

Investa Office Fund Independent Board Committee Presentation



Proposal for DEXUS Property Group to acquire all of the IOF Units

The background of the slide is a photograph of a modern building at night, with its glass facade reflecting the city lights. In the foreground, there is a bus stop with several people waiting. The image is overlaid with a dark blue semi-transparent rectangle on the right side, which contains the IOF logo and the date.

IOF

9 March 2016

Disclaimer

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This document contains a summary of information included in the Notice of Meeting and Explanatory Memorandum (EM) dated 9 March 2016, and accordingly no reliance may be placed for any purpose whatsoever on the sufficiency or completeness of such information. You are encouraged to read the EM in its entirety and if you have any questions about the Proposal to call the IOF Unitholder Information Line on 1300 308 902 (callers within Australia) or on + 61 2 9098 9228 (callers from outside Australia) at any time from 8.30am to 5.30pm (Sydney time) Monday to Friday.

Defined terms in this document have the same meaning as in the EM.

Introduction

The Independent Board Committee has unanimously recommended that IOF Unitholders vote in favour of the DEXUS Proposal, in the absence of a Superior Proposal

- > The Independent Board Committee (IBC) determined the DEXUS Proposal to be in the best interest of IOF Unitholders and superior to all options considered under the strategic review, having regard to in particular:
 - **governance structure and conflicts:** the Merged Group will form one of Australia's pre-eminent internally-managed office property groups, and for IOF Unitholders, provides the opportunity to transition to internal management, a governance structure that has been adopted by IOF's listed peer group;
 - **value proposition:** the DEXUS Proposal delivers IOF Unitholders annualised FY16 FFO accretion of 17.5%* per IOF Unit, significant diversification and scale benefits, and exposure to additional revenue streams with enhanced growth opportunities within the DEXUS business;
 - **management platform:** the DEXUS platform provides a highly capable management proposition for IOF Unitholders, with a strong track record of operational performance in commercial real estate;
- > Independent Expert, KPMG Corporate Finance, has concluded the DEXUS Proposal is fair and reasonable to, and in best interests of, IOF Unitholders in the absence of a superior proposal
- > Notice of Meeting and Explanatory Memorandum dated 9 March 2016 in relation to the DEXUS Proposal has been released to ASX.
- > IOF Unitholder meeting to consider the DEXUS Proposal has been convened for 10:00am Friday 8 April 2016

IOF Unitholders should read the Explanatory Memorandum in full prior to making a decision in relation to their IOF Units or the DEXUS Proposal

* Based on the Scrip Equivalent of the Implied Offer Number

DEXUS Proposal

01

DEXUS Proposal

The DEXUS Proposal was developed following extensive engagement and negotiation

- > On 18 December 2015, ILFML announced it had entered into a binding Implementation Agreement in relation to a proposal pursuant to which DEXUS would acquire all IOF Units
- > If the DEXUS Proposal is approved and implemented, IOF Unitholders will receive Standard Consideration of \$0.8229 in cash and 0.424 DEXUS Securities for each IOF Unit (with an alternative to elect Maximum Cash or Scrip)
 - Standard Consideration: \$0.8229 cash and 0.424 DEXUS securities per IOF Unit;
 - Maximum Cash Consideration: \$4.1147 per IOF Unit subject to any scale back to ensure the maximum cash consideration paid is approximately \$505 million;
 - Maximum Scrip Consideration 0.53 DEXUS Securities (rounded to two decimal places) per IOF Unit, subject to any scale back to ensure the maximum number of DEXUS Securities issued is approximately 260.4 million
- > DEXUS Securities issued to IOF Unitholders under the DEXUS Proposal will rank equally with all other DEXUS Securities and therefore will have full entitlement to any DEXUS distribution for the six month period ending 30 June 2016 and subsequent distribution periods
- > If the Proposal Resolutions are passed and the Conditions Precedent are satisfied and the Proposal becomes Effective and is implemented, Ineligible Overseas Unitholders will receive cash instead of DEXUS Securities through the Sale Facility

Reasons to vote in favour of the DEXUS Proposal

A detailed discussion of these reasons is contained in Section 4.3 of the Explanatory Memorandum

1. The Independent Expert has concluded that the Proposal is fair and reasonable to, and in the best interests of, IOF Unitholders in the absence of a superior proposal
2. The Proposal represents attractive value for IOF Unitholders

