 December 2014
New Stapled Securities commence trading on ASX on a deferred settlement basis	
Stapling Record Date	Thursday, 11 December 2014
Last day for registration of transfers of Existing Stapled Securities	
Stapling Commencement Date	
New ARL Shares received by Investors	
Despatch of holding statements of New Stapled Securities	
Implementation Date (effective date of management internalisation)	Friday, 12 December 2014
Change of responsible entity (from AIML to ARML)	
Deferred settlement trading ends	Monday, 15 December 2014
New Stapled Securities commence trading on a normal (T+3) settlement basis	Tuesday, 16 December 2014
Sale Nominee to begin selling New Stapled Securities held by Foreign Investors under Sale Facility	
New Stapled Securities trade ex-distribution	Monday, 22 December 2014
Net proceeds of sale of New Stapled Securities under Sale Facility to be remitted to Registry for payment to Foreign Investors	By Monday, 12 January 2015

The timetable above is indicative only. Unless otherwise specified, all times and dates refer to AEDT. AIML and/or ARL reserves the right to amend any or all of these dates and times subject to the Corporations Act, the Listing Rules and other applicable laws, or to withdraw the Internalisation Proposal, without prior notice. Any amendment to the Internalisation Proposal timetable will be announced to the market through ASX and posted on the website at [www.arenainvest.com.au](http://www.arenainvest.com.au).

The quotation and commencement of trading of the New Stapled Securities is subject to confirmation from ASX.



 Caboolture Medical and Dental Centre, 21-25 Bertha Street, Caboolture QLD

## 02: Chairman's letter



David Ross Chairman

### Dear Investor

On 4 November 2014, Arena Investment Management Limited (**AIML**), the responsible entity for both Arena REIT No. 1 and Arena REIT No. 2 (together **Arena REIT**), announced it had entered into an implementation agreement with Citrus II Investments Pty Ltd (**Citrus II**) (the ultimate owner of AIML) for Arena REIT to internalise its corporate governance and management function and to assume the management of two unlisted wholesale syndicates, being PHC Syndicate and BSH JV (which both own healthcare properties).

The Independent Directors believe the internalisation of management will enhance alignment of management and Investors' interests and better position Arena REIT to create future value for Investors.

### The Internalisation Proposal

The Internalisation Proposal involves AIML being replaced as responsible entity of Arena REIT by Arena REIT Management Limited (**ARML**), a subsidiary of Arena REIT Limited (**ARL**), which will be owned by Investors. This arrangement, where a fund's investors own the responsible entity that manages the fund, is commonly referred to as 'internalisation'.

Internalisation of management is to be effected through the:

1. distribution to Investors of one fully paid ordinary share in Arena REIT Limited (**ARL**) for each existing stapled security in Arena REIT (**Existing Stapled Security**);
2. stapling of each share in ARL to each Existing Stapled Security to form a new stapled security (**New Stapled Security**);
3. acquisition by ARL of Citrus Investment Services Pty Ltd (and its wholly owned subsidiaries, ARML and Arena Property Services Pty Ltd) from Citrus II; and
4. change of the responsible entity of Arena REIT (as well as the manager and trustee of PHC Syndicate and the manager of BSH JV) from AIML to ARML,

(collectively referred to as the **Internalisation Proposal**). After implementation of the Internalisation Proposal, ARL (and its subsidiaries) will provide management services to AIML for its remaining unlisted managed funds for a maximum period to December 2016 (additional resources will be retained by CISL to provide these services) and will also provide property services to Arena REIT, the Syndicates and unlisted funds operated by AIML.

Arena REIT is to pay consideration to Citrus II which implies a purchase price of approximately \$10.7 million for the Arena REIT and wholesale funds management (intangible) rights plus net asset adjustments of approximately \$0.8 million in relation to all other operating assets and liabilities of the management business such as intellectual property, IT systems, office equipment, syndicate receivables and other working capital balances. The consideration will be funded by drawing down Arena REIT's existing debt facility.

### Unanimous support of AIML Independent Directors

The Independent Directors unanimously recommend that you vote in favour of all Resolutions, in the absence of a superior alternative. The Independent Directors consider the potential benefits of the Internalisation Proposal include:

- **Distribution guidance upgrade** – Expected ongoing net management cost savings contributing to ARF distribution guidance for FY15 being upgraded to 10.0 cents per security (up from 9.75 cents per security).<sup>1</sup>
- **Enhanced alignment** – The ARL Board and management will be accountable only to New ARF investors. Going forward, ARL will hold an Annual General Meeting and New ARF investors with sufficient majority may appoint and remove directors in certain circumstances as well as vote on the remuneration structure.
- **Acquisition growth competitive advantage** – The outlook for New ARF earnings growth per security is superior with the elimination of external funds management fees which would otherwise be charged on any increases in asset portfolio valuations, new acquisitions and capital expenditure. New ARF will have operating leverage, meaning that new acquisitions should not require a material increase in internal management cost which should therefore provide greater contributions to earnings growth per security.
- **New investors** – Some investors may prefer investing in internally managed REITs. Implementation of the Internalisation Proposal may therefore drive increases in demand and liquidity of New Stapled Securities but there is no guarantee of this.

1. On a status quo basis assuming no new acquisitions, developments in progress are completed in line with budget assumptions and tenants comply with all their lease obligations. See Section 5 for the basis of preparation and assumptions in relation to the updated distribution guidance.

## 02: Chairman's letter

In considering the Internalisation Proposal, and in forming the view that the Internalisation Proposal is in the best interests of Investors, the Independent Board Committee has had regard to alternative initiatives, and the potential implications of these initiatives for Investors. In particular, the Independent Board Committee has considered the merits and risks of:

- the prospect that Citrus II (as the owner of AIML) may sell the management rights of Arena REIT to another third party external manager; and
- the potential merger of Arena REIT with another party.

Section 4.5 of this Explanatory Memorandum describes in more detail the alternatives considered by the Independent Board Committee (including an indicative merger proposal from Folkestone Education Trust) including the reasons supporting the Independent Board Committee's assessment.

### Favourable conclusion of the Independent Expert

The Explanatory Memorandum contains a copy of the Independent Expert Report, prepared by KPMG Corporate Finance (**Independent Expert**). The Independent Expert has concluded that the Internalisation Proposal is "fair and reasonable and in the best interests" of Investors in the absence of a superior proposal. A copy of the Independent Expert Report is included in Section 7.

### Disadvantages and risks

Whilst the Independent Directors consider the benefits of the Internalisation Proposal compelling, potential disadvantages and risks include:

- the change in ARF's operating model as a result of internalisation which will change ARF's risk profile, driven by risks associated with a change in investment characteristics and changes to the operating cost structure as well as regulatory risks, transitional risks and dependency on key staff. These risks are explained in further details in Section 4.9 and also in Section 7 of the Prospectus;
- the consideration paid to Citrus II will be funded by drawing down Arena REIT's existing debt facility which means the pro forma gearing ratio (as at 30 June 2014) will increase from 34.9% to 36.7%; and
- ARF's pro forma<sup>2</sup> net assets per security will reduce from \$1.125 to \$1.122. Pro forma net tangible assets (NTA) per security will reduce from \$1.125 to \$1.071.

### Experienced board and management team

ARL has secured certain members of AIML's board and management team who currently manage Arena REIT. I will continue as independent chairman on the ARL and ARML boards and I am joined by Dennis Wildenburg and Simon Parsons as independent directors. Bryce Mitchelson will be Managing Director of ARL and ARML, supported by members of the current AIML management team.

In order to retain and incentivise key members of management, the Independent Directors have (in consultation with Ernst & Young, an independent remuneration consultant<sup>3</sup>) established a remuneration policy for FY15 for New ARF that we believe is consistent with market practice and which aligns the interests of management with the interests of Investors, including a long-term incentive grant to the Managing Director that will require Investor approval at the Meeting. Details are set out in Sections 8.12 and 8.13.

### Proxies

If you are unable to attend the meeting but wish to vote, you should complete and return the enclosed proxy form in accordance with the instructions provided on the form. Proxy forms must be received by AIML by 11:00am AEDT on Wednesday, 3 December 2014.

### Foreign Investors

Investors with a registered address for Arena REIT outside of Australia or New Zealand (**Foreign Investors**) will not be eligible to receive New ARL Shares under the Internalisation Proposal due to regulatory restrictions. Therefore, any New Stapled Securities held by Foreign Investors will be sold by the Sale Nominee on market and the proceeds of these sales forwarded to the Foreign Investors.

2. All pro forma figures as at 30 June 2014.

3. For the purposes of the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*, the services provided by Ernst & Young did not contain a remuneration recommendation as defined by Division 1 of Part 1.2 of Chapter 1 of the Corporations Act.



**YOUR VOTE IS IMPORTANT**

**In order for the Internalisation Proposal to proceed, Investors must pass all the Internalisation Resolutions at the Meeting.**

If you have any questions, please contact the toll free Information Line on 1800 008 494 between 8.30 am and 5.00 pm AEDT Monday to Friday or +61 3 9093 9017 (outside Australia). Alternatively, you may also contact your financial, legal, taxation or other professional adviser.

On behalf of AIML, I would like to take this opportunity to thank you for your support and encourage you to vote in favour of the Internalisation Proposal.

Yours sincerely



**David Ross**

Chairman

Arena Investment Management Limited (responsible entity of Arena REIT)



16 Robertson Drive, Mornington VIC

# 03: Summary of the Internalisation Proposal

Summary	For more information
<b>What is the Internalisation Proposal?</b>	
<p>The Internalisation Proposal (if approved and implemented) involves:</p> <ul style="list-style-type: none"> <li>the distribution to Investors (other than Foreign Investors) of new shares in ARL. The receipt of new shares by Investors does not require Investors to contribute any additional capital nor will Investors need to lodge an application form;</li> <li>the stapling of each share in ARL to each Existing Stapled Security in Arena REIT to form a New Stapled Security. New ARF will be listed on ASX under the existing name 'Arena REIT' and ASX code ARF;</li> <li>the change of the responsible entity of Arena REIT from AIML to ARML (which, by that time, will be a wholly owned subsidiary of ARL); and</li> <li>the change of manager of BSH JV and the manager and trustee of PHC Syndicate (two unlisted wholesale syndicates that own healthcare properties, together the <b>Syndicates</b>) from AIML to ARML.</li> </ul> <p>The effective outcome of the Internalisation Proposal is that Arena REIT will no longer pay fees to be externally managed because New ARF will own all the resources necessary to manage itself internally. In addition to internally managing Arena REIT, ARL (and its subsidiaries) will also provide external management services to the Syndicates.</p>	
<b>What is the background to the Internalisation Proposal?</b>	
<p>AIML announced on 25 August 2014 that it had entered into an exclusivity agreement for a period of six months with Citrus II for Arena REIT to consider an internalisation of its corporate governance and management function and to assume the management rights over two wholesale funds, being the BSH JV and PHC Syndicate, for an implied purchase price, after net asset adjustments, of approximately \$10.7 million.</p> <p>Since 25 August 2014, the internalisation opportunity and alternatives have been actively considered by the Independent Directors of AIML. On 4 November 2014, AIML announced it had entered into an implementation agreement with Citrus II.</p> <p>The Independent Directors consider that the Internalisation Proposal is in the best interests of Investors in the absence of a superior proposal.</p>	
<b>What will Investors receive if the Internalisation Proposal is approved and implemented?</b>	
<p>To effect the stapling, Investors will receive one new fully paid ordinary share in ARL (<b>New ARL Share</b>) for each Existing Stapled Security they held.</p> <p>These New ARL Shares will only be distributed:</p> <ul style="list-style-type: none"> <li>to those Investors on the register at the Stapling Record Date that are not Foreign Investors;</li> <li>if the Internalisation Proposal is approved by a sufficient majority of Investors; and</li> <li>if the conditions precedent to the implementation of the Internalisation Proposal are all met by the Implementation Date.</li> </ul> <p><b>Investors are not required to pay any new capital for the New ARL Shares or to complete any application forms.</b></p>	Section 4.4 of the Prospectus

Summary	For more information
<b>Who are ARL and ARML?</b>	
<p>ARL and ARML are both newly incorporated public companies limited by shares which have not traded prior to implementation of the Internalisation Proposal.</p> <p>If the Internalisation Proposal is approved and implemented, Investors will own 100% of ARL (and its wholly-owned subsidiaries) and those entities will:</p> <ul style="list-style-type: none"> <li>▪ manage Arena REIT (with ARML replacing AIML as the responsible entity);</li> <li>▪ manage the Syndicates;</li> <li>▪ provide property services to Arena REIT and the Syndicates; and</li> <li>▪ provide management and property services for a maximum period to 31 December 2016 to the unlisted funds that AIML will remain the responsible entity for, being Arena Property Fund (<b>APF</b>), Arena Office Fund (<b>AOF</b>) and Chevron Renaissance Property Trust (<b>Chevron</b>). CISL will retain additional resources to provide these services.</li> </ul>	Sections 4.3 and 4.4 and Section 6 of the Prospectus
<b>Who will manage ARL and ARML if the Internalisation Proposal is approved and implemented?</b>	
<p>The directors of ARL and ARML and an experienced management team including current ARL directors:</p> <ul style="list-style-type: none"> <li>▪ David Ross – Independent Non-Executive Chairman;</li> <li>▪ Mr Dennis Wildenburg – Independent Non-Executive Director;</li> <li>▪ Mr Simon Parsons – Independent Non-Executive Director; and</li> <li>▪ Mr Bryce Mitchelson – Managing Director.</li> </ul>	Section 4.6 and Section 9 of the Prospectus
<b>What are the Syndicates?</b>	
<p>PHC Syndicate is an unincorporated joint venture and trust with 40 investors which owns one property in Darlinghurst, NSW. The property is a medical clinic 100% leased to a subsidiary of Primary Health Care Ltd with a remaining lease term of 7.7 years currently valued at \$14.75 million (as at 30 June 2014).</p> <p>BSH JV is an unincorporated joint venture with 19 investors which owns one property in Heidelberg, Victoria. The property is a pathology centre 100% leased to Primary Health Care Ltd with a remaining lease term of 7.1 years, currently valued at \$17 million (as at 30 June 2014).</p> <p>See Section 6.4 of the Prospectus for details of the fee entitlements in relation to the Syndicates.</p>	Section 6.4 of the Prospectus

## 03: Summary of the Internalisation Proposal

Summary	For more information
<b>What are the financial consequences if the Internalisation Proposal is approved?</b>	
<p>From a financial perspective, if the Internalisation Proposal is approved and implemented:</p> <ul style="list-style-type: none"> <li>▪ Arena REIT distribution guidance for FY15 will increase from 9.75 cents to 10.0 cents per security;<sup>4</sup></li> <li>▪ Arena REIT will no longer pay management fees to AIML (including performance fees, acquisition fees and disposal fees);</li> <li>▪ consideration will be paid to Citrus II of approximately \$10.7 million for the Arena REIT and wholesale funds management (intangible) rights plus net asset adjustments of approximately \$0.8 million in relation to all other operating assets and liabilities of the management business such as intellectual property, IT systems, office equipment, syndicate receivables and other working capital balances;</li> <li>▪ ARML will receive management fees and, if the Syndicates' properties are sold, disposal fees for managing the Syndicates;</li> <li>▪ the consideration paid to Citrus II will be funded by drawing down Arena REIT's existing debt facility which will increase the pro forma gearing ratio (as at 30 June 2014) from 34.9% to 36.7%; and</li> <li>▪ Arena REIT's pro forma net assets per security as at 30 June 2014 will reduce from \$1.125 to \$1.122. Pro forma NTA per security as at 30 June 2014 will reduce from \$1.125 to \$1.071.</li> </ul> <p>See Section 5 for further detail on the financial impact of the Internalisation Proposal.</p>	Sections 4.10 and 5 and Section 4 of the Prospectus
<b>What are the implications if the Internalisation Proposal is not approved?</b>	
<p>If the Internalisation Proposal is not approved:</p> <ul style="list-style-type: none"> <li>▪ AIML will remain as the responsible entity of Arena REIT;</li> <li>▪ the Directors of AIML will remain the same;</li> <li>▪ Existing Stapled Securities will continue to trade on ASX;</li> <li>▪ Arena REIT will continue to pay management fees to AIML (including performance fees, acquisition fees and disposal fees);</li> <li>▪ Arena REIT will incur approximately \$0.8 million of transaction costs in relation to the Internalisation Proposal (excluding costs associated with evaluating any alternative proposals);</li> <li>▪ the current distribution guidance for FY15 will remain unchanged at 9.75 cents per security; and</li> <li>▪ it will be open to the Independent Directors of AIML to consider other alternatives for the long-term management of Arena REIT. Citrus II may also consider alternative transaction structures including selling the Arena REIT management rights to a third party manager.</li> </ul>	Section 4.11

4. On a status quo basis assuming no new acquisitions, developments in progress are completed in line with budget assumptions and tenants comply with all their lease obligations. See Section 5 for the basis of preparation and assumptions in relation to the updated distribution guidance.



## Summary

## For more information

## Why should you vote in favour of the Internalisation Proposal?

You should consider voting in favour of the Internalisation Proposal because:

Section 4.7

- The Independent Expert considers the Internalisation Proposal is “fair and reasonable and in the best interests” of Investors in the absence of a superior proposal. The Independent Expert Report is set out in Section 7.
- The Independent Directors consider the Internalisation Proposal to be in the best interest of Investors in the absence of a superior proposal.
- There are certain key benefits associated with an internalised structure, including:

**Distribution guidance upgrade:**

Expected ongoing net management cost savings contributing to ARF distribution guidance for FY15 being upgraded to 10.0 cents per security (up from 9.75 cents per security).<sup>5</sup>

**Enhanced alignment:**

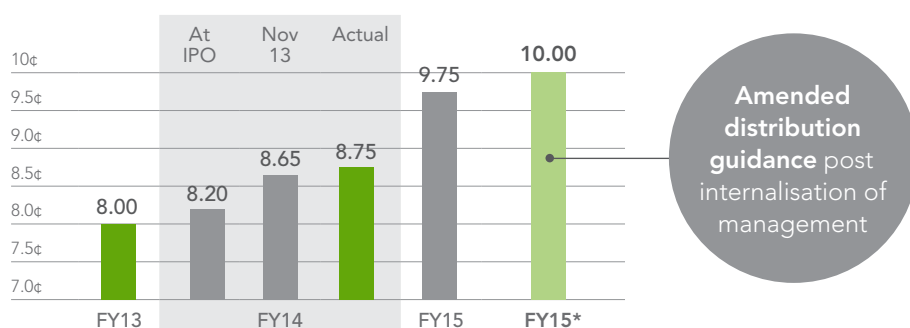
The ARL Board and management will be accountable only to New ARF investors. Going forward, ARL will hold an Annual General Meeting and New ARF investors with sufficient majority may appoint and remove directors in certain circumstances as well as vote on the remuneration structure. Senior management will be incentivised for delivering on earnings per security growth and relative total shareholder return under a remuneration package developed for FY15 in consultation with Ernst & Young, an independent remuneration consultant.<sup>6</sup>

**Acquisition growth competitive advantage:**

The outlook for New ARF earnings growth per security is superior with the elimination of external funds management fees which would otherwise be charged on any increases in asset portfolio valuations, new acquisitions and capital expenditure. New ARF will have operating leverage, meaning that new acquisitions should not require a material increase in internal management cost which should therefore provide greater contributions to earnings growth per security.

**New investors:**

Some investors may prefer investing in internally managed REITs. Implementation of the Internalisation Proposal may therefore drive increases in demand and liquidity of New Stapled Securities, but there is no guarantee of this.

**Distribution per security**

■ Actual FY distribution ■ Distribution guidance ■ Distribution guidance if Internalisation Proposal proceeds  
 \* Amended distribution guidance post internalisation of management

5. On a status quo basis assuming no new acquisitions, developments in progress are completed in line with budget assumptions and tenants comply with all their lease obligations. See Section 5 for the basis of preparation and assumptions in relation to the updated distribution guidance.
6. For the purposes of the *Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011*, the services provided by Ernst & Young did not contain a remuneration recommendation as defined by Division 1 of Part 1.2 of Chapter 1 of the Corporations Act.

## 03: Summary of the Internalisation Proposal

### Summary

### For more information

#### Why might you vote against the Internalisation Proposal?

- You may be concerned by the potential disadvantages and risks of the Internalisation Proposal including:
  - the change in ARF's operating model as a result of internalisation will change ARF's risk profile, driven by risks associated with a change in investment characteristics and changes to the operating cost structure as well as regulatory risks, transitional risks and dependency on key staff. These risks are explained in further details in Section 4.9 and also in Section 7 of the Prospectus;
  - the consideration paid to Citrus II will be funded by drawing down Arena REIT's existing debt facility which means the pro forma gearing ratio (as at 30 June 2014) will increase from 34.9% to 36.7%; and
  - ARF's pro forma<sup>7</sup> net assets per security will reduce from \$1.125 to \$1.122. Pro forma net tangible assets (NTA) per security will reduce from \$1.125 to \$1.071.
- You may disagree with the conclusion of the Independent Expert or the recommendation of the Independent Directors.
- You may think the Internalisation Consideration is too high or you may be concerned that it is to be funded through Arena REIT's existing debt facility.
- You may think that the ongoing post-internalisation operating costs may be higher than forecast in Section 5.1 or that ARL and its subsidiaries will not be appropriately resourced.
- You may be concerned that ARL and its subsidiaries will provide management services to AIML under the Resourcing Deed for a maximum period to December 2016 and property services to the Syndicates and AIML.
- You may consider that another responsible entity is better placed to manage Arena REIT.
- You may be concerned about the potential dilution of the equity value and income entitlements of your New Stapled Securities resulting from the long-term incentive plan element of executive remuneration.
- You may be concerned by the proposed process for Foreign Investors.

Section 4.8

#### What Resolutions are sought for Investor approval?

Each of the below Resolutions are identical in form in respect of both Trusts. Only Resolution 1 and 2 are conditional upon each other (meaning if either of Resolution 1 or 2 is not passed then the Internalisation Proposal will not be approved). Resolution 3 is conditional on both Resolutions 1 and 2 being passed.

Section 4.12

- **Resolution 1** is an ordinary resolution approving the Internalisation Proposal and authorising AIML do all things necessary to give effect to the Internalisation Proposal.
- **Resolution 2** is an ordinary resolution approving the appointment of ARML as responsible entity of Arena REIT upon the retirement of AIML as the current responsible entity.
- **Resolution 3** is an ordinary resolution approving the acquisition by the Managing Director, Mr Mitchelson, under the long-term incentive plan (**LTI Plan**) of each of the Performance Rights and Recognition Rights no later than 12 months after the Meeting and the New Stapled Securities on the vesting of some of all of those Performance Rights and Recognition Rights on the terms set out in Section 8.13.

7. All pro forma figures as at 30 June 2014.

### Summary

### For more information

#### Are there any key conditions precedent?

The Internalisation Proposal will not proceed unless the conditions precedent as set out in the Implementation Agreement are all satisfied or waived. The key conditions include:

- the opinion of the independent expert for the Internalisation Proposal, KPMG Corporate Finance, that the Internalisation Proposal is “fair and reasonable and in the best interests” of Investors, has not changed, been modified or withdrawn;
- the Internalisation Resolutions are passed by the Investors;
- all relevant ASIC relief has been granted, and in respect of any ASIC relief not granted, ASIC has indicated in writing that such relief is not required;
- all relevant ASX waivers and confirmations have been granted, and in respect of any ASX waivers or confirmations not granted, ASX has indicated in writing that such waiver or confirmation is not required;
- ARML obtains an AFSL from ASIC in a form appropriate for acting as responsible entity of Arena REIT;
- the Independent Board Committee continues to recommend that the Internalisation Proposal is in the best interests of Investors;
- all required consents of financiers are received in writing before the Implementation Date; and
- there is no competing proposal made by a third party before the Implementation Date that the Independent Board Committee determines is more favourable to Investors than the Internalisation Proposal.

AIML reserves the right to change the terms and conditions of the Internalisation Proposal at any time prior to its implementation, subject to the Corporations Act and the Listing Rules.

#### What are the risks of the Internalisation Proposal?

Risks of the Internalisation Proposal include:

- **Potential higher operating costs** – Following implementation of the Internalisation Proposal, Arena REIT will no longer pay management fees to AIML. Instead, Arena REIT will bear all net costs of ARL and its subsidiaries (including ARML). While the Independent Board Committee has considered the potential costs and considers that such costs post internalisation will be lower than the external management and transaction fees Arena REIT would otherwise have to pay to AIML, there is a risk that ongoing operating costs may be higher than anticipated.
- **Change of responsible entity** – There are inherent risks associated with a change in responsible entity including ensuring that the future management, directors, systems, processes and financial standing continue to satisfy the conditions of the new responsible entity’s AFSL.
- **Financial information** – There is a risk that the assumptions in the financial information in Section 5 may not be achieved.
- **Funds management services** – Following implementation of the Internalisation Proposal, ARL (through its subsidiaries) will provide funds management services. In general, fee income from these services is considered relatively more risky than rental income earned on property investment. The risks related to funds management include loss of management rights, counterparty risk, risks arising from obligations and liabilities to third parties (including investors), and liabilities for failure to comply with the constituent documents of the relevant funds.

Section 4.9 and  
Section 7 of the  
Prospectus

ARL has secured appropriately experienced staff, will hold any necessary statutory licences and has appropriate risk management and compliance systems in place to undertake these activities. ARL and each of its subsidiaries have appropriate insurances in place in relation to funds management services.

(Continued over page)

## 03: Summary of the Internalisation Proposal

### Summary

### For more information

#### What are the risks of the Internalisation Proposal? (Continued)

- **Property management services** – Following implementation of the Internalisation Proposal, ARL (through its subsidiaries) will provide property management services. The risks related to property management services include counterparty risk, risk arising from obligations and liabilities to third parties, regulatory (agency licensing) risks and liabilities for failure to comply with property management service agreements.  
  
Property management services will be provided by APS (a wholly owned subsidiary of ARL) which outsources various aspects of its property management services to Jones Lang LaSalle. APS monitors the delivery of JLL's services and APS may also undertake supplementary property services where appropriate. APS engages appropriately experienced staff, holds relevant statutory real estate licences to undertake these activities and has appropriate risk management and compliance systems to monitor the performance of these activities. APS and JLL also both carry appropriate insurances.
- **Other services and resources** – Certain services and resources will be provided by CISL to AIML (to enable it to perform its functions as responsible entity of APF, AOF, and Chevron) under the terms of the Resourcing Deed, the material terms of which are summarised in Part 3 of Annexure A.
- **Higher transition costs** – One off internalisation transaction costs and costs of transitioning existing services may be higher than estimated as a result of unforeseen circumstances.
- **Employees** – ARL (and its subsidiaries) will be reliant on retaining and attracting quality senior management and staff to run Arena REIT.
- **AFSL** – ARML will be required to hold an AFSL in order for the Internalisation Proposal to be implemented. In order to obtain and maintain its AFSL, ARML will need to meet certain financial and operational requirements. These requirements may change over time.
- **Change of group structure** – The addition of a company to the stapled-structure of New ARF gives rise to additional associated regulatory, tax, statutory and legal requirements which may change over time and have implications for Investors.

For further information on risks in these categories and specific risks relating to an investment in New ARF see Section 7 of the Prospectus.

#### What alternatives to the Internalisation Proposal did the Independent Directors consider?

In considering the Internalisation Proposal, and in forming the view that the Internalisation Proposal is in the best interests of Investors, the Independent Directors have had regard to several alternative initiatives, and the potential implications of these initiatives for Investors. In particular the Independent Directors have considered the merits and risks of:

- the prospect that Citrus II (as the owner of AIML) may sell the management rights of Arena REIT to another third party external manager; and
- the prospect of a merger of Arena REIT with another listed A-REIT.

Section 4.5 describes in more detail the alternatives considered by the Independent Board Committee (including an indicative merger proposal from Folkestone Education Trust). If any further alternative proposal is received by Arena REIT prior to the Meeting, the Independent Directors will consider that alternative proposal having regard to the best interest of Investors, and take appropriate actions.

Section 4.5

#### What transaction costs are being incurred in connection with the Internalisation Proposal?

Transaction costs associated with the Internalisation Proposal are approximately \$0.8 million (excluding costs associated with evaluating any alternative proposals).

Section 5



Summary	For more information
<b>Does AIML (or its related entities) have any holdings in Arena REIT?</b>	
As at the date of this Document, MSREF VII Global indirectly holds 26,952,874 Existing Stapled Securities, the holder being The Trust Company (Australia) Limited as trustee for Citrus Subsidiary Trust ( <b>TCA</b> ).	Section 8.6 and Sections 9.3 and 10.4 of the Prospectus
TCA is not an associate of AIML for the purpose of Section 253E of the Corporations Act and is therefore entitled to vote its holding on all of the Resolutions.	
Directors of AIML currently hold Existing Stapled Securities (summarised in Section 8.6). The directors of ARL will hold New Stapled Securities following implementation of the Internalisation Proposal. These holdings are detailed in Section 9.3 of the Prospectus.	
<b>What are the taxation implications of the Internalisation Proposal?</b>	
The taxation implications of the Internalisation Proposal for Investors are addressed in Section 6.	Section 6
<b>When and where is the Meeting?</b>	
The Meeting is scheduled for 11:00am AEDT on Friday, 5 December 2014 at West Tower Suite, Level 35, Sofitel Hotel, 25 Collins Street, Melbourne Victoria 3000.	Section 9
<b>Am I entitled to vote?</b>	
If you hold Existing Stapled Securities in Arena REIT on the register as at 11:00am AEDT on Wednesday, 3 December 2014, then you will be entitled to vote at the Meeting, unless you are otherwise excluded for the reasons in the Notice of Meeting set out in Section 9.	Section 9
<b>How do I vote at the Meeting?</b>	
Investors wishing to vote on the Resolutions must either attend the Meeting or return their Proxy Form by 11:00am AEDT on Wednesday, 3 December 2014.	Section 9
<b>Where and when do I send my Proxy Form?</b>	
In order to vote by proxy, you need to validly complete and return the Proxy Form enclosed with this Document. Proxy Forms must be received by 11:00am AEDT on Wednesday, 3 December 2014 in any one of the following ways:	Section 9 and Proxy Form
<b>Online:</b> <a href="http://www.votingonline.com.au/arenareitgm2014">www.votingonline.com.au/arenareitgm2014</a>	
<b>By fax:</b> +61 2 9290 9655	
<b>By mail:</b> Boardroom Pty Limited, GPO Box 3393, Sydney NSW 2001 Australia	
<b>In person:</b> Boardroom Pty Limited, Level 7, 207 Kent Street, Sydney NSW 2000 Australia	
<b>Can I sell Existing Stapled Securities before the Meeting?</b>	
Yes, Existing Stapled Securities are expected to continue trading on ASX in the normal course (subject to the Listing Rules) until Monday, 8 December 2014.	Section 1
Deferred settlement trading of New Stapled Securities on ASX is expected to commence on Tuesday, 9 December 2014 with trading on a normal settlement basis commencing on Tuesday, 16 December 2014.	
<b>How are Foreign Investors affected?</b>	
Foreign Investors are not entitled to receive New Stapled Securities in connection with the Internalisation Proposal (due to legal restrictions), but will instead have the New Stapled Securities to which they would otherwise be entitled sold through the Sale Facility from Tuesday, 16 December 2014. Sale proceeds will be paid by electronic funds transfer (if details are held by the Registry) or by cheque.	Section 4.14 and Section 4.5 of the Prospectus
Participation in the Sale Facility is not available to Investors (other than Foreign Investors).	
<b>What if I have other questions?</b>	
If you have any questions, please contact the toll free Information Line on 1800 008 494 between 8.30 am and 5.00 pm AEDT Monday to Friday or +61 3 9093 9017 (outside Australia). Alternatively, you may also contact your financial, legal, taxation or other professional adviser.	



 Leichhardt Medical Centre, 30-38 Short Street, Leichhardt NSW

# 04: Details of the Internalisation Proposal

## 4.1 Background

On 4 November 2014, AIML announced it had entered into the Implementation Agreement with Citrus II for Arena REIT to internalise its corporate governance and management function and to assume the management of two unlisted wholesale syndicates, being PHC Syndicate and BSH JV (which both own healthcare properties). The Internalisation Proposal is subject to a number of conditions precedent including Investor approval.

## 4.2 Description

The Internalisation Proposal (if approved and implemented) includes the following steps:

- the distribution to Investors (other than Foreign Investors) of one new fully paid share in ARL for each Existing Stapled Security held. The receipt of new shares by Investors does not require Investors to contribute any additional capital nor will Investors need to lodge an application form;
- the stapling of each share in ARL to each Existing Stapled Security in Arena REIT to form a New Stapled Security. New ARF will be listed on ASX under the existing name Arena REIT and code ARF;
- the change of the responsible entity of Arena REIT from AIML to ARML (which, by that time, will be a wholly owned subsidiary of ARL); and
- the change of manager of BSH JV and PHC Syndicate (two unlisted wholesale syndicates that own healthcare properties) from AIML to ARML.

Refer to Section 8.2 for further detail in relation to the transactions steps.

Details of the New ARL Shares are set out in the Prospectus. In particular, you should pay careful consideration to the risk factors and the tax implications outlined in Sections 4.9 and 6 of this Document, and Section 7 of the Prospectus, as they relate to your personal investment objectives, financial circumstances and needs.

## 4.3 ARL and ARML

ARL and ARML are both newly incorporated Australian public companies limited by shares which have not traded prior to implementation of the Internalisation Proposal.

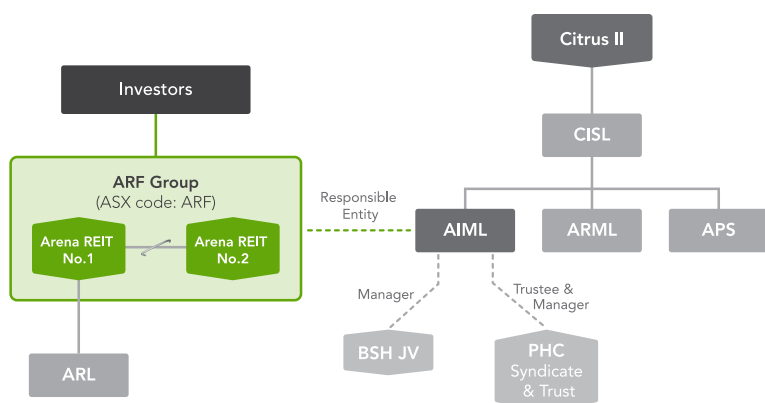
If the Internalisation Proposal is approved and implemented, on the Implementation Date:

- the shareholders of ARL will be those Investors as at the Stapling Record Date (other than Foreign Investors); and
- ARML will be appointed as responsible entity of Arena REIT, manager of BSH JV and manager and trustee of PHC Syndicate. ARML will be a wholly owned subsidiary of ARL following completion of the Internalisation Proposal.

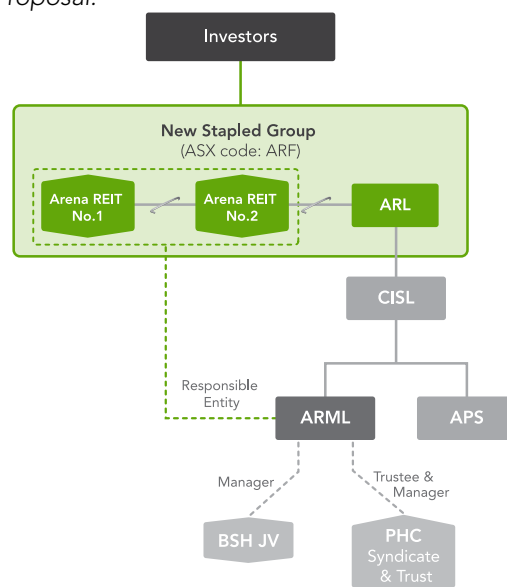
On the Implementation Date, ARML is required to hold an AFSL with all the requisite authorisations to enable it to act as responsible entity of Arena REIT. If this AFSL is not granted to ARML, implementation of the Internalisation Proposal will not be possible and Investors will not receive shares in ARL; AIML will continue as the responsible entity of Arena REIT; and Existing Stapled Securities will continue to trade on ASX.

See the diagrams below for the structure prior to and following the implementation of the Internalisation Proposal.

The diagram below represents the structure of Arena REIT and Citrus II group prior to the implementation of the Internalisation Proposal.



The diagram below represents the structure after implementation of the Internalisation Proposal.





## 04: Details of the Internalisation Proposal

### 4.4 ARL's strategy for Arena REIT

ARL's strategy for New ARF is consistent with Arena REIT's existing strategy, which is described below. ARL's business plan (as a manager) is summarised in Section 6.3 of the Prospectus.

#### New ARF's objective:

to generate an attractive and predictable distribution to Investors with earnings growth prospects over the medium to long term.





#### Investment strategy of New ARF:

to invest in real estate in Australia, featuring some or all of the following characteristics:

- |                                                   |                                                                                                                                                                                                       |                                                       |                                                                                                                                                                                         |                                                                                                                                                                                                                              |
|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1</b><br>Relatively long remaining lease terms | <b>2</b><br>Premises that have strategic importance to the operations of the tenant, such as where the properties have been purpose-built for the tenant or use (eg. healthcare or childcare centres) | <b>3</b><br>High credit quality or government tenants | <b>4</b><br>Leases where the tenants are responsible for substantially all of the statutory and operating outgoings and costs including land tax, insurance and repairs and maintenance | <b>5</b><br>Reversionary property valuation risk (being the risk that the value of the property declines as a consequence of the lease expiring) which ARML believes can be appropriately managed through active management. |
|---------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

In accordance with the above investment strategy, New ARF intends to further diversify its portfolio by sector, individual asset and tenant over the medium term.

#### ARL considers that the following real estate sectors may satisfy New ARF's investment objective:

- |                                                                                                             |                                                                                                                                                                                                                       |                                                                                                                                                                                                    |                                                                                                                                                  |
|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Childcare</b> assets  | <b>Healthcare</b> assets, including medical centres, diagnostic facilities, pathology centres, hospitals and aged care facilities  | <b>Education</b> assets, such as schools, university buildings, student accommodation and related facilities  | <b>Government and high credit</b> quality tenanted assets.  |
|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|

New ARF intends generally to invest in direct real estate, whilst there are no current proposals to do so the Arena REIT Constitutions allow New ARF to invest in partial interests, joint ventures or property securities and it may do so where the underlying real estate is consistent with New ARF's investment objectives. New ARF does not have a pre-determined allocation to the abovementioned real estate sectors.

New ARF, through ARL and its subsidiaries, may seek to grow earnings for Arena REIT by leveraging its existing capabilities to also provide further funds management and property services to other unlisted managed funds.

### 4.5 Other alternatives considered

In considering the Internalisation Proposal, and in forming the view that the Internalisation Proposal is in the best interests of Investors, the Independent Directors have had regard to alternatives, and the potential implications of these alternatives for Investors. In particular, the Independent Directors have considered the merits and risks of:

- the prospect that Citrus II (as the owner of AIML) may sell the management rights of Arena REIT to another third party external manager; and
- the potential merger of Arena REIT with another listed A-REIT.



On 29 September 2014, Arena REIT received an indicative, non-binding, conditional offer for the potential merger of Arena REIT and the ASX-listed Folkestone Education Trust (**FET**) (**FET Indicative Offer**).

Under the FET Indicative Offer, Investors would have received 0.795 FET units for every Existing Stapled Security. Folkestone Investment Management Limited would have externally managed the merged entity with base management fees of 0.45% of gross assets (with the intention of further reductions as the vehicle grows past certain thresholds) and removal of Arena REIT asset acquisition, disposal and performance fees. Implementation of the FET Indicative Offer would have required a trust scheme or stapling of units, requiring the approval of Investors and possibly also FET investor approval.

The FET Indicative Offer was subject to due diligence and final approval from FET independent directors.

The AIML Independent Directors have undertaken an assessment of the FET Indicative Offer, and in doing so have considered a number of factors, including:

- The benefits of the Internalisation Proposal, including increased management and governance alignment and more competitive cost of capital and therefore enhanced earnings growth potential due to the removal of management fees under an internal versus external management model.
- The potential benefits of merging Arena REIT and FET such as scale, greater index weighting and possibly more liquidity.
- The form of consideration and implied offer value relative to the Arena REIT security price.
- The likely impact on forecast earnings, distributions and NTA of Arena REIT and FET when comparing the FET Indicative Offer with the Internalisation Proposal.
- The future strategy, in particular a differentiating factor being the diversified social infrastructure sector strategy of Arena REIT with investment currently in childcare and healthcare, as compared to FET which is childcare sector only.
- The FET Indicative Offer was non-binding, conditional and subject to due diligence and FET independent directors approval, and was therefore uncertain.

The AIML Independent Directors determined that the FET Indicative Offer did not provide Arena REIT Investors with a compelling value proposition compared to the Internalisation Proposal. Moreover, in the event that the Internalisation Proposal is approved by Investors, the ARL Board will retain the ability to pursue strategic initiatives that are in the best interests of Investors.

If any further alternative proposal is received by Arena REIT prior to the Meeting, the Independent Directors will consider that alternative proposal having regard to the best interests of Investors, and take appropriate actions.

## 4.6 Board and senior management team

The boards of ARL and ARML comprise a majority of independent directors which, along with the senior management team, have been involved in the governance and management of Arena REIT since its ASX listing in June 2013.

### (a) Board

The Directors of ARL are:

- Mr David Ross;
- Mr Dennis Wildenburg;
- Mr Simon Parsons; and
- Mr Bryce Mitchelson.

All four Directors are also currently directors of AIML. If the Internalisation Proposal is approved and implemented, it is expected that Mr Mitchelson will retire as a director of AIML.

#### David Ross (Independent Non-executive Chairman)

David has 30 years' experience in the real estate and investment management sectors.

David was appointed to the AIML Board in 2012 and is also a member of the Audit Committee.

He held senior positions with Lend Lease Corporation over a period of 10 years, including Global and US Chief Executive Officer Real Estate Investments (based in the US), Chief Executive Officer Asia Pacific and Chief Executive Officer of General Property Trust.

He was also Chief Operating Officer of Babcock and Brown, responsible for the Group's corporate and administrative support functions globally. Prior to this, Mr Ross worked with Armstrong Jones, Richard Ellis and Jones Lang Wootton (now Jones Lang LaSalle). He has also chaired and acted as an executive and non-executive director on a variety of external and subsidiary company boards.

David brings leadership experience to New ARF across the full range of financial, operating and strategic planning functions from ASX listed global property and investment management organisations.

David holds a Bachelor of Commerce degree, a Property Valuation qualification and is a Graduate of the Australian Institute of Company Directors (GAICD).

#### Dennis Wildenburg (Independent Non-executive Director)

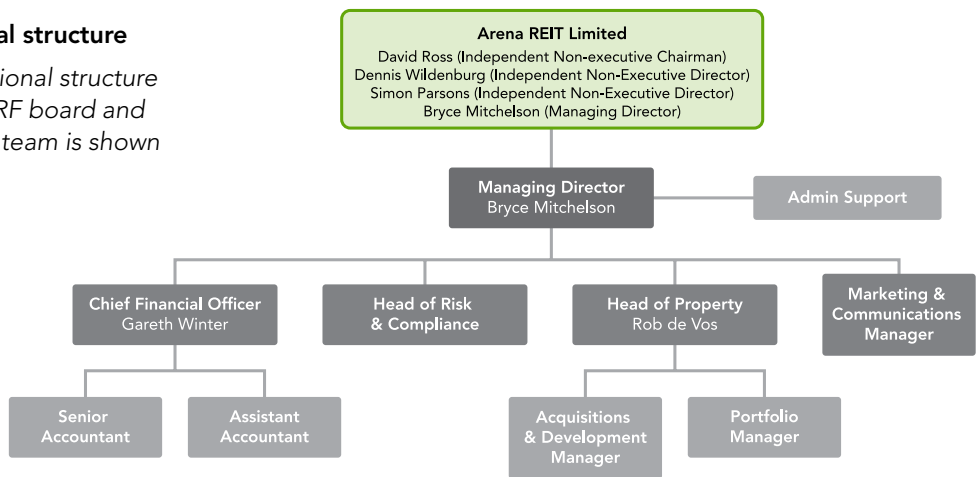
Dennis Wildenburg has over 30 years' experience in the financial services and funds management industry. He is currently an Independent Director of Investa Wholesale Funds Management Limited and has been a Director of MLC Funds Management Limited and an Associate Director of Hill Samuel Australia Limited (now Macquarie Group Limited).

Dennis was appointed to the AIML Board in 2011 and is also Chairman of the Audit Committee.

## 04: Details of the Internalisation Proposal

### Organisational structure

The organisational structure of the New ARF board and management team is shown at right.



Dennis gained his property experience working with the Lend Lease Group where he was a Director of the company that managed GPT. He has also served on the Board of Property Funds Australia and the Investment Committee of the Mirvac PFA Diversified Property Trust. Dennis is a member of the Institute of Chartered Accountants in Australia.

