



02 October 2018

Dear Investor,

Re: CPF2L Independent Board Committee Rejects Propertylink Proposal

On behalf of the Independent Board Committee¹ (**IBC**) of Centuria Property Funds No. 2 Limited (CPF2L), as Responsible Entity of Centuria Industrial REIT (ASX:**CIP**), I wanted to write to you directly regarding our decision to reject the unsolicited, indicative, non-binding and conditional proposal from Propertylink Group (**PLG**) to acquire all outstanding CIP units by way of an off-market takeover offer (**Proposal**).

The Proposal is comprised of 2.5327 PLG stapled securities (~90% of consideration) and \$0.33 cash (~10% of consideration) per CIP unit, valuing CIP units at \$3.04 per unit based on PLG's close price on 12 September 2018.

As detailed in our ASX announcement on 2 October 2018, the IBC conducted a detailed analysis of the Proposal with its advisers and unanimously believes that the current terms offered to CIP unitholders are not sufficiently beneficial to CIP unitholders to warrant:

- granting exclusivity to PLG;
- granting due diligence to PLG;
- entering into a Bid Implementation Agreement with PLG; or
- a recommendation from the IBC in relation to the Proposal.

¹ As announced on 13 September 2018, CPF2L has formed an Independent Board Committee (**IBC**) to consider the Proposal, with Matthew Hardy as the Chairman. Governance protocols and procedures have been adopted by the IBC in order that CPF2L's consideration of the Proposal, in its capacity as responsible entity of CIP, is undertaken independently of Centuria Capital Group.



This decision was made after careful consideration and detailed analysis of the fair value of CIP and PLG based on available information and the risks that would accrue to CIP unitholders given the consideration of the Proposal largely being PLG stapled securities.

In reaching its decision, the IBC also considered the material uncertainty surrounding PLG, which itself is the subject of a non-binding, indicative proposal from ESR Real Estate (Australia) Pty Ltd (**ESR**), under which ESR are seeking to acquire PLG (**ESR Proposal**). The ESR group holds a 19.89% relevant interest in PLG and relevantly, ESR's Proposal is conditional upon PLG not proceeding with the Proposal for CIP.

Additionally, Centuria Capital Group (CNI), which holds a 11.38% in PLG and is also CIP's largest unitholder, has publicly stated that "*CNI currently holds 22.9% of CIP units and, whilst it reserves its rights to change its intention, it is CNI's current intention not to accept into the Proposal.*"²

The IBC firmly believes it is not in the best interest of CIP unitholders to engage further on the Proposal. Its determination is supported by the following rationale:

- The nature of the consideration (comprising 90% stapled securities in PLG) exposes CIP unitholders to considerable uncertainty and reliance on the future value of PLG stapled securities;
- Prior to corporate activity commencing in September 2017, PLG stapled securities did not trade above the IPO issue price and traded at an average premium to net tangible assets of approximately 0%;
- The headline premium that PLG stated in its Proposal is inflated due to potential corporate activity within PLG;
- The ESR Proposal has created material uncertainty regarding the future of PLG and also increased the PLG security price in circumstances where the IBC does not consider the increase would be sustained if the ESR Proposal was to not proceed;
- The current terms of the Proposal do not reflect the fundamental value of CIP's underlying portfolio, let alone allow for an appropriate premium for control of CIP;
- The Proposal will change the fundamental nature of a CIP unitholder's investment from being a 100% Australian industrial rent collecting REIT to include exposure to a funds management platform with the potential for increased volatility in earnings and the potential future loss of mandates; and
- The Proposal contemplates a material increase in CIP's leverage and is likely to reduce the stable and positive earnings growth profile of CIP as a standalone entity. The IBC notes that in its attempt to pursue the Proposal, PLG has increased its gearing to over 47%, funded via short term debt.

² Refer ASX announcement from CNI on 20 September 2018 titled "Seeking to change the Board of Propertylink Group".



If you would like further information regarding the decision to reject the Proposal, please contact Ross Lees on 02 8923 8923 or via email: ross.lees@centuria.com.au.

In the event you receive communication from Propertylink directly concerning the Proposal, we advise you to take no action with respect to your holding in CIP.

We will continue to work hard to maximise value for all CIP unitholders and undertake to continue to communicate with you should this situation evolve.

Thank you for your ongoing support.

Yours faithfully

A handwritten signature in black ink, appearing to be "MH" or similar, written in a cursive style.

Matthew Hardy
Chairman of the IBC
CPF2L as the Responsible Entity of Centuria Industrial REIT