

CFX Retail Property Trust Group  
**Half-year investor review**  
 31 December 2013

## Stable returns

CFX Retail Property Trust Group (CFX) continues to provide stable returns for securityholders in a subdued retail environment, maintaining distributions at 6.8 cents per security for the six months ended 31 December 2013. The distribution will be paid on 28 February 2014.

Michael Gorman, CFX Fund Manager, said: "It has been a very busy period for the team, with 660 leases completed, construction nearing completion on two major developments, the sale of a non-core asset and \$1.0 billion of debt facilities executed."



Despite retailer and consumer caution impacting demand fundamentals, the CFX portfolio remains almost fully occupied and we continue to deliver upon all of our strategic objectives.



Michael Gorman  
CFX Fund Manager

## Key highlights

Distribution 6.8cps ↔ unchanged<sup>1</sup>

Net profit \$188.2m ↑ 48.9%<sup>1</sup>

Net property income<sup>2</sup> ↑ 1.7%<sup>1</sup>  
 on a like-for-like<sup>2,3</sup> basis

Total assets \$8.7b ↑ 0.9%<sup>4</sup>

Retail specialty sales ↑ 1.7%<sup>1</sup>  
 MAT, on a comparable<sup>5</sup> basis

Portfolio occupancy ↔<sup>4</sup> 99.2%  
 by area

<sup>1</sup> Compared to the prior corresponding period.

<sup>2</sup> Net Property Income (NPI) and like-for-like NPI are unaudited, non-IFRS financial information and are not profit measures for CFX. They are used by management to monitor the performance of the property portfolio. Refer to Appendix 2 of CFX's December 2013 Interim Results announcement on 18 February 2014, for the calculation of NPI and like-for-like NPI.

<sup>3</sup> Adjusted for changes in ownership of properties, and significant one-off items, impacting either period and excluding development impacted centres.

<sup>4</sup> Compared to 30 June 2013.

<sup>5</sup> Comparable sales refer to sales from those centres that are not undergoing or have not undergone substantial redevelopment in either period of comparison.

## Outlook

Mr Gorman said: "Through the second half of FY14, CFX will continue to focus on the fundamentals of great shopping centre management, delivering value by refining the tenant mix and improving the customer experience, to drive more traffic through our centres and stronger sales performance. This is particularly important in the current environment.

"On the development pipeline, we are focused on delivering the world-class Emporium Melbourne project and DFO Homebush, arguably Australia's premier

outlet centre, fully leased. We will also continue to progress the design development of the next stage of Chadstone."

"We continue to provide full-year distribution guidance<sup>6</sup> per security of 13.3 cents, assuming the sale of approximately \$450 million of non-core assets in FY14. Assuming no further asset sales post the sale of Rosebud Plaza, forecast distribution for FY14 would be 13.6 cents per security," said Mr Gorman.



Chadstone Shopping Centre, VIC

<sup>6</sup> Assuming performance fees are payable for the full 2014 financial year and there is no unforeseen material deterioration to existing economic conditions. Refer also to footnote 16.

# Performance overview

## Financial result

**CFX's net profit for the six months to 31 December 2013 was \$188.2 million**, compared to \$126.4 million for the prior corresponding period.

The net profit includes a net gain on valuations of investment properties and equity accounted investment of \$12.8 million (compared to a \$48.4 million net loss for the prior corresponding period) and a net gain on derivatives valuations of \$0.5 million (compared to a \$9.7 million net loss for the prior corresponding period).

Distributable income<sup>7</sup> was up 1.4% to \$194.9 million compared to the prior corresponding period.

Total net property income increased 0.9% to \$272.1 million, supported by fixed annual specialty store rental increases. On a like-for-like basis, net property income was up 1.7%.

<sup>7</sup> Distributable income is a key non-IFRS earnings measure used by management to assess the performance of CFX. It is equal to net profit excluding: fair value adjustments from investment properties; equity accounted investments and derivatives; straight-lining revenue; the movement in the fair value of unrealised performance fees; non-cash convertible notes interest expense; expenses relating to internalisation; and adjustments for project and other items. Refer to page 3 of CFX's December 2013 Interim Results announcement on 18 February 2014, for a full reconciliation of net profit to distributable income.