#### Simon Parsons (Independent Non-executive Director)

Simon has over 34 years' experience in the commercial property industry. He has previously held senior positions and directorships in a range of leading property-focused companies including Property Investment Research Pty Ltd, Colliers International Limited, Jones Lang Wootton (now Jones Lang La Salle) and is presently Managing Director of Parsons Hill Stenhouse Pty Ltd, a commercial property practice.

Simon was appointed to the AIML Board in 2012 and is also a member of the Audit Committee.

Simon is a Fellow of the Royal Institution of Chartered Surveyors (RICS) and is a member of the RICS Oceania Property Board. He is also a Fellow of the Australian Institute of Company Directors (AICD). He holds a Masters of Science (Real Estate), a Masters of Social Science (Environment and Planning) and an estate agent's license.

#### Bryce Mitchelson (Managing Director)

Bryce is Joint Managing Director of AIML and was appointed as a Director in April 2010 after joining the company in 2009. Through the management of Arena REIT, Bryce has experience in both the childcare and healthcare sectors, and is a responsible manager and key person under AIML's AFSL.

Bryce has more than 20 years' experience in listed and unlisted property funds management as well as property investment, development, valuation and real estate agency.

Prior to joining AIML, Bryce worked in various funds management roles including at Centro Properties Group and Heine Management Limited. He currently sits on the Standards Subcommittee (Victorian division) of the Australian Property Institute.

Bryce holds a Bachelor of Economics (Accounting major), Bachelor of Business (Property) and Graduate Diploma of Applied Finance and Investment as well as other property valuation and agency qualifications.

#### (b) Senior management

If the Implementation Proposal is implemented, the senior management of ARL will serve as management of New ARF.

Continuity of the management team has been secured with the following appointments:

- current AIML Joint Managing Director, Bryce Mitchelson, to be appointed Managing Director of Arena REIT;
- current AIML Chief Financial Officer, Gareth Winter, to be appointed Chief Financial Officer of Arena REIT; and
- current AIML General Manager – Property, Rob de Vos, to be appointed Head of Property of Arena REIT.

#### Gareth Winter (Chief Financial Officer)

Gareth was appointed Chief Financial Officer of AIML in March 2012. Gareth was formerly a Partner of PricewaterhouseCoopers and has over 20 years' professional experience. Throughout his professional career Gareth has specialised in advising the listed and unlisted property and infrastructure funds management sector on corporate finance, capital management, risk management, transaction structuring and financial systems and reporting.

Gareth is a member of the Institute of Chartered Accountants in Australia and holds a Bachelor of Commerce.

#### Robert de Vos (Head of Property)

Robert joined AIML in August 2012 and is responsible for AIML's asset management programs, acquisitions, developments and divestments.

Robert has over 20 years' property and funds management experience, and has specific expertise in social infrastructure where he has been responsible for

developing and managing assets including childcare properties, medical facilities, police stations and law courts.

Prior to joining AIML, Robert held senior roles with Jones Lang LaSalle, Becton Property Group and Ceramic Funds Management.

#### 4.7 Reasons why you should vote in favour of the Internalisation Proposal

This Section 4.7 is a summary only and is not intended to set out all the relevant issues for Investors in relation to the Internalisation Proposal. This Section 4.7 should be read in conjunction with the other Sections of this Explanatory Memorandum and the separate Prospectus.

##### (a) Recommendation of the Independent Directors

The Independent Directors consider the Internalisation Proposal to be in the best interests of Investors (in the absence of a superior proposal) and unanimously recommend Investors vote in favour of all Resolutions.

##### (b) Conclusion of the Independent Expert

The Independent Directors commissioned KPMG Corporate Finance to prepare an Independent Expert Report to express an opinion as to whether the Internalisation Proposal is fair and reasonable and in the best interests of Investors.

**The Independent Expert has concluded that the Internalisation Proposal is “fair and reasonable and in the best interests” of Investors in the absence of a superior proposal.**

The Independent Expert Report is set out in Section 7.

##### (c) There are certain benefits from an internalised structure

There are certain key benefits associated with an internalised structure, including:

- **Acquisition growth competitive advantage** – The outlook for New ARF earnings growth per security is superior with the elimination of external funds management fees which would otherwise be charged on any increases in asset portfolio valuations, new acquisitions and capital expenditure. New ARF will have operating leverage, meaning that new acquisitions should not require a material increase in internal management cost which should therefore provide greater contributions to earnings growth per security.
- **New investors** – Some investors may prefer investing in internally managed REITs. Implementation of the Internalisation Proposal may therefore drive increases in demand and liquidity of New Stapled Securities but there is no guarantee of this.
- **Efficient transition to internalised structure**
  - The current Independent Directors of AIML are remaining with ARL.
  - Mr Mitchelson, the current Joint MD of AIML, will be the Managing Director of ARL and ARML.
  - The senior management team of New ARF are part of the current Arena REIT management team.
  - ARL (and its subsidiaries) will acquire the systems and process currently used to manage Arena REIT.

The benefits of an efficient transition plan may not be present in alternative proposals considered by the Independent Directors.

#### 4.8 Reasons why you might vote against the Internalisation Proposal

- You may be concerned by the potential disadvantages and risks of the Internalisation Proposal including:
  - the change in ARF's operating model as a result of internalisation will change ARF's risk profile, driven by risks associated with a change in investment characteristics and changes to the operating cost structure as well as regulatory risks, transitional risks and dependency on key staff. These risks are explained in further details in Section 4.9 and also in Section 7 of the Prospectus;
  - the consideration paid to Citrus II will be funded by drawing down Arena REIT's existing debt facility which means the pro forma gearing ratio (as at 30 June 2014) will increase from 34.9% to 36.7%; and
  - ARF's pro forma<sup>9</sup> net assets per security will reduce from \$1.125 to \$1.122. Pro forma net tangible assets (NTA) per security will reduce from \$1.125 to \$1.071.
- You may disagree with the conclusion of the Independent Expert.
- You may disagree with the recommendation of the Independent Directors.

8. On a status quo basis assuming no new acquisitions, developments in progress are completed in line with budget assumptions and tenants comply with all their lease obligations. See Section 5 for the basis of preparation and assumptions in relation to the updated distribution guidance.

9. All pro forma figures as at 30 June 2014.

## 04: Details of the Internalisation Proposal

- You may think the Internalisation Consideration is too high or you may be concerned that it is to be funded through Arena REIT's existing debt facility.
- You may think that the ongoing post-internalisation operating costs may be higher than anticipated.
- You may be concerned that ARL and its subsidiaries will not be appropriately resourced.
- You may be concerned that ARL and its subsidiaries will provide management services to AIML under the Resourcing Deed and management and property services to the Syndicates.
- You may consider that another responsible entity is better placed to manage Arena REIT.
- You may be concerned about the potential dilution of the equity value and income entitlement of your New Stapled Securities resulting from the long-term incentive plan element of executive remuneration.
- You may consider that the risks associated with the Internalisation Proposal outweigh the potential benefits.
- You may be concerned by the proposed process for Foreign Investors.
- all of the independent directors of AIML are also directors of ARML; and
- members of the senior management team currently responsible for managing Arena REIT (including its Joint Managing Director, Bryce Mitchelson, and Chief Financial Officer, Gareth Winter) will transfer to New ARF.
- **Financial information** – There is a risk that the assumptions in the financial information in Section 5 may not be achieved. One off transaction and ongoing operating costs may be higher than forecast and additional revenues from the Internalisation Proposal may be lower than forecast. Forecasts by their nature are subject to uncertainties and contingencies, many of which are outside the control of New ARF. As a consequence, there is a risk that the financial benefits from internalisation will not be realised to the extent forecast.
- **Funds management services** – Following implementation of the Internalisation Proposal, ARL (through its subsidiaries) will provide funds management services. In general, fee income from these services is considered relatively more risky than rental income earned on property investment. The risks related to funds management include loss of management rights, counterparty risk, risks arising from obligations and liabilities to third parties (including investors), and liabilities for failure to comply with the constituent documents of the relevant funds.

### 4.9 Risks

There are a number of factors, both specific to New ARF and of a general nature, which may affect the future operating and financial performance of New ARF. Given Investors are already subject to the risks relevant to their investment in Arena REIT, this Section describes the specific risks associated with the Internalisation Proposal and which are unique to New ARF.

- **Potential higher operating costs** – Following implementation of the Internalisation Proposal, Arena REIT will no longer pay management fees to AIML. Instead, Arena REIT will bear all net costs of ARL and its subsidiaries (including ARML). While the AIML Board has considered the potential costs and is comfortable that such costs post internalisation in FY15 will be lower than the management and transaction fees Arena REIT would otherwise have to pay to AIML, there is a risk that ongoing operating costs may be higher than anticipated. ARL is mitigating this risk in FY15 by having finalised and agreed remuneration arrangements with directors and employees. This cost represents approximately 80% of ARL total operating costs. Other costs, such as office premises, registry services and custodian services are reasonably predictable.
- **Change of responsible entity** – As part of the Internalisation Proposal, there will be a change in the responsible entity of Arena REIT (from AIML to ARML). There are inherent risks associated with a change in responsible entity including ensuring that the future management, directors, systems, processes and financial standing continue to satisfy the conditions of the new responsible entity's AFSL. This risk is mitigated to some degree by the following factors:
  - Property management services will be provided by APS (a wholly owned subsidiary of ARL) which outsources various aspects of its property management services to Jones Lang LaSalle. APS monitors the delivery of JLL's services and APS may also undertake supplementary property services where appropriate. APS engages appropriately experienced staff, holds relevant statutory real estate licences to undertake these activities and has appropriate risk management and compliance systems to monitor the performance of these activities. APS and JLL also both carry appropriate insurances.
- **Other services and resources** – Certain services and resources will be provided by CISL to AIML (to enable



it to perform its functions as responsible entity of APF, AOF, and Chevron) under the terms of the Resourcing Deed, the material terms of which are summarised in Part 3 of Annexure A.

- **Higher transition costs** – One off internalisation transaction costs and costs of transitioning existing services may be higher than estimated as a result of unforeseen circumstances.
- **Employees** – ARL (and its subsidiaries) will be reliant on retaining and attracting quality senior management and staff to run New ARF. The loss of services of any senior management or key personnel, or the inability to attract new qualified personnel, could adversely affect ARL's operations and performance.
- **Taxation** – Changes in taxation law (including goods and services taxes and stamp duties), or changes in the way tax laws are interpreted in the various jurisdictions in which ARL operates, may impact the tax liabilities of ARL.
- **AFSL** – ARML will be required to hold an AFSL in order for the Internalisation Proposal to be implemented. It is anticipated that ARML will be issued an AFSL on or before the Implementation Date with the necessary authorisations to allow it to act as responsible entity of Arena REIT. In order to obtain and maintain its AFSL, ARML will need to meet certain financial and operational requirements. These requirements may increase over time if regulations change or if Arena REIT's business grows. If ARML is unable to meet these requirements, there is a risk that its AFSL may be revoked and it will no longer be able to act as responsible entity of Arena REIT.
- **Changes in applicable law** – The addition of a company to the stapled-structure of New ARF gives rise to additional associated regulatory, tax, statutory and legal requirements which may change over time and have implications for Investors. ARL and ARML must comply with various legal requirements imposed by securities laws and company laws in Australia. Should any of those laws change over time, the legal requirements to which ARML (as responsible entity of New ARF) and ARL may be subject could differ materially from current requirements. Furthermore, changes in relevant taxation laws, accounting standards, other legal, legislative or other administrative regimes, and government policies (including government fiscal, monetary and regulatory policies), may have an adverse effect on assets, operations and, ultimately, financial performance.
- **Productivity Commission report** – The Australian Government Productivity Commission has prepared a report into "Childcare and Early Childhood Learning". This report is yet to be published. In July 2014, a draft report containing several recommendations for public comment was released. It is currently unclear what

recommendations the final report will make and if any of those recommendations will be adopted by the Federal Government. However, the draft report does not contain any recommendations that AIML believes would have a material impact on the operations of Arena REIT.

For further information on risks in these categories and specific risks relating to an investment in ARL see Section 7 of the Prospectus.

### 4.10 Implications if the Internalisation Proposal is approved

From a corporate structure perspective, if the Internalisation Proposal is approved and implemented:

- Existing Stapled Securities will become New Stapled Securities and trade on ASX under code ARF;
- through their New Stapled Securities, Investors will own ARL and its subsidiaries (including ARML);
- ARML will replace AIML as the responsible entity of Arena REIT;
- ARML will also replace AIML as the manager of the Syndicates; and
- ARL (through its subsidiaries) will provide management services to AIML for its unlisted managed funds and will provide property services to Arena REIT, the Syndicates and the unlisted funds operated by AIML.

From a financial perspective, if the Internalisation Proposal is approved and implemented:

- Arena REIT will no longer pay management fees to AIML (including performance fees, acquisition fees and disposal fees). Expected ongoing net management cost savings contributing to ARF distribution guidance for FY15 being upgraded to 10.0 cents per security (up from 9.75 cents per security);<sup>10</sup>
- ARML will receive management fees and disposal fees for managing the Syndicates;
- consideration will be paid to Citrus II which implies a purchase price of approximately \$10.7 million for the Arena REIT and wholesale funds management (intangible) rights plus net asset adjustments of approximately \$0.8 million in relation to all other operating assets and liabilities of the management business such as intellectual property, IT systems, office equipment, syndicate receivables and other working capital balances;
- the consideration paid to Citrus II will be funded by drawing down from Arena REIT's existing debt facility which will increase the pro forma gearing ratio from 34.9% to 36.7% (pro forma as at 30 June 2014); and
- Arena REIT's pro forma net assets will reduce from \$1.125 to \$1.122 and pro forma NTA will reduce from \$1.125 to \$1.071 (pro forma as at 30 June 2014).

10. On a status quo basis assuming no new acquisitions, developments in progress are completed in line with budget assumptions and tenants comply with their lease obligations. See Section 5 for the basis of preparation and assumptions in relation to the updated distribution guidance.

## 04: Details of the Internalisation Proposal

See Section 5 for further detail on the financial impact of the Internalisation Proposal.

### 4.11 Implications if the Internalisation Proposal is not approved

If the Internalisation Proposal does not proceed for any reason:

- AIML will remain as the responsible entity of Arena REIT;
- the Directors of AIML will remain the same;
- Existing Stapled Securities will continue to trade on ASX;
- Arena REIT will continue to pay management fees to AIML (including performance fees, acquisition fees and disposal fees);
- Arena REIT will incur approximately \$0.8 million of transaction costs in relation to the Internalisation Proposal (excluding costs associated with evaluating any alternative proposals); and
- it will be open to the Independent Directors of AIML to consider alternatives for the long-term management of Arena REIT. Citrus II may also consider alternative transaction structures including selling the Arena REIT management rights to a third party manager.

### 4.12 Resolutions

Each of the below Resolutions are identical in form in respect of both Trusts. Only Resolution 1 and 2 are conditional upon each other (meaning if either of Resolution 1 or 2 is not passed then the Internalisation Proposal will not be approved). Resolution 3 is conditional on both Resolutions 1 and 2 being approved.

- **Resolution 1** is an ordinary resolution approving the Internalisation Proposal and authorising AIML do all things necessary to give effect to the Internalisation Proposal.
- **Resolution 2** is an ordinary resolution approving the appointment of ARML as responsible entity of Arena REIT upon the retirement of AIML as the current responsible entity.
- **Resolution 3** is an ordinary resolution approving the acquisition by the Managing Director, Mr Mitchelson, under the LTI Plan of each of the Performance Rights and Recognition Rights no later than 12 months after the Meeting and the New Stapled Securities on the vesting of some or all of those Performance Rights and Recognition Rights on the terms set out in Section 8.13.

See the Notice of Meeting in Section 9 for more detail on the Resolutions.

### 4.13 Key conditions

The Internalisation Proposal will not proceed unless the conditions precedent as set out in the Implementation

Agreement are all satisfied or waived. The key conditions include:

- the opinion of the independent expert for the Internalisation Proposal, KPMG Corporate Finance, that the Internalisation Proposal is “fair and reasonable and in the best interests” of Investors has not changed, been modified or withdrawn;
- the Internalisation Resolutions are passed by the Investors;
- all relevant ASIC relief has been granted, and in respect of any ASIC relief not granted, ASIC has indicated in writing that such relief is not required;
- all relevant ASX waivers and confirmations have been granted, and in respect of any ASX waivers or confirmations not granted, ASX has indicated in writing that such waiver or confirmation is not required;
- ARML obtains an AFSL from ASIC in a form appropriate for acting as responsible entity of Arena REIT;
- the Independent Board Committee continues to recommend that the Internalisation Proposal is in the best interests of Investors;
- all required consents of financiers are received in writing before the Implementation Date; and
- there is no competing proposal made by a third party before the Implementation Date that AIML determines (in its absolute discretion) is more favourable to Investors than the Internalisation Proposal.

The status of these conditions will be advised at the Meeting.

AIML reserves the right to change the terms and conditions of the Internalisation Proposal at any time prior to its implementation, subject to the Corporations Act and the Listing Rules.

### 4.14 Foreign Investors

Foreign Investors will not receive New Stapled Securities in connection with the Internalisation Proposal (due to legal restrictions), but will instead have the New Stapled Securities to which they would otherwise be entitled sold through the Sale Facility. Sale proceeds will be paid by electronic funds transfer (if details are held by the Registry) or by cheque.

Participation in the Sale Facility is not available to Investors (other than Foreign Investors).

### 4.15 Stapling Deed

If the Internalisation Proposal is approved and proceeds, ARML, on behalf of Arena REIT proposes to enter into a Stapling Deed which will set out various matters in respect of the relationship between Arena REIT and ARL and the ARF1 units, ARF2 units and ARL shares which will be stapled to form New Stapled Securities.

A detailed summary of the Stapling Deed is contained in Part 7 of Annexure A to this Document.





**Above:** 76-84 Baden Powell Drive, Tarneit VIC **Top:** 3944 Pacific Highway, Loganholme QLD

# 05: Financial Information

## 5.1 Financial Impact of the Internalisation Proposal

### Fee savings and management costs if the Internalisation Proposal is implemented

AIML presently receives a management fee based on Arena REIT's gross asset value, plus an entitlement to recover other expenses. In addition, AIML receives transaction and performance fees for acquiring and disposing of assets.

If the Internalisation Proposal is implemented, Arena REIT will no longer pay fees and cost recoveries to AIML. Instead, the management of Arena REIT will be

internalised and Arena REIT will directly engage the ARL board and management and be responsible for operational costs.

The Internalisation Proposal is expected to be accretive to Arena REIT's distributable income and cashflow through the elimination of management and transaction fees paid to AIML, resulting in overall savings in operating expenses as well as additional revenue from managing the Syndicates.

The net effect of the Internalisation Proposal on Arena REIT's operating costs on an annualised pro forma basis is summarised in the table below.

\$ million	Pre Internalisation <sup>A</sup>	Adjustment	Pro forma Post internalisation
Base management fee	3.1	(3.1) <sup>B</sup>	-
Other management operating costs	0.3	2.3 <sup>C</sup>	2.6
Management fee income	-	(0.3) <sup>D</sup>	(0.3)
<b>Net Management Costs</b>	<b>3.4</b>	<b>(1.1)</b>	<b>2.3</b>
Net interest expense on funding the consideration	-	0.4	0.4
<b>Net Operating Costs</b>	<b>3.4</b>	<b>(0.7)</b>	<b>2.6<sup>E</sup></b>

#### Note:

- A Represents Arena REIT's FY15 pre internalisation annual operating expense budget for base management fees and other management cost recoveries, including property services.
- B Represents the elimination of the base management fee payable to AIML (based on Arena REIT's gross asset value) no longer payable post internalisation.
- C Represents the incremental pro forma annualised expenses in respect of staff remuneration and other operating costs such as IT systems and office accommodation post internalisation.
- D Represents the pro forma annual management fees receivable from the Syndicates.
- E Due to rounding.

### Other costs

- Arena REIT expects to incur one-off internalisation transaction costs associated with the negotiating and implementing the Internalisation Proposal of approximately \$0.8 million (excluding costs associated with evaluating any alternative proposals). Transaction costs are expensed and excluded from distributable income in accordance with Arena REIT's distribution policy.

## 5.2 FY15 Distribution Guidance

If the Internalisation Proposal is implemented, underlying distributable income is expected to increase in the period post internalisation due to expected ongoing net management cost savings contributing to ARF distribution guidance for FY15 being upgraded to

10.0 cents per security (up from 9.75 cents per security).

Distribution guidance is provided on the basis of:

- the Internalisation Proposal is implemented in December 2014;
- on a status quo basis assuming no asset acquisitions or transactions other than the implementation of the Internalisation Proposal;
- tenants continue to comply with their lease obligations;
- existing developments projects are completed in accordance with management's timetable and budget; and
- costs associated with ARL (and its subsidiaries) providing management services to AIML will be recovered in line with contractual terms.

### 5.3 Effect on Financial Position if the Internalisation Proposal is implemented

#### Basis of Preparation

The financial information below has been prepared in accordance with the recognition and measurement principles of Australian Accounting Standards. However, it is presented in abbreviated form and on a basis which does not include all of the disclosures, statements or comparative information required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act and presents information on a basis which is not in accordance with the presentation requirements of Australian Accounting Standards. The accounting policies used in preparing the financial information are the same as those given in Arena REIT's audited financial report for the year ended 30 June 2014.

The table below sets out the consolidated balance sheet of Arena REIT as at 30 June 2014 and Arena REIT's pro forma balance sheet adjusted for the effects of transactions post 30 June 2014 and post implementation of the Internalisation Proposal.

\$ million	Arena REIT 30 June 14	Pro forma Adjustment A	Arena REIT Pro forma pre internalisation	Pro forma Adjustment B	Pro forma Adjustment C	Pro forma Post Internalisation
Cash	3.9	-	3.9	3.8	(0.8)	6.9
Trade and other receivables	15.6	(14.0)	1.6	2.2	-	3.8
Investment properties	355.8	23.0	378.8	-	-	378.8
Intangibles	-	-	-	10.7	-	10.7
<b>Total assets</b>	<b>375.3</b>	<b>9.0</b>	<b>384.3</b>	<b>16.7</b>	<b>(0.8)</b>	<b>400.2</b>
Trade and other payables	11.0	-	11.0	3.7	-	14.7
Derivative financial instruments	1.3	-	1.3	-	-	1.3
Interest bearing liabilities	125.0	9.0	134.0	13.0	-	147.0
<b>Total liabilities</b>	<b>137.3</b>	<b>9.0</b>	<b>146.3</b>	<b>16.7</b>	<b>-</b>	<b>163.0</b>
<b>Net Assets</b>	<b>238.0</b>	<b>-</b>	<b>238.0</b>	<b>-</b>	<b>(0.8)</b>	<b>237.2</b>
<b>Total equity</b>	<b>238.0</b>	<b>-</b>	<b>238.0</b>	<b>-</b>	<b>(0.8)</b>	<b>237.2</b>
<b>Net Assets per security</b>	<b>\$1.125</b>		<b>\$1.125</b>			<b>\$1.122</b>
<b>NTA per security</b>	<b>\$1.125</b>		<b>\$1.125</b>			<b>\$1.071</b>
<b>Gearing</b>	<b>33.3%</b>		<b>34.9%</b>			<b>36.7%</b>

#### Notes to the pro forma adjustments:

- A Represents the post 30 June 2014 asset sale settlements and the capital expenditure to complete the committed development pipeline. For the purposes of the pro forma balance sheet it is assumed that development capital expenditure is debt funded.
- B Represents the pro forma balance sheet acquired on implementing the Internalisation Proposal and related funding. The pro forma balance sheet comprises the working capital and other balances acquired (including deferred fees and other entitlements) and the recognition of the intangible asset arising on the business combination representing management rights of Arena REIT and the Syndicates.
- C Represents the payment of estimated transaction costs in relation to the Internalisation Proposal.



## 06: Tax information for Investors



The Directors  
Arena Investment Management Limited (in its capacity as the responsible entity of Arena REIT No. 1  
and Arena REIT No. 2)  
71 Flinders Lane  
Melbourne VIC 3000

30 October 2014

Dear Sirs

### Australian tax considerations

This letter has been prepared for insertion in the Notice of Meeting and Explanatory Memorandum dated on or about 3 November 2014 to be sent to Investors. It comprises a brief guide to the Australian income tax, GST and stamp duty consequences for Investors. These comments are necessarily general in nature and do not attempt to address all of the Australian tax consequences for Investors.

This letter outlines the Australian income tax, GST and stamp duty consequences only and do not address other Australian tax consequences or the tax consequences under any foreign law, including foreign tax law. It is not relevant to taxpayers who:

- are not Australian tax residents;
- are exempt from income tax in Australia;
- invest or trade in units in the ordinary course of their business; or
- are subject to Division 230 of the Income Tax Assessment Act 1997 (i.e. Taxation of Financial Arrangements).

The Australian income tax, GST and stamp duty consequences of the Internalisation Proposal will vary depending on the particular circumstances of each Investor. Investors should obtain, and only rely upon, their own independent taxation advice having regard to their specific circumstances, about the consequences of the in specie distribution of the ordinary shares in ARL and the Internalisation Proposal.

Terms capitalised, but not defined, in this taxation commentary are as defined in the Notice of Meeting and Explanatory Memorandum Glossary.

The comments set out below are based on current Australian law and the judicial and administrative interpretations of the *Income Tax Assessment Act 1997*, *Income Tax Assessment Act 1936*, *Taxation Administration Act 1953* (collectively referred to as the **Tax Act**), *A New Tax System (Goods and Services Tax) Act 1999* (**GST Act**) and the relevant stamp duty legislation. However, Investors should be aware that the ultimate interpretation of the Australian tax law rests with the Australian courts, and that the law, and the way that the Australian Taxation Office (**ATO**) and state revenue offices interprets and administers the law, may change over time.

The information contained in this document does not constitute "financial product advice" within the meaning of the Corporations Act. The PricewaterhouseCoopers partnership which is providing this

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advice is not licensed to provide financial product advice under the Corporations Act. To the extent that this document contains any information about a "financial product" within the meaning of the Corporations Act, taxation is only one of the matters that must be considered when making a decision about the relevant financial product. This material has been prepared for general circulation and does not take into account the objectives, financial situation or needs of any recipient. Accordingly, any recipient should, before acting on this material, consider taking advice from a person who is licensed to provide financial product advice under the Corporations Act. Any recipient should, before acting on this material, also consider the appropriateness of this material having regard to their objectives, financial situation and needs, and consider obtaining independent financial advice. If this material relates to the acquisition or possible acquisition of a particular financial product, a recipient in Australia should obtain any relevant disclosure document prepared in respect of that product and consider that document before making any decision about whether to acquire the product.

This taxation report should be read in conjunction with the remainder of the Notice of Meeting and Explanatory Memorandum.

## **1 The Internalisation Proposal**

As part of the Internalisation Proposal, it is anticipated that Investors will receive an in specie distribution of 1 New ARL Share for each Existing Stapled Security held on the Stapling Record Date.

The distribution of the New ARL Shares will be treated as a capital return to Investors. Investors will be required to reduce the tax cost base of their ARF1 units by the market value of the in specie distribution made by ARF1, being the market value of the New ARL Shares, equal to \$0.061435 per ARF1 unit. Where the in specie distribution exceeds the Investors' current tax cost base in the ARF1 units, a capital gain will arise equal to the excess amount. Investors may be entitled to claim the capital gains tax (CGT) discount on any capital gain.

Refer below for details of the treatment of capital gains and the CGT discount.

Investors' tax cost base in the New ARL Shares should be equal to the market value of the New ARL Shares at the time of the in specie distribution.

## **2 Post completion of the Internalisation Proposal**

### **2.1 Underlying securities**

The New Stapled Securities will consist of an ARF1 unit, an ARF2 unit and a New ARL Share.

### **2.2 Distributions from the New Stapled Securities**

Distributions from the New Stapled Securities may comprise dividends from ARL in addition to distributions from ARF1 and ARF2.

#### **2.2.1 Dividends from ARL**

Dividends paid by ARL should be included in the Investors' assessable income in the year in which the dividend is paid. If the dividend is franked (because income tax has been paid on the profits out of which the dividend is paid), then the amount of the associated franking credit will also be included in the Investors' assessable income. In these circumstances, an Investor will generally be entitled to a tax



offset against their assessable income equal to the amount of the franking credit. If this tax offset exceeds the Investor's tax payable as assessed, the Investor may be entitled to a refund of the excess offset. A corporate Investor may be entitled to a franking credit in its franking account.

### *Holding period rule*

In order to qualify for franking benefits, including franking credits and a tax offset, an Investor is required to hold the New ARL Shares "at risk" for at least 45 days. This "holding period rule" is subject to certain exceptions, including where the total franking rebates of an individual in a year of income do not exceed \$5,000. Special rules apply to trusts and beneficiaries. It is important that Investors comply with this rule in order to qualify for franking benefits.

### **2.3 Disposal of New Stapled Securities**

For CGT purposes, the disposal of New Stapled Securities will be treated as the disposal of three separate assets; an ARF1 unit, an ARF2 unit and a New ARL Share. The CGT rules will apply separately to each asset. As the components of the New Stapled Securities cannot be acquired or disposed of separately, an apportionment of the sale proceeds between the three assets will be required based on the relative market value of each at the time of the disposal.

Investors will derive a capital gain on the disposal of an ARF1 unit, an ARF2 unit or a New ARL Share to the extent that the consideration received on disposal exceeds the cost base of the unit or New ARL Share respectively. Investors will incur a capital loss on the disposal of an ARF1 unit, an ARF2 unit or a New ARL Share to the extent that the consideration on disposal is less than the reduced cost base of the unit or New ARL Share respectively. Cost base adjustments may be required (and capital gains may arise) where ARF1 and ARF2 make tax-deferred distributions. In general terms, the cost base in each of the units will be the amount paid to acquire the unit less any tax deferred distribution amounts. The cost base in the New ARL Shares will be the market value of the New ARL Shares at the time of the in specie distribution less any capital returns.

All capital gains and capital losses arising in a financial year are added together to determine whether an Investor has derived a net capital gain or incurred a net capital loss in a year.

### *Treatment of capital gains and losses*

If an Investor derives a net capital gain in a year, this amount, subject to the comments below, is included in the investor's assessable income. If an Investor incurs a net capital loss in a year, this amount may be carried forward and may be available to offset capital gains derived in the same income year or subsequent income years, subject in some cases to the Investor satisfying certain rules relating to the recoupment of carried forward losses.

### *CGT Discount*

An Investor (either an individual or a complying superannuation fund) may be entitled to a CGT discount in respect of a taxable capital gain realised on the ultimate disposal of New Stapled Securities, if the New Stapled Securities are disposed of at least 12 months after the date of acquisition. The CGT discount applies to reduce capital gains made by individuals by 50% and capital gains made by complying superannuation funds by 33 1/3%. The CGT discount is not available for companies.



### 3 Tax File Number and Australian Business Number

An Australian investor may quote their Tax File Number (TFN) or, where relevant, Australian Business Number (ABN) to ARML. If a TFN or ABN is not quoted, tax may be deducted from any assessable amount paid to Investors. The rate of withholding is 49%, being the highest marginal tax rate (including the temporary budget repair levy) plus Medicare levy.

### 4 Goods and Services Tax

The acquisition of the New ARL Shares and the ultimate disposal of New Stapled Securities will generally be financial supplies and, consequently, no GST should be payable in respect of these transactions.

The ability of an Australian resident that is registered or required to be registered for GST to claim input tax credits on related transaction costs (if any) may be restricted. This is a complex area of the GST law and hence we recommend that such Australian residents seek their own independent tax advice in this regard.

### 5 Stamp duty

No stamp duty should be payable by Investors as a result of the Internalisation Proposal.

\* \* \*

Yours sincerely

Kirsten Arblaster  
Partner  
PricewaterhouseCoopers



 Campbelltown Medical and Dental Centre, 296 Queen Street, Campbelltown NSW



# 07: Independent Expert's Report



**KPMG Corporate Finance**

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The Independent Directors  
Arena Investment Management Limited  
as responsible entity of Arena REIT  
71 Flinders Lane  
MELBOURNE VIC 3000

3 November 2014

Dear Independent Directors

## PART ONE – INDEPENDENT EXPERT'S REPORT

### 1 Introduction

On 4 November 2014, Arena Investment Management Limited (AIML), the responsible entity of both Arena REIT No. 1 (ARF 1) and Arena REIT No. 2 (ARF 2) (referred to collectively as Arena REIT), is expected to announce that it had entered into an implementation agreement with Citrus II Investments Pty Ltd (Citrus II) (the ultimate owner of AIML) for Arena REIT to internalise its corporate governance and management function and to assume the management of two unlisted wholesale syndicates, being PHC Darlinghurst Syndicate and Trust (PHC) and BSH Joint Venture (BSH) (referred to collectively as the Syndicates).

The proposal is to be implemented through the:

- distribution to existing Arena REIT stapled securityholders<sup>1</sup> (Existing Stapled Securityholders) of one fully paid ordinary share in Arena REIT Limited (ARL) for each existing stapled security held in Arena REIT (comprising one ARF 1 unit and one ARF 2 unit) (Existing Stapled Security)
- stapling of each share in ARL to each Existing Stapled Security to form a new stapled security (comprising one ARF 1 unit, one ARF 2 unit and one ARL share) (New Stapled Security)
- acquisition by ARL of Citrus Investment Services Pty Ltd (and its wholly owned subsidiaries, Arena REIT Management Limited (ARML) and Arena Property Services Pty Ltd) from Citrus II

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<sup>1</sup> Other than foreign Existing Stapled Securityholders, which are not entitled to receive New Stapled Securities in connection with the Proposal (due to legal restrictions), but will instead have the New Stapled Securities to which they would otherwise be entitled sold through the Sale Facility.

KPMG Financial Advisory Services (Australia) Pty Ltd is affiliated with KPMG.

KPMG is an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



*Arena Investment Management Limited  
Independent Expert's Report  
3 November 2014*

- change in the responsible entity of Arena REIT from AIML to ARML (which will be a wholly owned subsidiary of ARL after distribution of ARL shares to ARF 1 securityholders), and
- change in the manager of BSH and the manager and trustee of PHC from AIML to ARML

(collectively referred to as the Internalisation Proposal or the Proposal). After implementation of the Proposal, ARL (and its subsidiaries) will also provide property services to Arena REIT, the Syndicates and unlisted funds operated by AIML.

Under the terms of the Proposal, Arena REIT is to pay Citrus II consideration of \$11.5 million in exchange for:

- the management rights with respect to Arena REIT and the Syndicates (with an implied purchase price of approximately \$10.7 million)
- net assets of approximately \$0.8 million in relation to all other operating assets and liabilities of the management business such as intellectual property, IT systems, office equipment, syndicate receivables and other working capital balances.

Arena REIT is a stapled group which was formed in December 2013 by the stapling of ARF 1 and ARF 2 (formerly Sydney HealthCare Trust (SHCT)). Arena REIT is an Australian Real Estate Investment Trust (A-REIT) listed on the Australian Securities Exchange (ASX) and included in the S&P/ASX 300 index. As at 30 June 2014, Arena REIT held a property portfolio comprised of 176 childcare centres, 10 childcare development sites and seven medical centres situated throughout Australia, with an aggregate carrying value of \$355.8 million.

AIML is owned by Citrus Investment Services Pty Limited (Citrus), which is owned and controlled by MSREF VII Global, the investment platform sponsored and managed by Morgan Stanley Real Estate Investing which purchased AIML via a series of interposed investment vehicles. AIML currently provides management services to a number of funds, with total assets under management (AUM) of approximately \$1.08 billion as at 30 June 2014.

In order to assist Existing Stapled Securityholders in assessing the Proposal, the Independent Directors of AIML (Independent Directors), as responsible entity of Arena REIT, 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 fair and reasonable, and in the best interests of Existing Stapled Securityholders.

This report sets out the opinion of KPMG Corporate Finance as to the merits or otherwise of the Proposal, and will be included in the Notice of Meeting and Explanatory Memorandum (Document) to be sent to Existing Stapled Securityholders. This report should be considered in conjunction with, and not independently, of the information set out in the Document.

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.

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## 2 Summary of opinion

In our opinion, the Proposal is **fair and reasonable and in the best interests** of Existing Stapled Securityholders, in the absence of a superior proposal.

In assessing the merits and risks of the Proposal, it is important to recognise that:

- the Proposal is not only a management internalisation as it involves the acquisition of the management rights for the Syndicates. As it is not practical to evaluate the components individually, we have assessed the Proposal primarily as a management internalisation with appropriate consideration given to the management rights for the Syndicates
- the majority of listed A-REITs have moved toward an internalised management structure over the last decade, primarily driven by perceived conflicts of interest, management issues and concerns about the variable nature of management fees in a growth environment
- maintaining the status quo is unlikely to be a sustainable option as Morgan Stanley is expected to continue to pursue alternative transaction structures to realise their investment in AIML's management platform, including the sale of the Arena REIT management rights to another third party manager
- whilst termination of the incumbent manager (with or without compensation) is theoretically possible, this rarely occurs and historically mainly occurred in an environment of poor performance. Even if it could be achieved, this would create risks that likely outweigh any benefits, including loss of existing management team and knowledge, and breach of debt covenants amongst others
- the internalised management platform is proposed to be resourced to support the continuous growth of Arena REIT's property portfolio.

The fairness assessment of the Proposal is not straightforward in so far as there is no market value for management agreements. Nevertheless, in our opinion, the consideration to be paid to Citrus II is fair on the basis that:

- the present value of the net financial benefits expected from the Proposal is greater than the consideration to be paid to Citrus II based on our DCF analysis. This analysis has been conducted under a conservative "Status Quo" scenario and a "Growth" scenario which more closely reflects the growth ambitions of Arena REIT in the short to medium term. As the proposed internalised cost structure is relatively fixed, the Proposal becomes more advantageous to Existing Stapled Securityholders as the level of growth that is achieved increases, resulting in greater benefits of scale being realised
- the consideration to be paid to Citrus II is also supported by market evidence based on our analysis of multiples derived from comparable transactions. Both the consideration paid as a percentage of assets under management and the multiple of base management fees as implied by the Proposal, are consistent with those of comparable transactions. It is not unexpected that the net savings multiple implied by the Proposal is at the upper end of the range derived from transaction evidence, given the proposed internalised management structure is resourced for growth.

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The growth strategy that management has outlined includes the likelihood that additional acquisition, disposal and/or performance fees would be payable on successful implementation. The inclusion of an allowance to reflect this would have the effect of significantly reducing the net savings multiple. Even if the envisaged growth is not achieved, there would be an opportunity to realise further cost savings by scaling down the proposed internalised management structure to a level that is more efficient under a subdued growth scenario, which in turn would also reduce the net savings multiple.

In accordance with RG 111, an offer is reasonable if it is fair. This would imply that the Proposal is reasonable and, accordingly, in the best interests of Existing Stapled Securityholders. However, irrespective of the statutory obligation to conclude that the Proposal is reasonable simply because it is fair, we have also considered a range of factors which, in our opinion, support a reasonableness conclusion in isolation of our fairness opinion.

We consider the key benefits of the Proposal include:

- an uplift in the FY15 distribution guidance by approximately 2.6% to 10.00 cents per stapled security. Other things being equal, an expected uplift in earnings and distributable income should result in a corresponding uplift in Arena REIT's security price than would otherwise be the case
- the proposed internalised management model and associated cost structure may further enhance the growth prospects of Arena REIT with a potentially stronger earnings growth profile in the future through the realisation of economies of scale derived from a relatively fixed cost base
- better alignment of interests through direct accountability of directors and management to Arena REIT securityholders and the opportunity to introduce new employee incentive schemes which are more directly aligned to the financial and security price performance of Arena REIT
- corporate transactions may become more attractive as transaction fees would no longer be payable. An internalised management structure is also expected to enhance Arena REIT's attractiveness to potential acquirers through which Arena REIT securityholders could realise a premium for control.

Whilst we consider these benefits compelling, we have identified several disadvantages and risks associated with the Proposal. These include:

- the proposed change in the operating model of Arena REIT will not only affect the growth prospects and return characteristics (as discussed above) but also change the risk profile of Arena REIT driven by risks associated with a change in investment characteristics and changes to the operating cost structure as well as regulatory risks, transitional risks and dependency on key staff
- a decrease in the net tangible assets of approximately 4.8% to \$1.07 per stapled security as per Arena REIT's pro forma consolidated balance sheet
- an increase in the pro forma gearing ratio from 34.9% to 36.7% as the consideration to be paid to Citrus II will be funded by drawing down from Arena REIT's existing debt facility.

Our evaluation of the Proposal also considered:

- alternatives to the Proposal as the status quo is unlikely to be a sustainable option

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- the implications if the Proposal is not approved.

Overall, in our opinion, Existing Stapled Securityholders will be better off if the Proposal is implemented than under the status quo.

The principal matters that KPMG Corporate Finance has taken into consideration in forming its opinion that the Proposal is fair and reasonable and in the best interests of Existing Stapled Securityholders are discussed in more detail in section 0 of this report.

### 3 Other matters

In forming our opinion, we have considered the interests of Existing Stapled Securityholders as a whole. This advice therefore does not consider the financial situation, objectives or needs of individual Existing Stapled Securityholders. It is not practical or possible to assess the implications of the Proposal on individual Existing Stapled Securityholders as their financial circumstances are not known. The decision of Existing Stapled Securityholders as to whether or not to approve the Proposal is a matter for individuals based on, amongst other things, their risk profile, liquidity preference, investment strategy and tax position. Individual Existing Stapled Securityholders 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 proposed resolutions may be influenced by his or her particular circumstances, we recommend that individual Existing Stapled Securityholders 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 Existing Stapled Securityholders 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.

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 Document to be sent to Existing Stapled Securityholders 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 Document.

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 5.3 of our report.

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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

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

Ian Jedlin  
Authorised Representative

A handwritten signature in black ink, appearing to read 'S. P. Collins'.

Sean Collins  
Authorised Representative

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## 4 The Proposal

On 4 November 2014, AIML the responsible entity of Arena REIT, is expected to announce that it had entered into an implementation agreement with Citrus II (the ultimate owner of AIML) for Arena REIT to internalise its corporate governance and management function and to assume the management of the Syndicates.

The effective outcome of the Proposal is that Arena REIT will no longer pay fees to be externally managed because Arena REIT (through ARL) will own all the resources necessary to manage itself internally. In addition to internally managing Arena REIT, ARL (and its subsidiaries) will also provide external management services to the Syndicates.

Under the terms of the Proposal, Arena REIT is to pay Citrus II consideration of \$11.5 million in exchange for:

- the management rights with respect to Arena REIT and the Syndicates (with an implied purchase price of approximately \$10.7 million)
- net assets of approximately \$0.8 million in relation to all other operating assets and liabilities of the management business such as intellectual property, IT systems, office equipment, receivables from the Syndicates and other working capital balances.

Should the Proposal be approved, it will be implemented by the following steps:

- the distribution to Existing Stapled Securityholders (other than foreign Existing Stapled Securityholders) of new shares in ARL. The receipt of new shares by Existing Stapled Securityholders does not require Existing Stapled Securityholders to contribute any additional capital nor will Existing Stapled Securityholders need to lodge an application form
- the stapling of each share in ARL to each Existing Stapled Security in Arena REIT to form the New Stapled Security. The New Stapled Group will be listed on ASX under the code ARF
- the acquisition by ARL of Citrus Investment Services Pty Ltd (and its wholly owned subsidiaries, ARML and Arena Property Services Pty Ltd) from Citrus II
- the change of the responsible entity of Arena REIT from AIML to ARML (which, by that time, will be a wholly owned subsidiary of ARL), and
- the change of the manager of the Syndicates from AIML to ARML.

For further details regarding the steps in the implementation process, refer to section 4 of the Document.

The Proposal will not proceed unless the conditions precedent as set out in the Implementation Deed are all satisfied or waived. The key conditions precedent include:

- the opinion of the independent expert that the Proposal is fair and reasonable and in the best interests of Existing Stapled Securityholders has not changed, been modified or withdrawn
- the Internalisation Resolutions as set out in the Document are passed by the Existing Stapled Securityholders

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- all relevant ASIC relief has been granted, and in respect of any ASIC relief not granted, ASIC has indicated in writing that such relief is not required
- all relevant ASX waivers and confirmations have been granted, and in respect of any ASX waivers or confirmations not granted, ASX has indicated in writing that such waiver or confirmation is not required
- ARML obtains an AFSL from ASIC in a form appropriate for acting as responsible entity of Arena REIT
- the Independent Directors continue to recommend that the Proposal is in the best interests of Existing Stapled Securityholders
- all required consents of financiers (and other relevant third parties) are received in writing before the Implementation Date, and
- there is no competing proposal made by a third party before the date the Proposal is implemented (Implementation Date) that AIML determines (in its absolute discretion) is more favourable to Existing Stapled Securityholders than the Proposal.

