REJECT THE OFFER

AUSTRALIAN
INDUSTRIAL
REIT

Update on 360 Capital Industrial Fund offer for ANI

27 February 2015

Summary

The IBC recommends ANI unitholders reject the Offer

- The Independent Board Committee (**IBC**) recommends that Australian Industrial REIT (**ANI**) unitholders **REJECT** the all-scrip[1] takeover offer from 360 Capital Industrial Fund (**TIX**) (**Offer**) given that:
  - the Offer is not as attractive as your existing investment in ANI
  - the 360 Capital Group management proposition would change the risk profile for ANI unitholders
  - the governance arrangements would be unsatisfactory for ANI unitholders
- Each of ANI's directors intend to **REJECT THE OFFER** in respect of the ANI units they own
- Independent Expert, KPMG Corporate Finance, has concluded that the offer is **neither fair nor reasonable**

Note:
1. Excludes the conditional cash payment of $0.03 per ANI unit which may be paid by 360 Capital Group ("Conditional Cash Payment").

Key reasons to reject the Offer

1. Unsatisfactory financial outcomes for ANI unitholders
2. No compelling or certain premium
3. Change in risk profile on change of management
4. 360 Capital Group has unsatisfactory governance arrangements
5. Independent Expert has concluded the Offer is neither fair nor reasonable
6. The Offer presents significant risks for ANI unitholders
7. Accepting the Offer may deprive ANI unitholders of the opportunity to participate in any superior proposal
8. Accepting the Offer may deprive ANI unitholders of the opportunity to enjoy any future growth of ANI

Key reasons to reject the Offer (continued)

1. Unsatisfactory financial outcomes for ANI unitholders[1]

Financial impact of Offer vs. ANI stand-alone:

Lower forecast EPU[2]

FY15F	FY16F
2.4%	2.9%-7.5%

Lower NTA per unit[3]

4.0%-5.4%

Lower forecast DPU[2]

FY15F	FY16F
1.2%	2.0%-6.6%

Significantly **higher** gearing[3,4]

6%-9%

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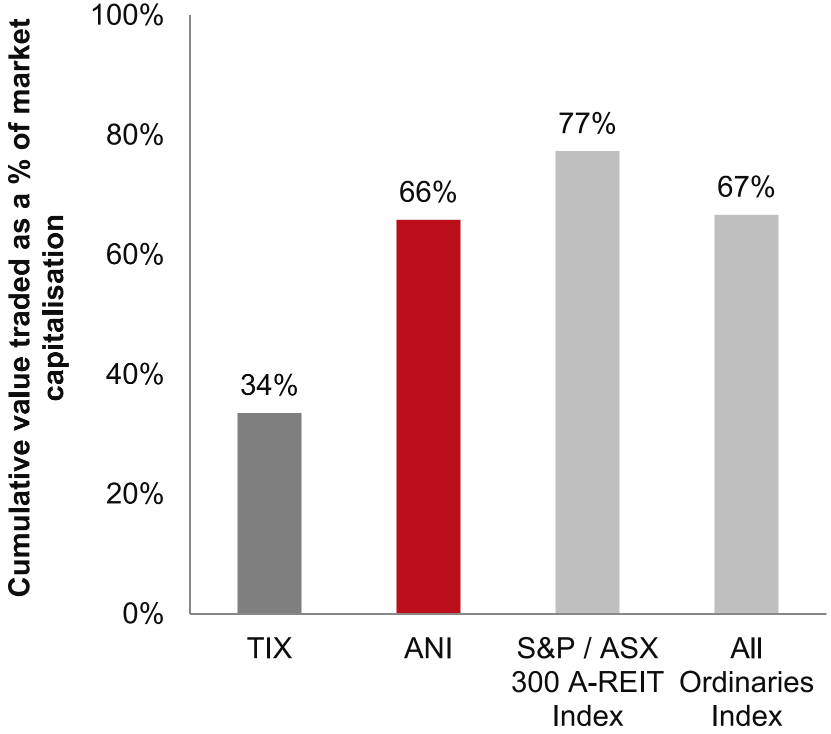
Notes:
1. Refer to Section 7 of the Target's Statement released on 26 February 2015 for further information and key sensitivities.
2. Pro forma impact on distributable earnings and distribution (EPU and DPU, respectively) per equivalent ANI unit, assuming TIX acquires 100% of ANI units. Refer to Appendix further detailed assumptions.
3. Pro forma net tangible assets (NTA) per equivalent ANI unit and gearing for the Combined Group as at 31 December 2014 assuming TIX acquires 100% of ANI units. Refer to Appendix further detailed assumptions.
4. Gearing is calculated based on TIX's definition of gearing: interest bearing liabilities (excluding capitalised borrowing costs) less cash divided by total tangible assets (excluding goodwill) less cash.

