

17 April 2013

# Pengana Credo European Property Fund

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Dear Investors in Pengana Credo European Property Fund,

We write to update you on the position of the Pengana Credo European Property Fund ('the Fund'), subsequent to the change of trustee to Forum Capital Limited.

## Overview

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Currently, the value of the Fund's assets are estimated to be €41.35 million (A\$49.62 m) with total liabilities of €77.8 million (A\$93.36m) of which approximately €71 million (A\$85m) is senior bank debt secured by mortgages over the Fund's property portfolio. There are a number of other creditors, including a claim for €4m (A\$4.8m) resulting from the Fund's unwinding of a cross-currency swap with NAB. The estimated NTA of the Fund, therefore, is negative.

In light of the above, the Fund will commence a wind-up process estimated to take 18 months. We anticipate no return will be made to ordinary investors of the Fund after this process is complete.

## New Trustee

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Following the approval of the special resolution by investors in February 2013, Forum Capital Limited (ACN 104 438 100, ASFL 239882) has been appointed as the new trustee of the Fund. Accordingly, Pengana Capital Limited ('Pengana') will no longer be responsible for the management of the Fund.

Forum Capital Limited ('Forum') is a subsidiary affiliate of Forum Partners Investment Management LLC ('Forum Partners'), a specialist global real estate fund manager with 60 employees across 10 offices across Asia, Europe and the US. Forum currently manages over US\$5.5 billion in assets across Europe and Asia on behalf of a variety of investors, including institutional investors, large private and public pension funds.

Fund.

It is important to note that Forum has the right to put its trustee responsibilities back to Pengana, the former Trustee, should Forum incur or be reasonably likely to incur claims or losses greater than A\$50,000 in relation to its operation of the Fund.. We hope you can appreciate our position to this extent, given the circumstances.

## New Asset Manager

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Forum Partners' European asset management team ('Forum Europe'), based in London has replaced Pengana Credo Asset Management Pty Limited as the asset manager for the Fund's assets located in Germany.

Forum Europe is a subsidiary of Forum Partners and has significant experience in investment and asset management of German real property assets, as outlined in our letter to investors dated 22 January 2013.

It is important to note that should Forum Capital exercise the put of trustee responsibilities back to Pengana, Forum Europe will also cease to act as asset manager.

## Change of Name of Fund

The name of the Fund will be changed from Pengana Credo European Property Trust to FCL European Property Trust as soon as possible, as requested by the previous trustee.

## New Strategy

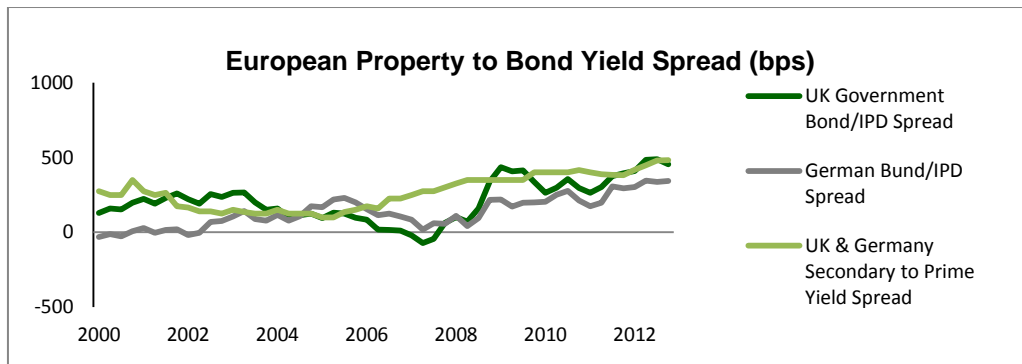
Following a review of the financial position of the Fund and the rights of creditors who rank ahead of investors, the trustee has determined it to be most appropriate to wind up the Trust through an orderly sale of properties as soon as is practical.

