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2014 Annual General Meeting

Chairman & CEO Address

Centuria Capital Limited

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Chairman's Address



ROGER DOBSON
Non-Executive Chairman

Again, ladies and gentlemen, thank you for joining us this morning for Centuria Capital's AGM. On this occasion last year I was able to express the Board's pleasure at the 2013 financial results as well as the progress being made to execute our vision and strategy for the Group. I am even more pleased to say today that the 2014 financial year was an even better one for the Group, both in terms of financial performance and also further progressing our plans for growing our core businesses.

Developments since the end of the 2014 financial year have been even more significant and pleasing for the Board, and John McBain, our CEO, will say more about that shortly.

The focus of your Board continues to be on the execution of our strategy to grow our core businesses. As you know, those businesses are our property funds management business and our friendly society business.

It has been fundamentally important in the growth of our property funds management business, from a strategic perspective, to have a listed property trust business. I spoke to you about that last year, and the appointment of Nick Collishaw to run that business. It is extremely pleasing that on 10 December this year, securities in the Centuria Metropolitan REIT will list on the Australian Stock Exchange. It has been even more pleasing to see the overwhelming support from investors for this trust.

It is probably fair to say that achieving growth in our unlisted property business has proved quite challenging. There is enormous competition for quality assets and prices have risen significantly in the last year or so. Nevertheless, we have just purchased a property in Parramatta which has high-quality, mostly NSW Government tenants.

While the environment is not so easy for making acquisitions, it is excellent for selling assets and where we feel it is in the interests of the investors in our property trusts to do so, that is the recommendation we have been making. An example is the recently announced sale of 441 St. Kilda Road in Melbourne. We acquired that property in 2012 for \$58 million, and sold it recently for \$82.1 million.

Also pleasingly, last year was the first time for many years we have managed to get growth in assets under management in our friendly society business. This is an important business for the Group. It produces predictable and significant profit for the Group and provides a degree of diversification to our business. A key focus of the Board is to find ways to achieve greater growth for this business. Again, John will say more on that shortly.

We are a relatively small company and we try to run an efficient and cost-focused business. On the other hand, we feel that there are great opportunities to achieve substantial growth, and that is what we continue to work towards. The attraction and retention of high-quality people is a factor that, more than anything else, will influence our ability to realise that growth. Accordingly, that is a particular focus of mine and the rest of the Board.

The simple fact of the matter is that the size and profitability of our company does not permit us to pay the sort of salaries that executives are earning at funds management businesses we compete with. One thing that can help us in this regard is having in place long-term incentives for our executives and key people, which provide a material reward for longer-term performance that meets hurdles which consistently deliver real value to our shareholders. The allocation of performance rights to John McBain, Nick Collishaw and Jason Hujich, which are three of the resolutions put before you today, is part of that. Finally, a great many thanks to all of the staff in the Group, many of whom are here today, for their hard work throughout the year. Thank you, too, to my fellow directors, especially our senior executives, who have worked incredibly hard for you.

Roger Dobson
27 November 2014

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Chief Executive's Address



JOHN MCBAIN

Executive Director
and Chief Executive Officer

Thank you Mr. Chairman and I also extend my welcome to shareholders to the 2014 Centuria Capital Annual General Meeting.

Today I first want to report to you on Centuria's results for the 2014 financial period and then I want to bring you up to date with some important events which have occurred since the end of the reporting period which are extremely positive for Centuria.

2014 was a busy year across the Group and a year in which we remained dedicated to our strategy of focusing on our core business activities and simplifying our business model, allowing financial markets to more clearly understand our strategy and core strengths.

During the year we undertook a strategic review of our two non-core business units – the Reverse Mortgage and Insurance Agency operations. The result of this review was the establishment of a strategic initiative to monetise these operations as they were determined to be non-core.

This initiative would allow us to free up capital thus simplifying our business model and strengthen our business model, reduce gearing and provide greater free cash to invest in our core operations – Property Funds Management and Investment Bond Management.

I am pleased to report an increase in underlying net profit after tax of \$5.9 million for the financial year, an increase of 10.6% from the prior period as well as a corresponding increase in earnings per share of 11.1%. In addition, fully franked dividends of 2.75 cents were declared in respect of the 2014 financial year and net assets per share increased by 9.6% from the prior period to \$1.34 per share.

