Independent Research November 2006

# MAB International Retail Trust

WARNING TO INVESTORS

Property Investment Research Pty Ltd ABN 97 006 425 083 ("PIR") provides general financial product advice in accordance with the Australian Financial Services Licence (No. 252599) it holds as required by the Corporations Act 2001. The advice has been prepared without taking account of the investor's objectives, financial situation or needs; and because of that, the investor should, before acting on the advice, obtain a Disclosure Document or Product Disclosure Statement and consider carefully the Document or Statement together with the advice, having regard to the investor's objectives, financial situation and needs. All investors are strongly advised to consult professional financial advisers whose role it is to provide appropriate investment advice, taking into account an individual investors' investment objectives, financial situations and particular needs.

RESEARCH CREDENTIALS

Established in 1989, PIR is Australia's leading independent specialist research group on property related investments. PIR is the major supplier of independent property research to Investment Managers and Financial Advisers. As required by section 945A(1)(b) of the Corporations Act 2001, Financial Advisers must research properly the financial products they recommend and PIR's independent property research assists in this area. PIR's independent research plays a vital compliance role for Australian Financial Services Licensees in that it: provides knowledge of investment promoters, their track record, the investment market and the risks involved; and; provides, where specialised in-house research is not available, reliable and impartial research.

STATEMENT OF INDEPENDENCE

PIR receives a fixed fee for its reports, which are prepared in accordance with ASIC Policy Statement 181. PIR is a property investment specialist and applies a strict and rigorously independent process for production of research reports. PIR has no direct or indirect vested interest in the success or otherwise of any investment offer evaluated by PIR. Under section 923A of the Corporations Act 2001 there are restrictions and penalties relating to the misuse of the word 'independent'. Neither PIR nor its directors, its employees or associates receive success fees, commissions, or remunerations based on transaction volume, gifts or any other peripheral benefits that may materially influence the direction of reports. Additionally PIR's independent ownership means it has neither potential conflicts nor vested interests, such as those arising through ownership by stockbroking, financial planning, real estate or fund management organisations.

DISCLAIMER

PIR's independent research reports are not prepared for inclusion in, or in connection with any Disclosure Document or Product Disclosure Statement or other offer document and should not be relied upon to provide all the necessary information for investment decisions. Although great care has been taken to ensure the accuracy of its reports and advice, PIR gives no warranties (except those that are implied by law and cannot be excluded) in relation to the statements and information contained in its reports and advice and disclaims all liability to the fullest extent possible arising from any persons acting on the information and statements in its reports and advice. PIR research provides general opinion, not personal securities recommendations, and PIR reserves the right to change its opinion, ratings and/or withdraw the report at any time on reasonable grounds. **Reports prepared by PIR on particular investments should not be relied on if the report was issued more than 6 months before (and even within 6 months of issue it assumes there have been no material changes to the relevant circumstances)**. PIR assumes no responsibility or obligation to provide updates on any published report. Please consult the Responsible Entity, Product Issuer or your financial adviser for further information.

Richard Cruickshank, Managing Director.

For further information, please visit www.pir.com.au

**Research – Unlisted Property Trust** **November 2006**

# MAB International Retail Trust

## Summary

*Offer Overview*

MAB Funds Management Limited ("MFML"), the Responsible Entity ("RE"), seeks investment of up to AUD$37.3 million in capital (for taxation and return effectiveness, the investment will be split 90:10 between equity units and debt notes) to fund the 99.5% interest in the MAB American Property Fund LLC ("US REIT"), which will become an unlisted US real estate investment trust. The US REIT intends to acquire five supermarket anchored retail shopping centre properties on the East Coast of the USA. Other US investors (undisclosed) hold 0.5% of the US REIT, a requirement for US legal and taxation purposes. The US REIT will be managed via a joint venture between MFML and US Based property company Rosenthal ("MAB Rosenthal").