The status of these conditions will be advised at the meeting of Existing Stapled Securityholders to vote on the Proposal (Meeting).

AIML reserves the right to change the terms and conditions of the Proposal at any time prior to its implementation, subject to the Act and the ASX Listing Rules.

Transaction costs associated with the Proposal are approximately \$0.8 million (excluding costs associated with evaluating any alternative proposals). Substantially all of these costs are expected to have been incurred prior to the Meeting.

## **5 Scope of the report**

### **5.1 Purpose**

There is no technical requirement for an IER to be prepared in relation to the Proposal. The Independent Directors of Arena REIT have, however, requested KPMG Corporate Finance prepare this report to provide an assessment as to whether the Proposal is fair and reasonable and in the best interests of Existing Stapled Securityholders.

In undertaking this work, we have referred to guidance by the Australian Securities and Investments Commission (ASIC) under Regulatory Guide 111 "Content of expert reports" (RG 111).

This report has been prepared for inclusion in the Document. The Document will contain details of the Meeting which will be held to seek the approval of Existing Stapled Securityholders to the resolutions which will enable the Proposal to be implemented.

### **5.2 Basis of assessment**

Given the nature of the Proposal, whereby a price is being paid to Citrus II in order to internalise the management agreement, KPMG Corporate Finance considers the requirements under Section 411 of the

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Act to be analogous as a basis for evaluating the merits of the Proposal and therefore, the most appropriate framework to complete the IER. As such, our IER has been prepared with reference to the requirements for a Scheme of Arrangement as outlined in the Act and RG 111.

RG 111 indicates the principles and matters which ASIC expects a person preparing an independent expert 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. As it relates to the Proposal, we note:

- '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 securities subject to the offer. In this case the offer to internalise the management agreement
- the expert should not consider the percentage holding of the 'bidder' or its associates in the target when making this comparison
- an offer is 'reasonable' if it is 'fair'
- 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 (RG 111.18). In this case the offer to internalise the management agreement
- 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 (RG 111.19). In this case the offer to internalise the management agreement
- if an expert concludes that a scheme proposal is "not fair and not reasonable" then the expert would conclude that the scheme is not in the best interests of the members of the company (RG 111.20).

### 5.3 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 Arena REIT for the purposes of this report.

Further, we note that an important part of the information base used in forming our opinion comprised the opinions and judgements of management. In addition, we have also had discussions with management of Arena REIT in relation to the nature of its business operations, specific risks and opportunities, historical results and prospects for the foreseeable future. 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.

AIML as responsible entity of Arena REIT 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

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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 (forward-looking financial information) prepared by the management of AIML as responsible entity of Arena REIT. Whilst KPMG Corporate Finance has relied upon this forward-looking financial information in preparing this report, AIML as responsible entity of Arena REIT 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.

It is not the role of the independent expert to undertake the commercial and legal due diligence that a company and its advisers may undertake. The Independent Directors of AIML as responsible entity of Arena REIT, together with the Company's legal advisers, are responsible for conducting due diligence in relation to the Proposal. KPMG Corporate Finance provides no warranty as to the adequacy, effectiveness or completeness of the due diligence process, which is outside our control and beyond the scope of this report. We have assumed that the due diligence process has been and is being conducted in an adequate and appropriate manner.

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 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.

#### **5.4 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. AIML as responsible entity of Arena REIT has requested KPMG Corporate Finance limit the disclosure of some commercially sensitive information relating to Arena REIT and its subsidiaries. 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

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comprising Arena REIT. As such the information in this report has principally been limited to the type of information that is regularly placed into the public domain by Arena REIT.

## **6 Profile of Arena REIT**

### **6.1 Background**

Arena REIT is an Australian Real Estate Investment Trust (A-REIT) listed on the ASX. It had a market capitalisation of \$296 million as at 17 October 2014 and is included in the S&P/ASX 300 index.

As at 30 June 2014, Arena REIT held a property portfolio which included 176 childcare centres, 10 childcare development sites and seven medical centres situated throughout Australia, with an aggregate carrying value of \$356 million.

Arena REIT was established in 2003, as an unlisted fund, to acquire and develop a portfolio of childcare centres. Arena REIT acquired and developed 216 childcare centres over the five years to 2008 and has grown to be one of Australia's largest owners of childcare centre properties.

During 2008, the prevailing economic conditions associated with the global financial crisis resulted in Arena REIT ceasing to accept applications for securities and ceasing regular withdrawal offers. As a consequence, securityholders did not have access to liquidity from Arena REIT for an extended period of time.

In 2013, Arena REIT undertook an initial public offering (IPO) in order to raise capital and provide securityholders with access to liquidity. Arena REIT raised \$75 million through the IPO and commenced trading on the ASX on 13 June 2013. The capital raised was used to reduce debt and create capacity for growth to be achieved through acquisitions.

The objective of Arena REIT is to generate an attractive and predictable distribution to investors with earnings growth prospects over the medium to long term. Arena REIT's strategy involves investing in property underpinned by relatively long leases and in sectors with supportive macro-economic trends, including population growth and emerging demographics such as an ageing population. The following sectors have been identified as likely to provide investment opportunities consistent with this strategy:

- Childcare / Early learning services
- Education – including schools, colleges and universities and associated facilities
- Healthcare – including medical centres, diagnostic facilities, hospitals, aged care and associated facilities
- Government – government and high credit quality tenanted assets.

Since listing, Arena REIT has continued to pursue its strategy by undertaking the following transactions:

- acquisition of 15 operating childcare centres during FY14, including a 14 property portfolio leased to Affinity Education
- acquisition of six properties for construction of, or conversion into, childcare centres

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- stapling of ARF 1 with ARF 2 (formerly SHCT) in December 2013, which introduced sector diversification through six large scale multi-disciplinary medical centres
- acquisition of Caboolture Medical and Dental Centre located in Queensland, in May 2014
- disposal of 10 properties on 25 June 2014, which were selected based on criteria including age of centre, size, location, tenant operating performance and weighted average lease expiry (WALE). The proceeds of which will be utilised to fund new acquisitions or construction/conversion projects.

## 6.2 Operating structure

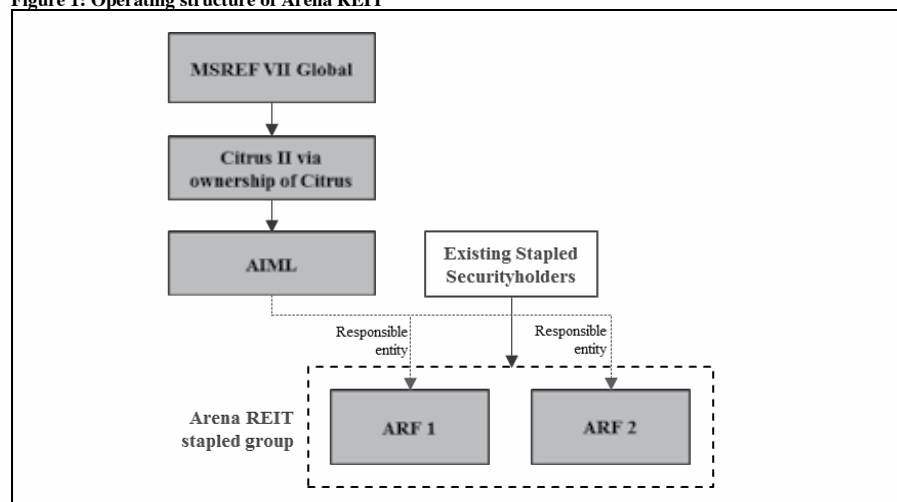
Arena REIT is a stapled group which was formed in December 2013 by the stapling of ARF 1 and ARF 2 (formerly SHCT). The units of ARF 1 and ARF 2 have been stapled together and are traded on the ASX as one security. Each Existing Stapled Security comprises one unit in each of ARF 1 and ARF 2.

Arena REIT is an externally managed REIT, with AIML acting as the responsible entity of ARF 1 and ARF 2 (referred to collectively as the Trusts). The rights and obligations of AIML as responsible entity are set out in the constitutions of the respective Trusts (the Constitutions).

AIML is owned by Citrus II via a wholly owned subsidiary (namely, Citrus Investment Services Pty Limited (Citrus)). Citrus II is owned and controlled by MSREF VII Global, the investment platform sponsored and managed by Morgan Stanley Real Estate Investing which indirectly purchased AIML via a series of interposed investment vehicles. Importantly, as the manager of the controlling entity, Morgan Stanley Real Estate Investing is responsible for appointing the board of AIML. Existing Stapled Securityholders have no ability to nominate, appoint or remove board members.

The operating structure of Arena REIT is summarised below.

**Figure 1: Operating structure of Arena REIT**



Source: AIML management

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The fees payable by Arena REIT under the existing management agreement are set out below.

**Table 1: Summary of management fees payable by Arena REIT**

Type of fee or cost	Entitlement under the Constitutions
Ongoing management fees and costs	0.8% on total assets up to \$400 million 0.7% on total assets between \$400 million and \$950 million 0.6% on total assets over \$950 million In addition, Arena REIT is required to reimburse AIML for certain costs relating to the proper performance of AIML's duties
Acquisition fee	1.0% of the value of any real property acquired by Arena REIT
Disposal fee	1.0% on the gross sale price of any real property of Arena REIT provided the gross sale price exceeds the purchase price for that real property
Performance fee	An additional 1.0% of the sale price of any real property of Arena REIT provided the gross sale price exceeds the purchase price of that real property by more than 20%

Source: the Constitutions

The disposal and performance fees are also payable on the merger or amalgamation of the Trusts with another managed investment scheme. The fees are payable as if the real property assets of the Trusts were sold for an amount equal to the value of the real properties as at the date of the merger or amalgamation as determined by an approved valuer appointed by AIML, i.e. AIML may be entitled to up to 2.0% or approximately \$7.5 million (including performance fees) on a merger with another entity.

AIML's role as responsible entity of Arena REIT is subject to the provisions of the Act relating to the retirement and removal of responsible entities for listed managed investment schemes. AIML effectively has indefinite tenure unless it retires or is removed. Either of these changes may occur following an ordinary resolution of securityholders (i.e. at least 50% of votes cast) for each trust.

### 6.3 Investment property portfolio

At 30 June 2014, Arena REIT held a property portfolio with a carrying value of \$355.8 million comprising 193 properties located throughout Australia. Arena REIT's investment property portfolio is summarised below.

**Table 2: Portfolio summary as at 30 June 2014**

As at 30 June 2014	Medical centres	Leased childcare centres	Vacant childcare centres	Childcare centre development sites	Total
No. of properties	7	174	2	10	193
Carrying value (\$ million)	64.2	270.0	1.6	20.0	355.8
Annual rent (\$ million)	5.3	23.7	n/a	n/a	29.0
Average rental yield <sup>1</sup>	8.3%	8.75%	n/a	n/a	8.7%
Occupancy (by number)	100%	100%	n/a	n/a	100%
WALE (by income) <sup>2</sup>	8.5	8.5	n/a	n/a	8.5

Source: Arena REIT FY14 Annual Results

Note 1: Excludes office component which contributes less than 1% of total income

Note 2: Excludes vacant centres and developments

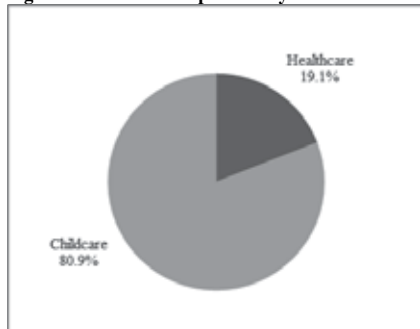
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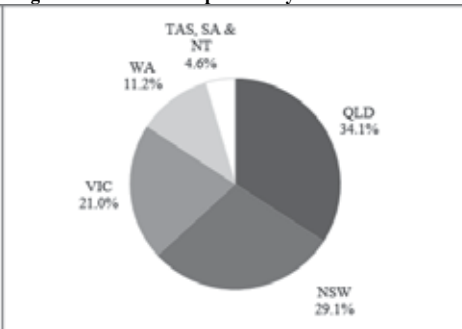
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The composition of Arena REIT's investment property portfolio as at 30 June 2014, by sector and by location, is illustrated below.

**Figure 2: Portfolio composition by sector<sup>1</sup>**



**Figure 3: Portfolio composition by location<sup>1</sup>**



Source: Arena REIT FY14 Annual Results

Note 1: Total value of the portfolio as at 30 June 2014 was \$355.8 million

In relation to the portfolio composition, we note that in terms of value, the portfolio is heavily weighted towards childcare, with properties in this sector representing 80.9% of the portfolio.

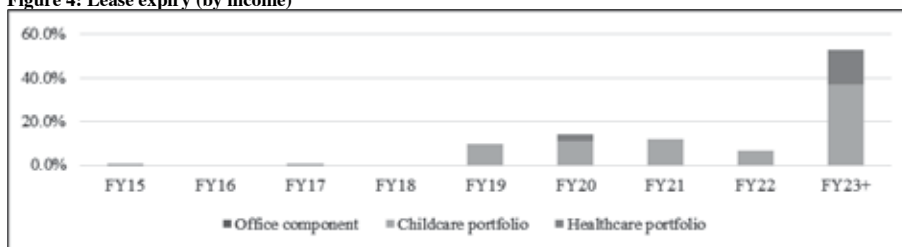
#### *Tenant diversification*

While the diversification of Arena REIT's tenant profile increased during the year ended 30 June 2014, it continues to exhibit a degree of concentration, with its largest three tenants, namely Goodstart, Primary Health Care and Affinity, leasing approximately 83.1% of the portfolio.

#### *WALE*

As at 30 June 2014, the portfolio had a WALE of 8.5 years, as illustrated below.

**Figure 4: Lease expiry (by income)**



Source: Arena REIT FY14 Annual Results

#### *Passing yield*

The portfolio's passing yield (calculated as the annual rent divided by the carrying value of the portfolio, expressed as a percentage) has compressed during the three years to 30 June 2014, which has contributed to capital appreciation of the portfolio. The portfolio's passing yield during recent years is set out below.

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**Table 3: Portfolio passing yield**

	FY12	FY13	FY14
Portfolio passing yield	9.50%	9.30%	8.75%

Source: Arena REIT Annual Results for FY13 and FY14

## 6.4 Financial performance

The financial performance of Arena REIT for the years ended 30 June 2012, 2013 and 2014 is summarised below. The financial performance for the year ended 30 June 2014 combines the results of ARF 1 for the year with the results of ARF 2 from 9 December 2013. The comparative financial information presented is that of ARF 1.

**Table 4: Financial performance**

For the period ending \$'000 unless otherwise stated	30-Jun-12 12 months	30-Jun-13 12 months	30-Jun-14 12 months
<b>Income</b>			
Lease rental income	21,749	21,296	26,382
Other income	821	722	71
<b>Total operating income</b>	<b>22,570</b>	<b>22,018</b>	<b>26,453</b>
<b>Expenses</b>			
Property expenses	(1,115)	(879)	(1,051)
Trust administration and operating expenses	(932)	(985)	(835)
Management fees	(2,399)	(2,372)	(2,377)
Finance costs	(9,658)	(6,622)	(3,682)
<b>Total expenses</b>	<b>(14,104)</b>	<b>(10,858)</b>	<b>(7,945)</b>
<b>Distributable income<sup>1</sup></b>	<b>8,466</b>	<b>11,160</b>	<b>18,508</b>
Straight-line rental income	748	497	401
Revaluation gain on investment properties	8,687	5,162	24,489
Change in fair value of derivatives	(4,245)	(141)	(1,200)
Revaluation gain on securities investment	1,382	1,413	-
Gain on sale of investment properties	808	10	3,784
Write-off capitalised debt establishment costs	-	(847)	(449)
Stapling and asset acquisition costs	-	(42)	(969)
Other	(165)	12	-
<b>Net profit for the year</b>	<b>15,681</b>	<b>17,224</b>	<b>44,564</b>
Other comprehensive income	551	-	-
<b>Total comprehensive income for the year</b>	<b>16,232</b>	<b>17,224</b>	<b>44,564</b>
<b>Statistics</b>			
Basic and diluted earnings per stapled security (cents) <sup>2</sup>	11.87	12.71	21.31
Distributable income per stapled security (cents) <sup>2</sup>	6.41	8.23	8.85
Distributions per stapled security (cents) <sup>2</sup>	6.50	8.00	8.75
Payout ratio (based on distributable income)	101.4%	97.1%	98.8%

Source: Arena REIT Annual Results and Financial Statements for FY13 and FY14; KPMG Corporate Finance analysis

Note 1: Distributable income consistent with funds from operations presented using principles of Property Council of Australia White Paper released in May 2013

Note 2: The number of stapled securities upon which these calculations are based represents the weighted average number of securities on issue during the year

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In relation to the financial performance of Arena REIT, we note:

- lease rental income increased by 24% in FY14, which was attributable to the stapling of ARF 2, asset acquisitions and rental growth
- management fees in FY14 remained broadly consistent with the prior year despite an increase in assets under management. This was due to the rate at which management fees are charged as a percentage of assets under management being reduced as part of the IPO in June 2013
- finance costs were lower in FY14 as a result of debt being refinanced with improved margins and lower average gearing (on an individual asset basis)
- revaluation gains on investment properties held represents the appreciation in property values resulting from increases in rental rates and changes in capitalisation rates
- net gain on sale of investment properties relates to the sale of 12 childcare properties during the year at premium to book value (\$3.79 million).

#### Management fees

The composition of management fees paid by Arena REIT to AIML during the years ended 30 June 2012, 2013 and 2014 are set out below.

**Table 5: Management fees**

For the period ending \$'000	30-Jun-12 12 months	30-Jun-13 12 months	30-Jun-14 12 months
Ongoing management costs - Management fees	2,399	2,372	2,377
Ongoing management costs - Reimbursement of costs	-	-	45
Acquisition fees	-	22	876
Disposal fees	48	-	-
Performance fees	-	-	-
<b>Total management fees</b>	<b>2,447</b>	<b>2,395</b>	<b>3,299</b>

Source: Arena REIT Annual Results and Financial Statements for FY13 and FY14

Regarding the management fees set out above, we note:

- management fees are accrued on a daily basis, calculated based on assets under management, and paid monthly in arrears
- upon stapling of ARF 2, expenses relating to the proper performance of AIML's duties are reimbursable from Arena REIT. The reimbursement of costs for FY14 of \$45,000 represents a partial year which is therefore not reflective of the expected ongoing annual amount
- acquisition fees during FY14 comprise amounts relating to the stapling of ARF 2 (\$546,500) and other acquisitions (\$329,780)
- disposal and performance fees relating to the 10 properties sold at auction on 25 June 2014 totalled \$284,150 and will be recognised upon settlement in FY15
- as at 30 June 2014, acquisition fees relating to development properties of \$270,000 had been deferred, and will be charged upon completion of these developments.

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### Distributions

Distributions paid by Arena REIT during the years ended 30 June 2012, 2013 and 2014, are set out in the table below.

**Table 6: Distributions**

Period ended	30-Jun-12 12 months	30-Jun-13 12 months	30-Jun-14 12 months
Weighted average number of stapled securities entitled to distributions (thousand units)	132,086	135,544	209,096
Distributable income (\$'000)	8,466	11,160	18,508
Distributable income per stapled security (cents)	6.41	8.23	8.85
Distributions for the period (\$'000)	8,586	10,864	18,312
Distributions per stapled security (cents)	6.50	8.00	8.75
Payout ratio <sup>1</sup>	101.4%	97.1%	98.8%

Source: Arena REIT Annual Results and Financial Statements for FY13 and FY14; KPMG Corporate Finance analysis

Note 1: Payout ratio was calculated as distributions per stapled security divided by distributable income per stapled security

The net increase in distributable income per stapled security during the year ended 30 June 2014 is primarily attributable to the following:

- additional income due to debt funded acquisition of new childcare properties and medical centres
- rental growth in the property portfolio
- reduced ongoing management fee rate
- lower average gearing (on an individual asset basis) and borrowing margins compared to FY13.

On 25 August 2014, Arena REIT announced the following:

- FY15 distribution guidance of 9.75 cents per stapled security, which represents an 11.4% increase on FY14. This guidance has been provided on a status quo basis, assuming no new acquisitions are made, developments which are in progress are completed in line with budget assumptions, and tenants comply with all of their lease obligations
- the opening of a distribution reinvestment plan (DRP) effective from the quarter ending September 2014. The DRP will assist with funding Arena REIT's current development pipeline.

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## 6.5 Financial position

The financial position of Arena REIT as at 30 June 2012, 2013 and 2014 is summarised below.

**Table 7: Financial position**

As at	30-Jun-12	30-Jun-13	30-Jun-14
<b>\$'000 unless otherwise stated</b>			
Cash and cash equivalents	5,561	4,995	3,947
Trade and other receivables	1,938	1,346	15,519
Assets held for sale	-	1,150	-
Investment properties	226,292	233,784	355,831
Financial assets held at fair value through profit or loss	6,406	-	-
<b>Total assets</b>	<b>240,197</b>	<b>241,275</b>	<b>375,297</b>
Trade and other payables	6,281	6,640	10,985
Derivative financial instruments	2,016	70	1,298
Interest bearing liabilities <sup>1</sup>	99,122	24,500	124,811
<b>Total liabilities</b>	<b>107,419</b>	<b>31,210</b>	<b>137,094</b>
<b>Net assets</b>	<b>132,778</b>	<b>210,065</b>	<b>238,203</b>
<b>Equity</b>			
Contributed equity - Arena REIT No. 1	134,325	205,252	183,221
Contributed equity - Arena REIT No. 2	-	-	21,285
Accumulated profit	(1,547)	4,813	33,697
<b>Total equity</b>	<b>132,778</b>	<b>210,065</b>	<b>238,203</b>
<b>Statistics</b>			
Number of securities outstanding at the reporting date ('000)	132,086	206,343	211,496
NTA per stapled security (\$) <sup>2</sup>	1.00	1.02	1.13
Gearing <sup>3</sup>	41.7%	10.4%	33.3%

Source: Arena REIT Annual Results and Financial Statements for FY13 and FY14; KPMG Corporate Finance analysis

Note 1: Interest bearing liabilities include borrowings net of unamortised transaction costs at 30 June 2012, 2013 and 2014 amounting to \$1,059,000, \$500,000 and \$189,000 respectively

Note 2: NTA per stapled security calculated as net tangible assets divided by stapled securities on issue at year end

Note 3: Gearing calculated as borrowings (excluding unamortised transaction costs) divided by total assets

In relation to the financial position of Arena REIT as at 30 June 2014, we note:

- trade and other receivables included an amount of \$14.2 million, which represents the proceeds from the sale of 10 childcare centres on 25 June 2014
- the carrying value of Arena REIT's property portfolio totalled \$355.8 million. The significant increase from 30 June 2013 is attributable to the stapling of ARF 2, acquisitions, revaluations, development acquisitions and capital expenditure less disposals
- the increase in trade and other payables is largely attributed to the accrual of construction property costs in relation to development activities
- as at 30 June 2014, contractual obligations which were not recognised as liabilities totalled \$8.5 million. These obligations include costs associated with developments and the acquisition of childcare properties

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- derivative financial instruments comprise interest rate derivatives which are carried at fair value
- gearing increased to 33.3% at 30 June 2014, which remained below Arena REIT's target gearing range of 35 to 45%. This increase is the result of debt funded acquisitions which occurred during the year.

#### Assets under management

Ongoing management fees are charged as a percentage of total assets. Arena REIT's total assets as at 30 June 2012, 2013 and 2014, together with the increases in these balances during the respective years, are set out below.

**Table 8: Assets under management**

As at	30-Jun-12	30-Jun-13	30-Jun-14
<b>\$ million unless otherwise stated</b>			
Total assets	240	241	375
Net increase	n/a	1	134
Net increase (%)	n/a	0.4%	55.5%

Source: Arena REIT Annual Results and Financial Statements for FY13 and FY14

The net increase in total assets during FY14 of \$134.0 million comprised the following:

- an increase of \$55.2 million from the stapling of ARF 2
- an increase of \$33.7 million from the acquisition of properties
- upward revaluation of the portfolio amounting to \$24.5 million
- capitalised development acquisitions and capital expenditure of \$18.5 million
- a decrease from disposals of \$11.1 million, offset by proceeds receivable from disposals of \$14.2 million
- other minor movements resulting in a net decrease of approximately \$1.0 million.

#### Interest bearing liabilities

Details of the committed financing facilities available and debt maturity profile of Arena REIT as at 1 July 2014 are set out below.

**Table 9: Financing facilities**

\$ million	Total facility	Amount drawn	Available facility	Maturity	Security
Bank facility	77.5	70.0	7.5	Jun-17	Secured
Bank facility	77.5	55.0	22.5	Jun-19	Secured
<b>Total</b>	<b>155.0</b>	<b>125.0</b>	<b>30.0</b>		

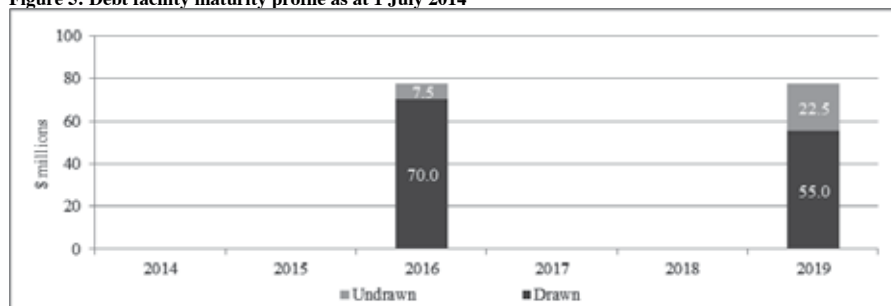
Source: Arena REIT Annual Results and Financial Statements for FY14

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**Figure 5: Debt facility maturity profile as at 1 July 2014**



Source: Arena REIT Annual Results for FY14

As at 1 July 2014, Arena REIT increased its debt facility by \$15 million to \$155 million, which extended its average remaining facility term by one year to four years.

The financial covenants relating to Arena REIT's debt facilities are set out below, together with its actual performance with respect to each of these covenants.

**Table 10: Financial covenants**

Financial covenant	Covenant	30-Jun-13	30-Jun-14
Loan to value ratio	less than 50%	10.8%	36.3%
Interest cover ratio	greater than 2.0x	2.6	5.9

Source: Arena REIT Annual Results and Financial Statements for FY13 and FY14

## 6.6 Capital structure

The following table sets out the substantial Existing Stapled Securityholders of Existing Stapled Securities as at 19 August 2014.

**Table 11: Substantial Existing Stapled Securityholders as at 19 August 2014**

Name of substantial securityholder	Number of stapled securities	Percentage of issued capital
Trust Company (Australia) Limited <Citrus Subsidiary Trust>	26,952,874	12.74%
BT Investment Management Limited	19,487,639	9.21%
<b>Total stapled securities held by substantial securityholders</b>	<b>46,440,513</b>	<b>21.96%</b>
Other shareholders	165,055,140	78.04%
<b>Total stapled securities on issue</b>	<b>211,495,653</b>	<b>100.00%</b>

Source: Arena REIT Annual Results and Financial Statements for FY14

### *Interests held by related entities*

As at 19 August 2014, MSREF VII Global is a related entity of AIML and indirectly holds 26,952,874 Existing Stapled Securities. This currently represents the largest interest in Arena REIT, with the direct securityholder being Trust Company (Australia) Limited <Citrus Subsidiary Trust>, as stated in the above table.

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Despite being ultimately owned by MSREF VII Global, Trust Company (Australia) Limited <Citrus Subsidiary Trust> is eligible to vote in relation to the Proposal so long as it is not deemed to be an associate of AIML for the purposes of Section 253E of the Act.

### Directors' interests

As at 30 June 2014, the Directors of AIML held the following securities (directly or indirectly).

**Table 12: Director's relevant interests at 30 June 2014**

Name	No. of units held at 1 July 2013	No. of units acquired	No. of units disposed	No. of units held at 30 June 2014
David Ross	200,000	-	-	200,000
Simon Parsons	200,000	-	-	200,000
Dennis Wildenburg	150,000	-	-	150,000
James Goodwin	500,000	-	-	500,000
Bryce Mitchelson	749,000	-	-	749,000

Source: Arena REIT Annual Report for FY14

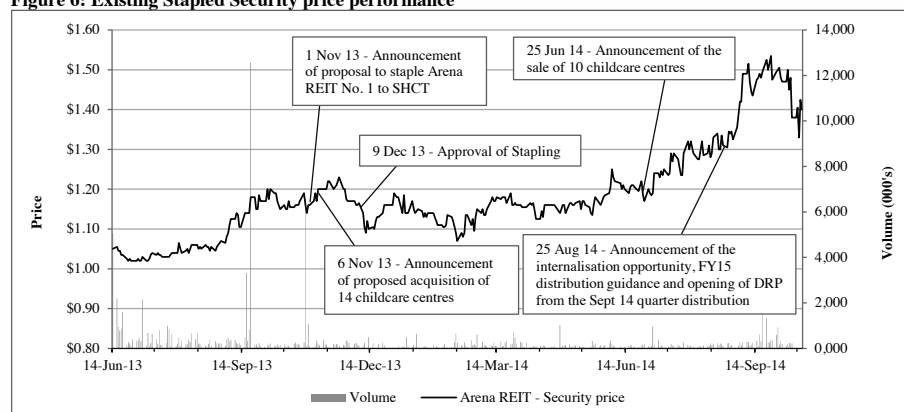
Directors of AIML will be entitled to vote in relation to the Proposal and receive shares in ARL (and otherwise participate in the Proposal) in respect of any securities held by or on behalf of them to the extent permitted by law.

## 6.7 Security price performance

### 6.7.1 Recent security market trading

The trading price and volume of Existing Stapled Securities from 14 June 2013 to 17 October 2014 is illustrated below.

**Figure 6: Existing Stapled Security price performance**



Source: S&P Capital IQ; KPMG Corporate Finance analysis

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Since listing in June 2013, the trading price of the Existing Stapled Securities has increased significantly as a result of earnings growth through stapling, acquisitions and strategic disposals. The strongest increase in the trading price of Arena REIT was recorded shortly after AIML announced on 25 August 2014 that it had entered into an exclusivity arrangement with Citrus II in relation to a formal internalisation proposal. The effect of the announcement of the internalisation opportunity, however, was diluted by the concurrent announcement of the distribution guidance for FY15 and the opening of a distribution reinvestment plan effective from the quarter ending September 2014.

### 6.7.2 Liquidity

An analysis of the volume of trading in Existing Stapled Securities, including the VWAP for the period up to the announcement of the internalisation opportunity on 25 August 2014 and the period after this date until 17 October 2014, is set out below.

**Table 13: Volume of trading in Existing Stapled Securities**

Period	Price (low) \$	Price (high) \$	Price VWAP \$	Cumulative value \$ millions	Cumulative volume millions	% of issued capital
<b>Period ended 17 October 2014</b>						
1 day	1.39	1.43	1.41	0.1	0.0	0.0
1 week	1.32	1.43	1.37	1.2	0.9	0.4
1 month	1.32	1.58	1.48	17.5	11.8	5.6
<b>Period ended 22 August 2014<sup>1</sup></b>						
1 week	1.28	1.35	1.32	1.2	0.9	0.4
1 month	1.24	1.35	1.30	3.7	2.9	1.4
3 months	1.16	1.35	1.24	10.7	8.6	4.1
6 months	1.08	1.35	1.19	22.9	19.2	9.1

Source: S&P Capital IQ; KPMG Corporate Finance analysis

Note 1: Last trading day prior to the announcement of the internalisation opportunity

In relation to the table above, we note that during the six month period prior to 22 August 2014, 9.1% of issued securities were traded. This level of liquidity indicates that there is an active market for the Existing Stapled Securities.

### 6.7.3 Relative security price performance

The performance of the Existing Stapled Securities from 14 June 2013 to 17 October 2014, relative to the A-REIT Index (rebased to 100) is illustrated below.

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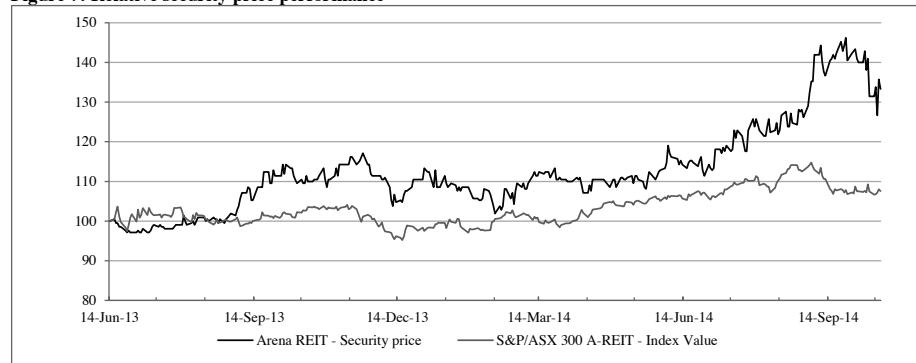


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**Figure 7: Relative security price performance**



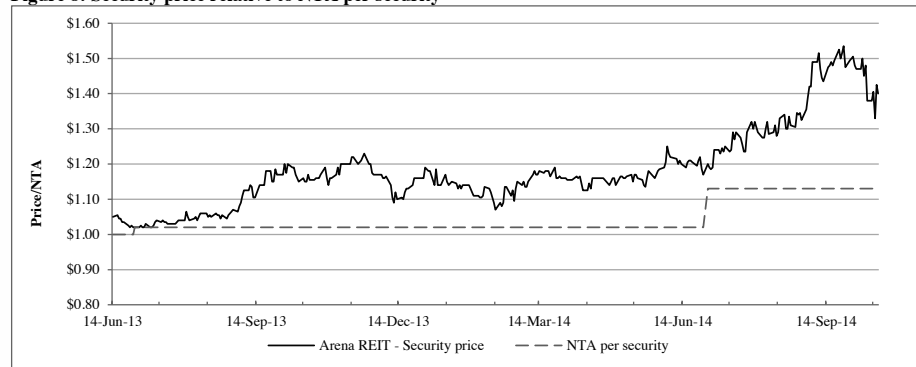
Source: S&P Capital IQ; KPMG Corporate Finance analysis

Since February 2014, Arena REIT has outperformed the A-REIT Index with the Existing Stapled Securities increasing during this period by approximately 35%, in comparison to an increase in the A-REIT index of approximately 7%. This may be attributed to Arena REIT's announcement of acquisitions, FY15 distribution guidance and the internalisation opportunity.

## 6.7.4 Security price relative to NTA

The price of the Existing Stapled Securities relative to the NTA per security from 14 June 2013 to 17 October 2014 is illustrated below.

**Figure 8: Security price relative to NTA per security**



Source: S&P Capital IQ; Arena REIT Annual Results and Financial Statements for FY13 and FY14; KPMG Corporate Finance analysis

Since listing, the Existing Stapled Securities have consistently traded at a premium to NTA.

The average premium (based on six month VWAP) to NTA during the six months prior to the announcement of the internalisation opportunity was 12.8%. The premium to NTA on 22 August 2014,

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the day prior to the announcement of the internalisation opportunity, was 15.9%. While difficult to quantify, reasons for the premium may include:

- the positive outlook in the Australian childcare and healthcare property sectors
- potential capitalisation rate compression which had not yet been reflected in NTA
- an expectation that the current strategy of Arena REIT will continue to generate growth in distributable earnings.

## 6.8 Outlook

On 25 August 2014, Arena REIT provided the following guidance regarding its outlook for FY15, indicating that the growth outlook was positive, as it expects:

- to continue the development of new childcare centres with suitable tenancy pre-commitments
- to continue actively seeking acquisitions in the childcare, healthcare, education and government sectors
- to continue to remix the childcare portfolio by disposing of assets that are smaller and older
- based on recent sales evidence, there appears to be scope for further revaluation gains over FY15
- FY15 distribution guidance of 9.75 cents per stapled security, which represents an 11.4% increase on FY14. This guidance has been provided on a status quo basis, assuming no new acquisitions are made, developments which are in progress are completed in line with budget assumptions, and tenants comply with all of their lease obligations.

In July 2014, the Australian Productivity Commission released a draft report into "Childcare and Early Childhood Learning". The draft report recognised that the market is 'large, diverse and growing'. It also contained various recommendations focussed on improving accessibility, flexibility of arrangements and ensuring that public expenditure is efficient and effective.

In our view, having reviewed the draft report, the continued government focus on improving childcare and early childhood learning is unlikely to have an adverse impact on the operations of Arena REIT.

### *Developments*

As at 25 August 2014, the value of Arena REIT's development pipeline based on budgeted project costs was approximately \$40 million, and is expected to drive growth in FY15 and into FY16. The composition of this pipeline is set out below.

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**Table 14: Development pipeline**

	Number of properties	Estimated construction completion	Total project cost (approx.) (\$ million)	Average initial yield
Properties owned and in construction	5	1H FY15	11	9.3%
Properties owned or under contract, construction pending	3	2H FY15	7	9.5%
Properties owned or under contract and awaiting planning approval	5	FY16	23	9.0%

Source: Arena REIT FY14 Annual Results

In addition to the existing development pipeline, Arena REIT is pursuing the acquisition of a number of other properties for construction or conversion into childcare.

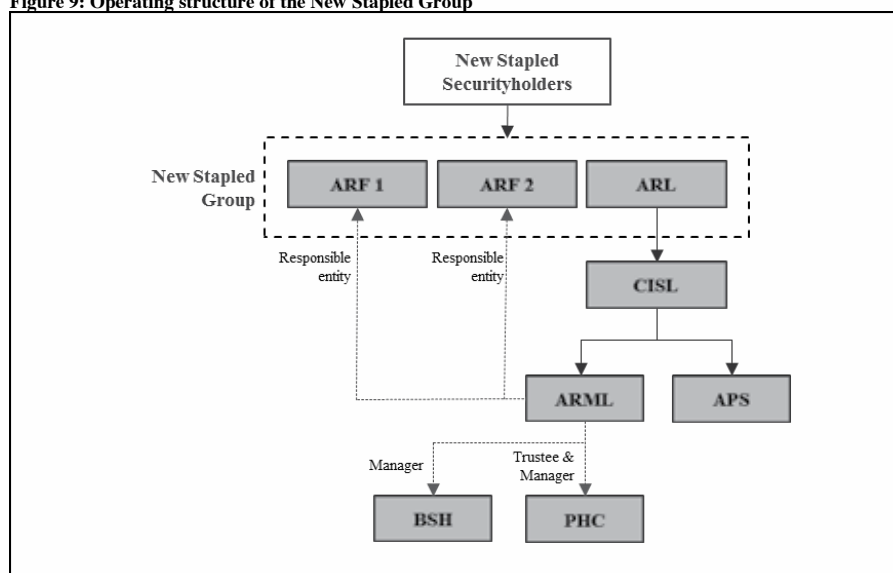
## 7 Profile of New Stapled Group

### 7.1 Operating structure

The implementation of the Proposal will result in Arena REIT internalising its corporate governance and management function and assuming the management of the Syndicates. The Existing Stapled Securities will be replaced by New Stapled Securities and trade on ASX under code ARF.

The operating structure of the New Stapled Group is summarised below.

**Figure 9: Operating structure of the New Stapled Group**



Source: AIML management

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ARL and ARML are both newly incorporated public companies limited by shares which have not traded prior to implementation of the Proposal. If the Proposal is approved and implemented, Existing Stapled Securityholders will own 100% of ARL (and its wholly-owned subsidiaries) and those entities will:

- manage Arena REIT (with ARML replacing AIML as the responsible entity)
- manage the Syndicates (with ARML replacing AIML as the manager of the Syndicates)
- provide property management services to Arena REIT and the Syndicates.

As part of the divestment process on the remaining management platform of AIML, ARL (and its subsidiaries) has agreed to provide transitional management services to AIML which are expected to continue through to approximately December 2015.

ARL's strategy for the New Stapled Group is consistent with Arena REIT's existing strategy. The New Stapled Group will continue to pursue the objective of generating an attractive and predictable distribution to stapled securityholders with earnings growth prospects over the medium to long term.

In addition, the New Stapled Group, through ARL and its subsidiaries, may seek to grow earnings for Arena REIT by leveraging its existing capabilities to also provide funds management and property management services to other managed funds.

## **7.2 Management platform**

### **7.2.1 Internalised management of Arena REIT**

In order to provide continuity and mitigate the transitional risks associated with a change of the responsible entity, ARL has secured key members of AIML's board and senior management team who have been responsible for the governance and management of Arena REIT since its ASX listing in June 2013. David Ross will continue as Independent Non-Executive Chairman on the ARL board and will be joined by Dennis Wildenburg and Simon Parsons as Independent Non-Executive Directors. Bryce Mitchelson will be Managing Director of ARL, supported by members of the current AIML senior management team, including Gareth Winter (to be appointed Chief Financial Officer of Arena REIT) and Rob de Vos (to be appointed Head of Property of Arena REIT).

In order to support the growth objective of Arena REIT, a management structure comprised of a team of eight staff (including the Managing Director, CFO and Head of Property) is proposed which provides the capacity to focus on growth opportunities including both direct property acquisitions and merger and acquisition opportunities. The growth focus of the proposed management structure is enhanced by the proposed remuneration structure for senior management as a large portion of their remuneration will be linked to short and long term incentive plans which are subject to the successful growth of Arena REIT.

The internalised board and management team will be directly accountable to Arena REIT securityholders. Going forward, Arena REIT will hold an Annual General Meeting and Arena REIT securityholders with sufficient majority may appoint and remove directors in certain circumstances as well as vote on the remuneration structure.

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## 7.2.2 External funds management

If the Proposal is implemented, ARML will also replace AIML as the manager of the Syndicates. A description of the Syndicates and the basis upon which management fees will be charged by ARML to the Syndicates is outlined below.

### *Management of BSH*

BSH is an unincorporated joint venture with 19 investors which owns one property in Heidelberg, Victoria. The property is a pathology asset and is fully leased to Primary Health Care Limited, with a remaining lease term of 7.1 years and valued at \$17 million (as at 30 June 2014). BSH is presently providing an income yield to syndicate investors of 9.2% per annum.

BSH was established in 2001 and was intended to be wound up some time after the 10th anniversary of settlement of the original purchase (April 2001). An investor meeting was held in April 2013, at which investors resolved to retain the asset. The next investor meeting to vote on whether to dispose of the asset and wind up BSH is scheduled for April 2015.

As the manager of the BSH, ARML will be entitled to receive ongoing management fees, cost reimbursements and disposal fees as set out below.

**Table 15: Management fees of BSH**

Type of fee or cost	Entitlement under the Constitution
Ongoing management fees and costs	1.0% on the carrying value of the property In addition, BSH JV will be required to reimburse ARML for certain costs relating to the proper performance of ARML's duties
Disposal fee	1.0% on the gross sale price of any real property of BSH JV provided the gross sale price exceeds the purchase price for that real property

Source: AIML management

### *Management of PHC*

PHC is an unincorporated joint venture and trust with 40 investors which owns one property in Darlinghurst, New South Wales. The property is a medical clinic and is fully leased to a subsidiary of Primary Health Care Limited, with a remaining lease term of 7.7 years and valued at \$14.75 million (as at 30 June 2014). PHC is presently providing an income yield to syndicate investors of 10.9% per annum.

PHC was established in 2001 and was intended to be wound up some time after the 10th anniversary of settlement of the original purchase (April 2001). An investor meeting was held in December 2013, at which investors resolved to retain the asset. The next investor meeting to vote on whether to dispose of the asset and wind up PHC is scheduled for December 2015.

As the manager of the PHC, ARML will be entitled to receive ongoing management fees, cost reimbursements and disposal fees as set out below.

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**Table 16: Management fees of PHC**

Type of fee or cost	Entitlement under the Constitution
Ongoing management fees and costs	1.0% on the carrying value of the property In addition, PHC will be required to reimburse ARML for certain costs relating to the proper performance of ARML's duties
Disposal fee	2.0% on the gross sale price of any real property of PHC provided the gross sale price exceeds the purchase price for that real property

Source: AIML management

As part of the Proposal, ARML will also acquire certain receivables from AIML which entitle ARML to collect accrued management fees of approximately \$0.8 million from the PHC.

### 7.2.3 Operating costs

The expected costs of operating the proposed internalised management platform are outlined below.

#### *Staff remuneration*

The remuneration costs of management represent the largest component of ongoing operating costs. The proposed remuneration structure comprises fixed remuneration, and for eligible employees at the discretion of the board, variable incentive payments, including a short-term incentive (STI) plan and, for eligible senior employees, a long term incentive (LTI) plan.

The table below summarises the proposed total maximum staff remuneration and incentive opportunity for FY15 on an annualised basis.

**Table 17: Total maximum annualised staff remuneration and incentive opportunity for FY15**

\$ million	Annualised remuneration for FY15
Total fixed remuneration	1.6
Maximum STI	0.5
Maximum LTI	0.5
<b>Total</b>	<b>2.6</b>

Source: AIML management

Note: For FY15, the STI and LTI plans will be pro-rated for the period from the Implementation Date to 30 June 2015.