Proposal – Valuation metrics		DEXUS 10-Day VWAP (to 4 Dec15)	DEXUS 5-Day VWAP (to 4 Dec 15)	DEXUS close (4 Dec 2015)	DEXUS close (3 Mar 2016) ^c
DEXUS Security price		\$7.76	\$7.79	\$7.65	\$7.85
Implied Announcement Value		\$4.11	\$4.13	\$4.07	\$4.15
Premia to:					
IOF Close 13 August 2015 ^a	\$3.72	10.6%	10.9%	9.3%	11.6%
IOF Close 4 December 2015 ^b	\$3.83	7.4%	7.7%	6.2%	8.4%
IOF 1-month VWAP to 4 December 2015	\$3.86	6.7%	7.0%	5.4%	7.6%
IOF 31 December 2015 NTA	\$3.98	3.4%	3.8%	2.3%	4.3%

a. Being the day prior to the announcement of the IOF strategic review.

b. Being the last trading day prior to the announcement of the Proposal.

c. Being the last trading day prior to finalisation of the Explanatory Memorandum.

Reasons to vote in favour of the DEXUS Proposal (continued)

A detailed discussion of these reasons is contained in Section 4.3 of the Explanatory Memorandum

3. IOF Unitholders who receive DEXUS Securities will benefit from significant expected earnings and distribution accretion¹:
 - FY16 pro forma headline FFO per unit accretion of 17.5%
 - FY16 pro forma underlying FFO per unit accretion of 7.9%
 - FY16 pro forma DPS accretion of 17.4%
4. IOF Unitholders who receive DEXUS Securities will share in significant strategic benefits:
 - combination of two complementary office portfolios
 - investment in a larger more diversified office portfolio
 - exposure to additional revenue streams, including DEXUS' development pipeline, Third Party Funds Management business and property services business and income from Trading Profits
 - enhanced governance and alignment of interests through internal management
 - enhanced cost-effectiveness with a MER of <35bps
 - greater relevance for equity and debt investors
5. Facilitates the transition to internal management for IOF Unitholders
6. No Superior Proposal has been forthcoming
7. The Proposal provides flexibility for each IOF Unitholder to determine the optimal form of consideration
8. If the Proposal does not proceed, and no Superior Proposal emerges, the price of IOF Units may fall

1. Based on the Scrip Equivalent of the Implied Offer Number

Risks and disadvantages of the DEXUS Proposal

A detailed discussion of these risks and disadvantages is contained in Sections 4.4 and 11 of the Explanatory Memorandum

The risks and disadvantages associated with the Proposal include the following:

1. Change in the nature of the investment by IOF Unitholders
2. Reduction in IOF's equivalent net tangible asset value per security
3. The Merged Group is expected to have higher gearing than IOF (although initial gearing of the Merged Group is expected to be within IOF's stated range)
4. Potential variability in the implied offer price for movements in the DEXUS Security price
5. You may disagree with the Independent Directors' recommendation or the conclusion of the Independent Expert
6. Risk relating to the fact that Proposal Participants may not receive their preferred form of Proposal Consideration due to the scale-back that you will not know the outcome of your Election until after the Record Date
7. Risk of the Proposal triggering default/pre-emptive rights on jointly owned properties, which co-owners could seek to exercise
8. Risks that repayment provisions under IOF's USPP and MTN could be triggered by the Proposal or implementation of DEXUS RE's intentions post implementation of the Proposal
9. Integration risks and realisation of assumed synergies not being achieved as a result of factors such as transition to different systems and resources or loss of key personnel
10. Geographic concentration risk as the Merged Group will have a greater concentration in the Sydney market

Key dates

Proposed transaction timetable

Date of the Explanatory Memorandum	Wednesday, 9 March 2016
Latest time and date for receipt of Proxy Forms by the IOF Registry for the Meeting	10.00am Wednesday, 6 April 2016
Voting Record Date	7.00pm Wednesday, 6 April 2016
Time and date of the Meeting	10.00am Friday, 8 April 2016
If the Proposal Resolutions are approved and all other Conditions Precedent in connection with the Proposal are satisfied or waived (if applicable), the following key dates apply:	
Second Judicial Advice Date	Tuesday, 12 April 2016
Effective Date	Wednesday, 13 April 2016
Election Date	5.00pm Wednesday, 20 April 2016
Record Date	5.00pm Thursday, 21 April 2016
Implementation Date	Friday, 29 April 2016
New DEXUS Securities commence trading	Monday, 2 May 2016 ¹

All dates in the above timetable are indicative only and are subject to change. The parties may vary any or all of these dates and times and will provide reasonable notice of any such variation. Any changes will be announced by IOF to ASX and published on IOF's website at www.investa.com.au/funds/investa-office-fund-iof/asx-media/. All times and dates refer to Sydney time.

