

Pengana Credo European Property Trust Investor Update – August 2011



1 of 3

Executive Summary

In our March Investor Update we noted that our funding arrangements with Barclays Bank were due to expire in May 2011 and that negotiations were underway to facilitate appropriate ongoing funding for the Trust. To date, no agreement with Barclays has been reached. The funding arrangements have therefore expired and the loan is in default.

Barclays have not provided us with a definite course of action but have signalled that it is likely that they will require some or all of the portfolio to be sold over the coming year.

A finalised updated valuation for the portfolio as at 31 December 2010 has not been received. However, preliminary estimates show a further decline in portfolio value. Although the portfolio continues to operate strongly with near full occupancy, economic conditions in Europe remain extremely challenging and the outcome of the investment remains extremely uncertain.

Portfolio Valuation

The portfolio was last independently valued by Colliers as at 31 December 2009 at a value of €73.45m which represented a portfolio yield of 8.0%.

Colliers has commenced work on the updated valuation for the portfolio as at 31 December 2010. Whilst this December 2010 valuation has not been finalised, Colliers have indicated that there will be a further reduction in the value of the portfolio due to deteriorating market conditions as well as a 12 month reduction in lease expiry terms.

Colliers commented that although the levels of transactional activity remain substantially below those seen before the financial crisis, there has been a revival in German commercial property activity over the last 12 months. However, this recovery is still largely confined to good quality assets in strong locations with unexpired lease terms in excess of 10 years.

In addition, Colliers noted that this is a portfolio which is unlikely to be attractive to lending institutions, which may exclude purchasers requiring debt finance and restrict the market largely to cash buyers.

It should be noted that the portfolio's net income has remained stable since inception. The fall in the portfolio value is a reflection of the increase in return (i.e. yields) demanded by investors.

Property yields theoretically should show a correlation with government bond rates, with the spread between property yields and bond yields reflecting a "risk premium". In recent years, the spread between property prices and bond rates has increased reflecting diminished liquidity in the banking system and higher risk aversion.

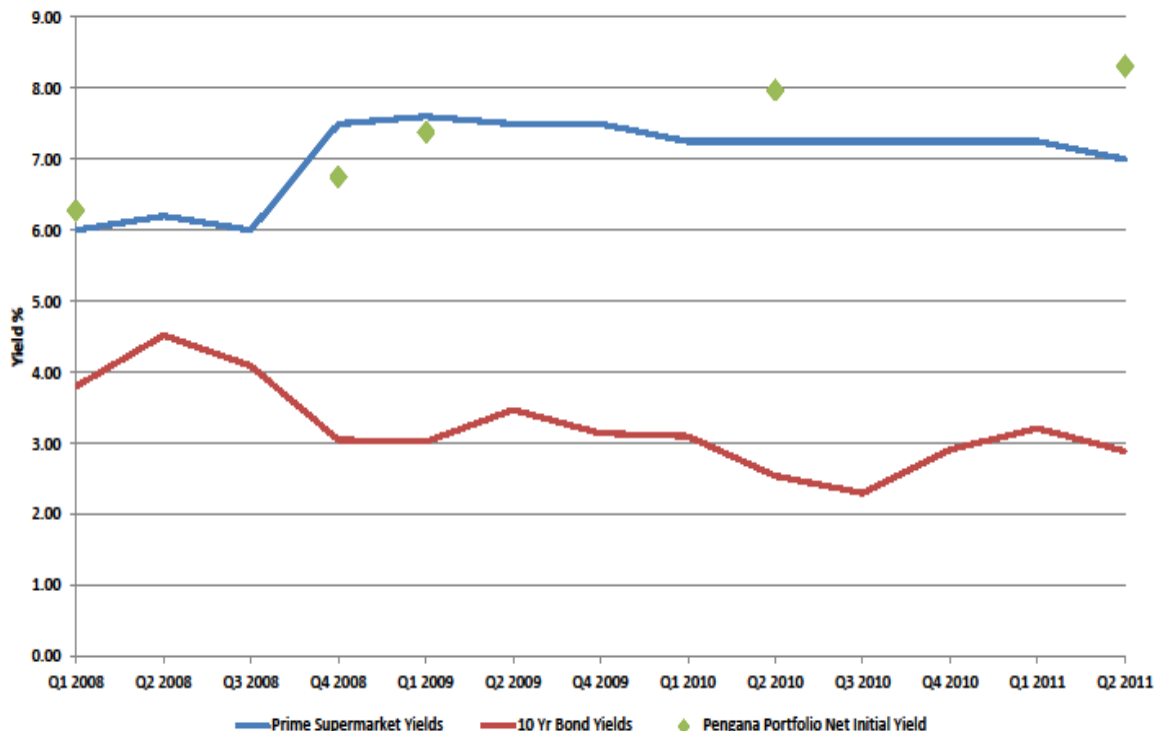
The chart below shows the historic relationship between German prime supermarket assets and the 10 year bond rate.