#### **Short-term incentive plan**

All employees are eligible to participate in the STI plan at the discretion of the board. STI payments earned will be paid in cash following the end of the financial year, once board approval has been obtained.

STI payments earned by eligible employees are assessed against specific key performance indicators (KPIs). For FY15, the weighting on financial metrics (i.e. distributable income per stapled security) is 70%, with the remainder being based on non-financial KPIs. Of the maximum STI, 50% is payable for threshold performance and 100% for stretch performance.

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### **Long-term incentive plan**

Senior employees are eligible to participate in the LTI plan at the discretion of the board. The LTI plan is a performance-based equity incentive scheme and therefore will not affect the operating costs of Arena REIT from a cash flow perspective, but may dilute the distributable income per stapled security.

The performance rights granted to eligible employees will vest after a three-year performance period subject to achieving performance hurdles. For FY15, there are two independent performance measures, with a 50% weighting to each:

- growth in distributable income per stapled security, based on FY17 distributable income per security achieved relative to target hurdles
- ranking of total shareholder return achieved by Arena REIT (assuming distributions are reinvested) relative to the A-REITs in the S&P / ASX 300 Accumulation Index over the performance period.

Refer to section 8.11 and 8.12 of the Document for further details regarding the proposed remuneration structure.

### **Board remuneration**

The remuneration of the board is proposed to be approximately \$0.4 million on an annualised basis.

### **Other operating costs**

Other operating costs are estimated to be approximately \$0.5 million on an annualised basis which include staff on-costs and costs related to occupancy, IT & communications, marketing and promotions, professional services (audit, tax, legal), insurance, regulatory obligations and corporate travel.

### **7.2.4 Transitional management services**

AIML currently manages a number of schemes in addition to Arena REIT and the Syndicates. These schemes include JAM Investment Trust, Chevron Renaissance Property Trust, the Arena Office Fund and the Arena Property Fund and their subsidiary trusts. AIML has commenced the process to divest these schemes or their assets and will continue to manage these schemes until each is wound up or divested.

As part of the Proposal, ARL (and its subsidiaries) has entered into an agreement to provide resources and services to AIML to enable it discharge its role as responsible entity and trustee of the schemes (the Resourcing Deed). Under the Resourcing Deed, ARL (and its subsidiaries) will be reimbursed for direct and indirect costs of providing resources and services to AIML, these costs are envisioned to include:

- any amounts relating to the employment of any employees who provide the resources and services
- a proportion of occupancy costs including rent, utilities and all other costs reasonably related to the occupancy
- a proportion of information technology costs.

It is also noted that under the implementation agreement Citrus II will remain responsible for the employment and redundancy costs of all non-transferring employees.

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The termination date of the Resourcing Deed will be the earlier of 31 December 2016, and the date upon which AIML retires as the responsible entity of Arena REIT, the schemes that it manages post internalisation are wound up and it no longer holds and AFSL licence.

### 7.3 Financial impact of the Proposal

From a financial perspective, if the Proposal is approved and implemented:

- Arena REIT will no longer pay management fees to AIML (including performance fees, acquisition fees and disposal fees)
- consideration will be paid to Citrus II which implies a purchase price of approximately \$10.7 million for the Arena REIT and wholesale funds management (intangible) rights plus net asset adjustments of approximately \$0.8 million in relation to all other operating assets and liabilities of the management business such as intellectual property, IT systems, office equipment, syndicate receivables and other working capital balances
- ARML will receive management fees and disposal fees for managing the Syndicates
- the consideration paid to Citrus II will be funded by drawing down from Arena REIT's existing debt facility which will increase the pro forma gearing ratio from 34.9% to 36.7%
- Arena REIT's pro forma NTA will reduce by 5.3% from \$1.13 to \$1.07.

#### 7.3.1 Net operating cost savings

AIML presently receives a management fee based on Arena REIT's gross asset value, plus an entitlement to recover other expenses. In addition, AIML receives transaction and performance fees for acquiring and disposing of assets.

If the Proposal is implemented, Arena REIT will avoid paying fees and cost recoveries to AIML. Instead, the management of Arena REIT will be internalised and Arena REIT will directly engage the ARL board and management and be responsible for all other operating costs.

The Proposal is expected to be accretive to Arena REIT's cash flows through the elimination of management and transaction fees paid to AIML and savings in net operating cost cash outflows.

The table below summarises the estimated savings in net operating cost cash outflows from the Internalisation Proposal on an annualised pro forma basis.

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**Table 18: Annualised pro forma savings in net operating cost cash outflows**

<b>\$ million</b>	<b>Annualised pro forma for FY15</b>
<b>Management fees avoided</b>	
Base management fee	3.1
Reimbursement and other management costs	0.3
<b>Sub-total</b>	<b>3.4</b>
<b>Less: Operating costs of the management platform</b>	
Staff remuneration	(1.7)
Board remuneration	(0.4)
Other operating costs	(0.5)
<b>Sub-total</b>	<b>(2.6)</b>
<b>Savings in net operating cost cash outflows</b>	<b>0.8</b>
Potential management fee income	0.3
<b>Savings in net operating cost cash outflows (including potential management fee income)</b>	<b>1.1</b>

Source: AIML management

The annualised pro forma savings in net operating cost cash outflows is estimated on the basis of:

- avoided management fees are calculated based on Arena REIT's pro forma consolidated balance sheet as set out below, assuming a total gross asset value of \$384 million property and development management contractor costs which are currently outsourced are also proposed to be internalised as part of the proposed management structure. Under the current operating structure these contractor costs are capitalised in development costs and are not reflected in the avoided management fees above. It is expected that a similar amount (15% of the total fixed staff remuneration) would be capitalised if the Proposal is implemented, and therefore, these costs have been excluded from the above analysis to enable a like-for-like comparison
- STI related costs are assumed at 70% of the maximum incentive opportunity, as the maximum opportunity will only be payable on achievement of stretch goals set by the board of the New Stapled Group
- the LTI plan is a performance-based equity incentive scheme and therefore will not affect the operating costs of Arena REIT from a cash flow perspective, but may dilute the distributable income per stapled security post FY17. The actual benefit delivered to employees will depend on the quantum of performance rights granted, the extent to which the performance hurdles are achieved, and the performance of the New Stapled Securities
- no allowance is made for operating costs which are able to be recharged under the Resourcing Deed, which will also effectively offset a portion of these costs during the transitional period
- potential management fees represent the annual management fees payable by the Syndicates to ARML upon implementation of the Proposal. This income may not be available if the terms of the Syndicates are not extended
- the net operating cost savings exclude the costs associated with the funding of the consideration payable in relation to the Proposal. Based on the proposed debt funding of the purchase

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consideration, additional borrowing costs on a pro forma annualised basis of net \$0.4 million are expected to be incurred.

### **7.3.2 FY15 distribution guidance**

AIML has previously provided FY15 distribution guidance for Arena REIT of 9.75 cents per stapled security. If the Proposal is implemented, underlying distributable income is expected to increase and the FY15 distribution guidance will increase to 10.0 cents per stapled security, as the costs associated with operating on an internalised basis in FY15 are expected to be less than the existing management fee structure.

Distribution guidance is provided on the basis of:

- the Proposal is implemented in December 2014
- on a status quo basis assuming no asset acquisitions or transactions other than the implementation of the Proposal
- tenants continue to comply with all lease obligations
- existing development projects are completed in accordance with management's timetable and budget
- there are no additional transaction costs associated with the Proposal
- no additional costs associated with ARL (and its subsidiaries) providing transitional services to AIML will be incurred
- one-off transaction and implementation costs associated with the Proposal are expensed and excluded from distributable income in accordance with Arena REIT's distribution policy.

### **7.3.3 Pro forma financial position**

The table below sets out the consolidated balance sheet of Arena REIT as at 30 June 2014, Arena REIT's pro forma balance sheet pre internalisation and the pro forma balance sheet of the New Stapled Group post implementation of the Proposal.

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**Table 19: Pro forma financial position**

As at	Arena REIT	Pro forma	Arena REIT	Pro forma	Pro forma	
\$ million unless otherwise stated	30-Jun-14	adjustment	Pro forma pre	adjustment	adjustment	Pro forma post
		(a)	internalisation	(b)	(c)	internalisation
Cash and cash equivalents	3.9	-	3.9	3.8	(0.8)	6.9
Trade and other receivables	15.6	(14.0)	1.6	2.2	-	3.8
Investment properties	355.8	23.0	378.8	-	-	378.8
Intangibles	-	-	-	10.7	-	10.7
<b>Total assets</b>	<b>375.3</b>	<b>9.0</b>	<b>384.3</b>	<b>16.7</b>	<b>(0.8)</b>	<b>400.2</b>
Trade and other payables	11.0	-	11.0	3.7	-	14.7
Derivative financial instruments	1.3	-	1.3	-	-	1.3
Interest bearing liabilities	125.0	9.0	134.0	13.0	-	147.0
<b>Total liabilities</b>	<b>137.3</b>	<b>9.0</b>	<b>146.3</b>	<b>16.7</b>	<b>-</b>	<b>163.0</b>
<b>Net assets</b>	<b>238.0</b>	<b>-</b>	<b>238.0</b>	<b>-</b>	<b>(0.8)</b>	<b>237.2</b>
<b>Total equity</b>	<b>238.0</b>	<b>-</b>	<b>238.0</b>	<b>-</b>	<b>(0.8)</b>	<b>237.2</b>
<b>Statistics</b>						
Number of securities outstanding ('000)	211,496		211,496			211,496
Net assets per security (\$)	1.13		1.13			1.12
NTA per stapled security (\$)	1.13		1.13			1.07
Gearing	33.3%		34.9%			36.7%

Source: the Document

- (a) Represents the settlement of asset sales and development capital expenditure post 30 June 2014. For the purposes of the pro forma balance sheet, it is assumed that development capital expenditure is debt funded and does not take into consideration equity funding that may be derived through Arena REIT's DRP or other equity funding arrangements.
- (b) Represents the pro forma balance sheet acquired on implementing the Proposal and related funding. The pro forma balance sheet comprises the working capital and other balances (including deferred fees and other entitlements) and the recognition of the intangible asset arising on the business combination representing management rights of Arena REIT and the Syndicates.
- (c) Represents the payment of estimated transaction costs in relation to the Proposal.

In relation to the pro forma financial position, we note:

- the consideration payable to Citrus II will be funded by a draw down from Arena REIT's existing debt facility, resulting in an expected increase in gearing from 34.9% to 36.7%. This level of gearing is within Arena REIT's current target range of 35 to 45%
- Arena REIT's pro forma NTA per security is expected to reduce by approximately 5.3% from \$1.13 per stapled security to \$1.07 as a result of the acquisition of management rights which represent an intangible asset
- pro forma adjustments include a provision for lease commitments which are assumed by Arena REIT as part of the Proposal. Not reflected in this provision, is the potential to reduce this obligation by occupancy recharges under the Resourcing Deed and/or entering into a sublease arrangement.

## 7.4 Capital structure and ownership

There will be no change in the number of stapled securities on issue as a result of the implementation of the Proposal nor will there be a change in the beneficial ownership structure.

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## **8 Evaluation of the Proposal**

### **8.1 Assessment of fairness**

#### **8.1.1 Summary of approach**

In our opinion, for the Proposal to be fair, it is necessary that:

- on the balance of probabilities, the Existing Stapled Securityholders are likely to receive a net financial benefit from the Proposal, and
- the purchase consideration is supported by market evidence.

Accordingly, in assessing the fairness of the Proposal, we have:

- compared the consideration to be paid to Citrus II with the net present value (NPV) of the financial benefits to be expected from the Proposal, i.e. the NPV of:
  - the management fees (and other cost reimbursements) avoided by internalisation, assuming existing management agreements remain in place indefinitely on their present terms; plus
  - the management fees received from the Syndicates until they are assumed to be wound up; less
  - the incremental operating costs required to undertake the management function internally and to provide external management services to the Syndicates
- compared the multiples implied by the consideration to be paid to Citrus II with multiples derived from comparable transaction evidence, including:
  - the consideration paid as a percentage of assets under management
  - the multiple of base management fees relative to the consideration paid
  - the multiple of net incremental savings relative to the consideration paid.

In assessing the fairness of the Proposal, we have excluded transaction costs of approximately \$0.8 million from our analysis on the basis that substantially all of these costs will have either been paid, or committed, prior to the Meeting, irrespective of whether the Proposal is implemented or not.

#### **8.1.2 Consideration to be paid to Citrus II under the Proposal**

The total consideration to be paid to Citrus II under the Proposal is set out below.

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**Table 20: Consideration to be paid to Citrus II**

<b>\$ million</b>	
Management rights for Arena REIT and the Syndicates	10.7
Working capital requirements (net assets)	0.8
<b>Consideration to be paid to Citrus II</b>	<b>11.5</b>

Source: The Document

### 8.1.3 Comparison of consideration to net present value of financial benefits

We have adopted a discounted cash flow (DCF) analysis as our primary approach in assessing the fairness of the Proposal by comparing the consideration to be paid to Citrus II with the NPV of the financial benefits to be expected from the Proposal. With regard to this analysis, we note:

- the DCF model forecasts nominal cash flows over an explicit forecast period of three years and calculates a terminal value (based on a Gordon Growth Method) to represent the value of cash flows into perpetuity. This perpetual view is consistent with the fact that the life of AIML, as responsible entity of Arena REIT, is not fixed under the Constitutions
- based on our analysis, we have selected two scenarios to support our conclusion as to the fairness of the Proposal: a relatively conservative "Status Quo" scenario which assumes AUM growth only based on recurring property revaluations and the completion of already committed development projects as reflected in the pro forma consolidated balance sheet of Arena REIT, and a moderate "Growth" scenario which allows for additional AUM growth over the explicit forecast period through property acquisition and development to acknowledge the historic growth profile achieved by Arena REIT as well as the proposed internalised management structure that is resourced for growth
- the New Stapled Group will continue to operate as a "pass through" structure for tax purposes and therefore no taxes will be able on the incremental net earnings expected to be realised if the Proposal is implemented. Accordingly, the forecast cash flows underlying our DCF analysis of the financial benefits to be expected from the Proposal assume that no taxes will be payable on the incremental net earnings
- the discount rates applied to the forecast cash flows represent a weighted average cost of capital (WACC) for Arena REIT, which makes no allowance for a tax shield on the debt component under the assumed funding structure. A specific risk premium is applied to the Growth Scenario to reflect the higher risks associated with the enhanced growth profile relative to the Status Quo Scenario.

#### *Likely term of the management arrangements*

In determining the net present value of management fees (and other costs recoveries) avoided, it is necessary to form a view as to the likely term over which the existing management arrangements would remain in place, as well as any consequences that arise where termination of the management arrangements occurs in a manner other than as contemplated by the Proposal. Under each Constitution, AIML has an indefinite mandate unless it retires or is removed. Either of these changes may occur following an ordinary resolution of securityholders (i.e. at least 50% of votes cast) for each trust.

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It is therefore necessary to consider the circumstances where removal of AIML as the responsible entity of Arena REIT could possibly occur, noting that removal of AIML may be pursued by the Independent Directors or the majority of securityholders. In our view, the most likely scenarios include:

- performance issues of the manager
- takeover or merger scenario
- agreed settlement.

In relation to removal as a consequence of performance, this has occurred only rarely. The senior management team appear well regarded by the market, and the Independent Directors have not received any adverse investor feedback since the announcement of the internalisation opportunity. This suggests that the likelihood of this scenario is remote at this point in time.

Notwithstanding, in the event that AIML's performance as manager was to fall below the expectations of securityholders at some time in the future, there are a range of possible scenarios which could occur within this context, including, a renegotiation of fees or a termination of the manager for either a negotiated payment at that time or for nil consideration.

The termination of the management arrangement for nil consideration due to performance issues would require:

- a sufficient number of Existing Stapled Securityholders to vote in favour of such a resolution, and
- Arena REIT being able to secure the services of a sufficiently skilled property management team which may be through appointing a new external manager or developing an internal team.

We consider this scenario to be unlikely given the current quality of the management team and the significant risks and challenges which would be faced by Existing Stapled Securityholders. These likely include:

- the loss of existing directors, management personnel and employees, who have the skills, history and knowledge to continue to operate the business
- the loss of intellectual property currently used in managing the business
- the trigger of debt repayment upon a change of control. Given the specialist nature of REITs (particularly those with an industry focus such as childcare or healthcare), debt providers typically lend on the basis of the existing manager, who has relevant experience and specialist skills. If AIML was to be replaced as manager, this could potentially result in debt repayment being triggered, and it is uncertain whether an incoming manager would be able to refinance the existing debt on current terms and conditions.

In relation to a takeover or merger scenario, it is highly probable that the existing management arrangements would change, however, it is not possible to accurately determine when such an event would occur, what the new arrangements would be or the extent to which existing securityholders would retain securities. Further, in other circumstances the existing manager has received compensation in order to facilitate any changes.

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As such, in our view the most likely outcome in relation to any termination of the existing management arrangements would be that of an agreed settlement, as is the case with the Proposal.

Therefore, for the purposes of our fairness assessment, we are of the opinion that it is reasonable to assume a perpetual life, given the indefinite mandate under the existing arrangements as well as the likelihood, risks and complexity associated with any change.

### *Forecast cash flows*

Following implementation of the Proposal, Arena REIT will no longer have to pay management fees (and cost reimbursements) to AIML but instead will have to bear the incremental costs associated with operating an internalised management platform, of which staff remuneration represents the majority. In addition, Arena REIT will also earn management fees from the Syndicates as long as they are not wound down.

### **Management fees (and cost reimbursements) avoided**

The key assumptions that we have adopted in estimating the forecast management fees (and cost reimbursements) are as follows:

- at present, ongoing management fees are payable on a scaling basis as a percentage of the value of gross assets under management, which account for \$384.3 million as per Arena REIT's consolidated pro forma balance sheet pre internalisation (refer to Table 19 in section 7.3.3)
- driven by the periodical revaluation of the property portfolio, assets values are assumed to grow at a rate of 3% per annum over the explicit forecast period, then at 2.5% per annum into perpetuity. These assumptions are supported by the following considerations:
  - Arena REIT's asset portfolio is currently carried on the books at an average implied yield of approximately 8.7%. However, recent individual asset sales have been occurring at capitalisation rates of around 7.0% or less, which may indicate further revaluation upside that is not yet reflected in the pro forma carrying value of the portfolio
  - the characteristics of the asset portfolio include high credit quality tenants, an occupancy rate of close to 100%, and a WALE of approximately 8.5 years. These characteristics provide a degree of certainty regarding the ability of these properties to continue to generate income, thereby providing support for assets values
  - the terms of the property leases typically include indexed annual rental increases at the higher of 2.5% or CPI, with the potential for additional rental increases through periodic market rent reviews, which provides the basis for ongoing asset revaluation gains
  - the adopted long term growth rate of 2.5% per annum post the explicit forecast period effectively assumes no real growth in asset values when considering the commonly accepted inflation target range of 2% to 3% per annum
- as opposed to the Status Quo Scenario which assumes no additional AUM growth from acquisitions or developments (except for already committed developments), the Growth Scenario assumes additional AUM growth driven by acquisitions and/or developments in the order of \$20 million per

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annum over the explicit forecast period. The assumed accelerated growth profile over the explicit forecast period is supported by the following considerations:

- the proposed internalised management platform is resourced for growth through acquisitions, developments and corporate transactions, and can deliver significant growth without significant incremental cost given its relatively fixed cost base
- a significant component of the staff remuneration will be based on short and long term employee incentive schemes which include hurdle rates that are unlikely to be met without growth in the underlying property portfolio
- pro forma gearing of the New Stapled Group is 36.7%, which is at the low end of Arena REIT's current target range (35% to 45%). Debt capacity therefore is expected to be available to fund acquisitions and/or developments
- on 25 August 2014, Arena REIT announced the opening of a DRP effective from the quarter ending September 2014, and also stated that the DRP will assist with funding Arena REIT's current and future development pipeline
- Arena REIT has a proven track record of expanding the size of its portfolio, having increased AUM during FY14 by \$134.0 million, being largely attributable to the stapling of ARF 2 (\$55.2 million), acquisition of properties (\$33.7 million) and capitalised development acquisitions and capital expenditure (\$18.5 million)
- Arena REIT's stated outlook indicates that management intends to continue to actively seek acquisitions in the childcare, healthcare, education and government sectors
- whilst broker coverage on Arena REIT is limited, broker estimates (where available) support the assumed AUM growth through acquisitions and developments over the explicit forecast period
- for both the Status Quo and Growth Scenario, we have conservatively assumed that no further AUM growth would occur from acquisitions or developments post the explicit forecast period
- the existing management arrangements also trigger disposal fees and potentially performance fees upon the sale of assets. Our forecast cash flows are based on the conservative assumption that no asset disposals would occur, despite of Arena REIT's stated intention to continue to remix the childcare portfolio by replacing smaller and older assets with new acquisition and development opportunities (where available)
- AIML is also entitled to reimbursements and other management costs, which management currently estimates at \$0.3 million on an annualised basis. These costs are assumed to increase at a rate of 3% per annum over the explicit forecast period, then at 2.5% per annum into perpetuity (essentially reflecting inflationary growth).

#### **Management fees received from the Syndicates**

The key assumptions that we have adopted in estimating the forecast management fees received from the Syndicates are as follows:

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- the investors of each Syndicate meet approximately every two years to vote on whether to continue the Syndicate or to dispose of the underlying property and wind up the Syndicate. This results in uncertainty as to the remaining term of the Syndicates, which represents the primary value driver of this revenue stream. Forecast cash flows assume that the respective investors of each Syndicate agree to continue the Syndicate for one additional term (i.e. two years from the respective next scheduled meeting dates), after which the underlying properties are assumed to be sold (over a six months marketing campaign) and the Syndicates wound up. This assumption is supported by the following considerations:
  - at the last meeting of investors of each Syndicate, investors supported retaining the property and extended the term of each Syndicate for a further two year term. The manager was able to source liquidity for any investor who sought an exit from their investment at that time
  - the income yields presently being provided to investors in BSH and PHC are relatively high (9.2% per annum and 10.9% per annum respectively). Investors may therefore be reluctant to wind up the Syndicates as it may be difficult to reinvest these funds in an asset with a similar risk/return profile
  - while the above observations indicate that there is a reasonable likelihood that the term of the Syndicates will be extended past their next respective investor meetings, we consider it not unreasonable to assume a finite life for the Syndicates as the risk that the investors decide to wind up the Syndicates is likely to increase further into the future
  - the assumption that the Syndicates will be extended for one additional two year term increases the NPV of the forecast management fees received from the Syndicates by approximately \$0.5 million as compared to the worst case scenario which would assume that the respective investors vote to wind up the Syndicates at their respective next meetings
- ongoing management fees received from the Syndicates are charged based on a percentage of the carrying value of the respective property held by each Syndicate. The carrying value of these properties is assumed to increase by 3% per annum until the Syndicates are wound up, which is supported by the following considerations:
  - the terms of the property leases include fixed annual rental increases and regular market reviews
  - the implied yields on the properties and recent sales evidence may indicate further revaluation upside that is not yet reflected in the pro forma carrying value of the properties
- disposal fees are assumed to be charged and collected upon the assumed sale of each property
- under the Proposal, Arena REIT will also acquire a deferred management fee receivable of approximately \$0.8 million which is assumed to be collected from PHC at a rate of \$0.1 million per annum, with the remaining balance collected upon disposal of PHC's property
- the assumptions relating to forecast management fees received from the Syndicates are the same for both the Status Quo and Growth Scenario.

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### **Incremental operating costs**

The key assumptions that we have adopted in estimating the forecast incremental operating costs are as follows:

- the operating costs outlined in section 7.2.3 represent management's "best estimate" of the cash costs associated with the proposed internalised management platform
- the proposed internalised management platform is resourced for growth through acquisitions, developments and corporate transactions, and on this basis, the additional AUM growth assumed over the explicit forecast period under the Growth Scenario is expected to be delivered without significant incremental cost given its relatively fixed cost base. We have therefore under both scenarios assumed that incremental operating costs will grow at 3% per annum over the explicit forecast period, then 2.5% per annum into perpetuity. The assumed cost increases reflect primarily inflationary growth
- the Status Quo Scenario only assumes the execution of the already committed developments over the explicit forecast period, but no additional AUM growth from new acquisitions or developments as assumed under the Growth Scenario. We have conservatively assumed that the proposed internalised management platform (which is resourced for growth) would not be scaled down to realise more cost savings (particularly around the size of the management team and fixed staff remuneration) which are likely to be available under a sustained low growth environment
- STI payments earned by eligible employees are assessed against specific key performance indicators, including financial and non-financial KPIs. The STI plan forms an essential component particularly for the total remuneration package of senior management and therefore we have assumed that a STI plan will remain in place indefinitely on terms similar to what is currently envisaged. The achievement of performance hurdles is difficult to predict and will require some element of professional judgement, particularly with regard to non-financial KPIs (which currently have a weight of 30%). Over the explicit forecast period, we have assumed that 70% and 100% of the maximum STI entitlements would become payable under the Status Quo and Growth Scenario respectively. Thereafter, a 50% realisation rate is assumed into perpetuity under both scenarios to reflect the reduced AUM growth assumptions adopted for terminal value purposes
- the LTI plan is a performance-based equity incentive scheme and therefore will not affect the operating costs of Arena REIT from a cash flow perspective, but may dilute the distributable income per stapled security which reduces the benefits available to Existing Stapled Securityholders. The LTI plan forms an essential component particularly for the total remuneration package of senior management and therefore we have assumed that performance rights will continue to be granted on an annual basis under a LTI plan on terms similar to what is currently envisaged. The achievement of performance hurdles is difficult to predict and will require some element of professional judgement, particularly with regard to the relative performance against market benchmarks (which currently has a weight of 50%) and the expected performance of Arena REIT securities. Over the explicit forecast period, we have assumed that 50% and 100% of the granted performance rights would be exercisable under the Status Quo and Growth Scenario respectively. Thereafter, a 25% realisation rate is assumed into perpetuity under both scenarios to reflect the reduced AUM growth assumptions adopted for terminal value purposes

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- a portion of the incremental operating costs (albeit small) also relates to the management services to be provided for the Syndicates. It is likely that some non-staff related cost savings may be realisable upon the assumed wind down of the Syndicates, which we have not specifically quantified in our DCF analysis (based on materiality) but may deliver small incremental financial benefits to Existing Stapled Securityholders
- there are some one-off or non-recurring items, such as the potential office lease obligation and cost recoveries for transitional services provided under the Resourcing Deed, which we have conservatively assumed to net off each other albeit, on the balance of probabilities, are likely to deliver small incremental financial benefits to Existing Stapled Securityholders.

### *Discount rate*

In assessing the net present value of the financial benefits to be expected from the Proposal, we have discounted forecast cash flows using a WACC in the range of 9% to 10%, which we consider appropriately reflects the risks inherent in the underlying forecast cash flows.

The selection of the appropriate discount rate to apply to the forecast cash flows of any asset or business operation is fundamentally a matter of judgement rather than a precise calculated outcome. Whilst there is commonly adopted theory that provides a framework for the derivation of an appropriate discount rate, it is important to recognise that given the level of subjectivity involved, the calculated discount rate should be treated as broad guidance rather than objective truth. Furthermore, discount rate assessments need to consider both current market conditions and future expectations, and to the extent that there are any changes in conditions and expectations over time, an adjustment to the discount rate at a future point in time may be warranted.

Our assessment of the fairness of the Proposal is being undertaken from the perspective of Existing Stapled Securityholders. Accordingly, we have based our discount rate assessment on the estimated WACC for Arena REIT, adjusted for specific risk factors to adequately reflect the risks associated with the incremental financial benefits expected from the Proposal.

The WACC represents an estimate of the weighted average required return from both debt holders and equity investors. The WACC calculation is typically based on the assumptions of:

- a constant optimal capital structure
- interest repayments on debt being tax deductible.

It is noted that the nature of pass-through structures, like Arena REIT, are such that they do not typically pay tax, as the income generated by the trust is distributed to investors with the investors being subject to tax in their hands. Accordingly, in determining an appropriate WACC range for Arena REIT, we have made no allowance for a tax shield on the debt component under the assumed funding structure.

The WACC is derived using the following formula:

$$WACC = [K_d * W_d * (1-t)] + [K_e * W_e]$$

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**Table 21: WACC parameters**

Parameter	Description
Kd	Cost of debt
Wd	Percentage of debt in capital structure
Ke	Cost of equity
We	Percentage of equity in capital structure
t	Company tax rate

Source: KPMG Corporate Finance analysis

The cost of equity is derived using a modified Capital Asset Pricing Model (CAPM) as follows:

$$K_e = R_f + \beta * (R_m - R_f) + \alpha$$

**Table 22: Cost of equity parameters**

Parameter	Description
Rf	Risk free rate, representing the return on risk-free assets
Rm	Market rate of return, representing the expected average return on a market portfolio
(Rm - Rf)	Market risk premium, representing the excess return that a market portfolio is expected to generate over the risk free rate
$\beta$	Beta factor, being a measure of the systematic risk of a particular asset relative to the risk of a market portfolio
$\alpha$	Specific risk factor, which may be included to compensate for risks which are not adequately captured in the other parameters

Source: KPMG Corporate Finance analysis

In determining the WACC, we have utilised the following parameters:

**Table 23: Selected WACC parameters**

Parameter	Input	Description
Kd	6.5% - 7.0%	Long term cost of debt has been approximated by adding the spread between BBB rated Australian Corporate bonds and Australian Government bonds to the long term risk free rate
Wd	35%	Based on Arena REIT's target gearing range and the gearing observed for comparable REITs
We	65%	Based on Arena REIT's target gearing range and the gearing observed for comparable REITs
t	0%	No tax shelter applied for pass-through structure
Rf	4.6%	The risk free rate has been selected by reference to the current spot yield and long term forecast yields on 10 year Australian Government bonds. We have adopted 4.6% as an appropriate risk free rate, which represents a blended long term risk free rate
(Rm - Rf)	6.0%	The market risk premium is generally determined by reference to market observations over a long period of time, and is therefore relatively stable. A market risk premium of 6.0% for the Australian market is regarded as appropriate by KPMG Corporate Finance
$\beta$	0.8	The selected beta has been referenced to the levered betas of listed REITs as detailed in Appendix 3. Arena REIT has only been listed since June 2013 and therefore has insufficient trading history to calculate a 2-year or 5-year beta
$\alpha$	1.0% - 2.0%	We have included a specific risk premium to compensate for the following factors: - the specific characteristics of Arena REIT relative to its listed peers, particularly its relatively small size, low diversification, specialised nature and dependency on key personnel - the specific risks associated with the incremental financial benefits expected from the Proposal relative to the core business of Arena REIT

Source: KPMG Corporate Finance analysis

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Based on the inputs identified above, we have calculated a WACC range of 9.0% to 9.9%.

There are a number of inherent limitations in applying the CAPM model to 'pass-through' structures such as A-REITs. In particular, whether the appropriate basis of cost of equity adopted should reflect a pre or post tax rate, whether the adoption of a market based beta and long term market risk premium appropriately capture the value impact of tax treatment of cash flows to investors which may consist of components such as capital gains and tax deferred distributions.

As a result of these potential limitations, we have also considered the WACC range approximated by reference to the Gordon Growth Model as it is based on actual market parameters which reflect the actual tax status of distributions as implied by the distribution yield. Under this approach, the cost of equity of Arena REIT is derived by reference to its forecast distribution yield plus the assumed long term growth rate. On 25 August 2014, Arena REIT issued its distribution guidance for FY15 of 9.75 cents per stapled security which implied a distribution yield of approximately 7.5% based on the prevailing Arena REIT security price of \$1.30. The addition of an assumed long term distribution growth rate in the range of 2.5% to 3.0% results in a cost of equity estimate of 10.0% to 10.5%. Applying the cost of debt and gearing assumptions set out in the table above derives a WACC range of approximately 8.8% to 9.3%.

Having considered the factors outlined above, in our opinion, a WACC in the range of 9% to 10% is appropriate for the purpose of determining the net present value of the financial benefits expected from the Proposal. Specifically, we consider it appropriate to apply the low and high end of our WACC range to the Status Quo and Growth Scenario respectively, given the higher risks associated with the additional AUM growth assumed under the Growth Scenario.

### Conclusion

The NPV of the net financial benefits to be expected from the Proposal under both the Status Quo and Growth Scenario is set out below.

**Table 24: NPV of the net financial benefits to be expected from the Proposal**

\$ million	Status Quo	Growth Scenario
<b>Discount rate</b>	<b>9.0%</b>	<b>10.0%</b>
Value of external management costs avoided	53.2	52.2
Value of revenue from Syndicates acquired	2.0	2.0
Value of incremental internal management costs	(42.3)	(37.7)
<b>NPV of financial benefit</b>	<b>12.9</b>	<b>16.5</b>
Consideration to be paid to Citrus II	(11.5)	(11.5)
<b>Net benefit to Existing Stapled Securityholders</b>	<b>1.4</b>	<b>5.0</b>

Source: KPMG Corporate Finance analysis

Note 1: The NPV of the acquired revenue from Synergies has been determined at a WACC of 9.0% under both scenarios.

Note 2: Given different discount rates have been applied to the Status Quo and Growth Scenario, a comparison of the scenarios is only meaningful on the basis of net benefits rather than comparing any of the components in isolation. If the same discount rate were to be applied to the Growth Scenario (i.e. 9.0%), the NPV of external management costs avoided and the NPV of incremental internal management costs would increase to \$59.7 million and \$(43.2) million respectively.

Under both the Status Quo and Growth Scenario, the NPV of the financial benefits expected from the Proposal is greater than the consideration to be paid to Citrus II. Therefore, KPMG Corporate Finance believes that Existing Stapled Securityholders are likely to receive a net financial benefit from the Proposal.

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### 8.1.4 Comparison of consideration to market evidence

In assessing the fairness of the Proposal, we have also considered whether the consideration to be paid to Citrus II is supported by market evidence. In making this assessment, we have compared the multiples implied by the consideration with multiples derived from comparable transaction evidence, including:

- the consideration paid as a percentage of assets under management
- the multiple of base management fees relative to the consideration paid
- the multiple of net incremental savings relative to the consideration paid.

In this context, we have had regard to transaction evidence involving management internalisations and acquisitions of real estate management platforms, taking into account the specific characteristics of the management arrangements or other factors that contribute to the entrenchment of the incumbent manager.

#### *Multiples implied by the consideration to be paid to Citrus II*

The multiples implied by the consideration to be paid to Citrus II are set out below.

**Table 25: Multiples implied by the consideration**

Basis	Consideration (\$ million)	Consideration/ AUM <sup>1</sup> (%)	Multiple of Base Fees <sup>2</sup> (times)	Multiple of Net Savings <sup>3</sup> (times)
Consideration to be paid to Citrus II	11.5	2.8%	3.4	10.7
Consideration net of Syndicates rights	9.5	2.5%	3.1	12.5

Source: KPMG Corporate Finance analysis

Note 1: AUM is based on Arena REIT's consolidated pro forma pre internalisation balance sheet, and the carrying value of the properties of the Syndicates as at 30 June 2014 (where included).

Note 2: Base management fees represent ongoing management fees based on the AUM as per Note 1 above, excluding any additional cost reimbursements to which the manager may be entitled to.

Note 3: Net savings represent operating cost cash savings, i.e. not affected by the LTI plan which may dilute the distributable income per stapled security.

The implied multiples set out above have been calculated on two bases:

- the total consideration of \$11.5 million to be paid to Citrus II. This implicitly includes a value attributed to the management rights acquired for the Syndicates and therefore the underlying AUM, base fees and net savings figures also include the contribution from the Syndicates for consistency purposes. However, there is a concern that these multiples may not be sustainable due to the uncertainties around the potential wind down of the Syndicates. Further, these multiples are expected to be slightly overstated by the \$0.8 million deferred management fee receivables (payable by PHC) which are assumed in the total consideration
- the total consideration adjusted for the NPV of the expected fee income from the Syndicates. For this purpose we have attributed a value of \$2.0 million to the Syndicates rights (as determined by our DCF analysis) which also includes the value of the \$0.8 million deferred management fee receivables. For consistency purposes we have also excluded the contribution from the Syndicates to the underlying AUM, base fees and net savings figures. As a result, the implied multiples calculated on this basis effectively reflect the implied multiples of the management internalisation in isolation (subject to the value we have attributed to the expected fee income from the Syndicates).

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For the purpose of benchmarking the implied multiples against comparable transaction evidence, we have focussed our analysis on the latter basis (i.e. excluding Syndicates rights).

#### *Multiples derived from comparable transaction evidence*

Since 2009, there have been a number of management internalisation transactions involving both REITs and infrastructure funds, as the external management model became increasingly out of favour with some equity investors driven by perceived conflicts of interest, management issues and concerns about performance fees and underlying performance.

The multiples derived from transaction evidence involving the internalisation of management are set out in the table below (refer to Appendix 3 for descriptions of these transactions).

**Table 26: Transaction evidence – management internalisations**

Announcement date	Entity	Consideration (\$ millions)	Consideration as % of AUM	Base mgt fee multiple	Multiple of net savings
<b>Property</b>					
Jul 2014	CFS Retail Property Trust Group	460.0	3.3%	3.4	9.5
Jul 2014	Kiwi Income Property Trust	72.5	3.5%	6.2	6.3
Oct 2013	GDI Property Group	27.3	3.6%	2.8	n/a
Aug 2011	Centro Retail Australia	240.0	3.4%	3.1	n/a
Jun 2009	Macquarie Leisure Trust Group	15.9	2.6%	5.3	15.9
May 2009	Orchard Industrial Property Fund	6.0	0.8%	3.2	5.0
Apr 2009	Babcock & Brown Japan Property Trust	20.0	0.8%	1.7	n/a
<b>Infrastructure</b>					
Oct 2012	DUET Group	95.6	1.5%	4.6	7.1
Apr 2011	Spark Infrastructure	49.0	2.9%	5.6	13.6
Feb 2011	Qube Logistics Holdings	40.0	5.3%	3.8	5.7
Oct 2009	Macquarie Media Group	40.5	n/a	4.1	7.0
Oct 2009	Macquarie Infrastructure Group	50.0	1.3%	2.9	5.4
Jul 2009	Macquarie Airports	345.0	2.7%	8.2	10.7
May 2009	Viridis Clean Energy Group	2.8	n/a	2.8	n/a
<b>Low</b>			<b>0.8%</b>	<b>1.7</b>	<b>5.0</b>
<b>High</b>			<b>5.3%</b>	<b>8.2</b>	<b>15.9</b>
<b>Mean</b>			<b>2.6%</b>	<b>4.1</b>	<b>8.8</b>
<b>Median</b>			<b>2.8%</b>	<b>3.6</b>	<b>7.1</b>

Source: Publicly available information regarding each transaction; KPMG Corporate Finance analysis

Note 1: Base management fee multiples were calculated as gross consideration divided by forecast base management fee (where available).

Note 2: Net savings multiples were calculated as gross consideration divided by net savings obtained (base management fee less incremental operating costs).

In addition to the range of multiples identified above, we have also considered multiples derived from transaction evidence involving the acquisition of real estate management platforms. These multiples are set out below (refer to Appendix 3 for descriptions of these transactions).

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**Table 27: Transaction evidence – acquisition of real estate management platforms**

Announcement date	Transaction	Consideration (\$ million)	Consideration as % of AUM
Dec 2013	Merger of Westfield Group's Australian and New Zealand operations and Westfield Retail Trust <sup>1</sup>	2,922.8	7.6%
Dec 2013	Acquisition of CPA management rights by DEXUS	41.0	1.1%
Jul 2012	Acquisition of Austock's property funds management business by Folkestone Limited	11.5	2.1%
Jun 2012	Acquisition of PFA Diversified Property Trust's management rights by Charter Hall	5.0	1.1%
Aug 2011	Centro Properties Group services business	240.0	3.4%
Oct 2010	Acquisition of ING Industrial Fund management rights by Goodman Industrial Funds Limited	22.5	0.9%
Oct 2010	Acquisition of Becton Investment Management Limited by 360 Capital Group	6.0	0.7%
Feb 2010	Charter Hall acquisition of Macquarie Group real estate management platform <sup>2</sup>	119.0	1.7%
Feb 2008	DB REEF Holdings acquisition of remaining 50% interest	260.0	1.7%
<b>Low</b>			<b>0.7%</b>
<b>High</b>			<b>7.6%</b>
<b>Mean</b>			<b>2.2%</b>
<b>Median</b>			<b>1.7%</b>

Source: Publicly available information regarding each transaction; KPMG Corporate Finance analysis

Note 1: Consideration based on implied value of management platform.

Note 2: Consideration based on upfront consideration of \$108.0 million and contingent consideration of \$11.0 million payable to Macquarie Group as reported in the Charter Hall Group Annual Report for the year ended 30 June 2013.

### Assessment of implied multiples based on market evidence

Summarised below is our assessment of each of the multiples implied by the Proposal as compared to market evidence.

#### Consideration paid as a percentage of assets under management

The consideration paid as a percentage of assets under management implied by the Proposal is 2.5%. In comparing this percentage to the market evidence outlined above, we make the following observations:

- typically, management internalisations involving infrastructure funds are less relevant for REITs as the extent of management involvement and level of management fees (particularly performance fees) is lower for property funds
- the percentage implied by the Proposal falls within the range observed for internalisation transactions (0.8% to 5.3%), and is below the most recent property related transactions, which exhibit a relatively narrow range of 3.3% to 3.6%
- regarding the range observed for transactions involving the acquisition of real estate management platforms, we make the following observations:

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- the percentage implied by the merger of Westfield Group's Australian and New Zealand operations with Westfield Retail Trust is relatively high. This is attributed to a number of factors, including a high degree of manager entrenchment, scale of the platform and development activity managed by the platform
- the percentage implied by the acquisition of Becton Investment Management Limited is relatively low, which reflects the financially distressed circumstances of Becton Investment Management Limited at the time of the transaction
- the percentage range observed for transactions involving the acquisition of real estate management platforms is 0.9% to 3.4% (excluding the outliers discussed above). The percentage implied by the Proposal falls within this range.

Given the above observations, we consider that based on this metric, the consideration is supported by market evidence.

### **Multiple of base management fees relative to the consideration paid**

The base management fee multiple implied by the Proposal is 3.1 times. In comparing this multiple to the market evidence outlined above, we make the following observations:

- typically, transactions which exhibit high multiples of base management fees are those where there is a high likelihood that the manager will be entitled to receive significant performance fees. Kiwi Income Property Trust, Macquarie Airports and Macquarie Leisure Trust Group are three such examples, with multiples of 6.2 times, 8.2 times and 5.3 times respectively
- typically, the transactions occurring at the lower end of the range involved entities that were under a certain degree of financial distress, notably the Babcock & Brown Japan Property Trust at 1.7 times
- we consider the most recent internalisation transactions involving property funds to be the most comparable to the Proposal, for which base management fee multiples are observed in the range from 2.8 to 3.4 times (excluding the outliers discussed above). The multiple implied by the Proposal falls within this range.

Given the above observations, we consider that based on this metric, the consideration is supported by market evidence.

### **Multiple of net savings relative to the consideration paid**

The multiple of net savings implied by the Proposal is 12.5 times. In comparing this multiple to the market evidence outlined above, we make the following observations:

- the multiple of net savings is the only multiple that takes into account the relative cost structure of the proposed internalised management functions
- the net savings multiples observed for internalisation transactions range between 5.0 times to 15.9 times. The transactions at the higher end of the range can be attributable to the high degree of manager entrenchment which could be characterised by the following factors:

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- the manager has significant contractual entrenchment through either long-term management contracts, as evident in the internalisation of Spark Infrastructure (13.6 times multiple of net savings) whereby the contract term was for 25 years; or perpetual agreements embedded in management contracts, as evident in the internalisation of CFS Retail Property Trust Group (9.5 times multiple of net savings) where the property and development management agreements had perpetual terms, and termination of the arrangement was only possible through significant breaches in duties or performance
- performance fee arrangements were in place with the likelihood of high performance fees being paid to the manager. Under this circumstance, a higher consideration would be expected to be paid for the management platform in order to provide appropriate compensation for the performance fees foregone by the manager. This was evident in the Macquarie Airports and Macquarie Leisure Trust Group internalisations, as there was a high likelihood of significant performance fees being paid to the manager, resulting in a higher net savings multiple (10.7 and 15.9 times multiples of net savings respectively)
- arrangements for certain investments that have debt and/or pre-emptive rights triggers embedded into the management agreements. Under these circumstances, changes in control of certain investments may trigger existing debt agreements which may result in significant financial costs to the entity. This was evident in the Macquarie Airports internalisation transaction whereby a change in control would have triggered either immediate repayment or a renegotiation of the terms of the debt, as well as financial implications to Macquarie Airports should losses to shareholders arise from the change in control
- the manager having significant interests in the entity which positions them to potentially block any resolutions that are proposed for the removal of the responsible entity. This was evident in the Macquarie Airports transaction, where the manager had a 22.8% interest in Macquarie Airports, which provided a practical capacity to block special resolutions
- the transactions at the lower end of the net savings multiple range represent those which involved managers that were not heavily entrenched and where there was a lower likelihood of paying performance fees. This was evident in the DUET Group (7.1 times multiple of net savings) and Macquarie Media Group (7.0 times multiple of net savings) transactions. In the DUET Group transaction, the management contract had no definitive term and allowed for the manager to be removed through a resolution featuring a 50% vote by securityholders. For the Macquarie Media Group transaction, there was low likelihood of performance fees being paid for the preceding four year period due to continued underperformance of the security price since listing in 2005
- a number of these transactions took place under financially distressed situations, as evident in the Babcock & Brown Japan Property Trust transaction, where the internalisation was pursued to separate from the distressed manager. Similarly the Centro Retail Australia transaction featured a restructure of the entity due to considerable financial stress, resulting from unsustainable debt levels and leading to the sale of its property and management services business. These transactions typically result in lower multiples and are considered less comparable.

