



360 Capital FM Limited
ABN 15 090 664 396
Level 8
56 Pitt Street
Sydney NSW 2000

GPO Box 5483
Sydney NSW 2001

Phone: (02) 8405 8860
Fax: (02) 9238 0354
Web: www.360capital.com.au

13 August 2020

Dear fellow Member,

Important proposal concerning the Australian Enhanced Income Fund (AYF)

On behalf of 360 Capital Group (360 Capital), I am pleased to present to you a proposal in relation to AYF to improve returns and to pursue a strategy under which AYF will seek to take advantage of growing fixed income and private credit opportunities in domestic markets.

360 Capital has invested more than \$3.4 million into AYF and now holds 18.7%¹ of AYF units on issue. 360 Capital's philosophy is to make substantial investments in entities where it believes it can use its significant expertise and experience to achieve above-market returns for all members.

AYF has historically performed poorly with the unit price of AYF reducing from \$10.10 at IPO to \$5.44 as at 14 July 2020² (prior to 360 Capital's investment), underperforming the ASX All Ordinaries index by 61.6%³ and achieving a low internal rate of return of 1.7%⁴.

In conjunction with its investment in AYF, 360 Capital approached Elstree Investment Management Ltd, the responsible entity of AYF (Elstree) in early July 2020 with a proposal to change the responsible entity of AYF to 360 Capital FM Limited (360 Capital FM), in order for all members to benefit from 360 Capital Group's experience. That proposal was rejected.

360 Capital has undertaken a strategic review of AYF (based on available public information) and 360 Capital believes that there is a significant opportunity to grow the existing AYF entity and capitalise on opportunities in the fixed income market, particularly in private credit, that will deliver stronger returns, deeper liquidity in the vehicle and diversification in the investment class.

The current management and board of AYF has not capitalised on the full potential of growth in listed fixed income markets over the past 5 years. Significant capital flows in the fixed income market resulting from investors' desire for yield has led to the emergence of well credentialed managers with strong track records. There is substantial opportunity to grow AYF through delivering more focused distribution efforts coupled with an active asset management approach. 360 Capital also believes that AYF is not being proactively managed and that AYF is sub-scale and not at a sufficient size to justify the costs of running a listed vehicle. Through growth, 360 Capital is able to deliver reduced

¹ Calculated based on 360's unit ownership per the Investor Registry provided by Elstree Investment Management Ltd as at 23 July 2020.

² Closing unit price of one AYF unit as at 14 July 2020.

³ Comparing the unit price performance of one AYF unit against the performance of the ASX All Ordinaries Index from the Fund's inception to 14 July 2020.

⁴ Calculated based on an initial investment of \$10.10 per unit during the IPO and assuming a theoretical wind-up date of 14 July 2020, after accounting for distributions.



administration expenses given its established funds management platform with resources dedicated to funds management, distribution, governance, and compliance.

Accordingly, 360 Capital FM Limited has convened a meeting of members of AYF to consider the replacement of Elstree as responsible entity of AYF with 360 Capital FM Limited in order to achieve the benefits outlined below:

Benefits for Members

- **A new experienced and highly aligned management team** - the Fund will benefit from a highly aligned management team and extensive experience across fixed income and private credit markets.
- **Turning around 14 years underperformance** - Elstree has a 14 year track record of value destruction with the Unit price of AYF reducing from \$10.10 at IPO to \$5.44 as at 14 July 2020 (prior to 360 Capital's investment), underperforming the ASX All Ordinaries index by 61.6% and achieving a low internal rate of return (IRR) after fees of 1.7%. 360 Capital has a track record of turning underperforming funds around for the benefit of all unitholders.
- **Improved distribution frequency** – 360 Capital FM intends provide distributions on a monthly basis, an improvement from the current quarterly distributions, based on the pipeline of prospective transactions and following implementation of its strategy 360 Capital expects distributions to increase to \$0.36⁵ per Unit p.a., an increase of approximately 31%⁵ on FY20 cash distributions per Unit.
- **\$0.15 per unit special payment** – 360 Capital will make a special payment of \$0.15 per unit (to be paid by 360 Capital, not from the assets of AYF) for those members that hold units on the record date as set out in the Explanatory Memorandum.
- **Alignment between management and Members** – the replacement of Elstree with 360 Capital FM Limited as responsible entity of the Fund will result in a management team which is highly aligned with its fellow Members through 360 Capital FM Limited's 18.7% holding in AYF.
- **Opportunity to exit** – should members not wish to remain invested under the new management, 360 Capital FM Limited will offer all members the ability to redeem their Units.
- **Independent governance and compliance** – 360 Capital FM Limited is an independent and experienced responsible entity that provides oversight and governance. 360 Capital FM has an independent Credit Committee and Investment Committee and accords with best practice governance principles.
- **Strategy and proactive management** – 360 Capital will seek to implement a clearly defined strategy to capitalise on opportunities available to AYF in fixed income and private credit markets in Australia and New Zealand which is a growing asset class with dynamics including:

⁵ Calculated as the expected difference in the AYF FY20 cash distribution of \$0.21 per unit versus the expected cash distribution of \$0.36 per Unit by 360 Capital.



- unique asset class with historically limited access for retail and wholesale investors;
- sector that has historically been dominated by traditional financial institutions but is now becoming more open to alternative financiers;
- senior secured lending arrangements that provide strong capital protection; and
- 360 Capital FM Limited has the expertise, origination capability and access to a pipeline of transactions to enable it to successfully pursue its strategy across Australia and New Zealand.

These benefits are explained in detail in the Explanatory Memorandum.

Ultimately, 360 Capital FM's proposal seeks to implement a strategy to provide Members with attractive ongoing returns plus a \$0.15 per Unit special payment to Members, which would not be paid under the Elstree winding up proposal. Additionally, Members will benefit from a management team that is highly aligned with its members.

The important first step in order to achieve the above efforts the appointment of 360 Capital FM Limited as responsible entity of AYF. A Notice of Meeting and Explanatory Memorandum in relation to the replacement of responsible entity is enclosed.

360 Capital Group has appointed Cambridge Investment Partners as Corporate Advisor and Clayton Utz as Legal Advisor. 360 Capital will bear all costs of advisors with no impact to members.

Who is 360 Capital Group

360 Capital is an ASX-listed (ASX:TGP) alternative asset manager with a market capitalisation of approximately \$190 million. The 360 Capital senior management team and Board has an average of over 25 years' experience across Australian real estate, public and private equities and credit. Additionally, the Board and senior management have extensive funds management, risk and compliance experience.

360 Capital is debt free and has \$100 million cash on balance sheet and manages listed and unlisted funds on behalf of investors. The Group's investment approach is buying or investing in assets or platforms and maximising investor returns, via active asset management, or by providing scale via way of initial investment and growth in the underlying fund strategy.

Your vote is important. 360 Capital FM Limited encourages Members to vote on the Resolution by either attending the Meeting in person or by appointing a proxy to vote on their behalf.

Should you have any questions in relation to the Meeting, please do not hesitate to contact 360 Capital Investor Services on 1300 082 130 or email investor.relations@360capital.com.au.

Yours sincerely,

David van Aanholt

Independent Chairman
360 Capital FM Limited