After seeking requests for proposals from a number of German-based property advisory firms, we have appointed NAI Apollo to run the sales process. We expect this process to take approximately 18 months.

While the potential to recover value for investors is remote in the context of the debt against the Fund's asset value, we are committed to an efficient and focused execution of this strategy to achieve the best possible outcome for investors.

## Europe: Macro Market and Outlook

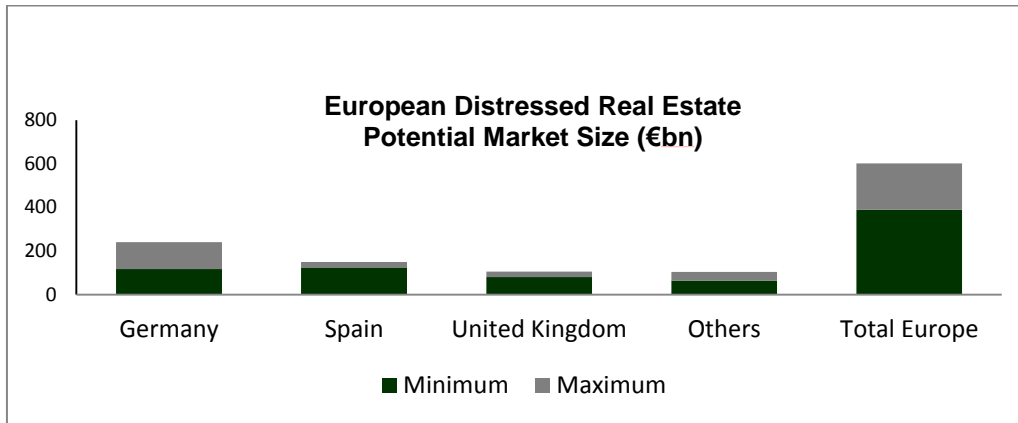
Europe remains a region plagued with significant macroeconomic issues as a direct legacy of the global financial crisis, with negligible growth, restrained inflation and interest rate outlook and sovereign debt and financial market dislocation continuing. We believe the market is better suited for new opportunistic investors than those seeking remediation of assets or investment structures, particularly in circumstances of high debt.



SOURCE: MORGAN STANLEY

Regionally, historic-high spreads between property and government bonds exist and continued deleveraging in capital markets indicates prolonged investor resistance to risk.

Germany is a predominant market within the Eurozone, leading the region in comparative economic growth, employment and personal wealth, but is not without its challenges, which include growing property and business distress, predominately in respect of small to mid-market assets and enterprises, which indicates a deep and diverse environment of economic malaise which will pollute growth and recovery outlook.