Key reasons to reject the Offer (continued)

2. No compelling or certain premium

- **The implied value of the Offer is $2.36 per ANI unit, representing a small premium of 1.6%[1,2]**
- TIX has significantly lower levels of trading liquidity than ANI, the S&P/ASX 300 A-REIT Index and the All Ordinaries Index
  - low relative liquidity in TIX may exacerbate price movements in TIX units and the implied value of the Offer consideration received (100% scrip[2])
  - ANI unitholders who wish to sell TIX units received as consideration may not be able to realise a premium

Trading liquidity – 12 months to 24 February 2015



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Source: IRESS, Datastream

Notes:

1. Implied Offer value of $2.36 per ANI unit is based on the TIX 5 day VWAP as at 24 February 2015 and reflects a premium of 1.6% based on the ANI 5 day VWAP over the same period.
2. Excludes the Conditional Cash Payment of $0.03 per ANI unit.

Key reasons to reject the Offer (continued)

3. Change in risk profile on change of management

		ANI strategy		TIX strategy
Investment criteria	✓	Strict investment criteria, investing only in major metropolitan markets	✗	Majority of TIX properties do not meet ANI's strict investment criteria
Property management	✓ ✓	Fully managed by Fife Capital Group Direct relationship with all ANI tenants	✗	Outsourced to third parties
Portfolio management	✓	Proactively re-lease assets with short WALEs	✗ ✗	Sell assets with short WALEs TIX has sold 7 assets since 2012, with an average WALE of 2.0 years, at a weighted average discount of 12% to last external valuation
Built-to-suit development	✓ ✓	Track record of built-to-suit development Significant current pipeline	✗	Not clear if any asset has been acquired, or will be acquired, pursuant to first right over development assets of Walker Corporation
Capital management	✓ ✓	Gearing policy is 25% to 40% Pro forma gearing as at 31 December 2014 is 35%	✗ ✗	Gearing policy is 35 to 50% Pro forma gearing as at 31 December 2014 is 48%

Key reasons to reject the Offer (continued)

4. 360 Capital Group has unsatisfactory governance arrangements

- **Conflicts between TIX and 360 Capital Group**
  - each of the directors of the responsible entity of TIX are also directors of 360 Capital Group
  - in contrast, the Board of Fife Funds (responsible entity of ANI) comprises a majority of independent directors who have no other directorship roles within Fife Capital Group

- **Conflicts between ANI and TIX with a 360 Capital Group member as responsible entity**
  - TIX proposes seeking to replace Fife Funds as responsible entity of ANI with a 360 Capital Group member even if TIX acquires less than 100% of ANI
  - TIX has not disclosed how it will manage conflicts between ANI and TIX where 360 Capital Group is the manager of two competing ASX listed industrial REITs

Key reasons to reject the Offer (continued)

5. Independent Expert has concluded the Offer is neither fair nor reasonable

The Independent Expert, KPMG Corporate Finance, states in its report:

