



Pengana Credo European Property Trust

Investor Update as at 31 Dec 2007

Pengana Credo European Property Trust

Since the establishment of Pengana Credo European Property Trust ("Trust") in June 2007, the Trustee has continued its focus on providing a stable income from the Trust's portfolio of assets, while pursuing select acquisition opportunities with a view to further enhancing the scale, diversification and income stability of the Trust.

The current portfolio of German real estate assets acquired by the Trust provides a solid platform for growth. Given the current market conditions, our primary focus remains on preserving capital and maintaining and growing net property income.

Recent market conditions

Despite the recent volatile market conditions, the Trust's real estate portfolio continues to trade well and meet the forecasts contained in the Information Memorandum.

While the Trust is not directly impacted by the US sub-prime crisis, the resultant tightening of lending criteria and a reduction in the availability of credit in Europe has had a negative impact on the volume of transactions in the European real estate market. This has led to a recent softening of German property values.

In light of the above and the recent market volatility in the Australian Listed Property Trust (LPT) sector, the Trustee has decided that it is prudent to conduct an independent valuation of all of the Trust's assets.

The Trustee was under no obligation to conduct a revaluation of the Trust's assets, however it was thought to be a prudent and a proactive

step in order to provide unitholders with an updated position of their investments.

Portfolio Valuation

The Trustee instructed Colliers CRE to undertake a valuation of all of the Trust's properties. The portfolio was valued at €92.08m.

This represents a reduction of 5.5% from the previous valuation (Colliers CRE, March 2007) or 3.59% below the purchase price paid to acquire the portfolio.

The reduction in the value of the Trust's real estate assets was a result of the softening in yields in the German market rather than any weakening in the rental income derived by the Trust.

The modest reduction in the valuation in a current difficult market confirms the underlying strength of the Trust's real estate portfolio. According to the valuer, the portfolio satisfies the criteria currently sought after by investors and institutional purchasers, given that the portfolio is diversified across supermarkets and car dealerships, diversified in terms of supermarket occupiers, and well let in terms of tenant covenant status, and unexpired lease terms.

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NTA and Unit Price

Based on the updated valuation of the real estate portfolio, as at 31 December 2007:

As at 31 December 2007	\$ per Unit
NTA Per Unit¹	0.8331
Unit Price cum distribution	0.7555
Unit Price ex distribution	0.7324

¹ unaudited, calculated as per the IM and excluding the impact of the mark-to-market on the hedging instruments (FX swap).

Both the NTA per unit and the Unit Price have been negatively impacted by the decrease in the valuation of the Trust's real estate portfolio.

However, the strong and defensive fundamentals of the initial portfolio remain unchanged. The current levels of the NTA per unit and the Unit Price are expected to have no negative impact on the level of distributions, which the Trustee is intending to maintain as per the forecasts contained in the Information Memorandum.

The Unit Price has also been affected by the fall in the mark-to-market value of the derivative financial instrument that has been entered into by the Trust to protect the investor's income and capital against fluctuations in the EUR/AUD exchange rate.

Whilst the FX hedging instrument has an underlying market value that must be reflected in the accounts, it has been entered into by the Trust (as envisaged in the Information Memorandum) in order to "lock in" the exchange rate for the income and capital being returned to the Fund from its underlying investments in Europe.

The change in the mark-to-market value of the FX hedging instrument from time to time is a non-cash adjustment that should not affect the operation of the hedge or the value of that hedge at the end of its term.

Gearing and LTV Covenants

Based on the latest valuation of €92.08m, the loan-to-value ratio now stands at 76.76% compared to 72.4% in the Information Memorandum.

The existing LTV is slightly above the Trust's targeted 75% loan-to-value ratio, and the Trustee is monitoring the level of gearing in the Trust to ensure that the Trust is appropriately capitalised.

The Fund's debt facility with Barclays has a ceiling of 85% LTV. It is important to note that no debt covenants have been breached and the Trustee is not required to, nor does it intend to, carry out any asset disposals.

However, the Trustee is intending to fund any new acquisitions at a lower level of gearing (50-65%) with a view to bringing the total LTV below the 75% target.

The Trustee is also pleased to report that:

- ∞ The Trust has no debt refinancing until February 2017;
- ∞ Interest on the borrowings relating to the Trust's portfolio has been fixed for over 9 years;
- ∞ Foreign exchange hedges over 95% of the Trust's Euro denominated income (including dividends and interest) and 90% of equity capital used to invest in the initial portfolio has been put in place for 7 years;

Property Update

The assets included in the initial portfolio are continuing to trade strongly. Repairs that have been conducted since acquisition have been minor and have been funded from the tenants' service charges.

