Trilogy Funds

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NOTICE TO INVESTORS - TRUST UPDATE

We are writing to you as Trilogy Funds Management Limited (**Trilogy Funds**), Responsible Entity for the Milton Office Trust ARSN 628 273 807 (**the Trust**).

Pursuant to clause 46.3(1) of the Constitution, Trilogy Funds can, at any time on or before the 6th anniversary of the date the asset settled (this date being 13 December 2024) determine to extend the term of the Trust for a further period which must not be more than 8 years after the asset settled (this date being 13 December 2026).

Trilogy Funds hereby gives notice to unitholders of its determination to extend the term of the Trust until 13 December 2026.

The decision to extend the term of the Trust has been made with a focus on the best interests of investors, and with regard to the economic, interest rate and real estate cycles.

The following commentary provides additional context into how Trilogy Funds views the market, the asset and the strategy moving forward.

1. Market weakness is temporary, triggered by unprecedented events

As the world adjusted to COVID-19, inflation shot from less than 1% in December 2020 to 8.4% in December 2022, a 32 year high. Not only is that well outside the Reserve Bank of Australia's target range of 2%-3%, but the event represented the single most rapid increase in the rate of inflation, in reported history. The RBA responded with another historical first - increases to the official cash rate target in 10 consecutive meetings between May 2022 and March 2023, and a further three increases before 2023 was over. This resulted in the most rapid increase in interest rates on record.

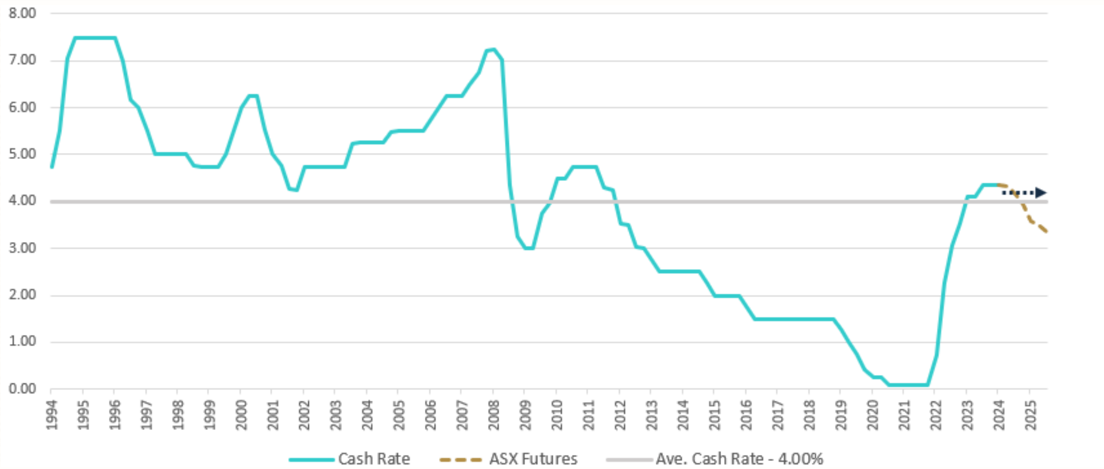
Weakness and volatility in the Australian commercial real estate sector must be viewed in the context of these unprecedented developments. Encouragingly, inflation continues to decrease. The consumer price index (**CPI**) increase for the 12 months to October was 2.1%, the lowest increase since August 2021. While this was a result of measures designed to ease the cost of living, forecasts for monthly inflation over coming months sit within the RBA's 2% to 3% target range.

The drastic increase in the cash rate has negatively impacted the valuations for commercial real estate and investor demand, given the strong correlation between interest rates and investment yields. While concerning, this is a normal part of both the economic and real estate cycle.

The current downturn, specifically relating to commercial office, is influenced by external factors, including interest rate movements, as well as changes in workforce patterns relating to COVID-19 and 'work from home' mandates. History has shown that the conditions brought about by interest rate developments are temporary, and current trends are demonstrating the workforce patterns influenced by COVID-19 are also temporary.