## Investment performance

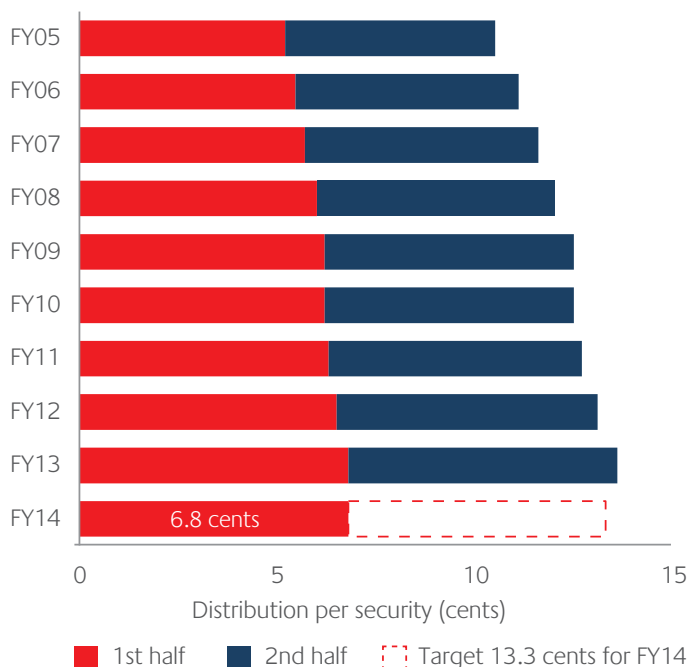
**CFX delivered a total return<sup>8</sup> of 0.7% for the six months to 31 December 2013**, outperforming the UBS Retail 200 Property Accumulation Index (the Index) by 5.9 percentage points. CFX also outperformed the Index over the one, three, five and 10-year periods by 5.6, 1.5, 0.5 and 5.9 percentage points per annum respectively.

For the six months to 31 December 2013, CFX outperformed the customised retail property accumulation index<sup>9</sup> (the Benchmark) by 3.4 percentage points. Accordingly, the Responsible Entity was entitled to a capped performance fee of \$5.3 million for the period.

<sup>8</sup> Total return comprises stapled security price performance and distribution income yield.

<sup>9</sup> For the purposes of calculating the performance fee, the Benchmark, which is the UBS Retail 200 Property Accumulation Index, is customised to remove the effect of CFX on the Index. A 20-day volume weighted average price (VWAP) is applied to both the CFX accumulation index and the customised index.

## CFX has delivered stable growth over time Distribution per security



## CFX snapshot

**28**  
RETAIL ASSETS  
AUSTRALIA-WIDE

**\$7.7**  
BILLION  
OF RETAIL SALES

**196**  
MILLION  
CUSTOMER VISITS

**LEADER**  
IN SUSTAINABILITY

## Emporium Melbourne development

**CFX's largest retail development continues to take shape, with Emporium Melbourne on track to open by Easter 2014.**

The development will comprise over 200 retailers across approximately 48,000 sqm of space. The project has a premium tenancy mix which includes a range of concept and large flagship stores housing some of the world's best international brands, a selection of Australia's most notable fashion labels and iconic food operators, in a new building in the heart of the Melbourne CBD.

Mr Gorman said: "We are excited to see our world-class CBD retail development approaching completion, and we expect approximately 170 stores will be open prior to Easter with the balance opening progressively through to July."

The \$590 million (CFX share) development is targeting a year-one yield on costs of approximately 5% and is expected to be fully leased on completion.



Emporium Melbourne, VIC



# Portfolio update

## Retail environment

Mr Gorman said: "Underlying drivers for retail expenditure in the Australian economy, overall, remained mixed during the period. Positive wages growth, solid consumer sentiment and the wealth effects from gains in house prices and the Australian stock market, have supported the retail sector. In addition, a fall in the Australian dollar this year has reduced the growth in offshore travel and the pricing advantage enjoyed by offshore (online) retailers over the past few years is also waning."

"Despite these positive drivers, the labour market has been relatively weak, and the unemployment rate continues to tick up. The retail sector has also been impacted by an increase in the household savings rate and higher petrol prices, while retailers continue to work through the integration of their physical store and online strategies," said Mr Gorman.

CFX's shopping centre portfolio reported total moving annual turnover (MAT) of \$7.1 billion, up 2.2% compared to the prior year. Comparable specialty stores achieved 1.7% MAT growth this year.

Mr Gorman said: "We are very pleased with the MAT growth of 10.2% for comparable DFO centres for the year. This continues to reflect the strength of the offering and the experience that we have created at these centres since we acquired them in late 2010.