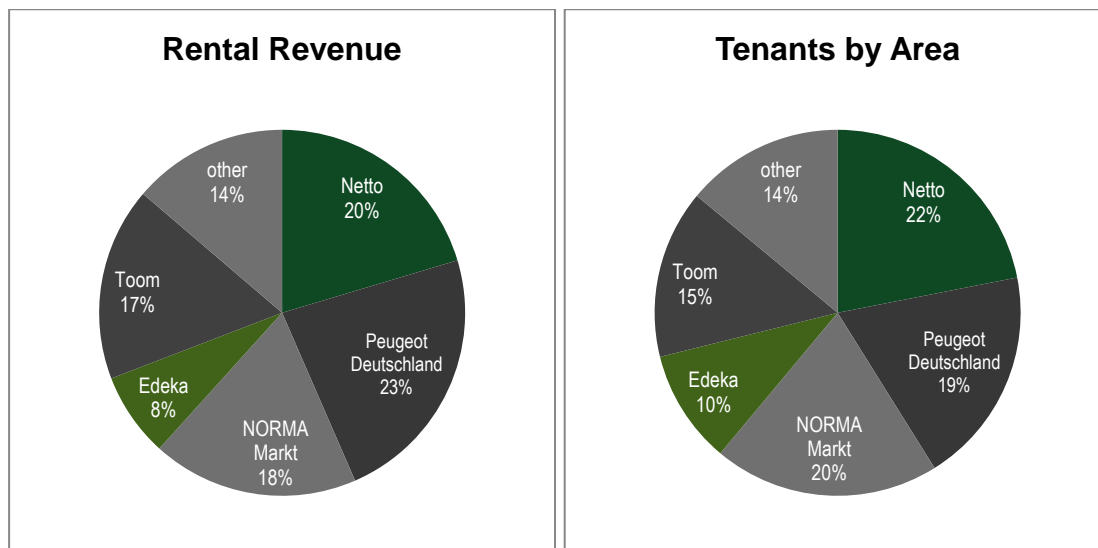
SOURCE: MORGAN STANLEY

The German real estate market is showing some signs of recovery, as a result of negligible new supply across all sectors and sub-markets which has led to an 80% increase in residential sales from 2011 (204,000 dwellings for €11.5bn), and some evidence of prime commercial asset yield stabilisation at between 5.5% (office) and 7.5% (industrial).

We are hopeful the Fund may benefit from a recovery over the next 18 months as the wind-up is affected, but remain cognizant of the challenges the Fund faces in the context of the current economic environment.

### Asset Valuations

The portfolio in aggregate reflects a balanced and diversified mix of small properties predominantly tenanted by major supermarket retailers with some exposure to automotive manufacturing and sales, in regional locations across Germany.



Taking into account market guidance, we estimate the Funds asset value to be approximately €41.35 million (A\$49.62m) down approximately 40% from the last certified valuation by Colliers International in May 2011. This decline in value is attributed to the ongoing softening of capitalisation rates and the lack of investment interest for small regional properties such as the Fund's portfolio, coupled with the commencement of rental reversion to current market rates which is estimated to be an aggregate of a 20% discount to current rental income.

We note the following items for your attention:

- The largest asset in the portfolio is leased to TOOM Baumarkt GmbH, a large DIY hardware retailer (notionally equivalent to Bunnings Warehouse in Australia), which has less than 1 year to term and is over-rented to market rates by approximately 20%.
- Significant exposure exists to Peugeot Deutschland, a subsidiary of Peugeot-Citroën PSA, a large European automotive manufacturer, who faces financial challenges as a result of low sales and high manufacturing and operating costs. The properties currently leased to Peugeot Deutschland are comparatively specialised as car showrooms and if Peugeot were to break leases or vacate the premises it would be difficult to release to a same-use tenant. Peugeot suffered a record loss of €5.0 billion (A\$X billion) in 2012, mostly due to writing down the value of its assets as the European car market has fallen.
- Several properties require capital expenditure, which can be as simple as painting but as complex as full refurbishments, which includes electrical, building and supporting trades.
- The sales market for smaller regional retail assets is opaque due to lack of transaction evidence and a limited number of small, private local German investors, typically buying for their pension/retirement benefits. This has been taken into consideration with our estimate of current value and liquidity.

## Bank Debt

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Barclays Bank PLC ('Barclays'), the senior lender and first secured creditor over the Fund's properties are currently outstanding approximately €71.10m, which is estimated to be approximately 40% in excess of the estimated property value.

As a result the senior bank secured facility was in default and at risk of enforcement action, which can include the appointment of receivers.

However, with the change of trustee and proposed new strategy, Barclays is expected to execute a stand-still agreement with the Fund that remedies the default and limits its rights of enforcement as creditor, including the appointment of receivers.

Barclays has and will continue to receive 100% of the net rental income from the Fund's property portfolio to pay interest and property management costs.

In addition, National Australia Bank, also a bank creditor of €4m (A\$4.8m) is unsecured by mortgage over the properties but senior in right of repayment over investors, on any return of capital.

