360 Capital Group

25 February 2015

360 CAPITAL GROUP (TGP)
HY15 FINANCIAL RESULTS
PLATFORM IN GROWTH PHASE DRIVING RECORD PROFIT &
UPGRADED FY15 OPERATING EARNINGS GUIDANCE

360 Capital Group (ASX code: TGP) (Group or 360 Capital) is pleased to announce its financial results for the six months ending 31 December 2014.

Over the period, the 360 Capital management team has concentrated on implementing our business plan, completing the majority of the key transactions identified at our previous results as well as other opportunities which have arisen during this period.

The Group's investment philosophy is now focused on two key business areas:

- Funds management
- Co-investment in managed funds

The Group contracted during the period to sell its last remaining direct property asset at Hurstville which now enables the Group to focus on being a pure fund manager with co-investments in the funds it manages.

Group key achievements over the past six months:

- Accelerated Group strategy of becoming pure fund manager and co-investor by opportunistically exchanging contracts to sell Hurstville for $47.0 million (22% premium to book)
- Completed 360 Capital Diversified Property Fund takeover
- Completed $75.0 million, unsecured, five year corporate bond issue
- Repaid all Group bank debt with $19.5 million facility available to redraw
- Launched 360 Capital AREIT Fund and property securities business
- Strategic $27.1 million investment in Australian Industrial REIT (ASX: ANI) becoming its largest unitholder
- Exchanged contracts over two shopping centres purchased for $69.6 million for the new, unlisted, 360 Capital Retail Fund No. 1
- Purchased further 3% of 360 Capital Office Fund (ASX: TOF) at substantial discount to NTA per unit
- Crystallised $4.1 million in unlisted trust exit fees
- Settled Goulburn asset disposal for $4.3 million.
- 360 Capital Total Return Fund capital raising launched

ASX Release

Managed funds key achievements over past six months continue to drive Group returns through our co-investment

- 360 Capital Industrial Fund (ASX:TIX): $61.0 million equity raising, $12.0 million in DRP proceeds to acquire $155.3[1] million of quality assets
- TIX: upgraded FY15 DPU forecast by 4.2% to 20.0cpu, upgraded FY15 EPU to 21.2 cpu
- TIX: announced takeover proposal for the $320.0 million ANI
- TOF: disposed of Burwood asset for $80.0 million, $15.0 million above book value
- TOF: purchased 576 Swan St, Richmond, Victoria for $46.5 million
- TOF: commenced buyback of up to 15% of its issued units
- 360 Capital 111 St Georges Terrace Property Trust unitholders approved Trust extension to 2022 and crystallisation of $3.4 million exit fee; Group co-investment now 44.2%
- 360 Capital Subiaco Square Shopping Centre Property Trust unitholders approved Trust extension to 2020 and crystallisation of $0.7 million exit fee; Group co-investment now 39.8%

HY15 financial results highlights

The key financial highlights for the half year ended 31 December 2014 include:

- Statutory net profit of $21.9 million, up 43.1% on $15.3 million in the prior corresponding period (pcp)
- Operating profit of $7.0 million up 20.7% on $5.8 million in pcp
- Operating earnings (including Active Earnings) of $17.1 million up 66.0% on $10.3 million in pcp
- Statutory Basic EPS of 9.7 cps
- Operating EPS of 3.1cps, slightly ahead of forecasts
- Operating EPS (including Active Earnings) of 7.1 cps up 6.0% from 6.7 cps in pcp
- DPS of 2.7915 cps up 11.6% on 2.5 cps in pcp and reflecting a payout ratio of 90% of base earnings
- Net assets increased to $164.0 million from $142.6 million in six months
- NTA per Security up 9.0 cps or 14.8% in six months
- 31 December 2014 closing trading price of $1.05 per share up 33.8% in six months
- Significantly outperformed S&P/ASX300 AREIT Accumulation Index with 37.3% total return over last six months
- Group's market capitalisation increased to $261.1 million from $195.2 million in six months

[1] Includes the acquisition of 136 Zillmere Road, Boondall QLD which exchanged on 17 December 2014 and settled on 16 January 2015

360 Capital Group

Growth expected from solid $1.11 billion platform of listed and unlisted funds following rationalisation

Over the past six months, the Group has rationalised the number of funds and trusts in the platform by completing a takeover of the minority interests in 360 Capital Diversified Property Fund (Diversified Fund) providing full liquidity to the fund unitholders and simplifying the Group's corporate structure whereby all co-investment in the Group are now held directly by the Group.