CFX retail sales by category				
Category	Comparable		Actual	
	MAT 31-Dec-2013 (\$m)	Annual growth (%)	MAT 31-Dec-2013 (\$m)	Annual growth (%)
Department stores	640.7	(1.7)	649.6	(1.4)
Discount department stores	662.7	(0.8)	727.4	(1.5)
Supermarkets	1,337.3	4.1	1,657.6	7.5
Mini majors	695.0	0.8	758.3	0.8
Retail specialty	2,620.0	1.7	2,803.9	2.1
Other retail <sup>10</sup>	434.2	(1.2)	497.2	(1.3)
<b>Shopping centre portfolio</b>	<b>6,389.9</b>	<b>1.3</b>	<b>7,094.0</b>	<b>2.2</b>
DFO retail outlet centres	447.5	10.2	585.3	3.6
<b>Total portfolio</b>	<b>6,837.4</b>	<b>1.8</b>	<b>7,679.3</b>	<b>2.3</b>

"Across the shopping centre portfolio, apparel sales continue to be subdued and the leasing environment remains challenging. As an active manager, we focus on continually reviewing the tenancy mix at our centres which has enabled us to maintain a healthy leasing deal rate, with almost full occupancy of 99.2%.

"We have maintained our fixed 5% annual increases in specialty tenant leases which provides a level of certainty around rental income for our investors. Our average re-leasing spread for specialty tenancies for the period was -4.3% for the total portfolio. If you exclude the DFO portfolio, re-leasing spreads were -5.9%, in line with industry peers.

"Comparable shopping centre specialty store occupancy costs<sup>11</sup> rose slightly to 17.4%, up from 17.3% at 30 June 2013. Specialty store sales rose to \$10,090 per sqm<sup>11</sup> from \$10,066 per sqm at 30 June 2013.

"While we remain cautious on retail sales and forecast specialty store sales growth of 3% for the CFX portfolio over calendar year 2014, we believe we are past the trough of the challenging retail environment and we are expecting a more buoyant market moving forward," added Mr Gorman.

## Asset valuations

**During the period, 16 of CFX's assets were independently valued, resulting in a \$12.8 million net valuation gain compared to prior book value.**

Including the impact of the sale of Rosebud Plaza, and the recent valuations, the shopping centre portfolio<sup>12</sup> weighted average capitalisation rate tightened marginally to 6.38% from 6.43% at 30 June 2013.

<sup>10</sup> Other retail includes cinemas and sales reporting tenancies under 400 sqm including travel agents, auto accessories, Lotto and other entertainment and non-retail stores.

<sup>11</sup> The comparable basket for occupancy costs and specialty sales per sqm changed during the period with the removal of Rosebud Plaza, VIC and Altona Gate Shopping Centre, VIC, and the inclusion of Bayside Shopping Centre, VIC.

<sup>12</sup> Excluding Myer Melbourne, the DFO retail outlet centres and 15 Bowes Street, Woden.

## DFO Homebush development

**We have made significant progress on the \$100 million development of DFO Homebush which commenced in November 2012.**

The project involves the introduction of luxury and premium apparel retailers, the addition of homemaker retailers, a food court and upgraded parents rooms and toilets together with a substantial upgrade to the existing building. Car parking has also been completely reworked with a net addition of 550 car spaces bringing the total to over 2,000.

Mr Gorman said: "With the majority of outlet and homemaker stores opened prior to Christmas, the calibre of our retailers and the high quality of our development has been highlighted by the strong sales and patronage over the Christmas period, even while works continued."

With the strong leasing demand, the forecast metrics of the project have improved, with a year-one yield on costs of greater than 7.5% and an internal rate of return of greater than 12%. The project is expected to be fully leased on completion by June 2014.



DFO Homebush, NSW

# Independent Directors support the Proposal

## Update on Internalisation Proposal

On 18 December 2013, the Independent Directors of Commonwealth Managed Investments Limited, the Responsible Entity of CFX, announced they had agreed with Commonwealth Bank of Australia (the Bank), to progress a proposal to internalise the management of CFX (the Proposal<sup>13</sup>).

The Proposal, which is subject to securityholder approval, would also involve CFX acquiring the integrated retail asset management business from the Bank and to commence the management of a number of wholesale property funds and property mandates.