With inflation moderating and cost of living pressures becoming more apparent across the economy, there is increasing impetus for the RBA to start thinking about reducing interest rates. Market commentators including all four of the big banks forecast this to start occurring before mid-2025. Should this be the case, it would likely have a positive effect on commercial property valuations.

Historical Cash Rate (yield %) and Futures Market expectations of Rates – RBA, ASX



Performance of the Australian commercial office sector over the last three years – Property Council / MSCI All Property Index Digest August 2024

2. Asset fundamentals

The Trust has experienced prolonged periods of vacancy off the back of COVID-19 as many businesses adopted a working from home model. This resulted in higher than anticipated vacancy rates across all office markets. In order to attract tenants, landlords have had to offer high levels of incentives further reducing the effective cashflow able to be generated from an asset.

The side effects from COVID-19 are slowly subsiding as tenants are returning to office space, however, high levels of incentives remain.

An updated leasing marketing campaign is in the final stages of being finalised and Trilogy Funds is looking to attract a new tenant to the last remaining vacancy within the asset. Once this tenant is secured, the asset will be 100% occupied and will be able to realise its full income producing potential despite the Trust continuing to pay out the remaining incentives.

The asset is currently 90% occupied, maintains a 4-star NABERS Energy rating, benefits from a weighted average lease expiry of 4.0 years and boasts an attractive location with city and river views only 2km west of the Brisbane CBD. Additional government spending and investments into existing infrastructure is expected to continue to stimulate the Brisbane economy as it begins to prepare for the Brisbane 2032 Olympics.

These qualities suggest that the asset is well positioned to see price appreciation in the short to medium term. As such, we believe the best strategy at this time is to continue holding this asset which will be more advantageous to investors, than to sell in the current market.

3. Trilogy Funds aims to avoid realising losses in a down market

Selling an asset in a downward cycle will result in realising any capital losses. Trilogy Funds' investment approach focuses on maximising long-term returns. Undertaking a sales campaign now would undermine this strategy as it would fail to reflect the strong asset fundamentals that could be realised in a more supportive market. By extending the Trust for an additional two years, Trilogy Funds is allowing the market additional time to recover.

Despite the Brisbane fringe office market currently experiencing difficult conditions, there are several key factors that we believe will contribute to an improving market and renewed investor demand. These include:

- **Increased demand:** Population growth in Southeast Queensland is expected to remain elevated for many years to come. Research indicates Brisbane is forecast to experience the highest average annual population growth rate over the next decade amongst Australian capital cities.[1]

- **Limited supply:** Constrained future supply in the office pipeline, driven by elevated construction costs and limited build availability, has ensured high-quality office space is poised to remain in high demand. As at August 2024 no new fringe office buildings were under construction.[2] Experts forecast vacancy rates will continue reducing, particularly in CBD markets, which will have a flow-on effect into fringe office markets.[3]

- **Increased market rents:** The low supply trend and solid leasing market has placed upwards pressures on rents in the Brisbane CBD and fringe market. Substantial rental growth has been recorded in both markets with face net rents growing 10.3% year-on-year.[4] However, high levels of existing incentives have restricted the benefits of this rental growth being fully realised.[4]

Next steps

Trilogy Funds is currently working with leasing agents who are in the final stages of launching the marketing campaign to lease the remaining vacant space. Trilogy Funds is also in discussions with Suncorp around an extension of the current finance facility.

Trilogy Funds will continue to closely monitor the market and other relevant factors for the next 24 months with the aim of realising the asset in a more appropriate market. Trilogy Funds will continue to provide investors with quarterly updates relating to the Trust.

For further information, please contact the Trilogy Funds Investor Relations team on 1800 194 500 or via investorrelations@trilogyfunds.com.au.

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[1] Colliers Research, Office Middle Markets, Australian Investment Review, October 2024.
[2] Jones Lang LaSalle, Australian Office Market Dynamics Q2 2024, August 2024.
[3] Colliers Research, Office Middle Markets, Australian Investment Review, October 2024.
[4] Jones Lang LaSalle, Australian Office Market Dynamics Q2 2024, August 2024.

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