Further rationalisation was achieved in the 360 Capital Canberra Trust (Canberra Trust) with unitholders agreeing with 360 Capital's recommendation to wind up the trust and the trust has unconditionally exchanged contracts for the sale of its asset.

The Group has now completed the rationalisation of funds in the platform and has provided all unitholders within the platform with the opportunity to exit their investment either through:

- ASX listing (360 Capital Office Fund (ASX Code: TOF) and 360 Capital Industrial Fund (ASX Code: TIX),
- winding up (Canberra Trust, various development funds, etc.) or
- providing liquidity facilities (360 Capital 111 St Georges Terrace Property Trust (111 StGeorges Terrace Trust) and 360 Capital Subiaco Square Shopping Centre Property Trust (Subiaco Trust).

For the six months to December 2014, the Group increased funds under management (FUM) from $1.08 billion to $1.11 billion. FUM growth was relatively moderate as a result of the completion of the Office Fund's opportunistic disposal of its Burwood office asset at a significant premium to its previously reported book value.

The Group's funds management division generated recurring revenue of $3.0 million, up from $1.9 million in the pcp. After allocated operating expenses and tax the funds management division made a profit of $0.6 million, up from break even in the pcp.

Listed Funds

The Group manages two ASX listed Funds. Unitholders in CVC Property Fund (ASX: CJT) voted 99.9% in favour of 360 Capital taking over management. Current FUM across these three funds was $783.7 million up from $756.7 million six months ago.

360 Capital Industrial Fund

The 360 Capital Industrial Fund (ASX:TIX) was particularly active over the last six months, raising a total of $73.0 million in equity and acquiring a total of $130.3 million during the period with a further acquisition of $25.0 million post period end.

On 19 December 2014, TIX made a takeover offer for ANI, a $320 million ASX listed industrial fund which is also externally managed and has a very similar mandate to TIX. The Group is the largest unitholder in ANI and if TIX is successful and ANI becomes wholly owned by TIX, TIX's gross assets are expected to increase to approximately $850.0 million.

Other opportunities for TIX are emerging as larger AREITs focus on above $50.0 million assets and private investors focus on the sub $10.0 million range. By focusing on the market between $10.0 million and $50 million and utilising its lower cost of capital given the current unit trading price and lower borrowing costs, TIX is in a strong position to continue to grow its EPU and DPU through acquisitions.

TIX remains well supported by investors with its last capital raising multiple times oversubscribed. It has provided investors with an 83.3% total return since listing two years ago.

ASX Release

360 Capital Office Fund

The 360 Capital Office Fund (ASX:TOF) delivered on its IPO promise to take advantage of the buoyancy in the Sydney residential market capturing the development upside from opportunistically disposing of its Burwood property. The 26 year old property was sold for $80.0 million, $15.0 million in excess of its December 2013 book value, with proceeds used to retire the majority of TOFs borrowings. Post period, TOF settled the acquisition of a two year old property in Richmond, Victoria for $46.5 million redeploying proceeds from the Burwood sale.

TOF has a mandate to invest in A-grade suburban assets and B-grade CBD assets, a market characterised by depth and few competitors. TOF's gross assets are approximately $220.0 million which it is seeking to continue to grow while growing EPU and DPU.

The market has re-rated TOF post period, with it trading up to around $2.20 on the ASX and being well supported by investors seeking regular and attractive income from a modern office portfolio. Coupled with its low cost of borrowings, TOF is in a strong position to continue to grow its asset base and has a focus to be included in the S&P/ASX300 AREIT Index over the next year.

360 Capital Total Return Fund

On 21 January 2015, 99.9% of unitholders in CVC Property Fund, a small AREIT (ASX:CJT), voted to change the mandate of the fund to a total return base mandate and appoint 360 Capital as the responsible entity. The fund is currently undertaking a capital raising of up to $50.0 million, which is expected to close at the end of March 2015 and increase the gross assets of the fund to approximately $75.0 million.