1. Trading will commence on a normal T+2 settlement basis.

Strategic Review and Background to DEXUS Proposal

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Background – articulation of a path to internalisation for IOF

- > In March 2011, Investa Property Group (Investa) acquired the management rights to ING Office Fund
- > At that time, representations were made to IOF Unitholders suggesting there would be a “path to internalisation” through which IOF would have a future opportunity to acquire the Investa Office Management Platform (Platform) or, as an initial step towards full internalisation, an interest in the Platform
- > Certain rights provided to IOF in relation to this future opportunity are contained in the Investa Implementation Deed
- > Internalisation was seen as an important initiative to bring IOF in line with its peers and provide a number of benefits to IOF Unitholders including superior growth, greater alignment, elimination of fees, improved earnings diversification and increased return on invested capital from undertaking funds management activities

Peer	Management	Direct office ownership	Office asset management	Office funds management	Office development management
Investa Office Fund	External	✓	X	X	X
 DEXUS PROPERTY GROUP	Internal	✓	✓	✓	✓
 mirvac	Internal	✓	✓	✓	✓
 GPT The GPT Group	Internal	✓	✓	✓	✓

Background – IBC establishment and initial discussions with Morgan Stanley

- > IBC was formed in late 2014 given the likelihood of Morgan Stanley exiting Investa
- > Discussions were held between Morgan Stanley and the IBC in February 2015 (prior to the commencement of the Morgan Stanley Sale Process) in relation to the potential acquisition of the Platform by IOF
- > Terms put forward by Morgan Stanley in relation to the acquisition of the Platform by IOF were not considered to be in the best interests of IOF Unitholders and therefore not acceptable to, or capable of acceptance by, the IBC
 - Morgan Stanley sought a right to terminate any agreement with IOF in relation to the acquisition of the Platform, and a waiver of IOF's rights under the Investa Implementation Deed
- > Both the IBC and Morgan Stanley reaffirmed interest in pursuing internalisation and agreed to re-engage once there was more certainty about the outcome of the Investa Property Trust (IPT) sale process

Strategic Review – rationale

- > Following commencement of the Morgan Stanley Sale Process, Morgan Stanley informed the IBC that:
 - IOF could not acquire the Platform; and
 - the sale of the Platform was likely to be undertaken in a manner that did not trigger the pre-emptive rights in favour of IOF or require IOF Unitholder approval
- > In August 2015, the IBC commenced a strategic review to explore an extensive range of options including ongoing management and ownership of IOF
 - the IBC, in acting in the best interests for IOF Unitholders, focused on maximising value for IOF Unitholders
- > Rationale for commencing the strategic review included:
 - the “path to internalisation” for IOF Unitholders via the acquisition of the Platform upon Morgan Stanley’s exit of its investment in Investa was no longer likely; and
 - there was likely to be a change in ownership of the Platform, without any requirement for IOF Unitholder approval, which gave rise to potential uncertainty regarding the ongoing management of IOF

Strategic Review – process

- > The IBC retained Macquarie Capital and Fort Street Advisers as financial advisers and Herbert Smith Freehills as legal adviser to assist in the strategic review
- > The strategic review involved a comprehensive examination of an extensive range of the potential alternatives related to the management and ownership of IOF
 - a summary of key alternatives considered is set out in the following slides
 - see Section 4.2 of the Explanatory Memorandum for further detail
- > As part of this examination, the IBC engaged extensively over a period of approximately four months with:
 - Morgan Stanley in relation to the progress of the Morgan Stanley Sale Process;
 - a large number of global and Australian real estate investors who had the capability and capacity to acquire IOF, including those parties shortlisted in the Morgan Stanley Sale Process in relation to the IPT portfolio;
 - those parties shortlisted in the Morgan Stanley Sale Process in relation to the acquisition of the Platform; and
 - ICPF
- > In order to assist in assessing the value proposition of various alternatives, the IBC commissioned the revaluation of IOF's entire portfolio as at 30 November 2015