Pengana Credo European Property Trust Investor Update – August 2011



2 of 3

German Prime Supermarket Yields Against 10 Year Bonds



Currently, the spread between property yields and 10 year bonds is above the long term average and near 10 year highs. Over time, as the European banking system improves and the availability of finance returns, the "risk premium" and hence the property yields may be expected to fall (ie values would increase).

Portfolio Update

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 approximately 5 years.

Occupancy remains high at approximately 99% and the vast majority of the leases continue to operate without any issues. The portfolio remains almost fully leased, and given the secure nature of the leases, income is expected to remain stable over the next 12 months.

Negotiations are currently underway to extend the leases on selected assets with shorter expiry terms.

Trust Debt Position

As previously advised, the debt facility has been in breach of its 85% Loan to Valuation Ratio ("LTV") covenant since the revaluation of the properties in February 2008. Based upon the December 2009 valuation, the LTV on the portfolio loan was approximately 88%. Based upon the anticipated 12 month reduction in the valuation of the portfolio at December 2010, the LTV will be further increased.

Pengana Credo European Property Trust Investor Update – August 2011



3 of 3

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Financial Statements

Our March 2011 Investor Update explained the reasons for the significant delay in the release of financial statements for 2009 and 2010. We also stated that we anticipated that the audit work for 2009 should be completed by the end of July and that the 2010 audit work would commence thereafter. Unfortunately, this timetable has been further extended by the auditors who now estimate completion of the 2009 accounts by the end of September.

It is anticipated that the 2010 audit will be completed in a timely fashion, once the 2009 audit is completed.

Estimated Net Tangible Assets per Security (NTA)

Based upon the December 2009 Valuation and the current levels of debt, an indicative NTA¹ for units in the Trust is zero. As stated above, Colliers have stated that there will be a further reduction in the value of the portfolio at December 2010, which would result in the indicative NTA for units in the Trust remaining at zero.

This means that as at 31 December 2010, if the portfolio was sold, then the prices achieved would only be sufficient to discharge some of the Fund's liabilities, and no capital would be paid to equity holders.

Distributions

As discussed in our June 2010 Investor Update, the interest margin on the Barclays debt facilities was increased to 4%. Furthermore, the lender has the right to retain any free cash until the LTV falls below 80%. Therefore, throughout 2011 the lender will retain all cash flow from the properties, with any excess income (after interest costs) to be applied to reducing the LTV of the portfolio.

Given this, it is not expected that distributions to unit holders will be resumed in the foreseeable future.

Future Outlook and Focus

In the near term, the Manager will continue to actively manage the portfolio as well as focusing on reaching an agreement with Barclays regarding their required course of action.

We will update investors when we have more information regarding the status of arrangements with Barclays and/or when we receive a finalised valuation for 31 December 2010.

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 or call Tom Curtis on +61 2 8524 9986 or Gavin Rabinowitz at Credo on +44 207 291 3200.

¹ This is an indicative value only, based upon unaudited financials and the 31 December 2009 valuation undertaken by Colliers.