360 Capital will be entitled to ongoing base management fees of 0.65% of gross assets, acquisition and disposal fees and a performance fee of 20% above a 12% total return.

Unlisted Funds

Within its unlisted funds division the Group has focused on maximising portfolio value and returns for unitholders as well as rationalising non-core funds.

The Group now has four core single asset unlisted funds from its original suite with a total gross asset value of $221.1 million following significant rationalisation of the unlisted fund portfolio.

On 13 August 2014, the Group made an offer to all of the unitholders in the Diversified Fund to purchase all of the units the Group did not already own at $0.25 per unit for total consideration of $21.2 million. This transaction was structured as a scheme of arrangement. Diversified Fund unitholders approved the proposal on 8 September 2014 and the Diversified Fund is now a wholly owned subsidiary of the Group.

As a result of significant leasing success at 44 Sydney Avenue, Canberra, the responsible entity recommended Canberra Trust unitholders approve the wind up the Trust which was subsequently provided at the meeting on 25 August 2014. The property has now been unconditionally exchanged and the trust will be wound up as soon as practicable.

The Group had $5.1 million in accrued exit fees at 30 June 2014 within its unlisted funds division, a receivable which had provided a consistent income return.

On 2 October 2014, unitholders of the Subiaco Trust voted overwhelmingly to extend the trust's term until 2020 and allow 360 Capital to crystalise and reset accrued exit fees of approximately $0.7 million.

On 11 December 2014, unitholders of the 111 St Georges Trust voted overwhelmingly to extend the trust's term until 2022 and allow 360 Capital to crystalise and reset accrued exit fees of approximately $3.4 million.

At 31 December 2014, the Group had $0.9 million in accrued exit fees remaining in the four core unlisted funds.

New Unlisted Funds

On 22 July 2014, the Group launched the 360 Capital AREIT Fund (AREIT Fund), a property securities fund managed by Damian Diamantopoulos as Head of Property Securities. Damian has over 12 years' experience as a property securities manager and is responsible for growing the property securities business from the Group's Melbourne office. The AREIT Fund has outperformed the S&P/ASX300 Accumulation Index since inception generating a total return of 17.5% to date compared to 15.6% from the Index. The AREIT Fund is currently obtaining independent research and seeking inclusion on several wrap platforms.

On 24 December 2014, the Group established the 360 Capital Retail Fund No. 1 (Retail Fund), an unlisted closed ended fund for retail investors. The Retail Fund entered into contracts to purchase two shopping centres for a combined purchase price of $69.6 million. Since entering into the contracts, one of the major tenants at the subregional centre in Queensland under contract agreed to a new 10 year lease. The other property in the portfolio, Windsor Marketplace, Sydney is anchored by Woolworths on a long lease until 2033.

The Retail Fund will undertake a $43.0 million capital raising, underwritten by 360 Capital Group, and has until 30 June 2015 in which to settle the properties.

The Group will receive an acquisition fee of approximately $1.7 million, an underwriting fee of $1.3 million, ongoing management fees of approximately $0.4 million p.a. and disposal and potential performance fees upon sale of the properties after seven years. The Retail Fund will provide monthly distributions to unitholders based on a forecast FY16 8.0% distribution yield.

360 Capital expects unlisted funds will be a growth part of the business going forward due to the low interest rate environment and investor demand for reliable and attractive yield. Following the rationalisation of its unlisted funds business, 360 Capital will focus on rolling out new unlisted closed ended funds regularly based on the Retail Fund's template.

The Group is focused on becoming one of the top five providers of unlisted property funds in Australia and as such intends to grow this business aggressively.

Co-investments in managed funds

As mentioned above, the Group made an offer to unitholders in the Diversified Fund to purchase all units the Group did not already own. This provided long sought-after liquidity for Diversified Fund unitholders with the Diversified Fund now a wholly owned subsidiary of the Group, significantly boosting the Group's co-investments. As a result of this transaction, the Group booked an uplift of $5.5 million recognised directly in retained earnings (meaning it did not go through the profit and loss) and boosting the Group's NTA by 2.2cps.

Following the Group's purchase of the Diversified Fund in September 2014, all co-investments are now directly owned by the Group. At 31 December 2014, the Group had total co-investments investments in its managed funds of $177.3 million, up from $101.3 million in 30 June 2014.