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The net savings multiple implied by the Proposal is at the upper end of the range observed for internalisation transactions. Based on the above observations, we do not consider this to be unreasonable, as it is consistent with those transactions where growth in fund size and the opportunity for fee outperformance is the highest. In particular for Arena REIT, the growth strategy that management has outlined includes the likelihood that additional acquisition, disposal and/or performance fees would be payable on successful implementation. The inclusion of an allowance to reflect this would have the effect of significantly reducing the net savings multiple. Even if the envisaged growth is not achieved, there would be an opportunity to realise further cost savings by scaling down the proposed internalised management structure to a level that is more efficient under a subdued growth scenario, which in turn would also reduce the net savings multiple.

### 8.1.5 Conclusion

In KPMG Corporate Finance's opinion, the Proposal is fair to Existing Stapled Securityholders.

Based on our DCF analysis, the present value of the net financial benefits expected from the Proposal is greater than the consideration to be paid to Citrus II. This analysis has been conducted under a conservative "Status Quo" scenario and a "Growth" scenario which more closely reflects the growth ambitions of Arena REIT in the short to medium term. As the proposed internalised cost structure is relatively fixed, the Proposal becomes more advantageous to Existing Stapled Securityholders as the level of growth that is achieved increases, resulting in greater benefits of scale being realised.

The consideration to be paid to Citrus II is also supported by market evidence based on our analysis of multiples derived from comparable transactions. Both the consideration paid as a percentage of assets under management and the multiple of base management fees as implied by the Proposal, are consistent with those of comparable transactions. It is not unexpected that the net savings multiple implied by the Proposal is at the upper end of the range derived from transaction evidence, given the proposed internalised management structure is resourced for growth.

The growth strategy that management has outlined includes the likelihood that additional acquisition, disposal and/or performance fees would be payable on successful implementation. The inclusion of an allowance to reflect this would have the effect of significantly reducing the net savings multiple. Even if the envisaged growth is not achieved, there would be an opportunity to realise further cost savings by scaling down the proposed internalised management structure to a level that is more efficient under a subdued growth scenario, which in turn would also reduce the net savings multiple.

## 8.2 Assessment of reasonableness

In accordance with RG 111, an offer is reasonable if it is fair. This would imply that the Proposal is reasonable. However, irrespective of the statutory obligation to conclude that the Proposal is reasonable simply because it is fair, we have also considered a range of other factors relevant to assessing reasonableness which are discussed in the following sections, including:

- advantages and disadvantages of the Proposal
- alternatives to the Proposal
- implications if the Proposal is not approved.

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The Existing Stapled Securityholders should consider these factors in determining whether or not they should approve the Proposal.

### 8.2.1 Advantages of the Proposal

#### *Uplift in earnings and distributable income per stapled security*

The Proposal is expected to provide an uplift in earnings and distributable income of Arena REIT as the costs associated with the proposed internalised operating model are expected to be less than the existing management fee structure and Arena REIT will also benefit from additional income to be received from the management of the Syndicates (for as long as they are not wound down).

If the Proposal is implemented, the distribution guidance for FY15 will be increased to 10.00 cents per stapled security, which reflects an uplift of approximately 2.6% on the FY15 distribution guidance initially announced on 25 August 2014. Further, in our assessment of the fairness of the Proposal we concluded that the present value of the net savings from internalisation is likely to exceed the consideration to be paid to Citrus II and that this net financial benefit to Existing Stapled Securityholders will increase if the growth profile of Arena REIT exceeds our relatively conservative status quo scenario.

Other things being equal, an expected uplift in earnings and distributable income should result in a corresponding uplift in Arena REIT's security price relative to the status quo. However, it is not possible to conclusively assess whether, and the extent to which, the current security price of Arena REIT may already incorporate anticipated benefits of the Proposal. To the extent that it does, however, there would be a risk that the security price may fall if the Proposal is not approved.

In this context it is noted that Arena REIT's security price increased significantly shortly after the announcement of the internalisation opportunity from \$1.30 to approximately \$1.50. However, the effect of the announcement of the internalisation opportunity was diluted by the concurrent announcement of the distribution guidance for FY15 and the opening of a distribution reinvestment plan. More recently, Arena REIT's security price reverted back to \$1.40 as at 17 October 2014.

#### *Proposed cost structure enhances growth prospects and economies of scale*

Following its listing in June 2013, Arena REIT completed various acquisitions (including the stapling of ARF 2) and secured a healthy development pipeline which contributed to a strong increase in Arena REIT's asset base of approximately 56% or \$134 million in FY14 to the benefit of Arena REIT securityholders. The directors and management of AIML demonstrated their capability to deliver the growth strategy of Arena REIT, however, this also meant that significant management fees were paid by Arena REIT.

If the Proposal is implemented, the proposed internalised management model and associated cost structure may further enhance the growth prospects of Arena REIT with a potentially stronger earnings growth profile in the future through the realisation of economies of scale. Specifically:

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- ARL has secured certain members of AIML's board and management team who have a proven track record for the governance and management of Arena REIT. This efficient transition to an internalised management structure is expected to provide benefits which are unlikely to be present in alternative proposals considered by the Independent Directors
- the proposed internalised management structure is resourced for growth and provides the capacity to focus on both direct property acquisitions and merger and acquisition opportunities. This growth orientated structure will be supported by new employee incentive plans, which are more directly aligned to the financial and security price performance of Arena REIT
- Arena REIT will operate a fully integrated management platform with an essentially fixed cost structure, as opposed to its current variable cost base under the externally managed structure. This will enable Arena REIT to benefit from economies of scale particularly under the envisaged growth orientation of the proposed internalised management platform. Benefits of scale can be generated as the incremental costs associated with the acquisition of future investments is expected to be lower under an internalised structure which provides Arena REIT with a potentially stronger earnings growth profile in the future. We do note however that there remains a risk that costs are not controlled and the benefits of the internalisation are diminished over time
- economies of scale may be further enhanced under the proposed internalised management platform given the opportunity to increase the portfolio of externally managed funds (initially comprised of the Syndicates).

### *Enhanced accountability and alignment of interests*

AIML currently provides management services to a number of funds, with total assets under management of approximately \$1.08 billion as at 30 June 2014 (of which approximately 35% related to Arena REIT). The management of AIML are ultimately employees of the investment platform sponsored and managed by Morgan Stanley Real Estate Investing which also appoints (through its controlled entities) the directors of AIML. Existing Stapled Securityholders currently have no direct influence over the selection of directors or any rights regarding their appointment. If the Proposal is implemented:

- Arena REIT securityholders with sufficient majority may appoint and remove directors in certain circumstances, as well as vote on the remuneration structure
- the directors and management will be directly accountable to Arena REIT securityholders
- Arena REIT will have a dedicated board and management which can focus on the governance and management of Arena REIT only (except for certain transitional services to be provided under the Resourcing Deed).

The Proposal will also allow the board of the New Stapled Group to introduce new employee incentive plans, which are more directly aligned to the financial and security price performance of Arena REIT. It is generally acknowledged that a tailored management incentive scheme that is aligned with business performance over the long run can maximise the benefit for securityholders.

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### *Enhanced attractiveness of pursuing corporate transactions*

Under the Constitutions, if Arena REIT sought to pursue a merger with another REIT, this would trigger a transaction fee to be paid to AIML of up to 2% of the total gross asset value or approximately \$7.5 million based on current management estimates. If the Proposal is implemented, this contingent liability will no longer exist which would enhance the attractiveness of pursuing corporate transactions, and in turn creates opportunities to further diversify Arena REIT's asset base which enhances the resilience of its portfolio.

Further, Arena REIT's attractiveness as a takeover target may also be subdued by its current externally managed structure as it complicates potential mergers with other REITs due to the need to deal with management contracts. Consequently, an internalised management structure is expected to enhance Arena REIT's attractiveness to potential acquirers through which Arena REIT securityholders could realise a premium for control.

## **8.2.2 Disadvantages of the Proposal**

### *Change in risk profile of Arena REIT*

The Proposal represents a significant change in the operating model of Arena REIT which will not only affect the growth prospects and return characteristics (as previously discussed) but also change the risk profile of Arena REIT. Key risks associated with the Proposal include:

- *Change in investment characteristics.* If the Proposal is implemented, Arena REIT will no longer be a passive investment vehicle. Instead, ARL (through its subsidiaries) will provide property management services which involve additional risks including risks arising from obligations and potential liabilities to third parties, counterparty risks and potential liabilities arising from any failure by ARL (and its subsidiaries) to comply with its contractual commitments. Arena REIT securityholders will also be exposed to the risks associated with the external management of the Syndicates, including the wind down of the Syndicates and the associated loss of management fee income and cost recoveries
- *Changes to operating cost structure.* Whilst management expects the costs of an internalised management structure to be lower than the management and transaction fees Arena REIT would otherwise have to pay to AIML, there is a risk that ongoing operating costs may be higher than anticipated. Further, as the proposed internalised management structure is resourced for growth, the associated cost structure may reduce the financial benefits expected from the internalisation if the envisaged growth is not achieved. The proposed employee incentive schemes will provide more flexibility to adjust the cost structure if the achieved growth is lower than expected, however, an internalised cost structure will generally be more fixed in nature as opposed to an externally managed structure
- *Regulatory risks.* There are inherent risks associated with a change in the responsible entity including the issuance and maintenance of an Australian Financial Services Licence (AFSL) which is required by ARML to being able to act as responsible entity of Arena REIT. These regulatory requirements may increase over time if regulations change or if Arena REIT's business grows

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- *Transitional risks.* Under the Resourcing Deed, ARML has to provide certain transitional services to AIML to support the pursued wind down of the schemes that AIML currently manages and that are not part of the Proposal. Whilst ARML is entitled to recover the costs associated with providing the transitional services, there is a risk that management's focus on Arena REIT is adversely impacted during this transitional period
- *Dependency on key staff.* The specialised nature of Arena REIT's asset portfolio requires a manager with extensive experience in the childcare and healthcare sectors. ARL has secured certain members of AIML's board and management team who have a proven track record for the governance and management of Arena REIT. The loss of key staff or inability to attract new qualified staff, however, could adversely affect ARL's operations and performance.

Existing Stapled Securityholders should also refer to the Document for more detail in relation to the specific risks associated with the Proposal.

### *Decrease in net tangible assets per stapled security*

Approval of the Proposal will result in a decrease in NTA of approximately 4.8% to \$1.07 per stapled security as per Arena REIT's pro forma consolidated balance sheet. This decrease is driven by the management rights (\$10.7 million) acquired as part of the Proposal which are treated as an intangible asset and the transaction and implementation costs (\$0.8 million) incurred in relation to the Proposal.

However, Arena REIT's security price is unlikely to be adversely affected by this decrease in NTA given that Arena REIT's security price is largely driven by the distribution per stapled security and growth prospects rather than the NTA.

### *Increase in gearing*

The consideration to be paid to Citrus II under the Proposal will be funded by drawing down from Arena REIT's existing debt facility, which will increase the pro forma gearing ratio from 34.9% to 36.7%.

However, the increased gearing ratio will still be at the low end of Arena REIT's target gearing range of 35% to 45% and is consistent with gearing ratios observed for other listed Australian REITs.

Based on Arena REIT's pro forma consolidated balance sheet, \$147 million will be drawn down from its total available debt facility of \$155 million if the Proposal is implemented.

## 8.2.3 Other considerations

### *One-off transaction and implementation costs*

Management have estimated total one-off transaction and implementation costs associated with the Proposal to be approximately \$0.8 million (excluding costs associated with evaluating any alternative proposals), of which substantially all costs will have been paid, or committed, by Arena REIT prior to the Meeting.

One-off transaction and implementation costs associated with the Proposal primarily relate to adviser fees and expenses incurred in producing and distributing the Document.

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### *Broader investor base*

The external management model is out of favour with some equity investors due to perceived conflicts of interest and other factors such as performance fees, which is evidenced by transaction activity involving management internalisations in particular post the global financial crisis. Further, some institutional investors, particularly some offshore investors, are prohibited from investing in externally managed vehicles.

The Proposal may therefore encourage a broader investor base to invest in the New Stapled Group which may improve demand and liquidity of New Stapled Securities.

### *Foreign Existing Stapled Securityholders*

Existing Stapled Securityholders with registered addresses outside of Australia or New Zealand are not entitled to receive New Stapled Securities in connection with the Proposal due to legal restrictions. However:

- the New Stapled Securities to which they would otherwise be entitled will be sold on market through the Sale Facility as detailed in the Document and they will receive the cash proceeds of sale
- if they wish to retain their exposure to the New Stapled Group, they can acquire New Stapled Securities through the ASX
- they represent approximately 0.18% of Arena REIT's listed capital.

### *Taxation consequences*

Approval of the Proposal may result in tax consequences for Existing Stapled Securityholders. Whilst tax implications will vary depending on the circumstances of each Existing Stapled Securityholder, acceptance of the Proposal may result in a tax event occurring, potentially crystallising these tax consequences including capital gains. Existing Stapled Securityholders should refer to the Document for more details of the tax consequences of the Proposal as well as consult their financial adviser.

## **8.2.4 Alternatives to the Proposal**

The Independent Directors, in forming their view that the Proposal is in the best interests of Existing Stapled Securityholders, have considered and evaluated the merits and risks of the following alternatives:

- *Status quo.* Morgan Stanley (the ultimate owner of AIML), during their negotiations with the Independent Directors, emphasised their intentions to realise their investment in AIML's management platform, including the management rights of Arena REIT and the Syndicates. Therefore, maintaining the status quo is unlikely to be a sustainable option as Morgan Stanley is expected to continue to pursue alternative transaction structures to realise their investment, including the sale of the Arena REIT management rights to another third party manager, if the Proposal is not approved

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- *Sale of management rights to another third party.* If the management rights of Arena REIT are sold by Morgan Stanley to another third party manager, Arena REIT would continue to be externally managed and essentially be left in a situation similar to the status quo provided that the management fee structure under the new manager is comparable to Arena REIT's current arrangements with AIML. However, the transition to a new manager is associated with significantly higher risks and uncertainties when compared to the Proposal. Members of the current board and management team of AIML may not be transferred to the new third party manager and the latter may not have the same specialised expertise in childcare and healthcare. More importantly, the benefits of an internalised management as available under the Proposal are not achievable if Morgan Stanley agrees to sell the management rights of Arena REIT to a third party manager
- *Merger with another party.* On 29 September 2014, Arena REIT received an indicative, non-binding conditional proposal for a potential merger of Arena REIT and the ASX-listed Folkestone Education Trust (FET) subject to due diligence and agreement as to any formal proposal. Under the indicative, non-binding conditional Folkestone Proposal, Arena REIT securityholders would potentially have received 0.795 FET units for every Existing Stapled Security. Folkestone Investment Management Limited would externally manage the merged entity with base management fees of 0.45% of gross assets and removal of Arena REIT asset acquisition, disposal and performance fees. The Independent Directors assessed the merits and risks of the indicative, non-binding conditional Folkestone Proposal and concluded that it does not provide Arena REIT securityholders with a compelling value proposition compared to the Internalisation Proposal.

It is noted that, compared to the evaluation of the Internalisation Proposal, the evaluation of any merger proposal adds additional complexity as it also requires, amongst others, an assessment of the fair value of an Arena REIT stapled security relative to the fair value of a security in the other merging entity, including whether there is any control premium being paid or whether as a merger there is effective little or no premium.

In considering the alternatives to the Internalisation Proposal, Existing Stapled Securityholders should recognise that:

- based on their evaluation of the alternatives currently available, the Independent Directors formed the view that the Internalisation Proposal is in the best interests of Existing Stapled Securityholders in the absence of a superior proposal
- in KPMG Corporate Finance's opinion, Existing Stapled Securityholders are likely to be better off if the Internalisation Proposal is implemented than if it is not
- FET presented an indicative, non-binding conditional proposal that was subject to due diligence and agreement prior to any formal proposal. The Independent Directors undertook an assessment and chose not to proceed. As such, at this point in time there is no merger proposal to consider and any such proposal would need to have a compelling value proposition given the existing exclusivity agreement with Citrus II in relation to the internalisation opportunity. Further, a potential merger carries greater risks that would need to be assessed relative to an internalisation
- in any event, following implementation of the Internalisation Proposal, the ARF Board will retain the ability to pursue strategic initiatives (including corporate transactions) that are in the best interests of

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securityholders. Further, an internalised management structure is expected to enhance Arena REIT's attractiveness to potential acquirers through which Arena REIT securityholders could realise a premium for control.

Existing Stapled Securityholders should also refer to the Document for more detail in relation to the alternatives considered, in particular with regard to the Folkestone Proposal.

### **8.2.5 Implications if the Proposal is not approved**

In the event that the Proposal is not approved, the consequences will be as follows:

- the advantages and disadvantages of the Proposal, as summarised above, will not occur, other than with respect to the one-off transaction and implementation costs incurred prior to the Meeting of approximately \$0.8 million (excluding costs associated with evaluating any alternative proposals)
- Arena REIT securities may not continue to trade at prices in line with recent levels. It is not possible to conclusively assess whether, and the extent to which, the current security price of Arena REIT incorporates any anticipated benefits of the Proposal. To the extent that it does, however, there would be a risk that the security price may fall if the Proposal is not approved
- Arena REIT will continue to be externally managed by AIML as the responsible entity of Arena REIT and pay management fees to AIML (including acquisition fees, disposal fees and performance fees)
- Morgan Stanley is expected to continue to pursue alternative transaction structures including the sale of the Arena REIT management rights to a third party manager
- Arena REIT is likely to continue to receive proposals which will be evaluated on their individual merits.

### **8.2.6 Conclusion**

In accordance with RG 111, an offer is reasonable if it is fair. This would imply that the Proposal is reasonable and, accordingly, in the best interests of Existing Stapled Securityholders. However, irrespective of the statutory obligation to conclude that the Proposal is reasonable simply because it is fair, KPMG Corporate Finance is of the opinion that the benefits and advantages of the Proposal outweigh the costs, disadvantages and risks.

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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 Sean Collins. Ian is an Associate of the Institute of Chartered Accountants Australia & 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. Sean is a Fellow of the Institute of Chartered Accountants Australia & New Zealand, a Fellow of the Chartered Institute of Securities and Investments in the UK and holds a Bachelor of Commerce degree from the University of Queensland. Both Ian and Sean 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 fair and reasonable and in the best interests of Existing Stapled Securityholders. KPMG Corporate Finance expressly disclaims any liability to any Existing Stapled Securityholder 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 Document or any other document prepared in respect of the Proposal. Accordingly, we take no responsibility for the content of the Document 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 AIML 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 opinion 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 in the Document to be issued to the Existing Stapled Securityholders. Neither the whole nor 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:*

- Notice of Meeting and Explanatory Memorandum (the Document)
- annual results and financial statements of Arena REIT for the years ended 30 June 2013 and 2014
- the Constitutions of ARF 1 and ARF 2
- ASX announcements, press releases, media and analyst presentations and other public filings by Arena REIT including information available on its website
- broker reports and recent press articles regarding Arena REIT
- information sourced from S&P Capital IQ
- other publicly sourced information made available by the Australian Bureau of Statistics (ABS) and Oxford Economics.

### *Non-public information provided by AIML:*

- Board papers and other internal briefing papers prepared by AIML in relation to the Proposal
- Forecast cash flow model prepared by AIML in relation to the Proposal
- Implementation Agreement
- Share Sale and Purchase Agreement
- Resourcing Deed
- Other confidential documents, presentations and workpapers.

In preparing this report, we have held discussions with, and obtained information from, senior management of AIML as responsible entity of Arena REIT.

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### Appendix 3 – Market evidence

#### *Transaction evidence – Management internalisations of REITs*

##### **CFS Retail Property Trust Group**

On 24 July 2013, Commonwealth Managed Investments Limited (CMIL), a wholly owned subsidiary of CFX Co and responsible entity to CFS Retail Property Trust (CFX) received a proposal to internalise management of CFX, and for CFX to acquire the wholesale funds management and integrated retail property management and development business from CFSGAM Property. The cash consideration for this proposal was \$460 million for acquiring and enabling CMIL to assume management of CFX plus \$15 million for the CFSGAM property portfolio.

##### **Kiwi Income Property Trust**

Kiwi Income Property Trust (KIPT) is a New Zealand Main Board-listed office and retail property fund. KIPT was managed by Kiwi Income Properties Limited (KIPL), and its assets managed by Kiwi Property Management Limited (KPML). Both KIPL and KPML are wholly owned subsidiaries of Commonwealth Bank of Australia. On 24 July 2013, KIPT announced the proposal to internalise management and terminate the existing arrangements with KIPL and KPML for a net consideration for \$70.6 million.

##### **GDI Property Group**

On 25 November 2013, GDI Property Group (GDI) released its prospectus and PDS for the investment in GDI, an integrated, internally managed property and funds management group involved in the ownership, management, refurbishment, leasing and syndication of office properties. As part of the offer, GDI was to complete the acquisition of GDI Group's funds business, which managed wholesale property trusts. The consideration for the acquisition was \$27.3 million (net of performance fees payable).

##### **Centro Retail Australia**

Centro Properties Group (CNP) was a stapled security which had interests in a portfolio of Australian regional and sub-regional shopping centres. An unsustainable aggressive debt-funded expansion strategy in 2009, with credit markets contracting and property values depreciating, resulted in CNP experiencing significant financial distress. On 9 August 2011, CNP announced that an agreement had been reached to sell its property portfolio and services business in the US and to amalgamate its remaining Australian interests into a single listed entity, Centro Retail Australia (CRA), now known as Federation Centres. CRA acquired CNP's property and funds management business for \$240 million.

##### **Macquarie Leisure Trust Group**

Macquarie Leisure Trust Group (MLE) was an owner and operator of Australian premium leisure assets. On 25 June 2009, MLE announced a proposal to internalise management by way of acquisition of its responsible entity, Macquarie Leisure Management Limited (MLML), for a cash consideration of \$17 million.

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#### ***Orchard Industrial Property Fund***

On 18 May 2009, Orchard Property Limited (OPL) as the responsible entity of Orchard Industrial Property Fund (OIF) announced that it had entered into an agreement with Growthpoint Properties Limited (GPL) to recapitalise and restructure OIF for a \$56 million scrip offer, with a \$144 million rights issue to be underwritten by GPL and a top up placement of securities to GPL.

#### ***Babcock & Brown Japan Property Trust***

Babcock & Brown Japan Property Trust (B&B) was a listed property trust which was involved in investing in properties in Japan. On 2 April 2009, B&B announced that an agreement had been concluded with Babcock & Brown International Pty Ltd (BBIPL) for an internalisation of the management rights of the trust held by Babcock & Brown Japan Property Management Limited and the acquisition of the asset management rights of the Trust held by Babcock & Brown Co. Ltd., both BBIPL subsidiaries. The consideration for the transaction was approximately \$20.0 million.

#### ***Transaction evidence – Management internalisations of infrastructure funds***

##### ***DUET Group***

DUET Group (DUET) is a quadruple stapled entity that owns and operates energy utility assets in Australia. On 31 July 2012, the directors of the responsible entities announced the proposal to internalise the management of DUET. DUET paid management fees as a percentage of net investment value and performance fees as a percentage of outperformance of the S&P/ASX 200 Index. The consideration for the proposal was \$82 million plus a cash amount equivalent to the base management fee for the period from 1 October 2012 to the implementation date.

##### ***Spark Infrastructure***

Spark Infrastructure Group (Spark) is a specialist infrastructure fund that invests in utility infrastructure within Australia. On 1 April 2011, Spark announced a proposal to acquire all shares of CKI RREEG JV Holdings Pty Ltd, who owned all shares in Spark Infrastructure Management Limited (SIML) and Spark Infrastructure RE Limited, resulting in the internalisation of its management. Spark paid \$49 million for the acquisition of SIML and the management services provided by SIML to Spark under the management agreements currently in operation.

##### ***Qube Logistics Holdings***

Qube Logistics (Qube) was a listed investment trust that has investments in operating and development assets in the Australian transport and logistics sector. On 8 February 2011, the responsible entity for Qube announced a proposal to restructure Qube and to internalise management by terminating the current investment management agreements for a consideration of \$40 million, in the form of cash (\$8 million) and scrip (\$32 million at market value).

##### ***Macquarie Media Group***

Macquarie Media Group (MMG) was a stapled structure which owned media assets in Australia and the US. On 28 October 2009, MMG announced the proposal to effect a series of initiatives including; raising \$294 million of capital, internalisation of management and restructuring the staple structure to a typical listed company. The internalisation involved the acquisition of Macquarie Media Management Limited

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(MML), which was the owner of the existing management arrangements from Macquarie for cash consideration of \$40.5 million, and additionally terminating the Asset Advisory Agreement between Macquarie Diversified Asset Advisory Pty Ltd and MSCM.

### ***Macquarie Infrastructure group***

Macquarie Infrastructure Group (MIG) was a major operator and developer of toll roads with a portfolio of nine toll roads across six countries. On 30 October 2009, the responsible entity for the group announced a proposal to restructure MIG, which involved the reorganisation of MIG assets into Macquarie Atlas Roads (MQA) and Intoll assets, separating MIG into two listed funds (Intoll and MQA), and Intoll internalising management (MQA being managed by Macquarie) for cash consideration of \$50 million.

### ***Macquarie Airports***

Macquarie Airports (MAP) was an externally managed investment fund with the mandate for investing in existing and proposed airport assets. On 24 July 2009, MAP announced it had reached agreement with Macquarie Capital for the internalisation of its management for cash consideration of \$345 million.

### ***Viridis Clean Energy Group***

On 20 April 2009, Viridis Clean Energy Group (Viridis) announced that it had reached in principle agreement to internalise its management. Viridis acquired its existing manager through the issue of 14 million securities, with total consideration being \$2.8 million. Viridis is an Australian renewable energy group which owns a number of renewable assets in Europe and North America.

### ***Transaction evidence – Acquisition of real estate management platforms***

#### ***Merger of Westfield Group's Australian and New Zealand operations and Westfield Retail Trust***

On 4 December 2013, Westfield Retail Trust (WRT) and Westfield Group (WDC) jointly announced the proposal to merge WRT and WDC's Australian and New Zealand business, including Westfield Group's Australian and New Zealand retail property management, funds management and development operating platform. The implied consideration for Westfield Group's operating platform was approximately \$2.9 billion.

#### ***Acquisition of CPA management rights by DEXUS***

On 11 December 2013, DEXUS and CPPIB announced that they intended to make a joint cash and scrip off-market takeover offer to acquire all of the issued units in CPA. As part of this transaction, DEXUS would assume the management of CPA for consideration of \$41 million to Commonwealth Bank of Australia, the ultimate manager of CPA.

#### ***Acquisition of Austock's property funds management business by Folkestone Limited***

On 9 July 2012, Austock Group Limited and Folkestone Limited jointly announced the agreement for the sale of all of Austock's shares in its subsidiary Austock Property Funds Management, and related entities in the property funds management business by Folkestone Limited. The consideration for this transaction was approximately \$11.5 million (excluding \$1.2 million of regulatory capital and NTA settlement adjustments).

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***Acquisition of PFA Diversified Property Trust's management rights by Charter Hall***

On 28 June 2012, Charter Hall Group announced it had entered into an implementation deed with various entities of Australian Property Growth Fund for the retirement of PFA Diversified Property Trust as the responsible entity, appointment of Charter Hall Direct Property Management Limited as responsible entity, and appointment of PFA Diversified Property Trust as manager. The consideration was a \$5 million facilitation fee to Australian Property Growth Fund.

***Acquisition of Centro Property Group services business***

On 9 August 2011, the Centro Properties Group announced that agreement had been reached on the terms upon which various entities within the group were to merge to create a single entity, Centro Retail Australia. As part of this transaction, Centro Property Group's services business was transferred to Centro Retail Australia for approximately \$240 million (subject to certain adjustments for working capital) in exchange for Centro Retail Australia securities.

***Acquisition of ING Industrial Fund by Goodman Group led Consortium***

On 24 December 2010, ING Management Limited, as responsible entity of ING Industrial Fund (IIF), entered into an implementation agreement with a consortium led by Goodman Group for the acquisition of all ordinary units in IIF. Separately, ING Group received \$22.5 million from the consortium for ING Group giving up the opportunity to receive revenue in relation to the ongoing management of IIF.

***Acquisition of Becton Investment Management Limited by 360 Capital Group***

On 6 October 2010, 360 Capital Group Limited entered into a conditional agreement to acquire Becton Investment Management Ltd from Becton Property Group Limited. Under the proposal, 360 Capital made an upfront initial cash payment, of \$2 million, and agreed to a revenue share agreement over the subsequent three years.

***Acquisition of Macquarie Group's real estate management platform by Charter Hall Group***

On 12 February 2010, Charter Hall Group announced that it had agreed to acquire the majority of Macquarie Group's core real estate management platform comprising management of two listed and three unlisted real estate funds, and co-investment in Macquarie Office Trust, Macquarie Country Wide Trust and Macquarie Direct Property Fund. The consideration for this transaction was \$108 million and a \$15 million earn-out conditional on the performance of the platform. The total consideration including the earn-out was \$119 million.

***Acquisition of the remaining 50% stake in DB REEF Funds Management Limited by DEXUS***

On 21 February 2008, DEXUS acquired the remaining 50% stake in DB REEF Funds Management Limited for \$130 million. DB REEF had approximately \$15.2 billion of AUM at the time of the transaction.

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### Sharemarket evidence – A-REITs

The following table summarises selected sharemarket metrics for A-REITs which we have considered in our discount rate assessment as outlined in section 8.1.3.

**Table 28: Selected sharemarket metrics for A-REITs**

	Market Cap \$ million	Levered beta 2-year weekly	5-year monthly	Debt to value 2-year average	5-year average	Dividend yield LTM	NTM
<b>Office REITs</b>							
Cromwell Property Group	1,646	0.83	0.77	30%	32%	8.0%	8.2%
DEXUS Property Group	6,031	0.69	0.79	33%	35%	5.6%	6.2%
GDI Property Group	516	n/a	n/a	n/a	n/a	nmf	8.2%
Investa Office Fund	2,057	0.74	0.7	26%	27%	5.5%	5.7%
<b>Diversified REITs</b>							
Abacus Property Group	1,317	0.81	0.77	38%	37%	6.5%	6.8%
Astro Japan Property Group	299	0.69	0.84	69%	n/a	4.5%	5.6%
Australand Property Group	2,589	0.68	1.03	37%	38%	5.3%	5.8%
Charter Hall Group	1,452	0.92	1.28	nmf	3%	5.5%	6.0%
GPT Group	6,523	0.65	0.67	25%	26%	5.4%	5.6%
Growthpoint Properties Australia	1,491	0.52	0.57	42%	47%	7.1%	7.3%
Mirvac Group	6,359	0.8	0.87	27%	27%	5.2%	5.3%
Stockland	9,267	0.67	0.8	27%	24%	6.1%	6.1%
<b>Industrial REITs</b>							
Australian Industrial REIT	202	n/a	n/a	n/a	n/a	7.2%	8.2%
BWP Trust	1,529	0.96	0.71	20%	20%	6.2%	6.6%
Goodman Group	9,024	0.84	1.01	19%	25%	4.0%	4.3%
Industria REIT	246	n/a	n/a	n/a	n/a	nmf	8.4%
360 Capital Industrial Fund	266	n/a	n/a	n/a	n/a	8.2%	8.3%
<b>Retail REITs</b>							
CFS Retail Property Trust Group	6,085	0.71	0.63	31%	30%	6.8%	6.9%
Charter Hall Retail REIT	1,417	0.73	0.65	35%	40%	7.2%	7.3%
Federation Centres	3,683	0.8	n/a	27%	n/a	6.1%	6.5%
Scentre Group	17,422	n/a	n/a	n/a	n/a	nmf	6.3%
Shopping Centres Australasia Property Group	1,090	n/a	n/a	n/a	n/a	6.5%	6.6%
Westfield Corporation	15,482	n/a	n/a	n/a	n/a	nmf	3.6%
<b>Specialised REITs</b>							
Generation Healthcare REIT	240	0.63	0.66	46%	55%	5.8%	6.1%
ALE Property Group	636	0.46	0.41	47%	53%	5.1%	5.2%
Hotel Property Investments	304	n/a	n/a	n/a	n/a	nmf	7.0%
Folkestone Education Trust	397	0.44	0.77	32%	44%	6.2%	6.6%
Ingenia Communities Group	389	0.92	0.84	48%	65%	2.5%	3.6%
National Storage REIT	377	n/a	n/a	n/a	n/a	nmf	6.3%
<b>Low</b>		<b>0.44</b>	<b>0.41</b>	<b>19%</b>	<b>3%</b>	<b>2.5%</b>	<b>3.6%</b>
<b>High</b>		<b>0.96</b>	<b>1.28</b>	<b>69%</b>	<b>65%</b>	<b>8.2%</b>	<b>8.4%</b>
<b>Mean (excl. outliers)</b>		<b>0.76</b>	<b>0.80</b>	<b>35%</b>	<b>35%</b>	<b>5.9%</b>	<b>6.4%</b>
<b>Median (excl. outliers)</b>		<b>0.74</b>	<b>0.77</b>	<b>32%</b>	<b>34%</b>	<b>6.0%</b>	<b>6.3%</b>

Source: S&P Capital IQ; KPMG Corporate Finance analysis

Note 1: Figures shaded in grey have been treated as outliers

Note 2: Forward data relating to the dividend yield was obtained from broker consensus estimates

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#### Appendix 4 – Glossary

Abbreviation	Description
AFSL	Australian Financial Services Licence issued by ASIC under section 913B of the Corporations Act
AIML	Arena Investment Management Limited ACN 077 235 879
Arena REIT	ARF 1 and ARF 2
ARF 1	Arena REIT No. 1 ARSN 106 891 641
ARF 2	Arena REIT No. 2 ARSN 101 067 878
ARL	Arena REIT Limited ACN 602 365 186 (which depending on the context may also include ARL's subsidiaries)
ARML	Arena REIT Management Limited ACN 600 069 761
A-REIT	Australian Real Estate Investment Trust
ASIC	Australian Securities and Investments Commission
ASX	ASX Limited ACN 008 624 691 or, as the context requires, the financial market known as the Australian Securities Exchange operated by it
ATO	Australian Taxation Office
AUM	Assets Under Management
BSH	The wholesale managed investment scheme known as the BSH Joint Venture
Citrus II	Citrus II Investments Pty Ltd ACN 154 325 603 as trustee of Citrus I Holding Trust
Corporations Act, the Act	the <i>Corporations Act 2001</i> (Cth)
Constitutions	The constitutions of ARF 1 and ARF 2
Document	The Notice of Meeting and Explanatory Memorandum
DCF	Discounted cash flow
DRP	Distribution Reinvestment Plan
Existing Stapled Security	One ARF 1 unit stapled to one ARF 2 unit
Existing Stapled Securityholder	A holder of an Existing Stapled Security
Foreign Existing Stapled Securityholder	An Existing Stapled Securityholder who is not an Australian or New Zealand resident for taxation purposes
IER	Independent Expert's Report
Implementation Date	The date the Proposal is implemented, expected to be in December 2014
Independent Directors	The independent directors of AIML, namely, David Ross, Dennis Wildenburg and Simon Parsons
Proposal, or Internalisation Proposal	The proposal to internalise the corporate governance and management functions of Arena REIT as described in the Document
IPO	Initial Public Offering
KPMG Corporate Finance	KPMG Financial Advisory Services (Australia) Pty Ltd (of which KPMG Corporate Finance is a division)
MSREF VII Global	The investment platform sponsored and managed by Morgan Stanley Real Estate Investing which owns AIML via a series of interposed investment vehicles

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Abbreviation	Description
New Stapled Group	The group formed as a result of the Stapling of units in ARF 1 and ARF 2 to shares in ARL as described in the Document
New Stapled Security	One ARF 1 unit stapled to one ARF 2 unit stapled to one ARL share
NPV	Net present value
NTA	Net tangible asset value
PHC	The wholesale managed investment scheme known as PHC Darlinghurst Syndicate and Trust
RG	Regulatory Guide
SHCT	Sydney Health Care Trust
Syndicates	BSH and PHC (two unlisted wholesale syndicates that own healthcare properties)
Trusts	ARF 1 and ARF 2
VWAP	Volume weighted average price
WACC	Weighted average cost of capital
WALE	Weighted average lease expiry

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**KPMG Corporate Finance**

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**PART TWO – FINANCIAL SERVICES GUIDE**

Dated 3 November 2014

**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 Mr Sean Collins as an authorised representative of KPMG Corporate Finance, authorised representative number 404189 (**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 AIML as responsible entity for Arena REIT (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 Internalisation Proposal (Transaction).

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 Transaction.

**Fees KPMG Corporate Finance may receive and remuneration or other benefits received by our representatives**

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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 \$85,000 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.

## 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.

During the past two years KPMG entities have not provided audit, tax or advisory services to the Client for which professional fees were received.

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](http://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](mailto: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:

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Sydney NSW 2000

PO Box H67  
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Telephone: (02) 9335 7000  
Facsimile: (02) 9335 7200

Ian Jedlin and Sean Collins  
C/O KPMG  
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Australia Square  
NSW 1213  
Telephone: (02) 9335 7000  
Facsimile: (02) 9335 7000



# 08: Additional information

## 8.1 AIML existing fee entitlements

### (a) Base management fee

The total gross assets of Arena REIT are approximately \$384.3 million (see pro forma balance sheet in Section 5). Therefore, in accordance with the table below, AIML is entitled to the current management fee of 0.8% which equates to approximately \$3.1 million per annum.

Tier (gross value of Arena REIT's Assets)	Fee
Portion of the gross value of Arena REIT's Assets up to \$400 million	0.80% of gross value of Arena REIT's Assets up to \$400 million
Portion of the gross value of Arena REIT's Assets greater than \$400 million and up to \$950 million	0.70% of gross value of Arena REIT's Assets greater than \$400 million and up to \$950 million
Portion of the gross value of Arena REIT's Assets greater than \$950 million	0.60% of gross value of Arena REIT's Assets greater than \$950 million

As the total gross assets increase, the management fee, as a percentage of the total gross assets, reduces.

### (b) Acquisition fee

Up to 1.00% of the value of each real property asset acquired by Arena REIT.

The acquisition fee is payable by Arena REIT on completion of the acquisition of the real property asset. The acquisition fee is also payable on the merger, stapling or amalgamation of any Trust with another managed investment scheme. The fees are payable as if the real property assets of the managed investment scheme were acquired for an amount equal to the value of the real properties as at the date of the merger, stapling or amalgamation as determined by an approved valuer appointed by AIML.

### (c) Disposal fee

Up to 1.00% of the gross sale price of each real property asset, provided the gross sale price exceeds the purchase price of that asset. The disposal fee is payable by Arena REIT on completion of the sale of the real property asset.

The disposal fee is also payable on the merger or amalgamation of Arena REIT with another managed investment scheme. The fees are payable as if the real property assets of the relevant Trust were sold for an amount equal to the value of the real properties as at the date of the merger or amalgamation as determined by an approved valuer appointed by AIML.

### (d) Performance fee

Up to an additional 1.00% of gross sale price in the event the gross sale price of the real property asset exceeds the original purchase price of that asset by more than 20%.

The performance fee is payable by Arena REIT on completion of the sale of the real property asset. The performance fee is also payable on the merger or amalgamation of Arena REIT with another managed investment scheme. The fees are payable as if the real property assets of the relevant Trust were sold for an amount equal to the value of the real properties as at the date of the merger or amalgamation as determined by an approved valuer appointed by AIML.

## 8.2 Internalisation Steps

The Implementation Agreement provides that, subject to the approval of the Resolutions and fulfilment of the other conditions, the Internalisation Proposal will be implemented as follows:

1. AIML, as agent for each Foreign Investor, will transfer to the Sale Nominee all Existing Stapled Securities held by Foreign Investors.
2. ARF1 will drawdown \$13 million from its existing debt facility.
3. ARF1 will use the proceeds from step 2 to subscribe for fully paid ordinary shares in ARL. The constitution of ARL provides that, with effect from the Stapling Commencement Date, shares in ARL must only be transferred if accompanied by a transfer of an equal number of units in Arena REIT (and units in Arena REIT may only be transferred if accompanied by a transfer of an equal number of shares in ARL).
4. ARF1 will make an *in specie* distribution to ARF1 unitholders of the new shares in ARL issued under step 3. ARF1 unitholders will receive one ARL share for each pair of Arena REIT units they currently hold.
5. Arena REIT and ARL will enter into a new stapling deed to effect the stapling of the Arena REIT units and the ARL shares and replace the existing stapling deed, which effected the stapling of Arena REIT units.
6. ARL will use part of the proceeds from step 2 to acquire all of the ordinary shares in CISL from Citrus II.
7. CISL and AIML enter into the Resourcing Deed.
8. AIML will retire, and ARML will be appointed, as the responsible entity of Arena REIT and the manager of the Syndicates.
9. New Stapled Securities will commence trading on the ASX.
10. ARML will procure that the number of New Stapled Securities held by the Sale Nominee on behalf of Foreign Investors as at the Stapling Record Date will be disposed of and ARML will remit the net proceeds to the Foreign Investors and may execute any required security transfer forms as agent and attorney for the relevant Foreign Investor.

## 08: Additional information

### 8.3 ASIC relief and ASX waivers and confirmations

Please refer to Sections 11.1 and 11.2 of the Prospectus in respect of the ASIC relief and ASX waivers and confirmation which are expected to be obtained in order to facilitate the Internalisation Proposal.

### 8.4 Sale Facility for Foreign Investors

Given the small number of Foreign Investors in Arena REIT (approximately 0.18% of Existing Stapled Securities) and the legal restriction related to participation in the Internalisation Proposal by Investors in jurisdictions outside of Australia and New Zealand, if the Internalisation Proposal is implemented, Foreign Investors will not receive New Stapled Securities (due to legal restrictions). Instead, Foreign Investors will have the New Stapled Securities to which they would otherwise be entitled sold through the Sale Facility in such manner and at such price and on such terms as the Sale Nominee determines in good faith (and at the risk of Foreign Investors). The New Stapled Securities to be sold by the Sale Nominee will be sold on market and there can be no assurance as to the price at which New Stapled Securities will be sold. Sale proceeds will be paid by electronic funds transfer (if details are held by the Registry) or by cheque.

### 8.5 MSREF VII Global

MSREF VII Global indirectly holds 26,952,874 Existing Stapled Securities, the holder being The Trust Company (Australia) Limited as trustee for Citrus Subsidiary Trust (TCA).

TCA is not an associate of AIML for the purposes of Section 253E of the Corporations Act and is therefore entitled to vote its holding on all of the Resolutions.

### 8.6 Interests of AIML Directors in Arena REIT

The table below lists the Existing Stapled Securities held directly, or indirectly or beneficially by or on behalf of each director of AIML as at the date of this Document. If the Internalisation Proposal is approved and implemented, those directors will receive the equivalent number of New ARL Shares to the number of Existing Stapled Securities held at the Stapling Record Date.

Name	Existing Stapled Securities (either directly or otherwise)
David Ross	200,000
Simon Parsons	200,000
Dennis Wildenburg	150,000
Bryce Mitchelson	753,907
James Goodwin	500,000

AIML Directors will be entitled to vote on the Resolutions and receive shares in ARL (and otherwise participate in the Internalisation Proposal) in respect of any securities held by or on behalf of them to the extent permitted by law.

### 8.7 Interests of AIML Directors in ARL and ARML

No shares in ARL or ARML are held by, or on behalf of, any AIML director.

### 8.8 Interests of AIML directors in agreements or arrangements relating to the Internalisation Proposal

Bryce Mitchelson will be Managing Director of ARL and will have both short-term and long-term remuneration interests if the Internalisation Proposal is implemented as set out in Section 8.12. If the Internalisation Proposal is approved and implemented, it is expected that Mr Mitchelson will retire as a director of AIML.

Implementation of the Internalisation Proposal may contribute to the entitlement of Mr Mitchelson and Mr Goodwin to previously agreed long term incentive payments payable by Citrus II. No amount is payable by AIML.