## Hedging

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A cross-currency swap was entered into between the Fund and NAB for €35.5m (A\$42.6m) in 2007, as contemplated within the Fund's initial offer documentation, for tenure of 7 years and supported by collateral of €1.4m (A\$1.7m) cash. Upon significant weakening of the Australian dollar to the extent of excess of the collateral support and agreed terms of the hedge, the trustee acted to unwind the position resulting in a cost of €5.5m (A\$6.6m) of which €4m (A\$4.8m) remains unpaid.

Accordingly, NAB is an unpaid creditor to the Fund but is unsecured over the Fund's property portfolio. As of this date, NAB has not agreed to any stand-still of their rights as a creditor but is unable to accelerate its position as unsecured creditor without the agreement of Barclays.

Currently the Fund is unhedged and at risk to currency fluctuations.

## Other Creditors

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Additionally, there are other creditors who rank ahead of investors, including trade creditors such as custodians, foreign management companies and professional advisors. In the event of any uplift in asset value whereby capital is available, these debts would need to be paid prior to any return being made to investors.

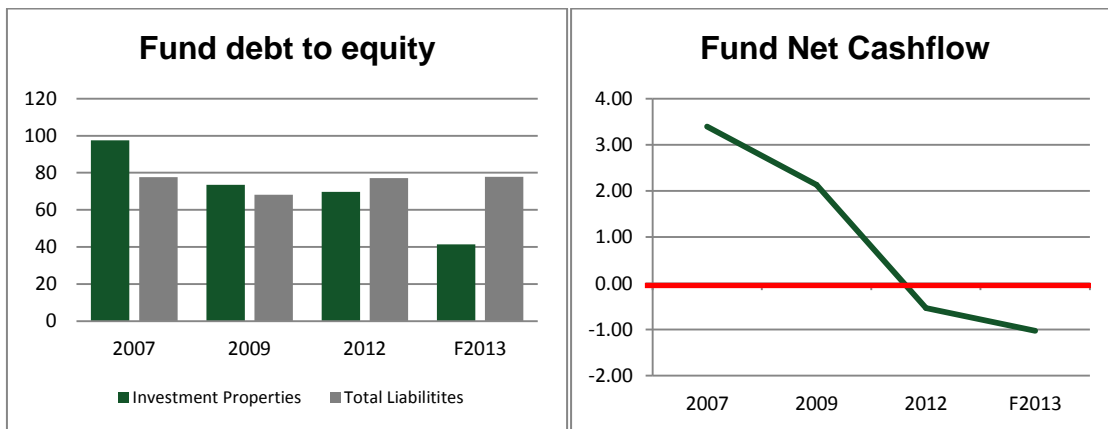
## Financial Position of Trust

Financial accounts have not been completed for the previous 4 financial years.

From the information received from previous trustee, we have put together a representation of the Fund's financial position as at 1 February 2013 with information available. Please see this information outlined in 'Attachment A' included.

It is important to acknowledge that the Fund has suffered from property asset de-valuation, high and costly debt levels and the commencement of property rental reversion, which must qualify its characterisation as a viable going-concern with definable net asset value. We also note the floating currency nature of the investment distorts specificity.

Key Fund financial indicators are the progressive decline in Fund asset values and the recent revision of rents which is depreciating income rental receipts.



## Taxation

A tax loss is generally not able to be claimed until the loss is crystallised or realised.

We recommend you seek independent and professional advice for your circumstances.

## Complaints

Should an investor wish to register a complaint, please direct correspondence to:

Head of Investor Relations  
Forum Capital Limited  
Level 13, 28 O'Connell Street  
Sydney NSW 2000  
[InvestorsAUS@forumpartners.com](mailto:InvestorsAUS@forumpartners.com)

We will always endeavour to resolve complaints internally in the swiftest timeframe possible.

Forum Capital Limited is a member of an independent dispute resolution scheme, the Financial Ombudsman Service ('FOS') to assist with the resolution of all investor complaints that cannot be managed internally.

