Pengana Credo European Property Trust
Investor Update - February 2009

PENGANA
CAPITAL

Executive Summary

Since our last communication with investors in December 2008, the European and global real estate markets have continued to be affected by tough economic conditions and negative sentiment. Following the recent escalation of the global financial crisis, the outlook for the global economy has deteriorated considerably. World trade is expected to contract and recessions in the US, Europe and Japan have either arrived or are forecast.

As foreshadowed by the Trustee at the time, the combination of volatility and weakness in global economy and very limited availability of debt financing has resulted in further reduction in value of global real estate assets, including the Trust's portfolio.

Based on the 31 December 2008 revaluation (dated 23rd January 2009) recently received by the Trustee, the Trust has breached its loan-to-value ratio (LTV) covenants.

The Trustee is currently in constructive discussions with Barclays Capital, the senior lender, in relation to a restructure of the LTV covenants, which would ensure the stability of the Trust through this turbulent period. Our absolute focus remains on preserving unitholder value.

The Trustee is also in discussions with NAB in relation to a restructure of the €3.7m liability crystallised as a result of the termination of the FX swap in November 2008. The Trustee does not expect the terms of the NAB debt restructure to be finalised until the completion of the renegotiation of senior debt.

The Trustee will continue to keep investors abreast of any material developments in the Trust and will provide an update following completion of the expected loan restructure and the implications for the Trust in the short to medium term.

Property Revaluation and Debt Update

The Trustee has recently received a final independent valuation conducted by Colliers CRE as at 31 December 2008, in respect of 100% of the Trust's property assets, showing a portfolio valuation of €78.85m. This valuation is 14% lower than the previous valuation of €92.08m (Colliers CRE, February 2008) and significantly lower than the indicative valuation provided by Colliers in November 2008 of €88.4m which we referred to in the December 2008 Investor Update.

The dramatic deterioration in the European economic outlook and in particular the property market at the end of 2008 has resulted in a significant adjustment to the 31 December valuation from the previous draft valuation guidance provided by Colliers CRE.

The table below summarises the changes in property values, gearing levels and the Unit Price / NTA over the last twelve months:

Date	Portfolio Valuation (€m)	Percentage change compared to February 2008 valuation	Senior Debt balance	Gearing – Loan to Value	NTA ($)	Unit Price
February 2008	92.08	-	70.68	76.76%		0.73
30 June 2008	No change	No change	70.68	No change	0.74	0.70
November 2008 Indicative valuation	88.40	(4%)	70.68	80%	0.53^	0.53^
31 December 2008	78.85	(14%)	70.68	89.6%*	0.16~	0.14#

^ Based on the indicative property valuation.
* 95% on a look through basis including the FX liability (€3.7m owed to the FX hedge provider).
~ Unaudited, excluding the impact of the mark-to-market on the FX swap (95% terminated in November 2008), based on a AUD/EUR exchange rate of $0.5030.
# Unaudited, including the impact of the mark-to-market on the FX swap (95% terminated in November 2008), based on a AUD/EUR exchange rate of $0.5030.

At the latest valuation, the Trust has breached its LTV covenant of 85% which, in the absence of a restructure, would give rise to an event of default. The Trustee is currently negotiating a restructure of the loan terms, with the aim of removing the application of LTV covenants to the Trust's portfolio. At present, property markets are experiencing very poor liquidity, and asset sales, to the extent they take place, are conducted at distressed values which, in the Trustee's view, do not represent the underlying value of assets and income streams they generate. As such, the Trustee's aim is to maintain the stability of the Trust through these difficult conditions while continuing to examine options in relation to the Trust's portfolio with the aim of preserving and maximising value for unitholders.

Despite the reduction in value, the Trustee can report that operating performance of the Trust's assets remains robust and the assets continue to generate property-level cashflow in line with expectations at the time of acquisition. The Trust is in full compliance with its interest coverage ratio (ICR) covenants. Current ICR is 157% and the covenant is 105%.

The Trust's real estate assets are leased to a diversified mix of pan European supermarket retailers and Peugeot and have a weighted average lease term to expiry of over 7 years. Of note is a recent decision by the French government to provide financial assistance to major French car manufacturers including Peugeot, which is expected to mitigate any potential risk for the Trust associated with that tenancy.

Next Steps

The Trustee is endeavouring to negotiate the best possible outcome with Barclays, but a potential re-structure of the Trust's debt facility is likely to involve a requirement to apply any free cash flow towards reducing debt and may also entail higher interest rate margins being charged on the debt facility.

The Trustee will provide a further investor update following completion of the expected restructure of the Trust's debt facility.

The reduction in the value of the Trust's units and suspension of investor distributions are, understandably, very disappointing for our investors. However, most of the issues being experienced by the Trust have arisen as a result of an unprecedented global financial and economic crisis which is also affecting the vast majority of listed and unlisted real estate investment trusts, both in Australia and overseas. At the operating level, the Trust's real estate assets are exhibiting resilience and ability to generate strong cashflows even in these difficult economic conditions.

Despite the extremely challenging operating environment, we are continuing to work hard to preserve value for our investors.

Contact Details

Pengana Capital Limited ▪ Level 29, 20 Bond Street, Sydney, NSW 2000, Australia ▪ T +61 2 8524 9900 ▪ F +61 2 8524 9901
ABN 30 103 800 568, AFSL 226566

If you have any questions about the Pengana Credo European Property Trust or your investment, please visit our website at www.pengana.com or call Tom Threlfall or Alex Vynokur on +61 2 8524 9900 or Gavin Rabinowitz at Credo on +44 207 291 3200.