The Group has $108.9 million of core co-investments in ASX listed entities comprising:

- $44.9 million or a 29.7% investment in TOF
- $36.8 million or a 12.0% investment in TIX
- $27.2 million or a 12.9% investment in ANI

TIX has made a formal takeover offer for ANI. If this takeover offer proceeds and the Group accepts TIX units as consideration (based on the current proposal), the Group would have a co-investment in the $850.0 million combined entity of approximately 12.2%.

The Group has total co-investments of $68.4 million in unlisted funds including seed capital for the new Retail Fund. These co-investments are considered shorter term investments, many of which could provide recyclable capital for the Group as follows:

- $16.5 million stake in Centuria managed funds has provided suboptimal income returns to the Group. As a result the Group initiated a successful wind up strategy during the period to return unitholders' capital predominately in FY15, with the balance in FY16
- $45.9 million (excluding Canberra Trust) invested in 360 Capital managed unlisted funds, approximately 2/3 of which is the Group's 44.2% interest in 111 St Georges Terrace Trust. 360 Capital is reviewing options to recycle this capital back into the Group over the next 12-18 months.
- $3.9 million invested in the recently formed Retail Fund to enable the Retail Fund to pay the deposits on the two properties it exchanged on. The Group has committed a total of $43.0 million in equity for the Retail Fund on a short term basis through an underwriting agreement; however the Group expects to sell down most if not all of this raising prior to settlement of the properties.

The Group's co-investment in unlisted funds was boosted during the period after the Group provided liquidity facilities to the 111 St Georges Terrace Trust and Subiaco Trust, as well as converting a total of $4.1 million of exit fees in these two funds to fund units.

The Group's co-investments contributed $5.8 million in net operating profit to the Group during the six months to December 2014. Furthermore, as a result of the takeover of the Diversified Fund, the Group classified the uplift in equity (above) of $5.5 million and the bargain gain on Subiaco Trust acquisition of $0.3 million as Active Earnings. Operating profit from co-investments, represented a 9.1% annualised income return on capital invested (before capital growth).

The Group also benefited from a further $8.4 million in fair value gains from the uplift in value of the various co-investments during the period.

The total return including operating profit, uplifts in values and the uplift in retained earnings from the Group's co-investments totalled $20.0 million, representing a return of capital of 32% annualised for the six months.

The Group will continue to allocate capital to its listed co-investments as appropriate, and will look to continue to allocate capital in the form of underwriting new unlisted funds launched by the Group.

Hurstville Sale

On 30 October 2014, the Group exchanged unconditional contracts to dispose of its last remaining direct asset at 20 Woniora Road, Hurstville, NSW for a gross sale price of $47.0 million. The sale price represents a 22.0% premium to the previous carrying value of the asset of $38.5 million.

Under the contract, the purchaser will also lease the entire building from the expiry of the ATO lease in February 2015 until settlement on 30 September 2015, with the sale price to be reduced by any rental payments under the lease.

HY15 net profit from direct asset investment was $3.2 million, down 7.3% on pcp reflecting the Group's reduced exposure to direct assets following disposals. The Group also recorded a profit on sale of the Hurstville asset of $4.8 million during the period as a result of the gain on sale (excluding lease payments under the sale contract). This amount has been recorded as Active Earnings.

Capital management- recycling capital key to capital light strategy and above market EPS growth

The Group issued a total of $75.0 million in unsecured, subordinated, corporate bonds during the period with a fixed term of 5 years to help fund the Group's growth. Proceeds from the bond issue have been fully deployed as follows:

Application of Funds	**$m**
Takeover of Diversified Fund	21.2
Strategic investment in ANI	27.1
Repay all Group bank borrowings	15.8
Acquisition of TOF units	4.8
Seed capital (deposit) for new Retail Fund	3.9
Acquisition of Subiaco Trust units	0.3
Bond issue costs	1.9
Total	**75.0**

As at 31 December 2014, the Group's balance sheet was geared to 26.0% with a look through gearing of 44.0%. Under the bond covenants, the Group must maintain look through gearing of less than 55%.