A “There is either no control premium, or an insufficient control premium, being paid to the ANI unitholders” → "Accordingly, we consider the Offer to be **not fair**"

B “We consider that the disadvantages outweigh the advantages, and that there are no compelling reasons as to why ANI unitholders should accept the Offer” → "Accordingly, we consider the Offer is **not reasonable**"

Key reasons to reject the Offer (continued)

6. The Offer presents significant risks for ANI unitholders

- Offer is not subject to a minimum acceptance condition and TIX will waive all conditions if it receives 30% acceptances
- TIX may require unitholder approval or an ASX Listing Rule waiver to acquire the ANI units held by 360 Capital Group and therefore to acquire 100% of ANI
  - 360 Capital Group has made no statement regarding its intentions whether to accept the Offer
- Significant risks if TIX does not acquire 100% control of ANI
  - TIX may seek to replace Fife Funds as responsible entity of ANI with a member of the 360 Capital Group without acquiring the majority of ANI units
  - ANI unitholders may have to pay capital gains tax if they accept the Offer and TIX acquires less than 80% of ANI
  - TIX may seek to sell its ANI units if it acquires only a minority stake

Key reasons to reject the Offer (continued)

7. Accepting the Offer may deprive ANI unitholders of the opportunity to participate in any superior proposal

8. Accepting the Offer may deprive ANI unitholders of the opportunity to enjoy any future growth of ANI

Appendix

FINANCIAL ASSUMPTIONS

Financial assumptions

EPU and DPU

- Distributable Earnings and distribution dilution per equivalent ANI unit experienced in FY16 will depend on the timing and execution of asset sales that TIX has stated it intends to make following implementation of the Offer
  - upper end of the range reflects no asset sales
  - lower end of the range reflects the full year impact of asset sales
- ANI's Distributable Earnings and distribution per unit guidance for the years ending 30 June 2015 and 30 June 2016 assumes rental income on a property by property basis in accordance with existing leases, all leases are enforceable and performed in accordance with their terms, outgoings forecast on a property by property basis, interest costs taking into account the terms of the debt facility and swap restructure announced on 28 January 2015 and no unforeseen material change in existing economic conditions
- For the purpose of providing pro forma Distributable Earnings of the Combined Group, it is assumed that the calculation of ANI Distributable Earnings and TIX Operating Earnings are materially consistent
- ANI's stand-alone Distributable Earnings guidance of 19.4 cents per unit and distribution guidance of 18.2 cents per unit for the year ending 30 June 2015 (as announced on 28 January 2015) and Distributable Earnings guidance of 20.4 cents per unit and distribution guidance of 19.2 cents per unit for the year ending 30 June 2016 (as announced on 17 February 2015)
- TIX's stand-alone Operating Earnings guidance of 21.2 cents per unit and distribution guidance of 20.0 cents per unit for the year ending 30 June 2015 (as announced on 19 January 2015) and Operating Earnings guidance of 22.0 cents per unit and distribution guidance of 21.0 cents per unit for the year ending 30 June 2016 (as announced on 19 January 2015)
- Acquisition of ANI Units by TIX occurs on 1 July 2014
- TIX appoints 360 Capital RE as the responsible entity of ANI and charges a responsible entity fee of 0.60% of GAV of the Combined Group (including goodwill), consistent with existing fees charged to TIX by 360 Capital RE

Financial assumptions (continued)