Other than as set out in this Section 8 or elsewhere in this Explanatory Memorandum:

- none of the AIML directors has an interest in any contract entered into which is conditional on, or related to, the Internalisation Proposal; and
- there is no agreement or arrangement between any AIML director and another person in connection with or conditional on the implementation of the Internalisation Proposal.

However, AIML directors will be entitled to vote in favour of the Internalisation Proposal and receive shares in ARL in respect of any Existing Stapled Securities held by or on behalf of them to the extent permitted by law.

### 8.9 Payments and other benefits to directors, secretaries, executive officers or related bodies corporate

No payment or other benefit is proposed to be made or given (in connection with or conditional on the Internalisation Proposal) to any director, secretary or executive officer of AIML as compensation for loss of or as consideration for or in connection with his or her retirement from office in AIML or its related bodies corporate.

Other than as set out in this Section 8 or elsewhere in this Explanatory Memorandum, no payment or other benefit is proposed to be made or given to any related body corporate of AIML in connection with or conditional on the Internalisation Proposal.

### 8.10 Interests of ARL directors in Arena REIT

The directors of ARL are:

- David Ross
- Dennis Wildenburg
- Simon Parsons
- Bryce Mitchelson

Their holdings of Existing Stapled Securities are set out in Section 8.6 above.

The directors of ARL, whether as directors, members, creditors or otherwise, have no material interest in the Internalisation Proposal or the Resolutions except as members holding Existing Stapled Securities as set out above or as otherwise disclosed in this Explanatory Memorandum.

### 8.11 Remuneration of New ARF directors

As remuneration for services, each non-executive director of ARL is to be paid an amount determined by the ARL Board. In addition, every director of ARL is entitled to be reimbursed out of the funds of ARL for all reasonable travel, accommodation and other expenses incurred by the director in attending meetings of directors or of any committees or when otherwise engaged on the business of ARL (as applicable). Under the ARL Constitution, the aggregate amount for all payments to non-executive directors (excluding any fees for special exertions) is capped at \$650,000 per year.

If the Internalisation Proposal is approved and implemented, the ARL non-executive directors will be entitled to receive the following annual remuneration from ARL (inclusive of statutory superannuation):

Name	Base fee	Audit Committee	Remuneration & Nomination Committee	Total
David Ross	\$175,000	_A	_A	\$175,000
Simon Parsons	\$87,500	\$5,000	\$5,000	\$97,500
Dennis Wildenburg	\$87,500	\$10,000 <sup>B</sup>	\$5,000	\$102,500

A - The Chairman's Base fee includes all committee fees

B - Chairman of the Audit Committee

### 8.12 Remuneration of New ARF employees

#### Remuneration policy

The ARL Board has adopted a remuneration policy that recognises the need to motivate, attract and retain employees to deliver sustainable and superior business performance. The remuneration policy is underpinned by the following principles:

- Remuneration is externally competitive in terms of quantum, mix and design to support the attraction and retention of employees and takes into account the relative size and nature of the New ARF business and its ability to pay and the role and experience of employees.
- The remuneration framework supports the delivery of New ARF's business strategy.
- Remuneration is made up of fixed and variable reward.
- Variable reward will be used to recognise performance in both the short and longer term.

Executive and employee reward comprises fixed remuneration, and for eligible employees at the discretion of the ARL Board, variable short-term incentive payments (**STI**) and, for eligible senior employees at the discretion of the ARL Board, a long-term incentive (**LTI**).

The Remuneration Committee will review this policy on an annual basis, or more frequently as required, to ensure the remuneration arrangements are driving business performance and are aligned with the long-term strategy of New ARF.

The Remuneration Committee will, as required, appoint external remuneration advisers to review and advise on aspects of the policy and associated frameworks.

## 08: Additional information

### Summary of remuneration of New ARF senior management team

The following table lists the annualised remuneration of New ARF's senior management team (including statutory superannuation) to apply from the Implementation Date for FY15.

Role	Name	Total annual fixed rem.	FY15 STI		FY15 LTI		TOTAL
			%	Max Amount (paid in cash)	% (equity based)	Max Amount	
Managing Director	Bryce Mitchelson	\$475,000	50%	\$237,500	50%	\$237,500	\$950,000
Chief Financial Officer	Gareth Winter	\$330,000	33%	\$110,000	33%	\$110,000	\$550,000
Head of Property	Robert de Vos	\$275,000	45%	\$125,000	36%	\$100,000	\$500,000

**Note:** the Maximum STI amount shown in the table above is an annualised amount which will be pro rated in FY15 for the period from the Implementation Date to 30 June 2015 and paid in cash.

The Maximum LTI Amount shown in the table above is not paid in cash, rather it is subject to a grant of Performance Rights and Recognition Rights at the Implementation Date, the grant to Mr Mitchelson being subject to approval of Resolution 3 at the Meeting. The rights only vest if performance hurdles are achieved and will be satisfied with New Stapled Securities.

#### Total annual fixed remuneration

Total annual fixed remuneration (**TFR**) consists of base salary, employer superannuation contribution and salary sacrifice benefits. TFR is set based on the role responsibilities, experience and qualifications of the individual, and with reference to market data of comparable companies. An employee's TFR will generally be reviewed on an annual basis.

#### STI plan

The STI plan is designed to reward annual performance and focus eligible employees on meeting New ARF's business plan and key result expectations.

Outlined below are the key terms of the FY15 STI plan:

- The opportunity for reward is assessed against specific KPIs that will be documented for each participant, identifying:
  - the percentage weighting and measurement for each KPI;
  - threshold and stretch performance hurdles (50% of award is payable for threshold performance and 100% of award is payable for stretch performance); and
  - the maximum STI, expressed as a % of TFR.
- Performance is measured in two categories:
  - Financial: linked to achieving agreed financial metrics, eg. distributable income per security (**DIS**).
  - Non-financial: linked to non-financial metrics, for example, strategy development and execution, business performance, risk management, people and stakeholder management and relationships, and specific personal objectives.

- Taking into account circumstances over the course of the financial year, the ARL Board has the discretion to reduce, cancel or increase STI payments.
- STI payments earned will be paid in cash following the end of the relevant financial year once the ARL Board has approved the STI payments.
- In the event of the termination of a participant's employment, the following rules are to apply:
  - dismissal for cause – the STI is forfeited;
  - resignation – the STI is forfeited, unless otherwise determined by the ARL Board at its complete discretion; and
  - other circumstances – a pro-rata reduction in the STI opportunity for each KPI with the ARL Board taking into account a variety of factors, assessed and paid (if any) at the same time as for other participants.

#### LTI Plan

The LTI Plan is a performance-based equity incentive scheme designed to align the interests of employees and Investors over the long-term and retain high performing individuals.

Outlined below are the key terms of the FY15 Grant under the LTI Plan:

- The FY15 Grant opportunity varies by individual and encompasses two types of security rights: Performance Rights and Recognition Rights.
- The amount allocated for the LTI grant of Performance Rights and Recognition Rights will be based on a percentage of an employee's TFR. 60% of this amount will be allocated to Performance Rights and 40% to Recognition Rights. The number of Performance Rights and Recognition Rights granted will be determined by dividing the amount allocated to each right by the fair value of a Performance Right and the fair value of a Recognition Right (as applicable), in each case as independently valued by Ernst & Young ABC Pty Ltd.

- The actual benefit delivered to employees will depend on the quantum of Performance Rights and Recognition Rights granted, the extent to which the performance hurdles are achieved, and security price performance.
- Participants do not receive distributions or dividends on unvested LTI awards during the performance period.
- In the event of the termination of a participant's employment, the following treatment will apply in respect of unvested awards:
  - dismissal for cause or resignation: unvested awards will lapse (unless the ARL Board determines otherwise); and
  - in all other circumstances: unvested awards will remain 'on foot' subject to the original performance conditions and vesting period. The ARL Board will have discretion to pro-rate awards which remain on foot (eg. to reflect the portion of the performance / vesting period that has elapsed). The ARL Board may lapse an award in full and also allow accelerated vesting (pro-rated for time and performance) in special circumstances (subject to the termination benefit cap rules).
- In the event of a successful takeover bid for New ARF or any proposed transaction that the ARL Board in its discretion determines should be treated as a change of control, a pro-rata number of unvested grants vest at the time of the event, based on the performance period elapsed and the extent to which performance hurdles have been achieved at that time (unless the Board determines another treatment in its discretion).

### Performance Rights

Performance Right grants will vest at 30 June 2017 subject to achieving performance hurdles. Under the LTI Plan, there are two independent hurdles, each with a 50% weighting. The performance measures and hurdles may be reviewed for any future grants. The performance measures and hurdles to apply to the FY15 Grant are set out below.

#### Hurdle 1: Relative total shareholder return (TSR)

Relative TSR performance is determined based on New ARF's total ASX return (assuming distribution reinvested) ranking against the constituents of the comparator group over the performance period. The comparator group for FY15 is A-REITs in the S&P / ASX 300 Accumulation Index. The performance measurement period will be from the Implementation Date to 30 June 2017.

The relative TSR vesting schedule is as follows:

New ARF's percentile ranking	Proportion of TSR-hurdled Performance Rights that vest
Below 50th percentile	0%
50th to 75th percentile	Progressive pro-rata vesting between 50% and 100% (ie. on a straight-line basis)
At or above the 75th percentile	100%

#### Hurdle 2: distributable income per security (DIS):

The distributable income per security vesting schedule is as follows:

FY17 distributable income per security	Proportion of distributable income per security-hurdled Performance Rights that vest
Below 11.0 cps	0%
Between 11.0 and 12.0 cps	Progressive pro-rata vesting between 50% and 100% (ie. on a straight-line basis)
≥ 12.0 cps	100%

Note: cps = cents per New Stapled Security

The ARL Board retains a discretion to adjust the conditions and/or the performance outcome used for assessing whether the performance related conditions have been satisfied to ensure that participants are neither advantaged nor disadvantaged by matters that affect the conditions (for example, by excluding one-off non-recurrent items or the impact of significant acquisitions or disposals).

### Recognition Rights

In addition to Performance Rights, participants in the FY15 Grant will also receive a one-off grant (of 40% of the FY15 LTI grant value) to recognise commitment to the internalisation and to reward ongoing effort toward delivering New ARF's business performance. Recognition Rights for each participant are subject to an employment retention period ending 30 June 2017. The Recognition Rights are considered by the ARL Board to be an important incentive for participants to remain with the business during Arena REIT's transition from external to an internalised management structure.



## 08: Additional information

### 8.13 Proposed FY15 Grant (including to Mr Mitchelson) under LTI Plan

Mr Mitchelson's role as Managing Director of New ARF will entitle him to participate in the FY15 Grant under the LTI Plan. Mr Mitchelson will receive rights pursuant to the FY15 Grant with a maximum value (based on the current independent valuation of Performance Rights and Recognition Rights) of 50% of his annual fixed remuneration. Subject to the operation of the LTI Plan, 60% of his FY15 Grant will be Performance Rights and 40% will be a one-off issue of Recognition Rights. Recognition Rights are retention based and, subject to the operation of the LTI Plan, require Mr Mitchelson to remain a New ARF employee for the period from

Implementation Date to 30 June 2017 in order to vest.

The number of Performance Rights and Recognition Rights granted to Mr Mitchelson and other members of the senior management team have been determined based upon an independent valuation of those rights (conducted by Ernst & Young ABC Pty Ltd). For the purposes of the FY15 Grants, the Performance Rights were valued at \$0.94 per right and the Recognition Rights were valued at \$1.22 per right.

The number of Performance Rights and Recognition Rights to be granted to Mr Mitchelson and other members of the senior management team at the Implementation Date is shown in the following table.

Role	Name	Performance Rights	Recognition Rights	Total
Managing Director	Bryce Mitchelson	151,596	77,869	229,465
Chief Financial Officer	Gareth Winter	70,213	36,066	106,279
Head of Property	Robert de Vos	63,830	32,787	96,617

#### Investor approval

ASX Listing Rule 10.14 requires Investor approval before a Director can acquire securities or rights to securities under an employee incentive scheme. Approval from Investors is being sought to grant Performance Rights and Recognition Rights to Mr Mitchelson under the LTI Plan with effect from the Implementation Date.

#### ASX Listing Rules

ASX Listing Rule 10.15 requires the following information to be disclosed in relation to the Performance Rights and Recognition Rights to be granted to Mr Mitchelson under the LTI Plan:

- The maximum number of Performance Rights and Recognition Rights that may be granted to Mr Mitchelson within 12 months of the Meeting is 229,465. This number is determined in accordance with the formula set out below.

The maximum number of Performance Rights is determined in accordance with the following formula:

*Dividing Mr Mitchelson's Performance Right allocation amount (which is determined using a fixed percentage of his total annual fixed remuneration) by the value for each Performance Right. The Performance Right allocation amount is 60% of his maximum LTI amount of \$237,500 (ie. \$142,500) and the Performance Right value as independently valued is \$0.94.*

Based on the above formula, the ARL Board has determined that Mr Mitchelson would be entitled to a maximum of 151,596 Performance Rights.

The maximum number of Recognition Rights is determined in accordance with the following formula:

*Dividing Mr Mitchelson's Recognition Right allocation amount (which is determined using a fixed percentage of his total annual fixed remuneration) by the value for each Recognition Right. The Recognition Right allocation amount is 40% of his maximum LTI amount of \$237,500 (ie. \$95,000) and the Recognition Right value as independently valued is \$1.22.*

Based on the above formula, the ARL Board has determined that Mr Mitchelson would be entitled to a maximum of 77,869 Recognition Rights.

The value of each Recognition Right and Performance Right to be granted to Mr Mitchelson referred to above has been determined by Ernst & Young ABC Pty Ltd (qualified independent valuer).

- Each Recognition Right and Performance Right represents an entitlement to 1 New Stapled Security if the relevant vesting conditions are satisfied. On vesting of both the Performance Rights and Recognition Rights, the ARL Board has discretion to purchase the required number of New Stapled Securities on market or to issue New Stapled Securities.
- No payment for the Performance Rights and Recognition Rights is required by Mr Mitchelson.
- No distributions are payable on the unvested Performance Rights or Recognition Rights during the performance period.
- No payment is required on the issue of a New Stapled Security in respect of a vested Recognition Right or Performance Right.

**Persons who received securities under the LTI Plan since the last approval**

No persons have previously received any rights under the LTI Plan.

**Persons who are entitled to participate in the LTI Plan**

Bryce Mitchelson (Managing Director), Gareth Winter (CFO), Robert de Vos (Head of Property) and other members of the New ARF management team are entitled and eligible to participate in the LTI Plan at the discretion of the ARL Board.

**Terms of any loans**

There is no loan provided in relation to the acquisition of the Performance Rights and Recognition Rights by Mr Mitchelson.

**Issue date of Performance Rights and Recognition Rights**

Subject to Resolution 3 being approved at the Meeting, the Performance Rights and Recognition Rights will be granted to Mr Mitchelson on the Implementation Date, on the satisfaction of the conditions described in this Document.

**8.14 Other material terms of Mr Mitchelson's employment agreement****Termination**

- New ARF may terminate on 9 months' notice (or payment in lieu of notice) or immediately for serious misconduct.
- Mr Mitchelson may terminate on 9 months' notice.
- Any payment in lieu of notice is calculated on total fixed remuneration (inclusive of superannuation). Any incentive payments will be governed by the applicable STI or LTI plan rules, as summarised above.

**Post-employment restraints**

Mr Mitchelson is restrained from soliciting suppliers, customers and staff for a maximum of 9 months after employment ends.

**8.15 Investors participating in the Internalisation Proposal.**

For the purposes of identifying Investors entitled to participate in the Internalisation Proposal, if the Internalisation Proposal is approved at the Meeting, and all other conditions are satisfied, dealings in Existing Stapled Securities will only be recognised if:

- for dealings effected using CHESS (the computer system used by the ASX to effect the settlement of the purchase or sale of financial products), the transferee is registered in Arena REIT's register of members as the holder of the relevant Existing Stapled Security at the Stapling Record Date; and

- for other types of dealings, dealings that occur before the close of business on the Meeting Date and in respect of which registrable transmission applications or transfers in registrable form in respect of those dealings are received at or before the Stapling Record Date at 4:00pm.

Arena REIT will not accept for registration or recognise for any purpose any transmission application or transfer in respect of Existing Stapled Securities received after the times stated above.

**8.16 Privacy**

Information gathered by AIML to implement the Internalisation Proposal or in relation to the Meeting may be personal information for the purposes of the Privacy Act. AIML as the responsible entity of Arena REIT (and the Registry on its behalf) collects, holds and uses that personal information to implement the Internalisation Proposal, service your needs as an investor, provide facilities and services that you request and to administer Arena REIT. The Corporations Act requires certain particulars of security holders to be collected and maintained in a public register.

Access to information may also be provided to AIML's agents and service providers on the basis that they deal with such information as required by law. If you do not provide the information requested of you by the Registry may not be able to process your Proxy Form.

Under the Privacy Act, you may request access to your personal information held by (or on behalf of) AIML. You can request access to your personal information by telephoning or writing to AIML. You can access AIML's privacy policy at [www.arenainvest.com.au](http://www.arenainvest.com.au).



## 9: Notice of meeting of Investors

### 9.1 Arena REIT No. 1

Notice is given by Arena Investment Management Limited ACN 007 235 879 ("**Responsible Entity**", "**AIML**") that a meeting ("**Meeting**") of unitholders of Arena REIT No. 1 (ARSN 106 891 641) ("**ARF1**") will be held at:

**Time:** 11:00am AEDT

**Date:** Friday, 5 December 2014

**Place:** West Tower Suite, Level 35, Sofitel Hotel, 25 Collins Street, Melbourne Victoria 3000

**The business to be considered at the Meeting is as follows:**

#### Special Business:

##### RESOLUTION 1: INTERNALISATION PROPOSAL

To consider, and if thought fit, pass the following resolution as an **ordinary resolution**:

##### Resolution –

*"THAT, subject to and conditional on the other Internalisation Resolutions set out in the notice convening this Meeting being passed, the Internalisation Proposal, as described in this Explanatory Memorandum accompanying this notice of meeting with such modifications, if any, as are approved at the meeting, be approved and Arena Investment Management Limited (ACN 077 235 879), as the Responsible Entity of Arena REIT No 1 (ARSN 106 891 641), be authorised to do all things which it considers necessary, desirable or reasonably incidental to give effect to the Internalisation Proposal."*

##### RESOLUTION 2: CHANGE OF RESPONSIBLE ENTITY

To consider, and if thought fit, pass the following resolution as an **ordinary resolution**:

##### Resolution –

*"THAT, subject to and conditional on the other Internalisation Resolutions set out in the notice convening this Meeting being passed, upon the retirement of Arena Investment Management Limited (ACN 077 235 879) in accordance with section 601FL of the Corporations Act 2001 (Cth), Arena REIT Management Limited (ACN 600 069 761) be appointed as the new responsible entity of Arena REIT No 1 (ARSN 106 891 641)."*

##### RESOLUTION 3: GRANT OF LTI TO MANAGING DIRECTOR

To consider, and if thought fit, pass the following resolution as an **ordinary resolution**:

##### Resolution –

*"THAT, subject to and conditional on all other Resolutions set out in the notice convening this Meeting being passed, approval is given for all purposes, including for the purposes of ASX Listing Rule 10.14, to the acquisition by the Managing Director, Bryce Mitchelson, under the New ARF Long Term Incentive Plan of each of the rights no later than 12 months after the date of this meeting and the New Stapled Securities on the vesting of some or all of those rights on the terms set out in the Explanatory Memorandum accompanying this notice of meeting."*

#### CHAIRMAN

Under the Corporations Act, AIML is entitled to appoint a person to chair the Meeting. AIML intends to appoint David Ross (Chairman of the AIML Board) as Chair of the Meeting.

#### VOTING EXCLUSION STATEMENT

In relation to all Resolutions, in accordance with the Corporations Act, AIML and its associates are not entitled to vote their interest on a resolution if they have an interest in the matter other than as a member. However, AIML and its associates are entitled to vote their interest on a resolution to remove the responsible entity and choose a new responsible entity where the managed investment scheme is listed. Accordingly,

AIML and its associates will be entitled to vote in respect of any units they hold in respect of Resolution 2. AIML and its associates, however, will not be entitled to vote their interest in respect of Resolutions 1 and 3.

The Chair may disregard votes cast by such persons.

However, the Chair need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

AIML will disregard any votes cast on the proposed Resolution 3 by any Director of AIML (except one who is ineligible to participate in any employee incentive scheme in relation to AIML), which includes Mr Mitchelson and any associate of such persons. However, AIML need not disregard a vote if:

1. it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
2. it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy does.

In addition, no key management personnel of AIML or a closely related party of such a member may vote as a proxy on the proposed Resolution 3 unless:

3. the person votes as a proxy appointed by writing that specifies how the person is to vote on the proposed Resolution 3; or
4. the person is the Chairman and votes as a proxy appointed by writing that authorises the Chairman to vote on the proposed Resolution 3 even though that resolution is connected directly or indirectly with the remuneration of key management personnel of AIML.

### REQUIRED MAJORITY

All Resolutions are ordinary resolutions and will be passed if 50% or more of the votes cast by Investors present (in person or by proxy) and eligible to vote are cast in favour of the resolution.

### RIGHT TO APPOINT A PROXY

An Investor has a right to appoint a proxy to attend and vote at the Meeting on their behalf.

A proxy does not need to be an Investor, and you may appoint the Chair of the Meeting as your proxy. If you appoint the Chair as your proxy and do not specifically direct the Chair how to vote on a particular resolution, you will be deemed to have directed the Chair to vote in favour of that resolution.

If you appoint two proxies, you may specify the proportion or number of votes each proxy is appointed to exercise. If you do not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half the votes.

The Proxy Form, which accompanies this Notice of Meeting, includes instructions on how to vote and appoint a proxy.

To be valid, Boardroom Pty Limited must receive your Proxy Form no later than 11:00am (AEDT) on Wednesday, 3 December 2014.

### HOW TO VOTE

**By Mail:** Boardroom Pty Limited  
GPO Box 3993  
Sydney NSW 2001 Australia

**By Fax:** +61 2 9290 9655

**By Hand:** Boardroom Pty Limited  
Level 7, 207 Kent Street  
Sydney NSW 2000 Australia

**Online:** [www.votingonline.com.au/arenareitgm2014](http://www.votingonline.com.au/arenareitgm2014)

**Step 1:** Enter your holding/investment type.

**Step 2:** Enter your Reference Number.

**Step 3:** Enter your VAC.

### VOTING ENTITLEMENT

Investors registered as holders of Existing Stapled Securities as at 11:00am (AEDT) on Wednesday, 3 December 2014 will be entitled to attend and vote at the Meeting (subject to any voting exclusion).

### CORPORATE REPRESENTATIVES

A company wishing to appoint a person to act as its representative at the Meeting must provide that person with a letter executed in accordance with the company's constitution and the Corporations Act authorising him or her to act as the member's representative. An 'Appointment of Corporate Representative' form may be obtained from the Registry.

To be effective, the letter or certificate by which a representative is appointed by the company must be received by the Registry by 11:00am (AEDT) on Wednesday, 3 December 2014.

Please see the attached Explanatory Memorandum for further information in respect of the proposed resolutions.

**Issued by Arena Investment Management Limited (ACN 007 235 879) as the Responsible Entity of Arena REIT No. 1 (ARSN 106 891 641).**

### EXPLANATORY NOTES TO NOTICE OF MEETING

Please refer to Explanatory Memorandum.

## 9: Notice of meeting of Investors

### 9.2 Arena REIT No. 2

Notice is given by Arena Investment Management Limited ACN 007 235 879 ("**Responsible Entity**", "**AIML**") that a meeting ("**Meeting**") of unitholders of Arena REIT No. 2 (ARSN 101 067 878) ("**ARF2**") will be held at:

**Time:** 11:00am AEDT

**Date:** Friday, 5 December 2014

**Place:** West Tower Suite, Level 35, Sofitel Hotel, 25 Collins Street, Melbourne Victoria 3000

**The business to be considered at the Meeting is as follows:**

#### Special Business:

##### RESOLUTION 1: INTERNALISATION PROPOSAL

To consider, and if thought fit, pass the following resolution as an **ordinary resolution**:

##### Resolution –

*"THAT, subject to and conditional on the other Internalisation Resolutions set out in the notice convening this Meeting being passed, the Internalisation Proposal, as described in this Explanatory Memorandum accompanying this notice of meeting with such modifications, if any, as are approved at the meeting, be approved and Arena Investment Management Limited (ACN 077 235 879), as the Responsible Entity of Arena REIT No 2 (ARSN 101 067 878), be authorised to do all things which it considers necessary, desirable or reasonably incidental to give effect to the Internalisation Proposal."*

##### RESOLUTION 2: CHANGE OF RESPONSIBLE ENTITY

To consider, and if thought fit, pass the following resolution as an **ordinary resolution**:

##### Resolution –

*"THAT, subject to and conditional on the other Internalisation Resolutions set out in the notice convening this Meeting being passed, upon the retirement of Arena Investment Management Limited (ACN 077 235 879) in accordance with section 601FL of the Corporations Act 2001 (Cth), Arena REIT Management Limited (ACN 600 069 761) be appointed as the new responsible entity of Arena REIT No 2 (ARSN 101 067 878)."*

##### RESOLUTION 3: GRANT OF LTI TO MANAGING DIRECTOR

To consider, and if thought fit, pass the following resolution as an **ordinary resolution**:

##### Resolution –

*"THAT, subject to and conditional on all other Resolutions set out in the notice convening this Meeting being passed, approval is given for all purposes, including for the purposes of ASX Listing Rule 10.14, to the acquisition by the Managing Director, Bryce Mitchelson, under the New ARF Long Term Incentive Plan of each of the rights no later than 12 months after the date of this meeting and the New Stapled Securities on the vesting of some or all of those rights on the terms set out in the Explanatory Memorandum accompanying this notice of meeting."*

#### CHAIRMAN

Under the Corporations Act, AIML is entitled to appoint a person to chair the Meeting. AIML intends to appoint David Ross (Chairman of the AIML Board) as Chair of the Meeting.

#### VOTING EXCLUSION STATEMENT

In relation to all Resolutions, in accordance with the Corporations Act, AIML and its associates are not entitled to vote their interest on a resolution if they have an interest in the matter other than as a member. However, AIML and its associates are entitled to vote their interest on a resolution to remove the responsible entity and choose a new responsible entity where the managed investment scheme is listed. Accordingly,

AIML and its associates will be entitled to vote in respect of any units they hold in respect of Resolution 2. AIML and its associates, however, will not be entitled to vote their interest in respect of Resolutions 1 and 3.

The Chair may disregard votes cast by such persons.

However, the Chair need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

AIML will disregard any votes cast on the proposed Resolution 3 by any Director of AIML (except one who is ineligible to participate in any employee incentive scheme in relation to AIML), which includes Mr Mitchelson and any associate of such persons. However, AIML need not disregard a vote if:

1. it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
2. it is cast by the Chairman as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy does.

In addition, no key management personnel of AIML or a closely related party of such a member may vote as a proxy on the proposed Resolution 3 unless:

3. the person votes as a proxy appointed by writing that specifies how the person is to vote on the proposed Resolution 3; or
4. the person is the Chairman and votes as a proxy appointed by writing that authorises the Chairman to vote on the proposed Resolution 3 even though that resolution is connected directly or indirectly with the remuneration of key management personnel of AIML.

### REQUIRED MAJORITY

All Resolutions are ordinary resolutions and will be passed if 50% or more of the votes cast by Investors present (in person or by proxy) and eligible to vote are cast in favour of the resolution.

### RIGHT TO APPOINT A PROXY

An Investor has a right to appoint a proxy to attend and vote at the Meeting on their behalf.

A proxy does not need to be an Investor, and you may appoint the Chair of the Meeting as your proxy. If you appoint the Chair as your proxy and do not specifically direct the Chair how to vote on a particular resolution, you will be deemed to have directed the Chair to vote in favour of that resolution.

If you appoint two proxies, you may specify the proportion or number of votes each proxy is appointed to exercise. If you do not specify the proportion or number of votes each proxy may exercise, each proxy may exercise half the votes.

The Proxy Form, which accompanies this Notice of Meeting, includes instructions on how to vote and appoint a proxy.

To be valid, Boardroom Pty Limited must receive your Proxy Form no later than 11:00am (AEDT) on Wednesday, 3 December 2014.

### HOW TO VOTE

**By Mail:** Boardroom Pty Limited  
GPO Box 3993  
Sydney NSW 2001 Australia

**By Fax:** +61 2 9290 9655

**By Hand:** Boardroom Pty Limited  
Level 7, 207 Kent Street  
Sydney NSW 2000 Australia

**Online:** [www.votingonline.com.au/arenareitgm2014](http://www.votingonline.com.au/arenareitgm2014)

**Step 1:** Enter your holding/investment type.

**Step 2:** Enter your Reference Number.

**Step 3:** Enter your VAC.

### VOTING ENTITLEMENT

Investors registered as holders of Existing Stapled Securities as at 11:00am (AEDT) on Wednesday, 3 December 2014 will be entitled to attend and vote at the Meeting (subject to any voting exclusion).

### CORPORATE REPRESENTATIVES

A company wishing to appoint a person to act as its representative at the Meeting must provide that person with a letter executed in accordance with the company's constitution and the Corporations Act authorising him or her to act as the member's representative. An 'Appointment of Corporate Representative' form may be obtained from the Registry.

To be effective, the letter or certificate by which a representative is appointed by the company must be received by the Registry by 11:00am (AEDT) on Wednesday, 3 December 2014.

Please see the attached Explanatory Memorandum for further information in respect of the proposed resolutions.

**Issued by Arena Investment Management Limited (ACN 007 235 879) as the Responsible Entity of Arena REIT No. 2 (ARSN 101 067 878).**

### EXPLANATORY NOTES TO NOTICE OF MEETING

Please refer to Explanatory Memorandum.

# 10: Glossary

Term	Definition
ABN	Australian Business Number.
ACN	Australian Company Number.
AEDT	Australian Eastern Daylight Saving Time.
AFSL	Australian Financial Services Licence.
AIML	Arena Investment Management Limited ACN 077 235 879.
AIML Board	The board of directors of AIML.
APS	Arena Property Services Pty Ltd ACN 161 391 831, a licensed estate agent that provides property services.
Arena REIT	ARF1 and ARF2.
ARF1	Arena REIT No. 1 ARSN 106 891 641.
ARF2	Arena REIT No. 2 ARSN 101 067 878.
ARL	Arena REIT Limited ACN 602 365 186 (which depending on the context may also include ARL's subsidiaries).
ARML	Arena REIT Management Limited ACN 600 069 761.
ARSN	Australian Registered Scheme Number.
ASIC	Australian Securities and Investments Commission.
ASX	ASX Limited ACN 008 624 691, the Australian Securities Exchange, or the market operated by it, as the context requires.
BSH JV	The wholesale unincorporated joint venture known as BSH Joint Venture.
CISL	Citrus Investments Services Pty Ltd ACN 154 326 084, which owns the operational assets and employs New ARF staff.
Citrus II	Citrus II Investments Pty Ltd ACN 154 325 596 as trustee of Citrus I Holding Trust.
Corporations Act	<i>Corporations Act 2001</i> (Cth) and all regulations made pursuant to that Act.
Directors	The directors of AIML.
Document	This Notice of Meeting and Explanatory Memorandum.
DRP	Distribution Reinvestment Plan.
Existing Stapled Securities	One ARF1 unit stapled to one ARF2 unit.
Financial Information	The financial information described in Section 5.
Foreign Investor	An Investor who is not an Australian or New Zealand resident.
FY15	The financial year ending 30 June 2015.
FY15 Grant	The grant under the proposed LTI Plan relating to FY15.
Implementation Agreement	The implementation agreement summarised in Part 1 of Annexure A.
Implementation Date	The date the Internalisation Proposal is implemented, expected to be Friday, 12 December 2014.
Independent Board Committee	The independent board committee established by the AIML Board comprising only of the Independent Directors.
Independent Directors	The independent directors of AIML, namely: David Ross, Dennis Wildenburg and Simon Parsons.

Term	Definition
Independent Expert	KPMG Corporate Finance.
Independent Expert Report	The report prepared by the Independent Expert expressing an opinion as to whether the Internalisation Proposal is fair and reasonable and in the best interests of Investors.
Internalisation Consideration	The consideration payable by Arena REIT to Citrus II of approximately \$10.7 million for the Arena REIT and wholesale funds management (intangible) rights plus net asset adjustments of approximately \$0.8 million in relation to all other operating assets and liabilities of the management business such as intellectual property, IT systems, office equipment, syndicate receivables and other working capital balances.
Internalisation Proposal	The proposal to internalise the corporate governance and management functions of Arena REIT as described in this Document.
Internalisation Resolutions	Resolutions 1 and 2 as set out in the Notice of Meeting.
Investor	A holder of an Existing Stapled Security or a New Stapled Security as the context requires.
KPMG Corporate Finance	KPMG Corporate Finance, a division of KPMG Financial Advisory Services (Australia) Pty Ltd ABN 43 007 363 215 AFSL 246901.
Listing	The listing of New ARF on ASX.
Listing Rules	The official listing rules of ASX from time to time as modified by any express written confirmation, waiver, or exemption given by ASX.
LTI Plan	The New ARF long-term incentive plan described in Section 8.13.
LTI Plan Resolution	Resolutions 3 as set out in the Notice of Meeting.
Meeting	The meeting of Investors (being a concurrent meeting of ARF1 and ARF2 Investors) to be held at 11:00am AEDT on Friday, 5 December 2014 at West Tower Suite, Level 35, Sofitel Hotel, 25 Collins Street, Melbourne Victoria 3000 and any adjournment of that meeting.
Meeting Date	Expected to be Friday, 5 December 2014.
MSREF VII Global	The investment platform sponsored and managed by Morgan Stanley Real Estate Investing which owns AIML via a series of interposed investment vehicles.
New ARF	The group formed as a result of the Stapling of units in ARF1 to units in ARF2 to shares in ARL as described in this Document.
New ARF Board	The board of directors of ARL.
New ARL Shares	New fully paid ordinary shares in ARL to be issued to Investors under the Internalisation Proposal.
New Stapled Security	One ARF1 unit stapled to one ARF2 unit stapled to one ARL share.
Notice of Meeting	The notices of meeting set out in Section 9.
NTA	Net tangible asset value.
PHC Syndicate	The wholesale unincorporated joint venture known as PHC Darlinghurst Syndicate and related unit trust known as PHC Darlinghurst Trust.
Prospectus	The Prospectus issued by ARL and dated Tuesday, 4 November 2014.
Proxy Form	The proxy form accompanying this Document.
PwC	PricewaterhouseCoopers ABN 52 780 433 757.
Registry	Boardroom Pty Limited ABN 14 003 209 836 of Level 8, 446 Collins Street, Melbourne VIC 3000.
Resolutions	The Internalisation Resolutions and the LTI Plan Resolution.

## 10: Glossary

Term	Definition
Resourcing Deed	The resourcing deed summarised in Part 3 of Annexure A.
Sale Facility	The facility for the sale by the Sale Nominee of the entitlement to New Stapled Securities of Foreign Investors described in Section 4.14.
Sale Nominee	The nominee for the sale of the entitlement to New Stapled Securities of Foreign Investors described in Section 4.14.
Stapled Securityholder	A holder of New Stapled Securities.
Stapling	The stapling of ARF1 units to ARF2 units to ARL shares to form New ARF, such that the three securities cannot be traded separately.
Stapling Commencement Date	The date determined by AIML to be the day on which an ARF1 unit, an ARF2 unit and an ARL share will become stapled (if the Internalisation Resolution is approved), currently expected to be Thursday, 11 December 2014.
Stapling Deed	The stapling deed described in Section 4.15 and in Part 7 of Annexure A to this Document.
Stapling Record Date	Expected to be Thursday, 11 December 2014.
Transaction Steps	The transactions steps required to give effect to the Internalisation Proposal as set out in Section 8.2.
Trust	Each of ARF1 and ARF2 (collectively, <b>Trusts</b> ).
Voting Record Date	Wednesday, 3 December 2014.



# Annexure A: Material agreements

## 1. Implementation Agreement

<b>Parties</b>
<ul style="list-style-type: none"> <li>Arena Investment Management Limited (<b>AIML</b>) as responsible entity of Arena REIT No. 1 and Arena REIT No. 2 (<b>ARF1 and ARF2</b>, together ARF)</li> <li>Citrus II Investments Pty Limited (<b>Citrus II</b>) as trustee for Citrus I Holding Trust (<b>C1HT</b>)</li> <li>Citrus I Investments Pty Limited (<b>Citrus I</b>) as trustee for Citrus II Holding Trust (<b>C2HT</b>)</li> </ul>
<b>Purpose</b>
The purpose of this agreement is, amongst other things, to set out the agreed transaction steps, the expected timetable for implementation of the Internalisation Proposal and to identify responsibility for completing each transaction step.
<b>Conditions precedent</b>
<p>The obligations of the parties to effect implementation is conditional on satisfaction of the following:</p> <ul style="list-style-type: none"> <li><b>(Independent expert's report)</b> An independent expert providing an independent expert's report on the Internalisation Proposal in form and substance satisfactory to the AIML Board (in its absolute discretion).</li> <li><b>(ARF unitholder approval)</b> ARF unitholders approving the Internalisation Resolutions by the required majority prior to the Implementation Date.</li> <li><b>(Financiers consents)</b> All required consents of financiers being received in writing before the Implementation Date, provided that if any such consent is conditional, the conditions are satisfactory to AIML.</li> <li><b>(No competing proposal)</b> No competing proposal being made by a third party before the Implementation Date that the AIML Board determines (in its absolute discretion) is more favourable to ARF unitholders than the Internalisation Proposal.</li> <li><b>(AFSL)</b> ARML obtaining an AFSL in a form appropriate for acting as responsible entity of ARF1 and ARF2.</li> <li><b>(Admission)</b> The approval of ASX to the admission of ARL and New ARF to the official list of ASX and for quotation of the New Stapled Securities on a deferred settlement basis on or before the meeting date.</li> <li><b>(ASIC and ASX)</b> ASIC and ASX granting all waivers, approvals or modifications that each party reasonably requires, or ASX or ASIC confirming that a waiver, approval or modification is not required to enable implementation of the Internalisation Proposal on or before the Meeting date.</li> <li><b>(No adverse ruling)</b> No person takes any action or makes any preliminary or final order or decree (or commences or threatens to do so) which as at 8.00am on the Meeting date restrains or prohibits the implementation of the Internalisation Proposal.</li> <li><b>(No insolvency)</b> None of ARL, ARML, CISL or AIML becomes insolvent.</li> </ul>
<b>Pre-completion conduct</b>
Between the date of the Implementation Agreement and the completion date for the CISL Share Sale Agreement (summarised in Part 2 of this Annexure A, <b>CISL SSA</b> ), Citrus II must ensure that CISL and its controlled entities continue to conduct business in the ordinary and proper course and in substantially the same manner as conducted immediately prior to the date of the Implementation Agreement.
<b>Exclusivity</b>
<p>Until the earlier of the termination of the Implementation Agreement or the end date, each of Citrus I and Citrus II, their related bodies corporate and their respective representatives:</p> <ul style="list-style-type: none"> <li>is prohibited from soliciting or discussing any competing proposal, either directly or indirectly which may reasonably be expected to encourage or lead to the making of an actual or potential competing proposal; and</li> <li>must notify ARF as soon as possible of any approach (or intention to make an approach) to initiate negotiations, discussions or proposals in relation to a competing proposal. The notification must include the identity of the relevant person, together with the material terms of the actual, proposed or potential competing proposal.</li> </ul>

## Annexure A: Material agreements

### Transaction steps

The Implementation Agreement provides detailed transactions steps to give effect to the internalisation. Those steps include:

- ARL will be incorporated with nominal equity of 2 ordinary shares held by ARF1;
- ARML will obtain an AFSL in respect of its proposed role as the responsible entity of ARF;
- ARF1 will draw down approximately \$13 million under its existing senior debt facility;
- ARF1 will use the amount drawn down under the preceding step to subscribe for New ARL Shares;
- ARF1 will make an in specie distribution to ARF1 unitholders of the ARL Shares issued to ARF1. ARF1 unitholders will receive one ARL Share for each pair of ARF1 Units and ARF2 Units held by them to form New Stapled Securities;
- ARF1, ARF2 and ARL will enter into the Stapling Deed to effect the Stapling of ARF1 units, ARF2 units and ARL Shares and replace the existing stapling deed, which effected the stapling of ARF1 units and ARF2 units;
- ARL and C1HT will enter into the CISL SSA;
- AIML and CISL will enter into the Resourcing Deed;
- ARL will use part of the proceeds from the drawdown of the senior debt facility to acquire all of the ordinary shares in CISL from C1HT for market value consideration;
- C1HT will acquire all of the ordinary shares in AIML, Arena Office Investment Management Limited (ACN 169 840 671) (**AOIML**) and Arena Property Investment Management Limited (ACN 600 069 752) (**APIML**) from CISL for market value consideration. The consideration payable by C1HT to CISL in respect of these acquisitions of shares will be satisfied through issue by C1HT to CISL of a promissory note;
- CISL will endorse the promissory note issued under the step above in favour of C1HT in part payment of the C1HT loan, and ARL will use part of the proceeds from the drawdown of the senior debt facility above to provide a loan (estimated to be approximately \$5.9 million) to CISL for use by CISL to repay in accordance with the CISL SSA the balance of the C1HT loan;
- AIML will retire as the responsible entity of ARF1 and ARF2 and as manager and trustee of PHC Syndicate and as manager of BSH JV and ARML will be appointed as responsible entity of ARF1 and ARF2 and as manager and trustee of PHC Syndicate and as manager of BSH JV; and
- ARF1, ARF2 and ARL will commence trading on the ASX as New Stapled Securities.

### Termination rights

The Implementation Agreement can also be terminated by any party if:

- the implementation does not occur on or before the End Date (being 27 February 2015);
- any condition precedent is not satisfied (other than by the breach or deliberate act of the party seeking to terminate); or
- AIML determines (in its absolute discretion) that implementation of the Internalisation Proposal is no longer in the best interests of ARF unitholders.

The Implementation Agreement can also be terminated by Citrus I or Citrus II if:

- AIML commits a material breach of the Implementation Agreement and the breach is not remedied within a reasonable period; or
- AIML enters into a binding agreement relating to a competing proposal.

The Implementation Agreement can be terminated by AIML if Citrus I or Citrus II commits a material breach of the Implementation Agreement and the breach is not remedied within a reasonable period.

### Costs

Each party will bear its own costs incurred in negotiating and finalising the Implementation Agreement and the transaction documents unless AIML terminates for material breach of the Implementation Agreement (in which case Citrus II will pay the costs of AIML, ARL and ARML).

### Representations and warranties

Under the Implementation Agreement, the parties have given representations and warranties as to their legal capacity and ability to enter into and perform their obligations under the Implementation Agreement.

**Limitation of liability**

The liability of each of AIML, Citrus I and Citrus II is limited to the extent that each party is indemnified from the assets of the relevant trust of which they are responsible entity or trustee (as applicable), except to the extent that such right of indemnity is reduced by the fraud, breach of trust or negligence of the party.

**2. Share Sale Agreement****Parties**

- Citrus II Investments Pty Limited as trustee for the Citrus I Holding Trust (**C1HT**)
- Arena REIT Limited (**ARL**)

**Purpose**

The SSA is the agreement pursuant to which ARL will acquire from C1HT all the issued shares of Citrus Investment Services Pty Ltd (**CISL**) and pursuant to which the internal restructure of CISL's subsidiaries will occur.

The SSA will be entered into as one of the transaction steps under the Implementation Agreement.

**Purchase price adjustments**

The initial consideration payable on completion is \$11.5 million less the indicative net asset adjustment amount and the forecast redundancy amount for those employees of CISL whose continued employment is not required for the ongoing operations of New ARF ("non-transferring employees").

The purchase price will be adjusted to the extent that:

- the actual net asset amount of CISL (less the indicative net asset adjustment amount of approximately \$6.6 million) at completion differs from the target net asset amount; and
- (in relation to non-transferring employees of CISL), the actual redundancy amount differs from the forecast redundancy amount.

**Warranties**

Standard power and capacity warranties are provided by ARL and C1HT. Other than warranties in relation to C1HT's capacity and title in respect of the CISL shares, C1HT does not provide any additional warranties in respect of CISL.

C1HT's warranties are subject to and qualified by, and ARL is taken to be aware of, all facts, matters and circumstances that are disclosed in the SSA or any other transaction document.

**Limitations on liability of C1HT**

The maximum aggregate liability of C1HT arising out of or in connection with all claims for a breach of a warranty is limited to the purchase price for CISL.

The liability of C1HT terminates six months after the completion date in respect of all claims except in respect of any claim which notice is given to C1HT in accordance with the SSA before the relevant date.