The portfolio is 99.73% let (including 2% of the NLA is under a rent guarantee until 31 October 2009) and the cashflow is strong. The property manager has commenced the process to let the area currently covered by the rent guarantee.

The portfolio also provides built-in rental growth with 99% of the rental income subject to CPI linked indexation. German CPI over the 12 months to March 2008 has been reported by the German Federal Statistical Office to have risen by 3.1%, which is over 25% above the rate of growth adopted in the Trust's Information Memorandum. This higher level of CPI growth is expected to result in accelerated rent increases across the Trust's portfolio.

The Trust's real estate assets are leased to a diversified mix of pan European retailers and a major car manufacturer and have a weighted average lease term to expiry of 8.2 years, which provides a strong foundation for growth in the current market.

Major tenants, which represent 83.3% of the rental income of the Trust's portfolio, are the Edeka Group (a leading food retailer in Europe and the largest food retailer in Germany), Rewe Group (one of the leading food retailers in Europe and the second largest food retailer in Germany), Schwarz Group (Germany's second largest network of food discount retailers), Norma (a German discounter), Tengelmann (a grocery, DIY, and a clothing retailer), and Peugeot (Europe's second largest car manufacturer).

	As at the date of the IM 02/04/2007	As at 31/12/2007
WALE	8.9 years	8.2 years
Tenants	as per IM (see above)	as per IM (see above)
Number of Properties	29	29
Occupancy Rate (by NLA)	99%	99%
LTV	72.3%	76.7%

Distributions

The Trustee does not expect the income stream derived from its real estate portfolio to be adversely affected by the sub-prime crisis or the reduction on the value of the Trust's assets.

There is no intention to change the distribution guidance from that provided in the Information Memorandum.

Cost of borrowing & future acquisitions

Despite the increased cost of lending arising from the global credit crunch, the Trust has negotiated with Barclays an additional €11m facility at the same margin as its existing debt facility. The existing facility was fully utilised on acquiring the current portfolio, and has a lending margin rate of 95 basis points above the fixed base rate of 4.66%, being a total rate of 5.61%.

Current indicative lending rates are over 6.50% and therefore the Trust has secured a rate which would be difficult to obtain in today's market.



While the Trust is intending to take advantage of the favourable debt terms currently available to it to finance new acquisitions, the Trustee will only pursue acquisition opportunities which are value accretive to the unitholders.

As at the date of this letter, the Trust's real estate portfolio is as described in the Information Memorandum. Since the inception of the Trust, the Trustee has evaluated and conducted due diligence on a number of potential acquisitions. Some of these opportunities are currently under consideration, while others have been rejected by the Trustee following due diligence. Consistent with the Trustee's policy, all acquisitions are subject to approval by the Trustee and the investment committee.

Outlook

Despite a slight loss of economic momentum at the end of the year, 2007 saw robust growth for the German economy, according to figures released by the federal statistics office. The German Government reached an important goal in 2007 when it recorded its first public sector surplus since unification in 1990. Employment rose by 650,000 to the highest level since unification. GDP also rose by approximately 2.7%. These gains were supported by economic growth, currency developments and export activity.

According to the Bundesbank president Axel Weber, this solid upswing is set to continue throughout 2008, although at a slower pace, before accelerating again in 2009.

Due to the implications of the credit crunch, higher financing costs have led to a withdrawal of financially driven investors which made up a high proportion of German commercial property transactions in 2006/2007.

At the same time, despite the 'credit crunch', substantial capital commitments have been raised by open-ended funds during 2007. Due to their relatively conservative leverage open ended funds are expected to act more strongly on the investment market now that highly leveraged parties have been a lot less active.

Overall, researchers such as Petercam Institutional Research have predicted yields in Germany may crawl up a further 25 basis points in early 2008 in order to reflect increased risk premiums. According to Colliers CRE, yields are expected to flatten out from that point as the market picks up again.

The Trustee is closely monitoring the European market and will keep the investors informed as to any material developments affecting the Trust.

We believe that the Trust is strongly positioned to withstand the current volatility in the market and whilst we remain cautious about the European property market, we continue to look for value accretive acquisitions of quality assets with opportunities to create additional value through active asset management.

Contact Details

If you have any questions about the Pengana Credo European Property Trust or your investment, please visit our website at www.pengana.com.au or call Alex Vynokur on +612 8524 9900 or Gavin Rabinowitz at Credo on +44 207 291 3200.