Of the Group's $14.5 million in cash as at 31 December 2014, $9.1 million is available for investment and the balance for AFSL purposes.

The Group has an undrawn senior debt facility with approximately of $19.5 million available and is expecting to receive $10.0 million to $15.0 million from the wind up of unlisted funds following assets sales in the next six months (Centuria managed funds and Canberra Trust).

Furthermore, the settlement of Hurstville will provide a further approximately $39.0 million of cash in September 2015 over and above rent and deposits taken from the sale already.

As outlined above under co-investments, the Group is investigating options to recycle part of its $45.9 million in co-investments in 360 Capital managed unlisted funds over the next 12-18 months.

In summary, over the next 18 months the Group is expected to have access to cash reserves of more than $100.0 million, providing significant capital to continue to grow the Group and maintain its capital light strategy.

360 Capital Group

Financial results

Statutory results

The Group's statutory net profit attributable to Securityholders for the half year ended 31 December 2014 was $21.9 million, equating to 9.7 cps, reflecting a 43.1% increase compared to the profit of $15.3 million in the pcp. The statutory net profit for the period was primarily driven by a full six months profit contribution resulting from acquisition of the 360 Capital Property Group which occurred on 2 October 2013 in the prior period. Distribution revenue also increased as a result of acquisitions of co-investments funded by redeployment of Group capital and from corporate bond proceeds.

The Group also recognised $19.3 million of other income during the half including fair value gains across the Group's listed and unlisted investments and the one-off gain from the fair value uplift following the exchange of contracts for sale for the disposal of the Group's Hurstville property.

The Group's statutory balance sheet as at 31 December 2014 had gross assets of $405.9 million reflecting an increase of $77.1 million from 30 June 2014. Current assets have increased to $75.2 million reflecting the reclassification of the Group's Hurstville property to assets held for sale. The Group's financial assets fair valued through the profit and loss increased in total by $38.2 million to $131.1 million which included the investment of $27.1 million in ANI units.

Total borrowings at 31 December 2014 increased to $167.8 million primarily as a result of the Group's $75.0 million unsecured note issuance in September 2014.

Segment results

Group operating profit for the half year ended 31 December 2014 was $7.0 million, equating to 3.1cpu, a 20.7% increase on the profit of $5.8 million for the pcp. The result reflects the full six months operating profit contribution resulting from the acquisition of 360 Capital Property Group in the prior period combined with distribution revenue growth driven by from significant additional capital invested in listed and unlisted co-investments.

In addition to operating earnings, the Group continues to monitor the "Active Earnings" contribution (representing capital deployed into repositioning and trading opportunities) and also the fair value movements. Both of these contribute to the Group's overall returns and were created by the Group's ability to actively generate earnings from its capital deployed and enhance the value of its investments.

Operating earnings (including Active Earnings) combined to contribute $17.1 million or 7.1 cpu, to the overall Group returns, an increase of 66% on the prior period of $10.3 million. The two main contributors to Active Earnings for the period were an uplift of from the Hurstville investment property contracted for sale during the period of $4.8 million (excluding the deferred rent receivable component) and the value uplift of $5.5 million from the acquisition of the minority interest in the Diversified Fund (recognised directly in equity). The balance of Active Earnings for the period comprised employee Security based payments and the bargain gain on Subiaco Trust acquisitions.

The Group's total segment assets increased by over $77.6 million to $251.5 million primarily driven by co-investment activities including fair value uplifts combined with further acquisitions in managed funds and the acquisition of ANI units during the period. The Group's net assets increased by $21.4 million further strengthening the Group's net asset backing.

ASX Release

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ASX Release

Summary and Outlook

The Group has now implemented its business plan to become a pure funds management and co-investor group, with the disposal of the Hurstville investment property contracted and due to settle in September 2015.

The Group will continue to maintain its "capital light" strategy, opting to grow earnings and distributions per security in excess of its peers from a tight capital base.

Although significant variability to earnings remains, the Group now has sustainable and very visible earnings from its funds management division (through recurring management fees and other associated fees), through its co investments (from its income distributions), coupled with the structured contract on the Hurstville disposal.