Citrus II enters into the SSA in its capacity as trustee of C1HT and any liability of C1HT arising under or in connection with the SSA is limited to the extent to which C1HT is indemnified for that liability out of the assets of C1HT and the liability can be satisfied out of the assets of C1HT.

**Termination**

The SSA will terminate immediately upon termination of the Implementation Agreement.

A party may terminate the SSA if the other party fails to perform any obligation which is to be performed on completion and the obligation is not performed in accordance with a notice to complete given by the party.

## Annexure A: Material agreements

### 3. Resourcing Deed

#### Parties

- Arena Investment Management Limited (**AIML**)
- Citrus Investment Services Pty Limited (**CISL**)

#### Purpose

The Resourcing Deed documents the basis on which CISL will provide resources and services from the date of completion of the SSA to enable AIML to satisfy all legal and regulatory obligations imposed on it pursuant to the terms of AIML's AFSL and having regard to its role as responsible entity and trustee of the JAM Investment Trust, the Chevron Renaissance Property Trust (ARSN 112 310 380), the Arena Office Fund (ARSN 115 845 871) and the Arena Property Fund (ARSN 093 304 379).

The Resourcing Deed will be entered into as one of the transaction steps in the Implementation Agreement.

#### Resources and services

Under the Resourcing Deed, CISL agrees to provide to AIML the following resources and services:

- (a) human and technological resources required by or reasonably requested by AIML to satisfy all legal and regulatory obligations imposed upon it:
  - (i) pursuant to the terms of AIML's AFSL; and
  - (ii) having regard to its role as responsible entity and trustee of the schemes, trusts, joint ventures and other similar investment vehicles, and
- (b) all additional resources reasonably requested or required by AIML from time to time for the aforesaid purposes, as varied from time to time in accordance with the provisions of the Resourcing Deed.

CISL must not (without obtaining the prior written consent of AIML, not to be unreasonably withheld or delayed) terminate (or fail to terminate) the employment of any non-transferring employees except in accordance with the timetable and benchmarks contained in the agreed AIML wind-down plan.

#### Fees

AIML agrees to pay a monthly reimbursement fee to CISL for providing the resources and services to AIML.

The monthly reimbursement fee will be calculated by reference to the amount of the direct and indirect (including overhead) costs incurred by CISL in the provision of the resources and services and are not otherwise directly reimbursable from the relevant scheme managed by AIML.

#### Term and termination rights

CISL must not terminate the Resourcing Deed prior to the earlier of 31 December 2016 and the later of the following dates:

- the JAM Investment Trust is wound up and all of its assets have been distributed in accordance with its constitution;
- Chevron Renaissance Property Trust is wound up and all of its assets have been distributed in accordance with its constitution;
- Arena Office Fund is wound up and all of its assets have been distributed in accordance with its constitution;
- Arena Property Fund is wound up and all of its assets have been distributed in accordance with its constitution, and
- the date that AIML no longer holds an AFSL. (**Termination Date**)

However, CISL may terminate the Resourcing Deed prior to the Termination Date if:

- AIML is in material breach of the Resourcing Deed and if capable of remedy, the breach has not been remedied to the satisfaction of CISL (acting reasonably) within 20 business days of CISL notifying AIML of the breach; or
- with one month's prior written notice if AIML is no longer under the control of any of Morgan Stanley (NYSE: MS) or its controlled entities. AIML undertakes to promptly notify CISL if it becomes subject to such a change in control.

(Continued over page)

**Term and termination rights (Continued)**

Additionally, the Resourcing Deed may be terminated by a party:

- with 3 months' prior written notice, subject to CISL's limited termination rights prior to the Termination Date as set out above;
- at any time, by notice to the other party if the other party commits a material breach of any obligation of the Resourcing Deed and if capable of remedy, does not remedy that breach within 30 days receipt of a notice to remedy; or
- at any time, if another party goes into liquidation (except a voluntary liquidation for the purpose of reconstruction) or has become insolvent or bankrupt or any action has been instituted against a party for its winding-up, reorganisation or similar arrangement under any bankruptcy or insolvency law or if a receiver is appointed over any of the assets of a party.

**Warranties**

Standard power and capacity warranties are provided by both parties.

CISL provides warranties that it has adequate capacity and resources to supply the resources and services and with respect to the standard of performance of the resources and services. CISL also warrants that it will ensure that the provision of the resources and services is not unreasonably interfered with or delayed by any other arrangement CISL is involved with.

**Indemnity**

CISL indemnifies AIML against any claims, losses, liabilities, damages, costs and expenses that AIML suffers as a direct result of any negligence, default, fraud, dishonesty or other misconduct of CISL in connection with the Resourcing Deed, any material misrepresentation by CISL, the death or bodily injury of any person caused by CISL or any breach of the Resourcing Deed by CISL.

**4. Appointment as responsible entity****Parties**

- Arena Investment Management Limited (**Retiring RE**)
- Arena REIT Management Limited (**New RE**)

**Purpose**

The purpose of this deed is to:

- record the consent of the New RE to its appointment as responsible entity of ARF1 and ARF2 (**Trusts**);
- ensure the New RE covenants to be bound by the Trusts' respective constitutions as if it had originally been a party to it; and
- provide for various ancillary matters in connection with the retirement of the Retiring RE and the appointment of the New RE.

The deed will be entered into as one of the transaction steps in the Implementation Agreement.

**Condition precedent**

The deed is conditional on completion occurring under the CISL SSA.

**New RE's obligations**

The New RE consents to act as responsible entity of the Trusts and agrees to be bound by the Trusts' respective constitutions from the effective time (**Effective Time**).

The Effective Time is the date and time at which ASIC's record of registration is altered to name the New RE as the responsible entity of ARF1 and ARF2.

**Settlement**

At or prior to the Effective Time, the Retiring RE must settle any amounts payable to it under or in connection with the Trusts' respective constitutions or in relation to each Trust.

## Annexure A: Material agreements

### Indemnities to Retiring RE

The New RE indemnifies the Retiring RE against any claims of the Retiring RE arising in connection with the Trusts to the extent that the Retiring RE would have had a right of indemnity out of the assets of each Trust in respect of those claims if it had remained the Trust's responsible entity.

The indemnity does not extend to any claims for which the Retiring RE would not have had a right of indemnity from the assets of the relevant Trust in respect of those claims if it had remained the responsible entity of ARF1 and ARF2.

The New RE's liability to the Retiring RE under the indemnity is limited to the assets of the relevant Trust available to indemnify the New RE in respect of any such liability.

### Indemnities to New RE

The Retiring RE indemnifies the New RE against all claims of the New RE arising out of the performance of the Retiring RE's duties and obligations in relation to each Trust prior to the Effective Time to the extent that the Retiring RE would not have had a right of indemnity out of the assets of ARF1 or ARF2 in respect of those claims due to the lack of proper performance of its duties.

### Fees and duties

The Retiring RE is entitled to any fees accruing to the responsible entity of the Trusts in respect of the period up to and including the Effective Time.

The New RE is entitled to any fees accruing to the responsible entity of Trusts after the Effective Time.

### Transitional arrangements

The Retiring RE and New RE will do all such things and execute all such documents as may be required to give effect to the retirement of the Retiring RE and appointment of the New RE, including the vesting of assets and delivery of records to the New RE.

## 5. Appointment as manager of the Syndicates

### Parties

- Arena Investment Management Limited (**Retiring Manager**)
- Arena REIT Management Limited (**New Manager**)

### Purpose

The purpose of this deed is to:

- record the acceptance of the New Manager to its appointment as manager of the PHC Joint Venture and BSH Joint Venture (**Joint Ventures**);
- ensure the New Manager covenants to be bound by the terms and conditions of the Joint Venture agreements as manager; and
- provide for various ancillary matters in connection with the retirement of the Retiring Manager and the appointment of the New Manager.

The deed will be entered into as one of the transaction steps in the Implementation Agreement.

### Condition precedent

The deed is conditional on execution of the deed of retirement and appointment in respect of ARF1 and ARF2.

### New Manager's obligations

The New Manager consents to act as manager of the Joint Ventures and covenants to be bound by the terms and conditions of the Joint Venture agreements as manager as though it had been originally named as a party to it from the Effective Time.

### Settlement

At or prior to the Effective Time, the Retiring Manager must settle any amounts payable to it under or in connection with the Joint Ventures.

**Indemnities to Retiring Manager**

The New Manager indemnifies the Retiring Manager against any claims of the Retiring Manager incurred in its capacity as manager of the relevant Joint Venture to the extent that the Retiring Manager would have had a right of indemnity as manager of that Joint Venture.

The indemnity does not extend to any claims for which the Retiring Manager would not have been indemnified as manager of the relevant Joint Venture if it had remained that Joint Venture's manager.

The New Manager's liability to the Retiring Manager under the indemnity is limited to the assets of the relevant Joint Venture available to indemnify the New Manager in respect of any such liability.

**Indemnities to New Manager**

The Retiring Manager indemnifies the New Manager against all claims of the New Manager arising out of the performance of the Retiring Manager's duties and obligations in relation to the relevant Joint Venture prior to the Effective Time to the extent that the Retiring Manager would not have had the right of indemnity out of the assets of the relevant Joint Venture in respect of those claims due to the fraud, negligence or material breach of the Retiring Manager.

**Fees and duties**

The Retiring Manager is entitled to any fees accruing to the manager of the Joint Ventures under the relevant Joint Venture agreement in respect of the period before the Effective Time, other than the management fees or disposal fees which have been deferred and to which the New Manager is entitled.

The New Manager is entitled to any fees accruing to the manager of the Joint Ventures under the relevant Joint Venture agreement in respect of the period after the Effective Time.

**Transitional arrangements**

The Retiring Manager and New Manager will do all such things and execute all such documents as may be required to give effect to the retirement of the Retiring Manager and appointment of the New Manager, including the transferring of the assets of the Joint Ventures to the New Manager.

**6. Appointment as trustee of PHC Syndicate****Parties**

- Arena Investment Management Limited (**Retiring Trustee**)
- Arena REIT Management Limited (**New Trustee**)

**Purpose**

The purpose of this deed is to:

- record the acceptance of the New Trustee to its appointment as trustee of the PHC Darlinghurst Trust (**Trust**);
- ensure the New Trustee covenants to be bound by the terms and conditions of the trust deed; and
- provide for various ancillary matters in connection with the retirement of the Retiring Trustee and the appointment of the New Trustee.

The deed will be entered into as one of the transaction steps in the Implementation Agreement.

**Condition precedent**

The deed is conditional on execution of the deed of retirement and appointment in respect of ARF1 and ARF2.

**New Trustee's obligations**

The New Trustee consents to act as trustee of the Trust and covenants to be bound by the terms and conditions of the trust deed as trustee as though it had been originally named as a party to it from the Effective Time.

**Settlement**

At or prior to the Effective Time, the Retiring Trustee must settle any amounts payable to it under or in connection with the Trust.



## Annexure A: Material agreements

### Indemnities to Retiring Trustee

The New Trustee indemnifies the Retiring Trustee against any claims of the Retiring Trustee incurred in its capacity as trustee of the Trust and in respect of which the Retiring Trustee was entitled by law to be indemnified as trustee of the Trust.

The indemnity does not extend to any claims for which the Retiring Trustee would not have been indemnified as trustee of the Trust if it had remained trustee.

The New Trustee's liability to the Retiring Trustee under the indemnity is limited to the assets of the Trust available to indemnify the New Trustee in respect of any such liability.

### Indemnities to Retiring Trustee

The Retiring Trustee indemnifies the New Trustee against all claims of the New Trustee arising out of the performance of the Retiring Trustee's duties and obligations in relation to the Trust prior to the Effective Time to the extent that the Retiring Trustee would not have been entitled by law to be indemnified as trustee of the Trust in respect of those claims due to the Retiring Trustee's fraud, negligence or material breach of trust.

### Fees and duties

The Retiring Trustee is entitled to any fees accruing to the trustee of the Trust under the trust deed in respect of the period up to and including the Effective Time.

The New Trustee is entitled to any fees accruing to the trustee of the Trust under the trust deed in respect of the period after the Effective Time.

### Transitional arrangements

Each of the Retiring Trustee and New Trustee will do all such things and execute all such documents as may be required to give effect to the retirement of the Retiring Trustee and appointment of the New Trustee, including the vesting of the assets of the Trust to the New Trustee.

## 7. Stapling deed

The Stapling Deed sets out the terms of the relationship between ARF1, ARF2 and ARL. Under the Stapling Deed, the parties agree to:

- co-operate with each other in respect of all matters relating to the New Stapled Securities, including in relation to the disclosure of information, the preparation of financial statements, meetings of members, the payment of distributions and other corporate actions;
- only deal in each component of the New Stapled Securities if there is a corresponding dealing in the other components of New Stapled Securities; and
- determine the allocation of the amount payable for each component of the New Stapled Securities. If agreement cannot be reached, an independent accountant will be engaged to determine the amount allocated for each component.

In addition, ARL agrees to undertake any necessary steps in order to effect implementation of the Internalisation Proposal and the stapling of the securities to form New Stapled Securities.



# Prospectus

Arena REIT Limited  
ACN 602 365 186

Prospectus for the issue of ordinary shares in Arena REIT Limited (**ARL**) in relation to a proposal for the governance and management of Arena REIT No. 1 and Arena REIT No. 2 (together, **Arena REIT**) to be internalised through: (i) the distribution of shares in ARL to Investors of Arena REIT; (ii) the stapling of each share in ARL to each Existing Stapled Security in Arena REIT to form a New Stapled Security; and (iii) the change of the responsible entity of Arena REIT from Arena Investment Management Limited (**AIML**) to Arena REIT Management Limited (**ARML**) (which, by that time, will be a wholly owned subsidiary of ARL) (together, the **Internalisation Proposal**).

If you hold Existing Stapled Securities in Arena REIT, you should read this Prospectus and relevant Notice of Meeting and Explanatory Memorandum in full before deciding whether or not to vote in favour of the Resolutions to facilitate the Internalisation Proposal.

**This Prospectus is dated 4 November 2014**

Issued by Arena REIT Limited ACN 602 365 186

## Important notice and disclaimer

### (a) This Prospectus

This Prospectus is issued by Arena REIT Limited ACN 602 365 186 (ARL) for the purposes of Chapter 6D of the Corporations Act. It provides holders of Existing Stapled Securities in Arena REIT (**Investors**) with information about the ARL shares that will be distributed to Investors of Arena REIT (other than Foreign Investors) under the Internalisation Proposal if the Internalisation Proposal is approved and implemented.

No shares in ARL will be distributed on the basis of this Prospectus after the completion of the Internalisation Proposal and, in any event, no shares in ARL will be distributed under this Prospectus more than 13 months after the date of this Prospectus.

### (b) Important information

This document should be read in conjunction with the Notice of Meeting and Explanatory Memorandum for the meeting of Investors to be held on Friday, 5 December 2014 to consider and, if thought fit, approve the Internalisation Proposal. It is important that you read this Prospectus carefully and in its entirety because it contains important information about an investment in ARL. In particular, you should pay careful consideration to the risk factors outlined in Section 7 and the tax implications in Section 6 of the Explanatory Memorandum as they relate to your personal investment objectives, financial circumstances and needs. Other risk factors, both known and unknown to ARL, may exist in addition to those identified in this Prospectus which should also be considered in light of your personal circumstances. If you have any queries or uncertainties relating to aspects of this Prospectus or an investment in ARL, please consult your stockbroker, accountant or other independent professional adviser.

### Recipients of this Document

You should also have received the Explanatory Memorandum for a meeting of Investors to be held on Friday, 5 December 2014 to consider and, if thought fit, approve, the Resolutions required to facilitate the Internalisation Proposal.

The Explanatory Memorandum contains important information and requires your immediate attention.

The Explanatory Memorandum tells you about the Resolutions required to facilitate the Internalisation Proposal on which you can vote and includes your proxy form.

### What do Investors need to do?

Investors need to read the Explanatory Memorandum in conjunction with this Prospectus before making a decision on how to vote on the Resolutions.

In particular, please make sure that you understand the information in the Explanatory Memorandum about the Internalisation Proposal and New ARF,

should the Internalisation Proposal be approved and implemented.

Once you have voted, you do not need to do anything else.

### (c) Lodgement and Listing

This Prospectus is dated 4 November 2014 and was lodged with ASIC on that date. If the Internalisation Proposal is approved and implemented, Arena REIT will become stapled to ARL and New ARF will be admitted to the official list of ASX. ARL will apply for the quotation of ARL shares on ASX (as components of the New Stapled Securities) within 7 days of the date of this Prospectus. Neither ASIC nor ASX takes any responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

### (d) Not investment advice

The stapling of Arena REIT and ARL to create New ARF (if the Internalisation Proposal is approved and implemented) is subject to investment and other risks, including loss of income and the principal invested. ARL gives no guarantee or assurance as to the performance of New ARF or the repayment of capital. The information contained in this Prospectus is not personal financial product advice and does not take into account the investment objectives, financial situation, tax position and particular needs of any particular Investor. Accordingly, Investors should read this Prospectus and any supplementary Prospectus in full. It is recommended that before a decision to invest is made Investors carefully consider the information in this Prospectus in light of their particular circumstances and consult their financial or other professional adviser (if required).

### (e) Prospectus Availability

This Prospectus may be viewed online by Australian Investors at [www.arenainvest.com.au](http://www.arenainvest.com.au). If you access the Prospectus electronically please ensure that you download and read the Prospectus in its entirety.

A paper form of this Prospectus can be obtained, free of charge, by contacting the toll free Information Line on 1800 008 494 between 8.30 am and 5.00 pm (AEDT) on Business Days.

### (f) Australian and New Zealand Investors

Only Investors with a registered address in Australia or New Zealand on the Stapling Record Date are eligible to participate in the Internalisation Proposal, and this Prospectus is addressed only to them. If you are uncertain about whether an investment in ARL is appropriate for you, you should seek the advice of an appropriately qualified financial adviser.

This issue to New Zealand investors is a regulated issue made under Australian and New Zealand law. In Australia, this is Chapter 8 of the Corporations Act. In New Zealand, this is Part 5 of the Securities Act 1978 and the *Securities (Mutual Recognition*

*of Securities Offerings - Australia) Regulations 2008.*

This issue and the content of this Prospectus are principally governed by Australian rather than New Zealand law. There are differences in how securities are regulated under Australian law. In the main, the Corporations Act governs the issue of securities.

The rights, remedies, and compensation arrangements available to New Zealand investors in Australian securities may differ from the rights, remedies, and compensation arrangements for New Zealand securities. Both the Australian and New Zealand securities regulators have enforcement responsibilities in relation to this Prospectus. If you are a New Zealand investor and need to make a complaint about this Prospectus, please contact the Financial Markets Authority, Wellington, New Zealand. The Australian and New Zealand regulators will work together to settle any complaints.

The taxation treatment of Australian securities is not the same as for New Zealand securities. The tax implications for Investors in Section 6 of the Explanatory Memorandum relates only to Australian investors. Tax implications for investors who are not Australian tax residents are not included in this Prospectus. If you are a New Zealand investor you should seek advice on the New Zealand tax implications for your investment.

The issue of New Stapled Securities may involve a currency exchange risk. The currency for the New Stapled Securities is Australian dollars. The value of New Stapled Securities will go up and down according to changes in the exchange rate between Australian dollars and New Zealand dollars. These changes may be significant.

New ARF will not pay any amounts in New Zealand dollars. Therefore, you may incur fees in having funds credited to a bank account in New Zealand or in New Zealand dollars.

If the New Stapled Securities are able to be traded on ASX and you wish to trade the New Stapled Securities through the market, you will have to make arrangements for a participant in that market to sell the New Stapled Securities on your behalf. The operation of ASX and the regulation of participants in that market, and the information available to you about the securities and trading may differ from securities markets that operate in New Zealand.

The dispute resolution process described in this Prospectus is only available in Australia and is not available in New Zealand.

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation.

Distribution of this Prospectus outside of Australia (whether electronically or otherwise) may be restricted by law. Persons who receive this Prospectus outside of Australia are required to observe any such

restrictions. Failure to comply with such restrictions may find you in violation of applicable securities laws.

Neither ARL nor any of its respective Directors, officers, employees, consultants, agents, partners or advisers accepts any liability or responsibility to determine whether a person is able to participate as an investor in New ARF.

#### **(g) Updated information**

Information regarding New ARF may need to be updated from time to time. Any updated information about New ARF that is considered not materially adverse to Investors will be made available on the website at [www.arenainvest.com.au](http://www.arenainvest.com.au) and ARL will provide a copy of the updated information free of charge to any Investor who requests a copy by contacting the toll free Information Line on 1800 008 494 between 8.30 am and 5.00 pm (AEDT) on Business Days.

In accordance with its obligations under the Corporations Act, ARL may issue a supplementary Prospectus to supplement any relevant information not disclosed in this Prospectus. You should read any supplementary disclosures made in conjunction with this Prospectus prior to deciding whether to invest in New ARF.

#### **(h) Forward looking statements**

Certain forward-looking statements have been provided in this Prospectus. These statements can be identified by the use of words such as "anticipate", "believe", "expect", "project", "forecast", "estimate", "likely", "intend", "should", "could", "may", "target", "predict", "guidance", "plan" and other similar expressions.

Preparation of these forward-looking statements was undertaken with due care and attention. However, forward-looking statements remain subject to known and unknown risks, uncertainties and other factors, many of which are beyond the control of ARL and its Directors, officers, employees, agents and advisers. Consequently, such factors may impact the performance of ARL, Arena REIT and/ or New ARF such that actual performance differs materially to any performance indicated in the forward-looking statements.

Some of the risk factors that impact on forward-looking statements in this Prospectus are set out in Section 7. No assurance can be provided that actual performance will accord with the guidance provided.

Other than as required by law, none of ARL, its respective Directors, officers, employees, agents or advisers or any other person gives any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Prospectus will actually occur. You are cautioned not to place undue reliance on those statements.

The forward-looking statements in this Prospectus reflect the views held only immediately before the date of this

Prospectus, unless otherwise stated. Subject to the Corporations Act, the Listing Rules and any other applicable law, each of ARL and its respective Directors, officers, employees, agents and advisers disclaims any duty to disseminate after the date of this Prospectus any updates or revisions to any such statements to reflect any change in expectations in relation to such statements or any change in events, conditions or circumstances on which any such statement is based.

#### **(i) Disclaimer**

No person is authorised to give any information, or to make any representation, in connection with New ARF that is not contained in this Prospectus.

Any information or representation that is not in this Prospectus may not be relied on as having been authorised by ARL in connection with New ARF. Except as required by law, and only to the extent so required, neither ARL, nor any other person, warrants or guarantees the future performance or liquidity of ARL, Arena REIT, New ARF, the repayment of capital, or any return on any investment made pursuant to this information.

#### **(j) Further questions**

If you have any queries relating to aspects of this Prospectus please call the toll free Information Line on 1800 008 494 between 8:30 am and 5:00 pm (AEDT) Monday to Friday on Business Days. Alternatively, you may contact ARL via email at [info@arenainvest.com.au](mailto:info@arenainvest.com.au).





 Bondi Junction Medical Centre, 3A Bronte Road, Bondi Junction NSW

# 01: Chairman's letter



David Ross Chairman

## Dear Investor

This Prospectus is issued in relation to the distribution of shares in Arena REIT Limited (**ARL**) to Investors as part of the Internalisation Proposal. ARL is a company that will be stapled to Arena REIT No. 1 and Arena REIT No. 2 (**Arena REIT**) and will undertake the business and management activities of the new stapled group (**New ARF**).

This Prospectus is issued to accompany the Explanatory Memorandum issued by Arena Investment Management Limited (**AIML**), the current responsible entity of Arena REIT, for Investors to consider the Internalisation Proposal. The ARL Board considers that the Internalisation Proposal provides a compelling opportunity to create a unique and well placed internally managed real estate investment group with the ability to continue to generate attractive and predictable distributions for Investors.

This Prospectus relates only to ARL. Investors should refer to the Explanatory Memorandum for information on the Internalisation Proposal (including risks and benefits) and New ARF.

If the Internalisation Proposal is approved and implemented, it will involve the following:

- the distribution of ARL Shares to Investors;
- the stapling of each share in ARL to Existing Stapled Securities in Arena REIT to form New Stapled Securities;
- the acquisition by ARL of Citrus Investment Services Pty Ltd (**CISL**) (and its wholly owned subsidiaries, Arena REIT Management Limited (**ARML**) and Arena Property Services Pty Ltd);
- the change in responsible entity from AIML to ARML (which, at that time, will be a wholly owned subsidiary of ARL);
- the change of manager of BSH JV and the manager and trustee of PHC Syndicate (two unlisted wholesale syndicates that own healthcare properties, together the **Syndicates**) from AIML to ARML; and
- the provision by CISL (a subsidiary of ARL) of management services to AIML for its remaining unlisted managed funds for a maximum period to December 2016.

This Prospectus involves the distribution of shares in ARL to Investors (other than Foreign Investors) at the Stapling Record Date on a one for one basis.

If approved and implemented, the Internalisation Proposal will result in the New Stapled Securities trading on ASX under the existing code ARF.

No action is required by Investors under this Prospectus although the distribution of shares in ARL is conditional on Investors approving the Internalisation Proposal at the Meeting and certain other conditions being satisfied. Importantly:

- no cash payment is required from Investors; and
- no application form is required from Investors.

This Prospectus provides information on ARL and its operations. Investors already have an interest in the assets of Arena REIT and by approving the Internalisation Proposal, Investors will receive an interest in the management entity of Arena REIT, being ARML.

I am pleased to confirm that I am joined by Simon Parsons and Dennis Wildenburg on the Board of ARL, each as Independent Directors. Bryce Mitchelson will be the Managing Director of ARL, supported by certain members of the current AIML management team.

Investors are to vote on the Internalisation Proposal at a Meeting on Friday, 5 December 2014. Please refer to the Notice of Meeting and Explanatory Memorandum for details. If the Internalisation Proposal is approved and implemented, the Board looks forward to welcoming you as a shareholder in ARL.

Yours sincerely



**David Ross**

Chairman

Arena REIT Limited

## 03: Investment overview

The key features, benefits and risks in relation to the New ARL Shares to be issued pursuant to this Prospectus as set out in this Section 3 are a summary only. Investors should read the Prospectus in its entirety.

### 3.1 Key features of the issue

#### Summary

##### What are the securities being issued under this Prospectus?

The securities being issued under this Prospectus are new fully paid ordinary shares in ARL (**New ARL Shares**). New ARL Shares will be initially issued to ARF1 and then distributed in specie to Investors in proportion to their holding of Existing Stapled Securities.

Each New ARL Share will then be stapled to an ARF1 unit and an ARF2 unit to form a New Stapled Security which will together be quoted and trade on ASX as a single security under the ASX code ARF.

The rights attaching to New ARL Shares are set out in the ARL Constitution and are regulated by the Corporations Act, the Listing Rules and general law. The key terms of the New ARL Shares are described in detail in Section 5.

##### How many New ARL Shares will be issued and to whom?

Investors will receive one New ARL Share for each Existing Stapled Security they hold at the Stapling Record Date. To effect the stapling, Investors will receive 211,605,103 New ARL Shares.

New ARL Shares will only be distributed:

- to Investors on the register at the Stapling Record Date that are not Foreign Investors;
- if the Internalisation Proposal is approved by Investors; and
- if the conditions precedent to the implementation of the Internalisation Proposal are all met by the Implementation Date.

##### What consideration is payable for the New ARL Shares?

Investors are not required to pay any new capital for the New ARL Shares or to complete an application form.

##### Why are New ARL Shares being issued?

As part of the Internalisation Proposal, it is necessary to incorporate a company (ARL) into the stapled structure of the group to undertake the management and business operations of the group.

##### Are there any conditions to the issue of New ARL Shares?

Yes. The issue and distribution of New ARL Shares is conditional on the implementation of the Internalisation Proposal, which is subject to a number of conditions precedent that must be satisfied, or as applicable, waived. The conditions precedent are summarised in Section 4.2.

##### What is the impact on Foreign Investors?

If you are an Investor with a registered address outside of Australia or New Zealand (**Foreign Investor**), you are ineligible to receive the New ARL Shares to which you would otherwise be entitled. The New ARL Shares to which Foreign Investors would otherwise be entitled will be sold as part of New Stapled Securities in accordance with the Sale Facility and the net proceeds remitted to Foreign Investors. See Section 4.5 for further details.



## 3.2 Overview of ARL

Summary	Further information
<b>Who is ARL?</b>	
ARL is a newly established public company limited by shares which was incorporated specifically for the purposes of implementing the Internalisation Proposal. At the date of this Prospectus, ARL is wholly owned by ARF1.	Section 6.1
<b>What is ARL's purpose?</b>	
<p>ARL's purpose is to provide funds management and property services to Arena REIT and its other managed funds. It may do this itself or through the operation of its wholly owned subsidiaries:</p> <ul style="list-style-type: none"> <li>▪ Arena REIT Management Limited (<b>ARML</b>), which as part of the Internalisation Proposal will replace AIML as the responsible entity of Arena REIT;</li> <li>▪ Citrus Investment Services Pty Ltd (<b>CISL</b>) which owns the operational assets and employs New ARF staff; and</li> <li>▪ Arena Property Services Pty Ltd (<b>APS</b>), a licensed estate agent which provides property services.</li> </ul>	Section 6
<b>What is ARL's financial position?</b>	
<p>ARL was incorporated on 16 October 2014 and has no trading history. ARL does not presently hold any shares or interests in any entity.</p> <p>However, for illustrative purposes certain pro forma financial information has been included in Section 8 along with a discussion of the basis for this information and its assumptions.</p> <p>On the Implementation Date, ARL will have capital of \$13 million. ARL will contribute a portion of this capital to ARML to ensure that ARML meets its AFSL obligations. ARML is expected to require at least approximately \$2 million in capital for this purpose.</p> <p>ARL's key assets will include (if and when the Internalisation Proposal is implemented):</p> <ul style="list-style-type: none"> <li>▪ ARML's AFSL which is expected to be granted to ARML prior to the Implementation Date;</li> <li>▪ approximately \$13 million in net equity; and</li> <li>▪ CISL and APS (wholly owned subsidiaries of ARL).</li> </ul>	Section 8
<b>Financial performance</b>	
<p>ARL, through its wholly owned subsidiaries, will provide all the resources required to operate Arena REIT. ARL and its subsidiaries will receive a resourcing expense reimbursement from Arena REIT to cover the expenses of operating Arena REIT. Expenses will comprise the costs of the Independent Directors, the management team and staff and associated costs including office costs.</p> <p>ARL is also expected to derive revenue through its subsidiaries from managing the Syndicates. See Section 6.4 for further information on the management fees for the Syndicates.</p> <p>CISL will continue to provide management services to AIML (for its unlisted managed funds) for a maximum period to December 2016 for which it will be reimbursed amounts equal to the cost of providing those services. See Part 3 of Annexure A of the Explanatory Memorandum for a summary of the Resourcing Deed.</p> <p>It is not presently expected that dividends will be paid on ARL shares but this will not prevent the declaration of a distribution to Investors from ARF1 and/or ARF2.</p>	Section 8

## 03: Investment overview

### 3.3 Key risks associated with ARL shares

Below is a summary of the key risk factors associated with an investment in ARL shares. Further information on such risks is set out in Section 7.

While ARL shares are stapled to Arena REIT units, the risks associated with Arena REIT units will also apply to ARL shares. Some risks relate to the Internalisation Proposal and which are unique to New ARF and may therefore be a reason Investors may choose to vote against the Internalisation Proposal. Investors should carefully read Section 4.9 of the Explanatory Memorandum to understand the risks which may have an impact on ARL's future financial performance as a component of New ARF.

#### Summary

##### New Stapled Securities

The trading value of ARL shares will be dependent on the trading price of New Stapled Securities on ASX. The trading price of New Stapled Securities is subject to a number of general market risks which also apply to Arena REIT and which are described in Section 7.2.

##### Employees

ARL will be reliant on retaining and attracting quality senior management and staff to manage New ARF. The loss of services of any senior management or key personnel, or the inability to attract new qualified personnel, could adversely affect ARL's operations. The ARL Board has taken steps to mitigate this risk through the terms of its employment arrangements with senior management, including notice periods, remuneration set at market levels and including incentives aligned to the long-term interest of Investors.

##### Management services

CISL (a subsidiary of ARL) is responsible for providing certain management services to AIML in relation to AIML's unlisted managed funds. Under the Resourcing Deed, CISL is entitled to recover its costs associated with providing the management services. However, there are risks associated with the provision of those services including the risk that not all of the cost of performing the services can be fully recovered or that the management services are more involved or continue for longer than currently expected. The ARL Board has taken steps to mitigate this risk through the contractual terms of the Resourcing Deed.

##### Taxation

Changes in taxation law (including goods and services taxes and stamp duties), or changes in the way tax laws are interpreted in the various jurisdictions in which ARL operates, may impact the tax liabilities of ARL.

##### Capital requirements

The risk of unforeseen capital requirements may impact investors, for example, if ASIC changes the financial requirements for companies holding an AFSL which increases the amount needing to be reserved by ARML.

##### AFSL

If ARML (which, post internalisation, will be a wholly owned subsidiary of ARL) breaches the conditions of its AFSL there is a risk that its AFSL will be revoked and it will not be able to act as the responsible entity for ARF1 and ARF2. The ARL Board has taken steps to mitigate this risk through its governance policies and procedures, compliance function and system and risk management framework.

##### ASX listing

The listing of ARL on the ASX imposes various listing obligations with which ARL must comply on an ongoing basis. Whilst ARL will seek to comply with its listing obligations, there can be no assurance that the requirements necessary to maintain the listing of New Stapled Securities (which include ARL shares) will continue to be met or will remain unchanged.

##### Litigation and disputes

Disputes or litigation may arise from time to time in the course of ordinary business activities. There is a risk that material or costly disputes or litigation could adversely affect financial performance and security value of New ARF.

### 3.4 Key people

Details	Further information
<b>Who are the directors of ARL?</b>	
<p>The Directors of ARL comprise:</p> <ul style="list-style-type: none"> <li>▪ David Ross, Independent Non-executive Chairman;</li> <li>▪ Dennis Wildenburg, Independent Non-executive Director;</li> <li>▪ Simon Parsons, Independent Non-executive Director; and</li> <li>▪ Bryce Mitchelson, Managing Director.</li> </ul> <p>All of ARL's directors are presently directors of AIML. If the Internalisation Proposal is approved and implemented, it is expected that Mr Mitchelson will retire as a director of AIML.</p>	Section 9.1
<b>Who is the senior management team?</b>	
<p>The operations of ARL and its subsidiaries will be carried out by an experienced management team comprising certain members of the team currently managing Arena REIT:</p> <ul style="list-style-type: none"> <li>▪ Bryce Mitchelson, Managing Director;</li> <li>▪ Gareth Winter, Chief Financial Officer; and</li> <li>▪ Robert de Vos, Head of Property.</li> </ul>	Section 9.2



 17 David John Drive, Tarneit VIC

## 04: Key features of the issue

### 4.1 Background to the Prospectus regarding the Internalisation Proposal

As set out in the accompanying Explanatory Memorandum issued by AIML, Investors are being asked to approve the Internalisation Proposal. If the Internalisation Proposal is approved and implemented:

- New ARL Shares will initially be issued to ARF1 and then distributed to Investors. New ARL Shares will then be stapled to Existing Stapled Securities, forming the New Stapled Securities;
- CISL will become a wholly owned subsidiary of ARL. CISL is the employer of Arena REIT's management and staff and owns the operating systems and technology required to operate Arena REIT;
- ARML (which, at that time, will be a wholly owned subsidiary of ARL) will become the responsible entity of Arena REIT and the manager of the Syndicates;
- New ARF will trade on ASX under the code ARF; and
- CISL will provide management services to AIML's remaining unlisted managed funds for a maximum period to December 2016.

The distribution of New ARL Shares to Investors will be determined by the holdings of Existing Stapled Securities as at the Stapling Record Date on a one for one basis.

Foreign Investors will not receive New ARL Shares to which they would otherwise be entitled. The New ARL Shares to which Foreign Investors would otherwise be entitled will be sold as a component of New Stapled Securities in accordance with the Sale Facility and the net proceeds remitted to Foreign Investors. See Section 4.5 for further information.

### 4.2 Conditions precedent of the Internalisation Proposal

New ARL Shares will be issued if the Internalisation Proposal is approved by Investors and implemented. Implementation is subject to a number of conditions precedent, including

- the independent expert providing a report which states that in their opinion, the Internalisation Proposal is fair and reasonable for and in the best interests of Investors;
- ASIC and ASX granting all relevant approvals, waivers and modifications that AIML, ARL and ARML reasonably require to implement the Internalisation Proposal;
- ARML obtaining an AFSL from ASIC in a form appropriate for acting as responsible entity of Arena REIT;
- ASX approving the listing of ARL and the official quotation of the New Stapled Securities on ASX;

- the Independent Board Committee of AIML continuing to recommend that the Internalisation Proposal is in the best interests of Investors; and
- all required consents of financiers (and other relevant third parties) are received in writing before the Implementation Date.

ARL reserves the right to change the terms and conditions of the Internalisation Proposal at any time prior to its implementation, subject to the Corporations Act and the Listing Rules.

### 4.3 Key implementation steps for the Internalisation Proposal

If all the conditions to the Internalisation Proposal are satisfied or waived, the Internalisation Proposal will be implemented in the manner set out in Section 8.2 of the Explanatory Memorandum.

If the Internalisation Proposal is not implemented, then the New ARL Shares will not be issued and therefore Investors will continue to hold their Existing Stapled Securities. No New Stapled Securities will be formed in this instance.

### 4.4 Key features of the issue

Under this Prospectus, 211,605,103 New ARL Shares are being distributed to Investors. The offer is conditional upon approval and implementation of the Internalisation Proposal.

These New ARL Shares will only be distributed:

- to those Investors on the register at the Stapling Record Date that are not Foreign Investors;
- if the Internalisation Proposal is approved by a sufficient majority of Investors; and
- if the conditions precedent to the implementation of the Internalisation Proposal are all satisfied or waived (see Section 4.2 for a description of these conditions).

If the Internalisation Proposal is approved and implemented:

- Investors are not required to pay any new capital for the New ARL Shares nor complete an application form.
- Investors (other than Foreign Investors) will receive one New ARL Share for every one Existing Stapled Security they hold in Arena REIT.
- The New ARL Shares will be stapled to units in Arena REIT so that Investors may only trade all three securities together.

While Stapled Securityholders will be entitled to receive dividends from ARL, it is not currently intended that dividends will be paid on ARL shares. This will not prevent the declaration of a distribution to Stapled Securityholders from Arena REIT.

## 04: Key features of the issue

Those Investors who elect to participate in New ARF's distribution reinvestment plan (DRP) from the December 2014 quarter onwards will be issued new ARL shares as part of New Stapled Securities issued under the DRP.

### 4.5 Foreign Investors

Foreign Investors will not receive New Stapled Securities in connection with the Internalisation Proposal (due to legal restrictions), but will instead have the New Stapled Securities to which they would otherwise be entitled sold through the Sale Facility (described in Section 8.4 of the Explanatory Memorandum). Sale proceeds will be paid by electronic funds transfer (if details are held by the Registry) or by cheque. At 21 October 2014, there were 8 Foreign Investors holding 0.18% of Existing Stapled Securities.

Participation in the Sale Facility is only available to Foreign Investors.



## 05: Key terms of the New ARL Shares

The New ARL Shares (that form part of the New Stapled Securities) will be fully paid ordinary shares. The rights attaching to the New ARL Shares are set out in the ARL Constitution and are regulated by the Corporations Act, the Listing Rules and other general law. A copy of the ARL Constitution can be obtained at no charge during the period of this Prospectus by calling the toll free Information Line on 1800 008 494 between 8.30 am and 5.00 pm (AEDT) on Business Days.

The rights attaching to New ARL Shares are summarised below. The summary is not intended to be an exhaustive summary of the rights and obligations of holders of ARL Shares.

- **Entitlement** – The Directors may from time to time pay dividends to registered holders of ARL shares (**Shareholders**) out of the profits of ARL. The Directors may fix the amount, the date and method of payment. All fully paid ARL shares on which any dividend is declared or paid are entitled to participate in that dividend equally.
- **General meetings** – Each Shareholder is entitled to receive notices of general meetings of ARL and to receive all notices, financial statements and other ARL documents required to be sent to Shareholders under the ARL Constitution or the Corporations or Listing Rules. The directors may call a general meeting and must call an annual general meeting.
- **Voting rights** – At a general meeting of ARL, every Shareholder has one vote on a show of hands and one vote for each fully paid ARL share on a poll.
- **Issue of additional ARL shares** – The Directors may (subject to the restrictions on the issue of ARL shares imposed by the ARL Constitution, the Corporations Act and the Listing Rules) issue or allot shares or grant options over unissued ARL shares, or otherwise dispose of any ARL shares on any terms and conditions as they see fit.
- **Transferability of ARL shares** – While New Stapled Securities (which include ARL shares) are quoted on ASX, Shareholders will generally be able to sell or transfer New Stapled Securities (which include ARL shares) without restriction. The Directors may, in their absolute discretion refuse to register any transfer of New Stapled Securities, ARL shares or other securities in circumstances permitted by the Listing Rules and the ARL Constitution. The Directors must refuse to register any transfer of ARL shares where they are required to do so by the Listing Rules or the ARL Constitution.
- **Buy-backs** – Subject to the stapling requirements in relation to New Stapled Securities, the Directors may buy-back ARL shares on the terms and at times determined by them, to the extent and in the manner permitted by the Corporations Act and Listing Rules.
- **Variation of class rights** – The rights attached to any class of ARL shares, unless otherwise provided for by the terms of issue of those shares, may only be varied or cancelled with the consent in writing of the holder of 75% of the issued shares in the relevant class, or with the sanction of a special resolution passed at a meeting of the holders of the shares in that class.
- **Entitlement on winding up** – Subject to the ARL Constitution and to any special or preferential rights attaching to any class or classes of shares in ARL, ARL shares attract the right in a winding up to participate equally in the distribution of the assets of ARL (both capital and surplus) in proportion to the amount of capital paid up. The ARL Constitution also gives Shareholders the right to approve by special resolution various alternative ways in which assets may be dealt with by any liquidator.
- **Amendments to the ARL Constitution** – The Corporations Act provides that the constitution of a company may be modified or repealed by a special resolution passed by the shareholders of the company (meaning 75% of votes cast by members entitled to vote on the resolution). The ARL Constitution does not provide for any further requirements to be complied with to effect a modification of, or to repeal, the constitution (except if the amendments affect the stapling of ARL shares, in which case consent of each entity in the stapled group of which ARL forms part may need to be obtained).
- **Stapling** – The ARL Constitution provides that all ARL shares will be stapled to units in Arena REIT and may only be dealt with as one security.

## 06: Overview of ARL and its operations

This Section provides a brief overview of ARL. More detailed information about the internalised New ARF is set out in Section 4.3 and 4.4 of the Explanatory Memorandum (including ARL's investment objectives and strategy for New ARF).

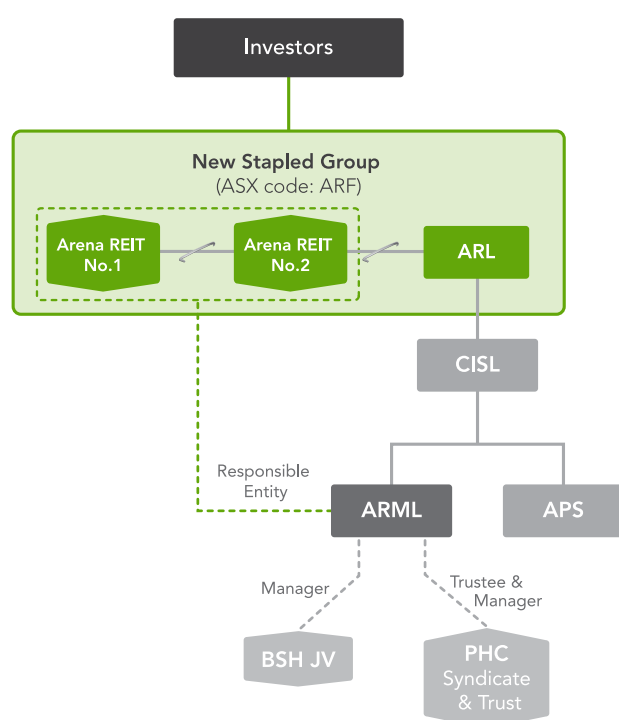
### 6.1 Overview of ARL

ARL and ARML are both newly incorporated public companies limited by shares which have not traded prior to implementation of the Internalisation Proposal.

Following implementation of the Internalisation Proposal, ARML will be a wholly owned subsidiary of ARL. ARF1 is currently the sole shareholder of ARL. If the Internalisation Proposal is implemented, on the Implementation Date, the shareholders of ARL will be those Investors (other than Foreign Investors) holding Existing Stapled Securities as at the Stapling Record Date.