*Evaluation Summary*

MAB International Retail Trust ("the Trust") does not intend using leverage, as debt funding has been undertaken at the REIT level. The US REIT will eventually borrow US$42.3 million ($A57.1 million) in the US debt market (63.9% of portfolio value) on a limited-recourse basis. The RE has hedged interest rates on 100% of the initial borrowings for at least seven years through interest rate swaps. MAB has also secured fixed rate currency hedging for 80% of its forecast US$ income. The RE has hedged the equity of the Trust for seven years. The weighted average lease expiry of the entire portfolio of 64 tenancies is 8.3 years.

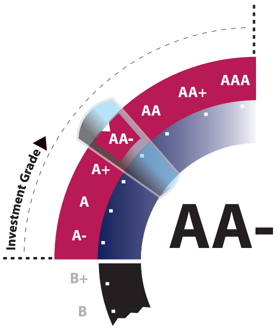
*Management*

The Responsible Entity for the Trust is MAB Funds Management Limited, a wholly owned subsidiary of MAB Corporation, a well-known Melbourne-based property company, with over $550 million in projects under construction. MFML was formed in 2001 and has three funds under management with assets of approximately $150 million. MFML, in its own capacity and not as Responsible Entity of the Trust, has established a joint venture, MAB Rosenthal LLC, together with Rosenthal Realty Investment Management Inc. MAB Rosenthal is based in Los Angeles and will be responsible for asset management of the Portfolio. Currently, a MAB executive is moving to the USA and MAB is employing further staff members in the USA.

## Major Considerations

- ▲ A long weighted average lease expiry of 8.2 years (12.7 years for majors, 48% of portfolio income).
- ▲ The RE has hedges in place to fix borrowing costs and protect investor capital for seven years, as well as 86% of income distribution from the US for three years.
- ◀▶ The JV US based management company is new and as yet untested.
- ◀▶ Physical separation of the asset manager and the subject properties due to respective locations, although somewhat mitigated by new staff appointments and establishment of a MAB office in the USA.
- ◀▶ Property investments rely heavily on the capacity of Management, thus any changes to Management can have a substantial (positive or negative) impact on investment performance.
- ◀▶ Fund currently shows limited levels of diversification
- ▼ Relatively highly concentrated in one geographic area within the United States.

**Overall Investment Rating**




© PIR 2006

| **Latest report expiry:** | **9 May 2007 [1]** |
|---|---|

| **Scheme Details** | |
|---|---|
| MAB International Retail Trust | |
| ARSN 121 054 662 | PDS dated 3 November 2006 |
| Fund type | Unlisted Property Trust |
| Duration of investment | Open ended* |
| Unit price | $1.00 |
| Minimum investment | $10,000 |
| Distribution frequency | Quarterly |
| Liquidity | Low |
| Adviser Commissions | Undisclosed |
| **Responsible Entity (Manager)** | |
| MAB Funds Management Limited (ABN 36 098 846 701) | |
| **Custodian** | |
| Sandhurst Trustees Limited (ABN 16 004 030 737) | |

*The RE intends to offer redemptions to all investors in 2013.

| **Investment Profile** | |
|---|---|
| Number of properties | 5 |
| Property locations | North & South Carolina, USA |
| Property sector | Retail |
| Future borrowing commitments | Nil |
| Gearing ratio (% of Total Assets) | 60.5% |
| Gearing ratio (% of Purchase Price) | 65.3% |
| Purchase price: total funds | 92.6% |

| | | | |
|---|---|---|---|
| Capital sought | $37.3m | Property Price | $87.5m |
| Debt | $57.1m | Related costs | $6.9m |
| Total funds | $94.4m | Total funds | $94.4m |

| **Returns forecast by the Responsible Entity** | | | |
|---|---|---|---|
| **Year end 30 June** | **2007** | **2008** | **2009** |
| Income return | 8.40% | 8.45% | 8.50% |
| Tax Advantaged | 90% | 90% | 90% |

[1] *This report, dated **10 November 2006, expires when the initial offer closes or after 6 months or if there are any material changes** in relation to the information contained in this report or any disclosure or offer document issued in relation to this offer. This report was not prepared for inclusion in any offer document and investors must only rely on information contained in the offer document and other associated information. PIR reserves the right to change its opinion, ratings and/or withdraw the report at any time on reasonable grounds.*