Should you have a complaint which you believe has not been resolved sufficiently internally, you can lodge a complaint with FOS online or download a dispute form from their website [www.fos.org.au](http://www.fos.org.au) and email to [info@fos.org.au](mailto:info@fos.org.au) or post to:

Financial Ombudsman Service  
GPO Box 3  
Melbourne VIC 3001

## Contact information

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Whilst we are aware that this update may have brought disappointing news, we will be sure to keep investors updated quarterly via email until the divestment process is complete.

Please contact us by phone 02 9222 8233 or email [investorsAUS@forumpartners.com](mailto:investorsAUS@forumpartners.com) if you have any questions about this letter or relating to your investment.

Regards,



**Andrew Faulk**

Country Head  
Forum Partners Australia

### Disclaimer

Exchange rate used is Australian dollar / Euro: 1.2/1. This letter is issued by Forum Capital Limited in its capacity as trustee of Pengana Credo European Property Fund. It is not an offer of securities for subscription or sale and is not financial product advice. Information in this letter including, without limitation, any forward looking statements or opinions ('the Information') may be subject to change without notice. To the extent permitted by law, Forum Capital Limited, and its officers, employees and advisers aim to provide the most accurate information, though do not make any representation or warranty, express or implied, as to the currency, accuracy, reliability or completeness of the Information and disclaim all responsibility and liability for it (including, without limitation, liability for negligence), particularly relating to the current financial position of the Fund, as comprehensive Financial accounts have not been completed for the previous 4 financial years under the previous trustee. Estimates of the Fund's current financial position are made from information provided by the previous trustee, so no fault can lay with Forum Capital Limited's reconstruction of such information. Actual results may differ materially from those predicted or implied by any forward looking statements for a range of reasons outside the control of the relevant parties.

The information contained in this letter should not be considered to be comprehensive or to comprise all the information which an investor may require in order to determine a decision about their investment. This letter does not take into account the financial situation, investment objectives and particular needs of any particular person. The repayment of capital and performance of an investment managed by Forum Capital Limited is not guaranteed by any of its related bodies corporate or any other person or organisation. This investment is subject to investment risk, including loss of income and principal invested.

## Attachment A: Summary Financials (adjusted and simplified)\*

€'mm	notes	F2013	2012	2009	2007
<b>ASSETS</b>					
Current Assets					
Cash			0.02	2.10	2.10
Debtors					
Non-Current Assets					
Investment Properties	1	41.35	69.68	73.44	97.42
financial instruments	2			3.80	3.80
Receivables					
<b>TOTAL ASSETS</b>		<b>41.35</b>	<b>69.7</b>	<b>79.34</b>	<b>103.32</b>
<b>LIABILITIES</b>					
Current Liabilities					
Bank debt	3	74.69	74.69		
Other creditors	4	3.11	2.40		9.51
Provisions					
Non-current Liabilities					
Bank debt				68.19	68.19
<b>TOTAL LIABILITIES</b>		<b>77.80</b>	<b>77.09</b>	<b>68.19</b>	<b>77.70</b>
<b>NET ASSETS</b>		<b>-36.45</b>	<b>-7.39</b>	<b>11.15</b>	<b>25.62</b>
€'mm	notes	F2013	2012	2009	2007
<b>INCOME</b>					
Net Operating Income	5	5.02	5.55	5.95	7.21
<b>TOTAL INCOME</b>		<b>5.02</b>	<b>5.55</b>	<b>5.95</b>	<b>7.21</b>
<b>EXPENSES</b>					
Operating expenpe		0.05	0.05	0.04	0.04
Bank Interest	6	5.11	5.11	3.75	3.75
tax		0.02	0.05	0.02	0.02
Unrealised FX losses	7	0.87	0.87		
<b>TOTAL EXPENSES</b>		<b>6.05</b>	<b>6.08</b>	<b>3.81</b>	<b>3.81</b>
<b>PROFIT/ LOSS</b>		<b>-1.03</b>	<b>-0.53</b>	<b>2.14</b>	<b>3.40</b>

\*Financial information has been constructed to best articulate the value of the investment property assets (being the purpose of the Fund as stated within the initial offer documentation) and the associated income, against bank debt, liabilities and expenses within the context of the investment structure.