APS (a wholly owned subsidiary of ARL) is a licensed estate agent that provides property services.

The following diagram represents the group structure after implementation of the Internalisation Proposal.



### 6.2 AFSL

ARML has applied for an AFSL authorising it to act as responsible entity of Arena REIT. ARML's application is currently being assessed by ASIC. ARML expects that ASIC will grant ARML an AFSL authorising it to become responsible entity for Arena REIT once the application has been assessed, subject to ARML meeting the usual financial and compliance requirements applicable to responsible entities.

### 6.3 ARL's business plan for Arena REIT

ARL's business plan is to provide a structure for Investors to indirectly acquire the management vehicle of Arena REIT, thereby generating the potential advantages associated with internally managed REITs. These advantages may include:

- **Distribution guidance upgrade** – Expected ongoing net management cost savings contributing to ARF distribution guidance for FY15 being upgraded to 10.0 cents per security (up from 9.75 cents per security).<sup>1</sup>
- **Enhanced alignment** – The ARL Board and management will be accountable only to New ARF investors. Going forward, ARL will hold an Annual General Meeting and New ARF investors with sufficient majority may appoint and remove directors in certain circumstances as well as vote on the remuneration structure. Senior management will be incentivised for delivering on earnings per security growth and relative total shareholder return under a remuneration package for FY15.
- **Acquisition growth competitive advantage** – The outlook for New ARF earnings growth per security is superior with the elimination of external funds management fees which would otherwise be charged on any increases in asset portfolio valuations, new acquisitions and capital expenditure. New ARF will have operating leverage, meaning that new acquisitions should not require a material increase in internal management cost which should therefore provide greater contributions to earnings growth per security.
- **New investors** – Some investors prefer investing in internally managed REITs. Implementation of the Internalisation Proposal may therefore drive increases in demand and liquidity of New Stapled Securities, but there is no guarantee of this.

For details regarding the potential disadvantages and risks of investing in ARL, refer to Section 7.

ARL's investment strategy for New ARF is consistent with Arena REIT's existing strategy. ARL may also seek to grow earnings for New ARF by leveraging its existing

1. On a status quo basis assuming no new acquisitions, developments in progress are completed in line with budget assumptions and tenants comply with all their lease obligations. See Section 5 of the EM for the basis of preparation and assumptions in relation to the updated distribution guidance.

capabilities to provide funds management and property management services to other unlisted managed funds.

See Section 4.4 of the Explanatory Memorandum for details regarding the investment strategy of New ARF.

### 6.4 ARML to act as manager of the Syndicates

In addition to operating as an internalised manager of Arena REIT, if the Internalisation Proposal is approved and implemented, ARML (which, after distribution of ARL shares to Investors, will be a wholly owned subsidiary of ARL) will also be appointed as the manager of two unlisted wholesale syndicates which each own healthcare properties, PHC Syndicate and BSH JV (together referred to as the **Syndicates**).

#### PHC Syndicate

PHC Syndicate is an unincorporated joint venture and trust with 40 investors which owns one property in Darlinghurst, NSW. The property is a medical centre 100% leased to a subsidiary of Primary Health Care Ltd with a remaining lease term of 7.7 years, currently valued at \$14.75 million (as at 30 June 2014). The income yield to PHC Syndicate investors is currently 10.9% per annum.

As manager of PHC Syndicate, ARML will be entitled to a receivable (being a deferred management fee of approximately \$0.8 million), an annual management fee of 1% of property value and at least a 1% fee on disposal. If ARML is removed as manager, it is entitled to be paid all accrued fees and it will remain entitled to the disposal fee based on valuation of the property asset, upon the sale of the property.

PHC Syndicate was established in 2001 and was intended to be wound up some time after the 10th anniversary of settlement of the original purchase (December 2001). An investor meeting is required to be held every two years: the most recent was in December 2013 at which investors resolved to retain the asset. The next meeting of the PHC Syndicate investors is due to be held in December 2015 to vote on whether to continue to hold the asset or wind up the syndicate. Following the 15th anniversary of the purchase, the property will be sold unless all investors agree to extend the term of PHC Syndicate, or the joint venture agreement is amended to extend the term.

#### BSH JV

BSH JV is an unincorporated joint venture with 19 investors which owns one property in Heidelberg, Victoria. The property is a pathology centre 100% leased to a subsidiary of Primary Health Care Ltd with a remaining lease term of 7.1 years, currently valued at \$17

million (as at 30 June 2014). The income yield to BSH JV investors is currently 9.2% per annum.

As manager of BSH JV, ARML will be entitled to a management fee of 1% of property value and 1% fee on disposal. If ARML is removed as manager, it is entitled to be paid all accrued fees and it will remain entitled to the disposal fee based on valuation of the property asset, upon the sale of the property.

BSH JV was established in 2000 and was intended to be wound up some time after the 10th anniversary of settlement of the original purchase (April 2001). An investor meeting is required to be held every two years: the most recent was in April 2013 at which investors resolved to retain the asset. The next meeting of the BSH JV investors is due to be held in April 2015 to vote on whether to continue to hold the asset or wind up the joint venture. Following the 15th anniversary of the purchase, the property will be sold unless all investors agree to extend the term of BSH JV.

### 6.5 Provision of management services to AIML

CISL (a subsidiary of ARL) has agreed (via the Resourcing Deed with AIML) to provide (for a maximum period to December 2016) resources and services to the unlisted funds that AIML will remain the responsible entity for, being Arena Property Fund, Arena Office Fund and Chevron Renaissance Property Trust. CISL will retain additional resources to provide these services.

See the summary of the Resourcing Deed in Part 3 of Annexure A of the Explanatory Memorandum.

## 07: Risks

This Section identifies the key risk factors associated with an investment in ARL shares. You should carefully consider the risks described in this Section, as well as other information in the Prospectus and Section 4.9 of the Explanatory Memorandum, and if you require further information regarding the appropriateness or potential risks of this investment, you should seek appropriate financial advice.

All investments involve risk and there are many factors that can impact on the performance of an investment. This summary details some of the major risks that you should be aware of when investing in ARL. Investors should be aware that the list of risks described below is not exhaustive. If the Internalisation Proposal is implemented, although you will hold a direct investment in ARL (and therefore be exposed to risks to which you were not previously exposed), many of these risks are not materially different from the risks which already apply to Investors holding Existing Stapled Securities.

### 7.1 Business risks

#### (a) New Stapled Securities

Given that ARL shares will form part of the New Stapled Securities, the trading value of ARL shares will be dependent on the trading price of New Stapled Securities on ASX. The trading price of the New Stapled Securities is subject to a number of general market risks which currently apply to Arena REIT which are set out in Section 7.2.

#### (b) Employees

ARL will be reliant on retaining and attracting quality senior management and staff to manage New ARF. The loss of services of any senior management or key personnel, or the inability to attract new qualified personnel, or the increased employment cost associated with retaining or attracting suitably qualified personnel, could adversely affect New ARF's operations and financial performance. The ARL Board has taken steps to mitigate this risk through the terms of its employment arrangements with senior management, including notice periods, remuneration set at market levels and including incentives aligned to the long-term interest of Investors.

#### (c) Management services arrangement with AIML

CISL (a subsidiary of ARL) is responsible for providing certain management services to AIML in relation to AIML's unlisted managed funds. Under the Resourcing Deed, CISL is entitled to recover its costs associated with providing the management services. However, there are risks associated with the provision of those services including the risk that not all of the cost of performing the services can be fully recovered or that the management services are more involved or continue for longer than currently expected. The ARL Board has taken steps to mitigate this risk through the contractual terms of the Resourcing Deed.

#### (d) Taxation

Changes in taxation law (including goods and services taxes and stamp duties), or changes in the way tax laws are interpreted in the various jurisdictions in which ARL operates, may impact the tax liabilities of ARL.

#### (e) Capital requirements

The risk of unforeseen capital requirements may impact investors, for example, if ASIC changes the financial requirements for companies holding an AFSL which increases the amount needing to be reserved by ARML.

#### (f) AFSL

ARML will be required to hold an AFSL in order for the Internalisation Proposal to be implemented. It is anticipated that ARML will be issued an AFSL on or before the Implementation Date with the necessary authorisations to allow it to act as responsible entity of Arena REIT. In order to maintain its AFSL, ARML will need to meet certain financial and operational requirements. If ARML is unable to meet these requirements, there is a risk that its AFSL may be revoked and it will no longer be able to act as responsible entity of Arena REIT. The ARL Board has taken steps to mitigate this risk through its governance policies and procedures, compliance function and system and risk management framework.

#### (g) ASX listing

The listing of ARL on the ASX imposes various listing obligations with which ARL must comply on an ongoing basis. Whilst ARL will seek to comply with its listing obligations, there can be no assurance that the requirements necessary to maintain the listing of New Stapled Securities (which include ARL shares) will continue to be met or will remain unchanged.



## 7.2 General risks

### (a) Economic conditions generally

ARL's operating and financial performance may be adversely affected by a variety of general economic and business conditions including the level of inflation, exchange rates, ability to access funding, government fiscal, monetary and regulatory policies, changes in gross domestic product and economic growth, employment levels and consumer spending and investment sentiment and property market volatility.

### (b) Litigation and disputes

Disputes or litigation may arise from time to time in the course of ordinary business activities. There is a risk that material or costly disputes or litigation could adversely affect financial performance and security value.

### (c) Changes in accountancy standards

ARL will be subject to the usual business risk that there may be changes in accounting standards or its own accounting policies which have an adverse impact on ARL.



## 08: Financial information

The Internalisation Proposal, as described in the Explanatory Memorandum, may have an impact on the financial position and performance of New ARF. Accordingly, certain pro forma financial information (including the basis of accounting and key accounting policies relating to this financial information) have been included in Section 5 of the Explanatory Memorandum to illustrate the likely pro forma financial effect on Arena REIT of the Internalisation Proposal being implemented. Information about the impact is shown on a consolidated basis as this is considered the most appropriate form of presentation to enable Investors to understand the effect of the Internalisation Proposal.

Only financial information relating to ARL is set out in this Prospectus.

ARL was incorporated on 16 October 2014 with nominal capital and has not commenced trading. Upon implementation of the Internalisation Proposal, ARL will acquire CISL and its controlled entities.

### 8.1 Financial Position

#### (a) Basis of preparation

The Financial Information in this Section has been prepared in accordance with the recognition and

measurement principles contained in Australian Accounting Standards.

However, the Financial Information is presented in an abbreviated form and does not include all the disclosures, statements or comparative information required by Australian Accounting Standards applicable to annual financial reports prepared in accordance with the Corporations Act.

The accounting policies used in the preparation of the Financial Information are the same as those of Arena REIT, which are presented in its financial report for the year ended 30 June 2014.

The consolidated historical and pro forma balance sheets of ARL include ARL and its subsidiaries.

The historical balance sheet of ARL as at the date of this prospectus is derived from its management accounts.

The pro forma balance sheet of ARL was prepared as follows:

- aggregating the balance sheet of CISL as at 30 June 2014 adjusted for the effect of the Internalisation Proposal including the consideration payable to Citrus II; and
- adjusting the ARL balance sheet for the implementation of the Internalisation Proposal.

#### (b) Historical and pro forma balance sheets

\$ million	ARL Historical Balance Sheet (Note 1)	Pro forma adjustments	ARL Pro forma Balance Sheet as at 30 June 2014 (Note 2)
<b>Assets</b>			
Cash and cash equivalents	-	3.8	3.8
Receivables and other assets <sup>3</sup>	-	2.2	2.2
Intangible assets <sup>4</sup>	-	10.7	10.7
<b>Total Assets</b>	<b>-</b>	<b>16.7</b>	<b>16.7</b>
<b>Liabilities</b>			
Payables & other liabilities <sup>5</sup>	-	3.7	3.7
<b>Total liabilities</b>	<b>-</b>	<b>3.7</b>	<b>3.7</b>
<b>Net Equity<sup>6</sup></b>	<b>-</b>	<b>13.0</b>	<b>13.0</b>

#### Notes

1. As at the date of this Prospectus.
2. Assumes implementation of the Internalisation Proposal. The pro forma balance sheet includes net assets and liquid funds for ARML to satisfy its minimum expected AFSL requirements.
3. Represents plant and equipment, receivables from managed funds and other assets.
4. Represents the recognition of the intangible assets arising from the majority of the consideration payable to Citrus II to acquire CISL.
5. Represents the liabilities of CISL including employee entitlements.
6. Represents the capital contribution from Arena REIT for the issue of New ARL Shares.



The actual consolidated statement of financial position on completion of the Internalisation Proposal may differ from the Pro forma Statement of Financial Position following the completion of the purchase price allocation on the acquisition of CISL and its controlled entities.

The ARL Pro Forma Balance Sheet differs from Arena REIT Pro Forma Balance Sheet on implementation of the Internalisation Proposal (as described in Section 5 of the Explanatory Memorandum) as the ARL Pro Forma Balance Sheet is on a standalone basis, whereas the Arena REIT Pro Forma Balance Sheet also includes the existing Arena REIT Balance Sheet.

## 8.2 Working Capital

ARL considers that the working capital position, combined with its expected cash flows to be generated from operations are sufficient for the company to carry out its business and stated objectives immediately following implementation of the Internalisation Proposal, and is appropriate having regard to the financial and investment profile of the company.

## 8.3 Historical Financial Performance

ARL is a newly established entity and will not trade until the acquisition of CISL which will only occur on implementation of the Internalisation Proposal. As ARL is a newly incorporated company and has not traded, the ARL Board does not have a reasonable basis to provide pro forma historical financial information that it considers meaningful or reliable.

## 8.4 Dividend Policy

Consistent with current practice, it is intended that post implementation of the Internalisation Proposal, Arena REIT will pay a high percentage of its distributable income on a consolidated basis in the form of distributions or dividends. If any dividends from ARL are to be paid, they will be paid in conjunction with distributions from ARF1 and ARF2.

The payment of dividends from ARL, if any, is at the complete discretion of the ARL Board. The decision as to whether a dividend will be paid is subject to a number of considerations including operating results, the general business environment, the financial position of ARL and its capital requirements, regulatory restrictions and any other factors the ARL Board may consider relevant.

No assurances can be given by any person, including the ARL Board, about the payment of any dividend and the level of franking on any such dividend.

## 8.5 Taxation

The Australian taxation consequences of the Internalisation Proposal for Investors, including in relation to the acquisition of New ARL Shares under this Prospectus are set out in Section 6 of the Explanatory Memorandum.

The comments contained in this Prospectus do not constitute tax advice and should not be relied upon as such. Investors should consult their own professional tax advisers regarding the consequences of an investment in ARL shares in light of their own circumstances.

## 09: Key people

### 9.1 Directors

The Directors of ARL are:

- Mr David Ross, Independent Non-executive Chairman;
- Mr Dennis Wildenburg, Independent, Non-executive Director;
- Mr Simon Parsons, Independent, Non-executive Director; and
- Mr Bryce Mitchelson, Managing Director.

All four Directors are currently directors of AIML. If the Internalisation Proposal is approved and implemented, it is expected that Mr Mitchelson will retire as a director of AIML.

#### David Ross (Independent Non-executive Chairman)

David has 30 years' experience in the real estate and investment management sectors.

David was appointed to the AIML Board in 2012 and is also a member of the Audit Committee.

He held senior positions with Lend Lease Corporation over a period of 10 years, including Global and US Chief Executive Officer Real Estate Investments (based in the US), Chief Executive Officer Asia Pacific and Chief Executive Officer of General Property Trust.

He was also Chief Operating Officer of Babcock and Brown, responsible for the Group's corporate and administrative support functions globally. Prior to this, Mr Ross worked with Armstrong Jones, Richard Ellis and Jones Lang Wootton (now Jones Lang LaSalle). He has also chaired and acted as an executive and non-executive director on a variety of external and subsidiary company boards.

David brings leadership experience to New ARF across the full range of financial, operating and strategic planning functions from ASX listed global property and investment management organisations.

David holds a Bachelor of Commerce degree, a Property Valuation qualification and is a Graduate of the Australian Institute of Company Directors (GAICD).

#### Dennis Wildenburg (Independent Non-executive Director)

Dennis Wildenburg has over 30 years' experience in the financial services and funds management industry. He is currently an Independent Director of Investa Wholesale Funds Management Limited and has been a Director of MLC Funds Management Limited and an Associate Director of Hill Samuel Australia Limited (now Macquarie Group Limited).

Dennis was appointed to the AIML Board in 2011 and is also Chairman of the Audit Committee.

Dennis gained his property experience working with the Lend Lease Group where he was a Director of the company that managed GPT. He has also served on the Board of Property Funds Australia and the Investment Committee of the Mirvac PFA Diversified Property Trust. Dennis is a member of the Institute of Chartered Accountants in Australia.

#### Simon Parsons (Independent Non-executive Director)

Simon has over 34 years' experience in the commercial property industry. He has previously held senior positions and directorships in a range of leading property-focused companies including Property Investment Research Pty Ltd, Colliers International Limited, Jones Lang Wootton (now Jones Lang LaSalle) and is presently Managing Director of Parsons Hill Stenhouse Pty Ltd, a commercial property practice.

Simon was appointed to the AIML Board in 2012 and is also a member of the Audit Committee.

Simon is a Fellow of the Royal Institution of Chartered Surveyors (RICS) and is a member of the RICS Oceania Property Board. He is also a Fellow of the Australian Institute of Company Directors (AICD). He holds a Masters of Science (Real Estate), a Masters of Social Science, (Environment and Planning) and an estate agent's license.

#### Bryce Mitchelson (Managing Director)

Bryce is Joint Managing Director of AIML and was appointed as a Director in April 2010 after joining the company in 2009. Through the management of Arena REIT, Bryce has experience in both the childcare and healthcare sectors, and is a responsible manager and key person under AIML's AFSL.

Bryce has more than 20 years' experience in listed and unlisted property funds management as well as property investment, development, valuation and real estate agency.

Prior to joining AIML, Bryce worked in various funds management roles including at Centro Properties Group and Heine Management Limited. He currently sits on the Standards Subcommittee (Victorian division) of the Australian Property Institute.

Bryce holds a Bachelor of Economics (Accounting major), Bachelor of Business (Property) and Graduate Diploma of Applied Finance and Investment as well as other property valuation and agency qualifications.

#### Independent non-executive Directors

The ARL Board consists of four Directors, with three being independent non-executive directors. The Independent Directors are not affected by any of the following business relationships that could or be

reasonably perceived to materially affect the exercise of independent judgement:

- being a substantial shareholder of ARL or an officer of, or otherwise associated directly with, a substantial shareholder of ARL;
- being employed, or being previously employed in an executive capacity by ARL or another group member, and there being a period of less than 3 years between ceasing such employment and serving on the ARL Board;
- being a principal of a material professional adviser or a material consultant to ARL or another group member, or an employee materially associated with the service provided within the last 3 years; or
- being a material supplier or customer of ARL or other group member, or an officer of or otherwise associated directly or indirectly with a material supplier or customer that has a material contractual relationship with ARL or another group member other than as a Director.

## 9.2 Senior management

If the Implementation Proposal is implemented, the senior management of ARL will serve as management of New ARF and be comprised as follows:

- current AIML Joint Managing Director, Bryce Mitchelson, to be appointed Managing Director of New ARF (see Section 9.1 above);
- current AIML Chief Financial Officer, Gareth Winter, to be appointed Chief Financial Officer of New ARF; and
- current AIML General Manager – Property, Robert de Vos, to be appointed Head of Property of New ARF.

The senior management team will be supported by additional staff including Head of Risk & Compliance, Portfolio Analyst and Communications Manager.

### Gareth Winter (Chief Financial Officer)

Gareth was appointed Chief Financial Officer of AIML in March 2012. Gareth was formerly a partner at PricewaterhouseCoopers and has over 20 years' professional experience. Throughout his professional career Gareth specialised in advising the listed and unlisted property and infrastructure funds management sector on corporate finance, capital management, risk management, transaction structuring and financial systems and reporting.

Gareth is a member of the Institute of Chartered Accountants in Australia and holds a Bachelor of Commerce.

### Robert de Vos (Head of Property)

Robert joined AIML in August 2012 and is responsible for AIML's asset management programs, acquisitions, developments and divestments.

Robert has over 20 years' property and funds management experience, and has specific expertise in social infrastructure where he has been responsible for developing and managing assets including childcare properties, medical facilities, police stations and law courts.

Prior to joining AIML, Robert held senior roles with Jones Lang LaSalle, Becton Property Group and Ceramic Funds Management.

## 9.3 Interests of ARL directors

As at the date of this Prospectus, ARF1 is the sole shareholder of ARL and no ARL shares are held by or on behalf of any director or key management personnel of ARL.

The table below lists the Existing Stapled Securities held directly, or indirectly or beneficially by or on behalf of each director of ARL as at the date of this Prospectus. If the Internalisation Proposal is approved and implemented, those directors will receive the equivalent number of New ARL Shares to the number of Existing Stapled Securities held at the Stapling Record Date.

Name	Existing Stapled Securities (either directly or otherwise)
David Ross	200,000
Simon Parsons	200,000
Dennis Wildenburg	150,000
Bryce Mitchelson	753,907

## 9.4 Other interests of ARL directors

Other than as set out in this Prospectus, no Director of ARL has during the last two years:

- held any interest in the formation or promotion of the New Stapled Securities;
- held any interest in any property acquired or proposed to be acquired by New ARF in connection with its formation or promotion or the issue of New Stapled Securities; or
- received any benefit from any person as inducement: to become, or to qualify as a Director of ARL (other than remuneration payable for acting as a Director of ARL) or, for services provided to Arena REIT or in connection with the Internalisation Proposal, the promotion of the Internalisation Proposal (other than remuneration for acting as a director of ARL or AIML).

## 09: Key people

### 9.5 Remuneration of ARL non-executive directors and senior management

See Sections 8.11 to 8.13 of the Explanatory Memorandum for details of the remuneration of ARL non-executive directors and senior management.

### 9.6 Deeds of indemnity, insurance and access

ARL will enter into a deed of indemnity, insurance and access with each Director which confirms the Director's right of access to Board papers and requires ARL to indemnify the Director, on a full indemnity basis and to the full extent permitted by law, against all losses or liabilities (including all reasonable legal costs) incurred by the Director as an officer of ARL or of a subsidiary.

Under the deeds of indemnity, insurance and access, ARL must maintain a directors' & officers' policy insuring a Director (among others) against liability as a Director and officer of ARL and its subsidiaries until 7 years after a Director ceases to hold office as a Director of ARL or a subsidiary (or the date any relevant proceedings commenced during the 7 year period have been finally resolved).

# 10: Additional information

## 10.1 ASIC relief

ASIC is expected to grant the following modifications and exemptions in relation to the Corporations Act as it applies to AIML, ARL and ARML.

### Prospectus relief

- Modification of sections 711(6) and 723(1) to facilitate the issue of the Prospectus without stating an expiry date or an application form accompanying it.
- Modification of section 734 to allow statements to be made in advertising and promotional materials without referring to the application form for ARL shares or the availability of a disclosure document.

### Foreign Investor relief

Exemption from section 601FC(1)(d) and the obligation to treat members who hold interests of the same class equally to allow the Sale Nominee to operate the Sale Facility in respect of the Foreign Investors' interests as described in Section 4.5.

### Stapling relief

- Modification of Chapter 2E as notionally inserted by Part 5C.7 to allow benefits to be given between the stapled entities in New ARF without requiring the approval of Stapled Securityholders.
- Modification of section 1017E to permit a single bank account to be used for application moneys in respect of any future issues of New Stapled Securities.
- Exemption from Part 7.9 to the extent necessary to allow the offer of New Stapled Securities issued under a DRP without a product disclosure statement or prospectus.

### Notice relief

Relief from section 601FL to permit AIML to lodge the notice informing ASIC of the change of responsible entity outside the 2 business day period.

## 10.2 ASX waivers and confirmations

ASX has provided an in-principle decision to grant waivers and confirmations of the following Listing Rules as they apply to ARL, ARF1 and ARF2.

### Waivers

- Waiver in relation to Listing Rule 1.1 (condition 7 and condition 8) and Listing Rule 2.1 (condition 2) to the extent necessary, that ARL need not comply with the stipulated value thresholds on the condition that New ARF will satisfy these conditions;
- waiver from Listing Rule 6.24 to the extent necessary that the rate and amount of a distribution for New ARF need not be advised to the ASX when the distribution and record date is announced;

- waiver from Listing Rule 8.10 to the extent necessary to permit each of ARF1, ARF2 and ARL to refuse to register a transfer of securities if it is not accompanied by a transfer of securities in the other entities;
- waiver from Listing Rule 10.1 to the extent necessary to permit the transfer of 'substantial assets' between ARF1, ARF2 and ARL (and their respective controlled entities) without the need for security holder approval, on condition that units in ARF1, units in ARF2 and shares in ARL are stapled together and that none of ARF1, ARF2 nor ARL issue any other equity securities that are not stapled to corresponding securities of the other entities; and
- waiver from Listing Rule 10.14 to the extent necessary to permit the issue of performance rights and recognition rights to Mr Bryce Mitchelson, the proposed Managing Director of ARL under the LTI Plan without ARL shareholder approval, on the condition that Investors approve the issue of the performance rights and recognition rights.

### Confirmations

- Confirmation that the structure and operation of ARL and New ARF is appropriate for a listed entity for the purposes of Listing Rule 1.1 (condition 1);
- confirmation that the constitution of ARL complies with Listing Rule 1.1 (condition 2);
- confirmation under Listing Rule 2.1 (condition 1) that the terms of the New Stapled Securities comply with Chapter 6 and confirmation under Listing Rule 6.1 that the terms applying to the New Stapled Securities are appropriate and equitable;
- confirmation that disclosure by one stapled entity on behalf of New ARF satisfies the obligations for each entity on a matter for the purposes of Listing Rule 3.1;
- confirmation under Listing Rule 6.12.3 that the provisions of the Arena REIT Constitutions relating to the divestment of units of foreign unitholders are appropriate and equitable on the condition that those provision only operate to implement the stapling of additional entities;
- confirmation that the New Stapled Securities are 'equity securities' for the purpose of the Listing Rules;
- confirmation that the stapling provisions in the constitutions of the entities in New ARF are satisfactory to the ASX for the purposes of Guidance Note 2; and
- confirmation that New ARF is not an 'investment entity' for the purposes of the Listing Rules.

## 10.3 Related party holdings/transactions

ARL will establish, maintain and comply with a written policy on related party transactions, including the assessment and approval processes for such transactions and arrangements to manage any conflicts of interest.

## 10: Additional information

### 10.4 Major Investor

MSREF VII Global indirectly holds 26,952,874 Existing Stapled Securities, the holder being The Trust Company (Australia) Limited as trustee for Citrus Subsidiary Trust. This equates to approximately 12.74% of Arena REIT.

### 10.5 Consents

The persons listed in the following table have given and have not, before the lodgement of this Prospectus with ASIC, withdrawn their written consent to:

- be named in the Prospectus in the form and context in which they are named;
- the inclusion of their respective reports or statements noted next to their names and the references to those reports or statements in the form and context in which they are included in the Prospectus; and
- the inclusion or other statements in this Prospectus which are based on or referable to statements made in those reports or statements, or which are based or referable to other statements made by those persons in the form and context in which they are included:

Name of person	Named as
PricewaterhouseCoopers	Taxation advisor
Hall & Wilcox	Legal advisor
Boardroom	Registry

### 10.6 Interests of experts and advisers

Other than as set out in this Prospectus, no promoter of Arena REIT or AFSL holder involved in the Internalisation Proposal and Listing or any other person named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus, has or has held, during the last two years prior to the date of the Internalisation Proposal an interest in:

- the promotion of the Internalisation Proposal or the Listing of New ARF;
- property acquired or proposed to be acquired by New ARF; or
- the Internalisation Proposal.

Hall & Wilcox is entitled to be paid \$240,000 (plus GST and disbursements) in fees and charges for legal services provided to ARL and Arena REIT up to the date of this Prospectus in connection with the Internalisation Proposal and Listing. Further amounts may be paid in accordance with its time-based charges.

PricewaterhouseCoopers is entitled to be paid \$40,000 (plus GST and disbursements) in fees and charges for tax advice provided to ARL up to the date of this Prospectus in connection with the Internalisation Proposal and Listing. Further amounts may be paid in accordance with its time-based charges.

### 10.7 Corporate governance

The ARL Board is responsible for the overall corporate governance of ARL and New ARF, including implementing appropriate policies and procedures in order for ARL and its subsidiaries, including ARML to fulfil their functions effectively and responsibly. The ARL Board recognises the role and importance of good corporate governance. Arena's corporate governance framework is supported by the high quality and experienced ARL Board. The ARL Board is integral to the determination of appropriate corporate governance arrangements for ARL and New ARF and to the continual monitoring of those arrangements.

The corporate governance framework to be implemented by ARL in respect of New ARF is underpinned by the ASX Guidelines. ASX Listing Rules require listed entities to disclose the extent of their compliance with the ASX Guidelines and to explain why they have not adopted a particular ASX Guideline if they consider it is inappropriate to do so in their particular circumstances. Accordingly, the Stapled Group will be required to report its compliance against the ASX Guidelines in its application for Listing and on an ongoing basis in its annual report.

ARL has policies in place to ensure that New ARF will meet all applicable disclosure standards in accordance with the ASX Listing Rules.

#### (a) Continuous disclosure policy

ARL is committed to communicating relevant material information about New ARF to Stapled Securityholders and must comply with New ARF's continuous disclosure obligations to the market pursuant to ASX Listing Rules and the Corporations Act.

The ARL Board will establish a continuous disclosure committee to assist the ARL Board in discharging New ARF's continuous disclosure responsibilities in a timely and efficient manner. The continuous disclosure committee will:

- consider information that potentially requires disclosure;
- determine what information needs to be disclosed;
- co-ordinate the actual form of disclosure with the relevant members of management where necessary; and
- liaise with the appropriate staff to distribute continuous disclosure notices to ASX, publish notices on New ARF's website and, where appropriate, disseminate notices directly to Stapled Securityholders.

The current AIML continuous disclosure policy is available on the ARL website at [www.arenainvest.com.au](http://www.arenainvest.com.au). New ARF will adopt a substantially identical policy if the Internalisation Proposal is approved and implemented.



**(b) Board committees**

The ARL Board may establish formally constituted committees and may delegate any of its powers to a committee or committees.

The ARL Board and the ARML Board have established an Audit Committee to assist the directors in overseeing the integrity of New ARF's financial reporting, internal financial controls, financial procedures and policies and the independence of external auditors. The Audit Committee will report to the relevant Board(s) on all matters relevant to the Audit Committee's role and responsibilities and ensure the Boards are aware of matters which may significantly impact the financial condition or affairs of New ARF.

The key roles and responsibilities of the Audit Committee will include reviewing:

- the financial reporting processes;
- the system of internal financial controls; and
- the audit process.

All members of the Audit Committee must be non-executive directors, with a majority being Independent Directors. The chairperson will be an Independent Director but will not be the Chairman of either the ARL Board or the ARML Board. Dennis Wildenburg is Chairman of the Committee. The Audit Committee will meet with external auditors where appropriate from time to time to review the existing external audit arrangements and the scope of the audit.

A copy of the Committee's Charter is available on the website at [www.arenainvest.com.au](http://www.arenainvest.com.au).

The ARL Board has established a Remuneration and Nomination Committee to review and make recommendations in relation to succession planning, recruitment, selection and induction processes, continuing development of Board members, Board performance evaluation, the appointment and re-election of directors and succession planning for senior executive positions, including the Managing Director.

The Committee will also review and make recommendations to the ARL Board in relation to New ARF's remuneration framework for directors and senior executives, remuneration packages for senior executives, equity-based remuneration plans, superannuation arrangements and remuneration trends including New ARF's competitors, remuneration by gender and changes to employee benefit structures.

The Committee is comprised of the non-executive independent directors. David Ross is chairperson of the Committee. A copy of the Committee's Charter is available on the website at [www.arenainvest.com.au](http://www.arenainvest.com.au).

**(c) Code of conduct**

The ARL Board has established a code of conduct which applies to all employees, temporary employees and

contractors, and sets out how ARL expects those staff to conduct themselves. The code is underpinned by the following values:

- actions must be governed by the highest standards of integrity and fairness;
- decisions must be made in accordance with the spirit and letter of applicable law; and
- ARL's business must be conducted honestly and ethically, with our best skills and judgment, and for the benefit of Stapled Securityholders and employees.

**(d) Risk management**

ARL has adopted a risk management policy and framework which assists ARL achieve New ARF's objectives through thorough and competent strategic decision making.

Through the risk management policy and framework, ARL's risk management internal control system incorporates the guidelines described in the Australian/New Zealand Standard on Risk Management (AS/NZS ISO 31000:2009).

The ARL Board has ultimate responsibility for overseeing the risk management framework for ARL and its subsidiaries and for approving and monitoring compliance with the framework. The ARL Board will receive a quarterly risk report on all risks assessed as either critical or high and the Managing Director, supported by management, will have overall day-to-day responsibility for the risks facing New ARF.

**10.8 Reporting**

New ARF will operate on a 30 June financial year end basis for accounting and financial reporting purposes.

Formal financial reporting will be provided to Stapled Securityholders at 31 December (interim) and 30 June (full-year) each year commencing with 31 December 2014 in accordance with the Corporations Act. These reports will detail (among other things) the following:

- an income statement, balance sheet and statement of cash flows for the relevant period;
- the amount of distributions declared and paid for the relevant period;
- significant activities undertaken over the relevant period; and
- combined portfolio updates (including valuations of those Properties which have been re-valued).

**10.9 Continuous disclosure****Information available from ASX and ASIC**

New ARF will be a "disclosing entity" under the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and additional obligations under the Listing Rules.

## 10: Additional information

These obligations require New ARF to notify ASX of information about specified matters and events as they occur for the purpose of making that information available to the market. In particular, New ARF has an obligation (subject to limited exceptions) to notify ASX immediately on becoming aware of any information which a reasonable person would expect to have a material effect on the price or value of New ARF securities. Copies of documents lodged with ASX are available at [www.asx.com.au](http://www.asx.com.au). Copies of documents lodged with ASIC may be obtained from, or inspected at, an ASIC office.

### Information available from ARL

The following documents will be made available:

- for inspection at the registered office of ARL at 71 Flinders Lane, Melbourne 3000 (between 8.30 am and 5.00 pm (AEDT time) on Business Days);
- at [www.arenainvest.com.au](http://www.arenainvest.com.au); and
- on request free of charge by contacting the Registry on 1300 139 440 between 8.30 am and 5.00 pm (AEDT time) Monday to Friday:
  - the Annual Report of Arena REIT most recently lodged with ASIC;
  - any continuous disclosure notices given by Arena REIT between the lodgement of the relevant Annual Report and the date of this Prospectus; and
  - each document incorporated by reference in this Prospectus.

Information relating to the Internalisation Proposal and the Stapled Securities that is not materially adverse or required to be included in a supplementary disclosure document may be updated and made available to you on the website at [www.arenainvest.com.au](http://www.arenainvest.com.au). You may also contact ARL on the number set out in the corporate directory of this Prospectus to obtain a paper copy of the information free of charge.

### 10.10 Directors' consent to issue

Each Director of ARL as at the date of this Prospectus has consented to the lodgement of this Prospectus with ASIC as the issuer of New ARL Shares.

Each director of AIML in its capacity as responsible entity of ARF1 also consents to the lodgement of this Prospectus with ASIC.

### 10.11 Privacy

If the Internalisation Proposal is approved and implemented, ARL and ARML as the responsible entity of the Trusts (and the Registry on their behalf) will collect, hold and use your personal information to service your needs as an investor, provide facilities and services that you request and to administer New ARF. The Corporations Act requires certain particulars

of security holders to be collected and maintained in a public register.

Access to information may also be provided to ARL's and ARML's agents and service providers on the basis that they deal with such information as required by law.

Under the Privacy Act, you may request access to your personal information held by (or on behalf of) ARL and ARML. You can request access to your personal information by telephoning or writing to ARL and ARML.

### 10.12 Cooling off period

Cooling off rights do not apply to the issue of New Stapled Securities under the terms of the Internalisation Proposal.

### 10.13 Registry services

The shareholder register of ARL will be maintained by the Registry. The Registry can be contacted at Level 7, 207 Kent Street, Sydney NSW 2000 or [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au) or on 1300 737 760.

### 10.14 CHESS

ASX has an automated transfer and settlement system for transactions in securities quoted on ASX called the Clearing House Electronic Sub-register System (**CHESS**). Under CHESS, transfers are effected in a paperless form and certificates or transfer forms are not issued or required.

In accordance with the Listing Rules and the ASTC Settlement Rules, New ARF will maintain:

- an electronic CHESS sub-register (for Investors who are participants in CHESS or are sponsored by such a participant); and
- an electronic issuer sponsored sub register (for all other Investors).

Investors can choose to have their holdings registered in one of these two sub-registers, which together make up ARML's and ARL's register of Stapled Securityholders.

At least one trading day prior to the commencement of normal trading of the New Stapled Securities on ASX, all Investors will be sent an issuer sponsored statement that sets out the number of New Stapled Securities that are registered in their name. This holding statement will also provide details of the Investor's Holder Identification Number (**HIN**).

A Stapled Securityholder who wishes to have New Stapled Securities sponsored by a CHESS participant should forward their issuer sponsored statement and HIN (upon receipt) to their broker who will transfer their holding onto the CHESS sub-register.

# 11: Glossary

Term	Definition
ACN	Australian Company Number.
Admission Date	The date of admission of New ARF to ASX, expected to be Tuesday, 9 December 2014.
AEDT	Australian Eastern Daylight Saving Time.
AFSL	Australian Financial Services Licence.
AIML	Arena Investment Management Limited ACN 077 235 879 AFSL 233190.
AML/CTF Act	<i>Anti-Money Laundering and Counter-Terrorism Financing Act 2006</i> (Cth).
APS	Arena Property Services Pty Ltd ACN 161 391 831.
Arena REIT	ARF1 and ARF2.
Arena REIT Constitutions	The trust deed of ARF1 dated 27 August 2003 and the trust deed of ARF2 dated 20 June 2002, as amended from time to time.
ARF1	Arena REIT No. 1 ARSN 106 891 641.
ARF2	Arena REIT No. 2 ARSN 101 067 878.
ARL	Arena REIT Limited ACN 602 365 186 (and if the context requires, includes ARL's subsidiaries).
ARL Board	The board of directors of ARL.
ARL Constitution	The constitution of ARL.
ARML	Arena REIT Management Ltd ACN 600 069 761.
ARSN	Australian Registered Scheme Number.
ASIC	Australian Securities and Investments Commission.
Assets	The assets of Arena REIT, including the Properties of Arena REIT.
ASX	ASX Limited ACN 008 624 691, the Australian Securities Exchange, or the market operated by it, as the context requires.
ASX Guidelines	ASX Corporate Governance Principles and Recommendations (amended 2010).
ATO	Australian Taxation Office.
Audit Committee	The committee established by ARL to oversee the integrity of New ARF's financial reporting, internal financial controls, financial procedures and policies and the independence of external auditors as described in Section 10.7(b).
BSH JV	The wholesale unincorporated joint venture known as BSH Joint Venture.
Business Day	A day other than a public holiday in Melbourne, a Saturday or Sunday.
Capital Distribution	The capital distribution to Investors as part of the implementation of Internalisation Proposal in order to fund the issue of New ARL Shares.
CISL	Citrus Investment Services Pty Limited ACN 154 326 084.
Citrus II	Citrus II Investments Pty Ltd ACN 154 325 596.
Corporations Act	<i>Corporations Act 2001</i> (Cth) and all regulations made pursuant to that Act.
Directors	The directors of ARL.
Existing Stapled Security	The combination of an ARF1 unit with an ARF2 unit.

Term	Definition
<b>Explanatory Memorandum or EM</b>	The notice of meeting and explanatory memorandum relating to the Meeting of Investors to consider and, if thought fit, approve the Resolutions.
<b>Financial Information</b>	The financial information described in Section 8.
<b>Foreign Investor</b>	An Investor who is not an Australian or New Zealand resident.
<b>FY14</b>	The financial year ended 30 June 2014.
<b>FY15</b>	The financial year ended 30 June 2015.
<b>GST</b>	Goods and Services Tax.
<b>Implementation Date</b>	Expected to be Friday, 12 December 2014.
<b>Independent Board Committee</b>	The independent board committee established by the AIML Board comprising only of the Independent Directors.
<b>Independent Director</b>	An independent director of ARL or ARML (as the context requires), namely: David Ross, Simon Parsons and Dennis Wildenburg.
<b>Internalisation Proposal</b>	A proposal to staple each unit in ARF1 to each unit in ARF2 to each share in ARL to form a New ARF listed on ASX.
<b>Investor</b>	A person who holds Existing Stapled Securities or New Stapled Securities.
<b>Listing</b>	The listing of New ARF on ASX.
<b>Listing Rules</b>	The official listing rules of ASX from time to time as modified by any express written confirmation, waiver, or exemption given by ASX.
<b>LTI Plan</b>	The New ARF long-term incentive plan described in Sections 8.12 and 8.13 of the EM.
<b>Meeting</b>	The meeting of Investors to be held to vote on whether or not to implement the Internalisation Proposal.
<b>MSREF VII Global</b>	The investment platform sponsored and managed by Morgan Stanley Real Estate Investing which owns AIML via a series of interposed investment vehicles.
<b>New ARF</b>	The combined group listed on ASX under the code 'ARF' which will operate following the stapling of ARF1 units with ARF2 units with ARL shares.
<b>New ARL Shares</b>	A new fully paid ordinary ARL share to be distributed under this Prospectus.
<b>New Stapled Security</b>	The combination of an ARF1 unit with an ARF2 unit with an ARL share.
<b>PHC Syndicate</b>	The wholesale unincorporated joint venture known as PHC Darlinghurst Syndicate and related unit trust known as PHC Darlinghurst Trust.
<b>Privacy Act</b>	<i>Privacy Act 1988 (Cth).</i>
<b>Pro Forma Balance Sheet</b>	Has the meaning given in Section 8.
<b>Properties</b>	The properties held directly by each of ARF1 and ARF2.
<b>Prospectus</b>	This prospectus dated 4 November 2014.
<b>Registry</b>	Boardroom Pty Limited ACN 003 209 836.
<b>Resolutions</b>	The resolutions referred to in the Explanatory Memorandum as being required to be approved by Investors at the Meeting in order to implement the Internalisation Proposal.
<b>Resourcing Deed</b>	The resourcing deed summarised in Part 3 of Annexure A of the Explanatory Memorandum.

Term	Definition
Sale Facility	The sale facility referred to in Section 4.14 of the EM relating to Foreign Investors.
Sale Nominee	The nominee for the sale of the entitlement to New Stapled Securities of Foreign Investors described in Section 4.14 of the EM.
Stapling Commencement Date	The date determined by ARL to be the day on which ARF1 units, ARF2 units and ARL shares will become stapled, currently expected to be Thursday, 11 December 2014.
Stapling Deed	The Stapling Deed described in Part 7 of Annexure A of the Explanatory Memorandum.
Stapling Record Date	Expected to be Thursday, 11 December 2014.
Stapled Securityholder	A holder of a New Stapled Security.
Syndicates	BSH JV and PHC Syndicate.
TFN	Tax file number.
Trust	Each of ARF1 and ARF2 (collectively, <b>Trusts</b> ).

## Notes

# Prospectus



# Corporate directory

## Responsible Entity

### **Arena Investment Management Limited**

ABN 23 077 235 879; AFSL 233190

### **Registered office**

71 Flinders Lane  
Melbourne VIC 3000

## Board of Directors of Arena REIT Limited

David Ross (Non-Executive Chairman)  
Dennis Wildenburg (Non-Executive Director)  
Simon Parsons (Non-Executive Director)  
Bryce Mitchelson (Managing Director)

### **Registered office**

71 Flinders Lane  
Melbourne VIC 3000

## Arena Investor Services

Telephone: 1800 008 494

Email: [info@arenainvest.com.au](mailto:info@arenainvest.com.au)

## Board of Directors of AIML

David Ross (Non-Executive Chairman)  
Dennis Wildenburg (Non-Executive Director)  
Simon Parsons (Non-Executive Director)  
James Goodwin (Joint Managing Director)  
Bryce Mitchelson (Joint Managing Director)

## Registry

### **Boardroom Pty Limited**

ABN 14 003 209 836

Level 8, 446 Collins Street  
Melbourne VIC 3000

## Independent Expert

### **KPMG Corporate Finance**

A division of KPMG Financial Advisory Services  
(Australia) Pty Ltd

10 Shelley Street  
Sydney NSW 2000

## Taxation Advisor

### **PricewaterhouseCoopers**

Freshwater Place, 2 Southbank Boulevard  
Southbank VIC 3006

## Legal Advisor

### **Hall & Wilcox**

Level 30, 600 Bourke Street  
Melbourne VIC 3000



Arena Investment Management Limited ABN 23 077 235 879 AFSL No. 233190

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