**FOR STATEMENT OF INDEPENDENCE, RESEARCH CREDENTIALS AND DISCLAIMER, REFER BACK PAGE OF REPORT.**

**Property Investment Research Pty Ltd (PIR)** A.B.N. 97 006 425 083 AFS Licence No. 252599
Level 6, 423 Bourke Street Melbourne 3000 Australia (GPO Box 4723 Melbourne 3001 Australia)
Telephone: (03) 9670 7767 Facsimile: (03) 9642 5579 e-mail: propinv@pir.com.au www.pir.com.au

## Conclusion

| Qualitative Criteria | Star Ratings Assessment (0 – 5) |
|---|---|
| Quality of assets | ★★★½ |
| Strength of relative property markets | ★★★½ |
| Quality of income stream | ★★★½ |
| Potential upside for vehicle | ★★★ |
| Diversification | ★★½ |
| Investor's initial value | ★★★½ |
| Level of fees | ★★½ |
| Capital structure and debt management | ★★★ |
| Quality of disclosure | ★★★½ |
| Track record and capacity of Management | ★★½ |

Table i

The portfolio comprises five grocery anchored small strip retail centres. Four of the properties are located on the fringe of Charlotte, North Carolina (82% of portfolio by value) and the remaining property (18% of portfolio by value) is located in South Carolina, the adjoining state. Both states are on the East Coast of the USA.

In terms of population and income, the areas in which the properties are located are generally growth areas with above average incomes. Many of the areas are new suburbs and most have a demographic breakdown in the age ranges of young to established families.

There is limited geographic and property sector diversification; however there is a good mix amongst the 66 tenants, including large listed national companies, offering a good overall diversification of income risk within this sector specific Trust.

All the properties are located on large sites with ample parking and present well, having had effective maintenance programs in place. A key feature is the long weighted average lease expiry of 8.2 years, with the key anchor tenants that account for 48% of income having a weighted average lease expiry of nearly 13 years.

The RE has exchange rate hedges in place for 86% of the distributions for the first seven years for the Trust. In addition, the RE has 98% hedged out the exchange rate on the capital portion of the investment for the first seven years.

In summary, this is an investment in a five property, 66 tenant/building strip mall retail centre portfolio that should provide stable income returns with some prospect for capital appreciation, provided the local manager under the auspices of the RE adopts an on-going proactive management style of the properties.

This is an open ended trust with an 80 year life. However the RE has stated the intention of allowing all investors to exit the Trust at the end of each seven years. As a result, it resembles a seven year syndicate for most investors, on the assumption that the RE is able to fund all redemption requests at those junctures, which is not guaranteed. In addition, the RE is offering a limited liquidity facility at the end of each quarter (after one year), for details refer *Liquidity and Exit Mechanism*.

Portfolio management in the USA will be undertaken by MAB Rosenthal. PIR has not had the opportunity to meet with the management and staff of MAB Rosenthal and is not able to comment on the skills and experience of the individuals in this company. However, PIR is aware of Rosenthal, which is part of a very large and well known real estate services company; Curtis Rosenthal. PIR notes that the activities of Rosenthal and Curtis Rosenthal are more focussed on property valuation as opposed to property management, although it is also noted that Rosenthal intends to utilise the services of local managing agents to provide general management services to the properties.

The Fund will invest in the United States through a US real estate investment trust (US REIT), named MAB American Property fund LLC. Currently structured as a company, it will become an unlisted US REIT. The US REIT will invest in the Property Portfolio. Ownership of each property will be via separate limited liability holding companies.

To comply with US laws on the structure of REITs there is a minimum shareholding requirement of US based investors. These investors will hold ownership of the remaining 0.5% of the US REIT. The Manager, as RE of the Trust, will be the dominant common stock holder and will determine the membership of the board of the US REIT. The US REIT will be operated and managed from the United States by the MAB Rosenthal joint venture management company and its directors will be predominantly US-based. This structure is standard for Australian and overseas investors in structures such as this Trust.