EPU and DPU

- TIX appoints 360 Capital RE as custodian of the Combined Group and charges a custodian fee of 0.05% of GAV of the Combined Group (including goodwill), consistent with existing fees charged to TIX by 360 Capital RE and higher than fees charged to ANI by its custodian
- Expenses assume cost synergies are achieved in the Combined Group approximating 0.03% of GAV of the Combined Group (per Bidder's Statement)
- Offer does not trigger any requirement to refinance ANI's existing debt facility and hedge arrangements
- Additional financing costs for the Combined Group are incurred in relation to incremental ANI transaction costs of $1.9 million (above those included in ANI's Distributable Earnings guidance) and TIX transaction costs of $7.1 million associated with the Offer. These costs are funded at an all-in cost of debt for the Combined Group of 4.0% per annum
- Combined Group distribution calculated based on 95% payout ratio of Combined Group Distributable Earnings consistent with the assumed payout ratio in the Bidder's Statement dated 13 February 2015
  - if Combined Group adopts a payout ratio of 94% consistent with ANI forecast payout ratio for the years ending 30 June 2015 and 30 June 2016 the FY16 DPU dilution is between 3.0% - 7.6% (depending on extent and timing of asset sales)
  - if Combined Group adopts a payout ratio of 96.5% consistent with the revised TIX assumption per Supplementary Bidder's Statement dated 23 February 2015 the FY16 DPU dilution is between 0.5% - 5.1% (depending on extent and timing of asset sales)
- Analysis is prior to the reinvestment of the net of tax proceeds from the Conditional Cash Payment of $0.03 per ANI Unit
- Reduction in net property income associated with $47.3 million of asset sales identified by TIX on 1 July 2015, with loss of income based on contracted rental income rather than the initial yield at acquisition of the identified properties as per the Bidder's Statement. TIX has assumed that the assets are disposed on 31 March 2016. However, the Independent Board Committee believes that the effect of these asset sales should be annualised to illustrate the full year impact
- Reduction in finance costs relating to asset sales resulting from the repayment of debt, with interest savings calculated at ANI's marginal borrowing cost of 3.9% per annum

Financial assumptions (continued)

NTA and gearing

- ANI NTA and gearing pro forma for events post 31 December 2014 as if they had occurred at 31 December 2014:
  - Restructure of ANI's interest rate swaps and draw down of debt to fund one-off costs associated with the restructure as announced on 28 January 2015
- TIX NTA and gearing pro forma for events post 31 December 2014 as if they had occurred at 31 December 2014, as prepared by TIX and disclosed in the Bidder's Statement
- TIX acquires 100% of ANI Units and consolidates ANI as a business combination (in accordance with Australian Accounting Standards)
- The Offer completes on 31 December 2014
- The NTA per unit dilution experienced by ANI unitholders has been considered in conjunction with the Conditional Cash Payment
  - upper end of the range includes the Conditional Cash Payment, and the lower end of the range excludes the Conditional Cash Payment
- NTA per unit dilution assumes that TIX is able to realise book value as at 31 December 2014 for TIX proposed ANI asset sales
- Actual gearing will depend on the extent of ANI asset sales that TIX has stated that it intends to make
- Draw down of debt facilities to fund total transaction costs associated with the Offer of $11.5 million, comprised of TIX stamp duty and consultant fees of $7.1 million (per Bidder's Statement) and ANI consultant fees of $4.4 million
- The issuance of 85.7 million TIX units for the acquisition of 100% of ANI units on issue in accordance with the Offer

Contact details

For further information please contact:

Rod Pearse
Independent Chairman
Fife Capital Funds Limited

Telephone: +61 2 9251 2777
Website: www.aireit.com.au

Keir Barnes
Chief Financial Officer & Company Secretary
Fife Capital Funds Limited

Telephone: +61 2 9251 2777
Website: www.aireit.com.au

ANI unitholder information line

ANI has established a unitholder information line which ANI unitholders should call if they have any queries in relation to the Offer. The telephone number for the unitholder information line is:

- 1300 730 659 (Toll Free for calls within Australia); or
- +61 1300 730 659 (for callers outside Australia),

which is available Monday to Friday between 8.30am and 5.30pm (Sydney time).

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Given that the consideration offered under the Offer is in the form of TIX units, the implied value of the Offer will vary with the ASX trading price of TIX units. Further information on the implied value of the Offer is contained in the Target's Statement.

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