Strategic Review – summary of the key alternatives

Key options considered prior to, and following receipt of the DEXUS Proposal

	Continuation of External Management	Joint Ownership of IOM with ICPF	Implementation Deed Rights
Description	Retention of external management under new owner of IOMH or the appointment of a new external manager	Proposal from ICPF for IOF and ICPF to jointly own the Platform	- Implementation Deed provides IOF rights: - Option to facilitate the acquisition of an interest in the Platform when IOF assets >\$3.5bn - Pre-emptive rights in certain circumstances if IPGH or IOMH sought to sell the Platform
Review Process	- Discussions with potential owners of the Platform, including parties shortlisted in Morgan Stanley Sale Process, and subsequently ICPF - Discussions with parties interested in becoming the new external manager of IOF	- Discussions with ICPF in relation to joint ownership proposal - IOF proposed alternatives (to provide IOF greater independence whilst maintaining scale benefits) which were not accepted by ICPF	- Existing rights not triggered: - Assets remain <\$3.5bn - Platform sale avoided pre-emptive right - Operation / value of the rights considered in the context of a new owner of the Platform
Key Considerations	- Peers are internally managed - Internal management considered to provide a superior management and governance structure - Recognised investor preference for internal management - Acknowledged the Platform had provided good management to IOF - Actual or perceived conflicts exist with external management	- Joint ownership not equivalent to an internalisation; IOF remains externally managed, albeit with partial ownership of management entity - Uncertainty relating to the stability and viability of the platform	- Given rights not triggered, no opportunity to exercise - However, rights seen to not provide the same “path to internalisation” following the sale of the Platform to a strategic holder

A discussion of the alternatives considered is set out in Section 4.2 of the Explanatory Memorandum

Strategic Review – summary of the key alternatives (continued)

Key options considered prior to, and following receipt of the DEXUS Proposal

	Standalone Internalisation	Liquidation/Wind up	Control Proposal
Description	• IOF internalisation via either: - Acquisition of the Platform - Standalone acquisition of IOF management entity - IOF vote to replace current manager with an IOF entity	• Sale of assets or constituent trusts of IOF followed by a liquidation of IOF and return of capital to IOF Unitholders	• Acquisition of all of IOF Units or assets or merger with an existing A-REIT
Review Process	• IOF put a proposal for a standalone IOF internalisation to: - Morgan Stanley (as the ultimate owner of the Platform at the time) - Parties short-listed by Morgan Stanley to acquire the Platform (including ICPF)	• Detailed analysis of potential sale proceeds and likely value leakages • Entire portfolio revalued	• Engagement with Australian and global real estate investors with the capacity and capability to acquire IOF • Negotiation with DEXUS following receipt of initial proposal
Key Considerations	• Despite efforts by the IBC, no substantive progress could be made to negotiate a standalone internalisation • IOF's lack of scale and fee arrangements expected to impact feasibility and value of management rights • Neutral to earnings; NTA dilutive	• Inefficient mechanism to deliver value to IOF Unitholders • Uncertainty as to timing as well as market risk	• Control proposal needed to deliver attractive value proposition to IOF Unitholders and be superior to alternatives in order to be recommended

A detailed discussion of these issues is set out in Section 4.2 of the Explanatory Memorandum

Conclusion

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Conclusion

- > Notice of Meeting and Explanatory Memorandum dated 9 March 2016 in relation to the DEXUS Proposal has been released to ASX
- > Independent Directors of ILMFL unanimously recommend that IOF Unitholders vote in favour of the DEXUS Proposal, in the absence of a Superior Proposal
- > Independent Expert, KPMG Corporate Finance has opined that the DEXUS Proposal is fair and reasonable to, and in the best interests of, IOF Unitholders in the absence of a superior proposal
- > IOF Unitholder meeting to consider the DEXUS Proposal has been convened for 10.00am Friday 8 April 2016

IOF Unitholders should read the Explanatory Memorandum in full prior to making a decision in relation to the DEXUS Proposal

If you have any questions in relation to the Proposal, please contact the IOF Unitholder information line on 1300 308 902 (callers in Australia) or +61 2 9098 9228 (callers outside Australia) between 8.30am to 5.30pm (Sydney time) Monday to Friday

Appendix



Change of ownership of Investa Office Management Platform

Transfer of management rights of IOF

- > As announced on 7 March, Morgan Stanley has completed the sale of the Platform to an entity to be stapled to ICPF
 - the Platform, now ultimately owned by ICPF investors, continues to manage IOF
 - Morgan Stanley has retained the unitholding in IOF, previously held by the Platform
- > In recommending the DEXUS Proposal, the IBC was aware of the likelihood of the transfer of the Platform to ICPF occurring
 - the IBC considers the DEXUS Proposal to be superior to ongoing external management
- > The IBC also notes:
 - since December 2015, the IBC has been subject to undertakings in the Implementation Agreement with DEXUS that restricts discussions related to a management proposal from a new owner of the Platform

Conditions precedent

The implementation of the DEXUS Proposal is subject to the satisfaction or waiver (where applicable) of a number of Conditions Precedent including (without limitation):

1. Approval of the Proposal Resolutions at the Meeting by the requisite majorities of IOF Unitholders (being 8 April 2016)
2. The receipt of the Second Judicial Advice

Further details regarding the Conditions Precedent and their status are set out in Section 14.3 of the Explanatory Memorandum.

As announced on 19 January 2016, DEXUS has been notified by the ACCC that it does not intend to conduct a public review of the Proposal.