The investment structure for unit holders is now somewhat standard for unlisted syndicates investing in the USA, in that 90% of the investment will be in the form of units in the Trust and 10% will be in unsecured notes being a fixed interest loan to the US REIT with an interest rate of 8.3%. This loan is effectively an equity interest and has been treated as such by PIR for modelling and rating purposes. It is effectively an equity interest, as the US REIT's requirement to pay this interest affects the equity return to unit holders in the event of the US REIT suffering a drop in revenue. This equity/loan split is required to enhance returns by reducing US withholding tax requirements, which would otherwise negatively impact returns. PIR is comfortable with this investment structure and notes that it has been used for several Australian syndicates with portfolios of USA based assets for the past two years.

## Key Assessment Issues

Issues for investors to consider are the current vacancies of some specialty retail stores accounting for approximately 2.8% of potential portfolio income. This consideration is mitigated by the very good positioning of the remainder of the portfolio (95.2%) and the fact that 51% of income comes from supermarket operators who are considered to be 'bread and butter' stable tenants from a retail property perspective. PIR notes that the RE has stated that its local US representatives are currently actively seeking new tenants for all the vacant spaces, although PIR has not been informed for how long agents have been seeking replacement lessees. There are currently rental guarantees covering these vacancies for between nine and eighteen months.

The style of all the centres is single level retail with open air parking. PIR has inspected four of the five properties and they present in very good condition. In addition, the interiors of the anchor tenant supermarket premises in all centres have been well maintained and renovated by the tenants and provide an attractive shopping environment for patrons.

One factor for consideration is that MAB Rosenthal is based in Los Angeles, California on the west coast, whilst the properties are located on the east coast. This presents a large degree of physical separation between the asset manager and the assets and PIR is unaware that Rosenthal has any recourses in Carolina, meaning that this may present difficulties associated with distance and a reduced ability to be 'hands on' with the assets. PIR notes that the RE has stated that Rosenthal intends to appoint local property management agents to provide general management services to the properties. As such, the quality and experience of this management is likely to influence the property portfolio performance.

To this end, a dedicated property manager located in North Carolina has been employed to manage the Trust's portfolio. MFML has indicated an intention to grow its USA operations and the intention is that this property manager will eventually only be responsible for MFML properties. In addition, MAB Rosenthal is seeking to hire an experienced dedicated asset manager to be located on the east coast of the USA. Furthermore MFML is relocating Mr Wallace, the fund manager responsible for much of the work on this offer, to the USA before the end of 2006.

This offering is structured as an open ended trust and it is the RE's stated intention to add additional properties, which will require further debt and equity raisings. It is intended that any additional properties in which the Trust acquires an interest will be similar in nature to the initial portfolio and will have strong lease covenants and secure income streams. Investors should note that there is no guarantee that the RE will be able to source such properties in the future.

Being an unlisted vehicle, this investment must be considered illiquid and long term, however, the RE intends to provide limited liquidity options that ameliorate this factor. In addition, there are rollover provisions allowing investors an opportunity to exit every seven years.

## Income Returns

PIR has examined the financial projections of the RE based on the valuations and supporting evidence and is satisfied that the properties being purchased are able to generate a sufficient income to enable MFML to distribute the yields indicated in Table ii (average over the RE's three year forecast period), subject to best practice corporate governance being undertaken by the RE's Directors, staff and consultants and MAB Rosenthal, plus the proposal to smooth out income returns to investors by reserving income above this yield.

The forecasts provided by the RE to PIR show that MFML expects to reserve some of the first year's income returns to smooth out returns in 2008.

The portfolio has a relatively long weighted average lease term remaining of 8.2 years. Approximately 48% of the gross income stream is secured by major tenants that are supermarket operators such as Food Lion/Bloom (the Delhaize Group), Lowes Foods, Bi-Lo and Eckerd. Whilst these names may not be known to Australian Investors they have significant penetration in their respective markets.

PIR has undertaken a seven-year cash flow analysis (until the expected first exit provision term) as part of the financial evaluation rating process. PIR's assumptions in respect of gross rental income for the expected case scenario are mainly in line with those used by the valuers in their discounted cash flow (DCF) analysis. These reflect various assumptions in respect of lease renewals, vacancies, incentives and rental growth.