### Notes to the summary financials

Note	Subject	Comments
1	Investment Properties	Trust interest in investment properties was acquired via the acquisition of shares in Pengana Credo Property Ltd (Gibraltar) for €13.2m which then acquired Luxembourg SARL as owner of the investment properties and a loan of €13.5m to Luxembourg SARL for the acquisition of the investment properties. See Attachment B for <i>Investment Property Asset Information</i>
2	Foreign Currency Hedge	A cross- currency swap was entered between SARL and NAB for €35.5m in 2007 for tenure of 7 years supported by collateral of €1.4m cash. Upon significant weakening in excess of the collateral and terms of the hedge, the Trustee acted to unwind the position resulting in a cost of €5.5m of which €4m remains unpaid. Accordingly NAB is a creditor but is unsecured at the property level.
3	Bank Debt	Barclays Bank Plc are secured creditors over the properties to the amount of approximately €71.1m. Loan was agreed in 2007 as a 5 year interest-only liability. Two stand-still agreements have been agreed, the latest dated February 2013, defeasing enforcement under mortgage documents for a term of up to 2 years and accruing any surplus cash from properties to reduce loan principal.
4	Other Creditors	Initial creditors included Trustee and Manager for fees as described within the 2007 Information Memo section 5. Current creditors are unsecured to either the Luxembourg SARL or the Australian MIS and include parties such as lawyers, accountants, custodian, Gibraltar-structure management company and the Trustee itself.
5	Net Operating Income	Actual gross rent plus expenses including incentives, maintenance and property administration by Luxembourg SARL. We believe the properties are over-rented to current market evidenced by market advice and illustrated by tenants who are actively seeking re-negotiation. It is forecast this will result in a significant reduction of rent income.
6	Bank Interest	Loan was originally interest-only at fixed rates, then floating with aggregate mean annual rate of 5.3% of principal excluding fees. Current interest cost is approximately 7.5% per annum of principal inclusive of penalty rates but excluding fees.
7	Unrealised FX losses	A small part of the foreign exchange hedge relating to underlying capital (equity) value has been kept valid (see note 2) and associated interest expense exists.

**Attachment B: Asset information dated 1 February 2013**

Asset name / Location	Ares (m <sup>2</sup> )	key tenant	Asset type*	Occupancy	WALE (year)	Rent (€/sqm)	2011 valuation (€/m)	estimated true market rent (€m)	2013 adopted valuation (€/m)
Bad Berka,20,Weimarische Strasse	1,234	Edeka Handelsgesellschaft mbH	LS	100%	4	99,200	1,240,000	89,280	744,000
Bad Konigshofen,Aubstadter Strasse / Ho	1,626	Netto Marken-Discount	LS	99.78%	4.5	165,980	2,150,000	154,800	1,290,000
Blankenstein,Selbitz Platz	1,310	Edeka Handelsgesellschaft mbH	LS	99.75%	5.5	86,400	1,080,000	77,760	648,000
Bruchhausen-Vilsen,1,Ostlandstrasse	1,114	Netto	LS	99.92%	7	104,088	1,375,000	99,000	825,000
Burgkunstadt,33,In der Au	1,672	NORMA Markt	LS	100%	5.5	169,740	2,050,000	147,600	1,230,000
Chemnitz/Markersdorf,174,Stollberger Str	1,644	Penny Markt GmbH	LS	99.75%	4.5	195,300	2,520,000	181,440	1,512,000
Coswig,15,Melachthonstrasse,Meissen,Cos	1,126	Netto	LS	99.72%	12	107,520	1,400,000	100,800	840,000
Ebern,5,Alte Ziegelei	1,642	NORMA Markt	LS	100%	1	146,438	1,775,000	127,800	1,065,000
Kirchenrenbach,1,Pretzfelder Strasse	1,667	NORMA Markt	LS	99.68%	5	149,220	1,800,000	129,600	1,080,000
Konneren,5D,Magdeburger Strasse	1,056	Netto	LS	100%	12	94,400	1,180,000	84,960	708,000
Langenau,In den Lindeschen	750	dm drogerie markt GmbH & Co. KG	LS	99.79%	5	63,750	750,000	54,000	450,000
Langenbernsdorf,Albertsdorfer Strasse	909	Edeka Handelsgesellschaft mbH	LS	99.87%	5.5	86,460	1,100,000	79,200	660,000
Limbach-Oberfrohna,59-65,Hauptstrasse,	1,820	Edeka Handelsgesellschaft mbH	LS	100%	2.5	159,900	1,950,000	140,400	1,170,000
Lutzen,19,Starsiedeler	1,055	Netto	LS	100%	12	89,600	1,120,000	80,640	672,000
Nidda,1,Am Rauner Graben	1,053	Rossmann GmbH	LS	100%	2	108,270	1,350,000	97,200	810,000
Rimpar,An der Burggrumbacher Strasse	1,368	NORMA Markt	LS	100%	0	154,688	1,875,000	135,000	794,118
Schwarzheide,Ruhlanderstrasse	1,050	Netto	LS	100%	12	98,000	1,250,000	90,000	750,000