The majority of "Active Earnings" identified for FY15 have already been transacted or realised. Variability therefore relates to potential upside from identified opportunities in the second half of 2015, namely the Group's ability to:

- rollout and grow further funds
- organically grow existing funds, coupled with existing assets continuing to appreciate within the current market environment
- continue to recycle capital into higher ROE investments

The Group is forecasting **"Base Operating Earnings" of 6.4 cps for FY15**, up from previous guidance of 6.0 cps and assuming no further growth in FUM.

Although the "Active Earnings" occurred in the first half of FY15, the Group is forecasts **Operating Earnings (Including Active Earnings) of 11.0 cps for FY15**, (assuming no further Active Earnings for the balance of FY15).

Furthermore, although the NTA per Security of the Group has increased strongly over the past six months, the majority of the unlisted co-investment have not been revalued as at 31 December 2014 and both TIX and TOF have seen significant unit price appreciation over the past month. If trading prices of the Group's listed co-investments remain at current levels and there is a continued firming of property yields as local and overseas investors continue to chase well-leased, income producing properties, the Group's NTA and statutory earnings are likely to trend higher than current levels.

The Board has elected to maintain **FY15 distributions at 5.75 cps** at this stage.

The Group's key focuses for FY15 are:

- Remain focused on maximising portfolio value within the managed funds in order to maximise investors' returns
- Finalise takeover of ANI by TIX
- Launch and complete the Retail Fund's $43.0 million capital raising and launch other unlisted funds
- Complete capital raising and ASX listing for 360 Capital Total Return Fund and make new acquisitions in line with its new investment strategy
- Continue to purchase modern well leased office assets for TOF and target its inclusion in the S&P/ASX300 AREIT Index over the next 12 months
- Continue to grow TIX on an accretive basis and target S&P/ASX200 AREIT Index inclusion
- Grow AREIT Fund as well as secure other property securities mandates
- Look at a strategy to transition part or all of the Group's unlisted co-investments off balance sheet to enable a recycling of capital the Group's continued growth

- Continue to recycle capital into higher ROE activities to drive Group EPS
- Be prepared for opportunities which may arise, be mindful of where we are in the cycle and continuing to focus on our business plan

Managing Director, Tony Pitt said "It has now been approximately 15 months since the listing of 360 Capital Group and the management team has either completed or contracted all non-core asset sales within the Group and the managed funds platform, wound up non-core funds, and placed the Group in a strong capital position through significant capital recycling to enable the Group to grow.

"The Group and its managed funds have no shortage of potential deal flow, remain nimble with a reputation of growing returns for 8,300 investors in a responsible manner, and the 20 strong management team can now focus on driving the platform forward both organically and through opportunistic transactions."

Mr Pitt continued "The Australian economy has entered an extremely low interest rate environment with some markets face significant headwinds. Demand from investors chasing higher yielding investments such as real estate is now the strongest it has been since the GFC. Coupled with the low interest rate environment (which may last for some time) and a strong AREIT sector, the low cost of capital for investors is providing healthy margins over other investments. We are starting to see some transactions in the marketplace displaying a disconnect between the property fundamentals and investment returns they will generate.

"360 Capital remains focused, disciplined in its investment approach with an unchanged business plan. Our core strengths are investment management within the various Australia real estate markets, having no plans for overseas expansion, broadening the business into development activities or the residential markets, a business plan which has remained unchanged since 360 Capital's inception in 2006."

A TGP investor/analyst briefing teleconference call will be held on 25 February 2014 at 2:00pm Sydney time. To view the webcast of this teleconference on the day, please visit www.360capital.com.au and follow the links to register.

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

Alternatively, please contact:

Tony Pitt
Managing Director
360 Capital Group
+61 2 8405 8860

Tim Spencer
Head of Investor Relations
360 Capital Group
+61 2 8405 8872

About 360 Capital Group (ASX code TGP)

360 Capital Group is an ASX-listed, property investment and funds management group concentrating on strategic investment and active investment management of property assets. The company actively invests in direct property assets, property securities and various corporate real estate acquisitions within Australian real estate markets on a private equity basis. 360 Capital Group's 21 full time staff have significant property, funds and investment management experience. 360 Capital Group manages nine investment vehicles holding assets valued at over $950 million on behalf of over 8,300 investors and has over $134 million worth of co-investments across the 360 Capital Group.