Pengana Credo European Property Trust
Investor Update – December 2009

PENGANA CAPITAL

Executive Summary

The December quarter saw the finalisation of the restructuring of the debt facility for the Pengana Credo European Property Trust ("Trust"). In short, the lender has undertaken to waive any breach of the loan to value (LTV) covenant for the period until May 2011, giving the Trust time to allow asset prices to recover and avoiding a forced sale of assets. Further details are provided below under "Trust Debt Position".

In other news:

- The portfolio continues to exhibit its defensive characteristics in terms of income and perform reasonably well; and
- Peugeot has given notice that it wishes to terminate one of its leases. Peugeot are required under their lease to pay out the entire lease.

Portfolio Performance

Colliers have reported that the lowest point in terms of market activity has passed in the German city investment property market.

Investors in those areas are continuing to focus primarily on largely fully leased buildings, in good to prime locations, with good tenants. The limited stock in this type of product has and will continue to result in a hardening of yields.

Outside of the city center locations, (i.e. with the portfolio owned by the Trust) the market activity was subdued in 2009, and whilst opportunistic investments were in demand, there continues to be a gap between the pricing expectations of potential buyers and potential sellers.

Given the quality of the portfolio and the underlying lease covenants, the portfolio continues to perform well in terms of income. 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 approx 7 years.

Occupancy remains high at approx. 99%, (including 2% of the NLA which is under a rent guarantee until 31 October 2010) and the vast majority of the leases continue to operate without any issues.

The only issue that has emerged in the past quarter is Peugeot who have recently vacated their Bremen property. Under the terms of the lease, Peugeot is required to continue to pay rent, whether they utilise the space or not. They are currently looking for a sub-tenant or another party to take over the lease.

Trust Debt Position

As you are aware the debt facility has been in breach of its 85% LTV covenant since the revaluation of the properties in February 2008. There have been ongoing discussions and negotiations throughout 2009 between the Manager and the lender in order to avoid a forced sale of the properties.

As foreshadowed in the September update, the lender has agreed to renegotiate the debt facility and the terms of this were finalized in late December. Under the revised agreement the lender has agreed to waive its 85% Loan to Value covenant until May 2011. This will avoid a forced sale of the portfolio and will provide time to allow property prices to potentially recover some value.

In return for the waiver, the lender has:

- Increased the interest rate margin on the facility to 4%;
- Used Euro 1,350,000 of the retained cashflow from 2009 to reduce the debt facility; and
- Held a further Euro 650,000 from the retained cashflow in escrow.

Whilst the increased margin will reduce the free cashflow from the portfolio, the renegotiation has given the portfolio the time needed to recover to better levels, prior to any asset sales occurring.

Estimated Net Tangible Assets per Security (NTA)

The portfolio was last valued as at 31 December 2008. At the time the resultant unaudited NTA was $0.16 (see Investor Update February 2009). The Manager has instructed valuers and expects that the properties will be valued for the March 2010 quarterly report.

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Financial Statements

Given the breach of the LTV covenant under the loan (ie LTV ratio exceeded 85%), and the ongoing negotiations to restructure the loan, the finalization of the 2008 financial statements were substantially delayed. We expect to finalise the 2008 financial statements by the first week of March, and will provide all unitholders with a copy as soon as possible. The Manager will endeavour to have the 2009 accounts finalized in a timely fashion thereafter.

Distributions

As previously discussed, under the renegotiated debt agreements, the interest margin has been increased to 4%. Furthermore, the lender has the right to retain any free cash until the LTV falls below 80%. Therefore, the manager expects that throughout 2010 the lender will retain all cashflow from the properties, with any excess income (after interest costs) to be applied to reducing the LTV of the portfolio, which remains in excess of 85%.

Given this, it is not expected that distributions to unitholders will be resumed in the near term. Further advice regarding distributions will be made once independent valuations have been completed.

Future Outlook and Focus

Given the current position of the Fund, the Manager's focus is on the following:

Near Term

1. Ongoing management of the property portfolio to maximise income
2. Continue to add value through active asset management

Once these have been achieved, it is expected that in the longer term, the following may occur:

3. Strengthen the Trust's balance sheet by asset sales
4. Recommence distributions to investors or alternatively further asset sales and return of capital to investors.

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

Contact Details

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