If implemented, CFX will make a cash payment to the Bank of \$460 million.<sup>14</sup> On a pro forma basis for FY14, the transaction will provide benefits to securityholders including:

- incremental earnings before interest and tax of \$48.5 million, and
- accretion per CFX security of 2.1% to forecast distributable income and 4.2% to value.<sup>15</sup>

The Proposal has been fully funded through a \$280 million Placement which completed on 19 December 2013, a \$15 million SPP which completed on 31 January 2014, and an additional debt facility executed to fund the remainder of the cost.

The Independent Directors have presented securityholders with an attractive proposal that is accretive to distributions on a pro forma basis<sup>16</sup>, and that is expected to drive further securityholder value over time.

The Proposal strengthens CFX's market position and provides a platform for incremental growth through diversified income streams from additional strategic partnerships while replacing management fees paid to the Bank with directly incurred operating costs over which CFX has control.

From a governance perspective, as an independently managed group, internalisation will enhance alignment with CFX securityholders, including the election of directors by securityholders through the annual general meeting process.

Independent Expert, Grant Samuel & Associates Pty Limited, has concluded that the Proposal is fair and reasonable to, and in the best interests of, non-associated CFX securityholders.

The Proposal requires a number of approvals, including the approval of CFX securityholders voting at an Extraordinary General Meeting to be held on 7 March 2014. If the relevant approvals are received, the internalisation is expected to be implemented by the end of March 2014.

Upon implementation of the Proposal, CFX will become one of Australia's largest fully integrated and independently managed retail property groups, with \$13.9 billion in assets under management.

Full details of the Proposal can be found in the Meeting Booklet lodged with the ASX on 7 February 2014 available on CFX's website [cfsgam.com.au/cfx](http://cfsgam.com.au/cfx)

## Global recognition in sustainability

CFX's efforts to optimise asset efficiency through the application of best in class sustainability initiatives continue to be recognised on a global stage. During the period:

- ✓ CFX was ranked as number two in Oceania and number three globally for listed entities, in the Global Real Estate Sustainability Benchmark survey
- ✓ CFX was a joint leader in disclosure for its 2013 submission to CDP with a score of 100%, the fourth consecutive year that CFX has been recognised as a Climate Disclosure Leader
- ✓ CFX was merited for its property valuation methodologies and practices at the 2013 Asia Pacific Real Estate Association Best Practices Awards, and
- ✓ Again included in the Dow Jones Sustainability Indices.

<sup>13</sup> All figures quoted in this Review relating to the Proposal are sourced from the Meeting Booklet dated 7 February 2014. It also assumes the continued management of QV Retail. The impact that not managing QV Retail may have on various metrics is set out in Section 6.5b of the Meeting Booklet.

<sup>14</sup> CFX will also acquire net assets of the existing business for an additional consideration of \$15 million and approximately \$36 million of transaction costs are expected to be incurred by CFX in connection with the Proposal.

<sup>15</sup> Value accretion captures the benefit of costs of approximately \$8 million that are saved as part of internalisation which are not fully captured in distributable income on consolidation but will be reflected in property valuations.

<sup>16</sup> If the Proposal is implemented, the impact on FY14 distribution is expected to be neutral. This is on the basis that the Proposal will only be effective for approximately three months of FY14, the additional December 2013 distribution payable under the Placement, and the issuance of new equity in advance of implementation of the Proposal.

## Capital management

**Mr Gorman said: "CFX maintained a strong balance sheet with appropriate headroom, and retained its 'A' credit rating post the announcement of the agreement to progress the Proposal subject to approvals."**

"As part of our active capital management program, during the period, CFX recycled capital through the sale of Rosebud Plaza for \$100 million, at a premium to book value, with the proceeds used to reduce debt.

"Post the period, we executed a \$250 million debt facility to finance the Proposal, and we have obtained credit approval from a lender to procure another \$250 million debt facility to fund near-term expiries."

In the event that the Proposal is not implemented:

- capital raised through the Placement and SPP will be applied to future development and acquisition opportunities, and
- the new debt facility entered into for the Proposal will be used to replace upcoming expiring debt facilities.

## Key dates

### 28 FEBRUARY 2014

Half-year distribution payment

### 7 MARCH 2014

Extraordinary General Meeting

### 19 AUGUST 2014

Annual result announcement

### 29 AUGUST 2014

Final distribution payment

For further results information for the half-year ended 31 December 2013 please visit our website

[cfsgam.com.au/cfx](http://cfsgam.com.au/cfx)

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