Turning now to the performance of the operating divisions;

A highlight during the period for the Property Funds Management division was undoubtedly the \$100 million purchase of a 50% interest in the Channel Seven headquarters in Sydney by the Centuria 8 Central Avenue Fund. This division is led by Jason Huljich – CEO Unlisted Property Funds and the launch of this Fund was unique in another respect for Centuria, as it was equity funded by a combination of Centuria investors and a major offshore investment fund secured by our Singapore office.

Both the magnitude of the transaction and the sourcing of offshore funding arise from the Group adhering to its long-stated strategies of targeting higher quality, larger assets and developing our Singapore office to source offshore wholesale investors. Property Funds Management contributed \$5.0 million profit before tax to group results, up 30% from the corresponding prior period, and at the end of the financial period controlled \$920 million in funds under management.

Our Investment Bond Division experienced a stabilisation in funds under management to \$714 million at the close of FY2014, up from \$710 million at the end of FY2013. This division made a significant contribution to Group earnings before tax of \$6.4 million. The stabilisation of funds under management is an important milestone for the Group as we believe we have reached a point where the underlying business is now in a net inflow position from which we have launched new products designed to further enhance organic growth.

By way of example, we launched the Centuria Credit Bond in August 2014 as part of the Centuria TaxAstute Series and this product is already white-labelled with two distributors and experiencing initial inflows.

Since the financial year-end we have appointed a new General Manager – Investment Bond Division, Neil Rogan. Neil is highly experienced in this market sector and there is a company-wide focus on growing this division.

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I referred previously to the results of the strategic review undertaken by the Group. Since the conclusion of the 2014 financial year we have acted on the conclusions reached and we are pleased to confirm the following events;

In October 2014, Centuria announced the sale of its variable rate Reverse Mortgage Portfolio and its insurance agency subsidiary, Over Fifty Insurance Pty Limited. I can confirm that the Group sold its variable rate reverse mortgage assets yielding \$32.6 million and sold the Over Fifty Insurance Pty Limited for \$5.2 million.

These sales released a combined total of \$37.8 million of equity prior to transaction costs which is a very significant figure given our market capitalisation at that time, which was less than \$70 million.

From an operational perspective, I am pleased to announce that Centuria's first listed property trust, the Centuria Metropolitan REIT was fully underwritten on 7 November under the guidance of Nick Collishaw the CEO – Listed Property Funds. The fund will initially list with \$190 million of assets and will provide a valuable additional revenue line for the Group while utilising our existing property management platform. It was pleasing to see the trust being substantially over-subscribed pending its projected listing in early December.

Our unlisted property division is also raising capital for a new trust to acquire a \$45 million acquisition in Parramatta and initial investor interest appears strong given prevailing low deposit rates.

All these initiatives simplify and strengthen the Group's balance sheet, improving transparency to the market and demonstrate that Centuria can deliver strong performance in its core business areas.

Moreover, executing these initiatives has provided greater free cash which we will deploy to assist in growing our core business units. More particularly we are now in a position to warehouse assets for both listed and unlisted property trusts as well as partner with our existing investors in downstream property development projects where we consider risks are appropriate to reward.

Finally, Centuria recently announced its intention to commence an on market share buy-back program to purchase and cancel Centuria shares where we consider it is accretive to do so. The board has allocated funds to this initiative and you can expect to see this program roll out over coming months.

Centuria now presents to the market as a well capitalised Specialist Investment Manager with two core operating divisions, a strong growth trajectory and low gearing. It is pleasing to see the security price strengthening and we believe the Group is in an excellent position to grow its core businesses and we will continue to produce high quality investment products for our strong investor base.

I want to thank the Centuria Capital Board, the Centuria Life Board and the members of the Responsible Entity Board for their strong support during the 2014 year. In addition I am proud to thank the very special team of executives I work alongside for their dedication to delivering on our strategies and I look forward positively to the 2015 financial period and beyond which I believe will be rewarding to shareholders.

John McBain
Group CEO

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