Attachment B (continued): Asset information dated 1 February 2013

Asset name / Location	Ares (m <sup>2</sup> )	key tenant	Asset type*	Occupancy	WALE (year)	Rent (€/sqm)	2011 valuation (€/m)	estimated true market rent (€/m)	2013 adopted valuation (€/m)
Spremberg,73,Karl Marx	1,056	Netto	LS	100%	12	94,560	1,200,000	86,400	720,000
Weida,16,Geraer Landstrasse	1,166	Netto	LS	100%	12	108,500	1,400,000	100,800	840,000
Wutha-Farnroda,42,Ruhlaer Strasse	1,121	Netto	LS	100%	12	103,483	1,325,000	95,400	795,000
Zack/Toom Baumarkt,Berlinstrasse,Hage	7,810	TOOM Baumarkt GmbH	WR	100%	1	989,385	10,650,000	766,800	6,390,000
28199 Bremen-Neus,9,Flughafendamm	3,587	Peugeot Deutschland	CS	100%	2.5	241,150	2,650,000	190,800	1,590,000
40880 Ratingen,40,Am Roten Kreuz	2,502	Peugeot Deutschland	CS	100%	3	300,150	3,450,000	248,400	2,070,000
63263 Neu-Isenburg,96-98,Schleussnerstr	1,717	Peugeot Deutschland	CS	100%	3.5	461,630	5,300,000	381,600	3,180,000
79111 Freiburg",37,Botzinger Strasse	2,260	Peugeot Deutschland	CS	100%	3	334,133	3,725,000	268,200	2,235,000
83533 Wasserburg,2 and 2a,Staudhamer	1,438	dm Markt	LS	100%	2.5	169,788	2,125,000	153,000	1,275,000
90766 Furth,188,Vacherstrasse	4,112	NORMA Markt	LS	100%	5	435,000	5,800,000	417,600	3,480,000
93049 Regensburg,5,Reneweg,Regensbur	1,116	Netto	LS	100%	7	213,125	2,750,000	198,000	1,650,000
90547 Stein,41, 43,Muhlstrasse	2,439	LIDL Markt	LS	100%	4	258,463	3,335,000	240,120	2,001,000
<b>TOTALS</b>	<b>52,420</b>				<b>5.50</b>	<b>5,788,318</b>	<b>69,675,000</b>	<b>5,016,600</b>	<b>41,474,118</b>

\*Asset type explanation: LS: Local supermarket. CS: Car showroom. WR Warehouse retailer