**Financial Forecasts and Projections (PIR expected case)**

| **Year ended 30 June** | **2007** | **2008** | **2009** | **2010** | **2011** |
|---|---|---|---|---|---|
| Net Property Income USD | 5,525,199 | 5,472,619 | 5,662,917 | 5,807,492 | 5,836,930 |
| Leasing Commissions | - | 135,621 | 87,180 | 75,986 | 155,305 |
| **Total Income** | **5,525,199** | **5,336,997** | **5,575,738** | **5,731,506** | **5,681,625** |
| RE Fees | - | 303,297 | 303,297 | 424,604 | 424,604 |
| Interest | 2,796,427 | 2,796,427 | 2,796,427 | 2,796,427 | 2,796,427 |
| Syndicate Expenses | 212,308 | 216,554 | 220,885 | 225,303 | 229,809 |
| **Net Income USD** | **2,516,464** | **2,020,719** | **2,255,128** | **2,285,173** | **2,230,786** |
| Exchange Rate | 0.69 | 0.69 | 0.69 | 0.69 | 0.69 |
| **Gross Income to Trust AUD** | **3,628,120** | **2,913,378** | **3,251,338** | **3,294,655** | **3,216,242** |
| **Hedge Benefit less Expenses** | **87,456** | **87,456** | **87,456** | **94,181** | **94,181** |
| Available For Distribution | 3,540,664 | 2,825,922 | 3,163,882 | 3,200,475 | 3,122,062 |
| Distribution | *3,133,488 | *3,150,903 | 3,163,882 | 3,200,475 | 3,122,062 |
| Equity Invested | 37,307,791 | 37,307,791 | 37,307,791 | 37,307,791 | 37,307,791 |
| **Return On Equity** | **8.40%** | **8.45%** | **8.48%** | **8.58%** | **8.37%** |
| **Tax Advantage** | **90.0%** | **90.0%** | **90.0%** | **90.0%** | **90.0%** |
| **46.5 % Tax rate** | **7.99%** | **8.23%** | **8.38%** | **8.45%** | **8.23%** |
| **31.5 % Tax rate** | **8.13%** | **8.23%** | **8.38%** | **8.45%** | **8.23%** |
| **15 % Tax rate** | **8.27%** | **8.23%** | **8.38%** | **8.45%** | **8.23%** |

* Distributions will be smoothed using reserving of the returns in the first year

Table ii

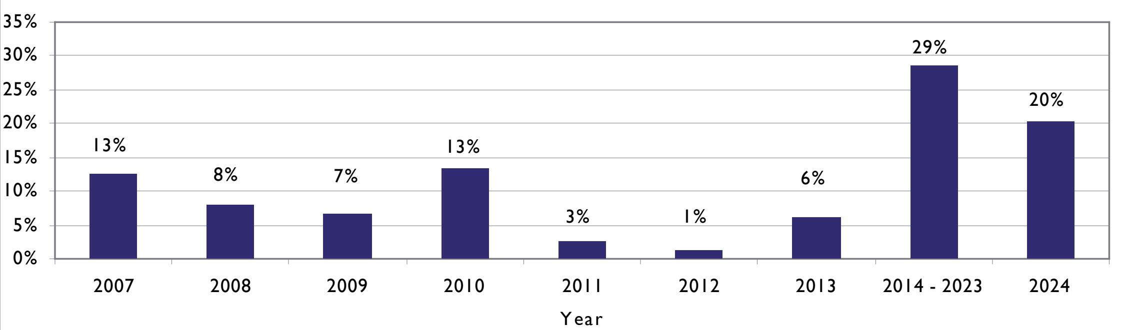



Figure 1

*This report does not form any part of any offer document*

## Capital Returns

PIR's estimate of the Current Realisable Value of the Trust indicates that, excluding income distributions and the impact of taxation benefits, an overall growth in capital value of the properties of 1.2% per annum would be required for 100% of equity to be returned to investors at the end of a seven year investment period.

| Current Realisable Value | Standardised 6 year term | 7 year term |
|---|---|---|
| Growth rate required to return $1 at end of period: | 1.4% p.a | 1.2% p.a |

Table iii

Under the expected scenario, the annual average capital growth in the value of the portfolio is assumed to be 2.3% p.a. Thus, capital growth is likely to be in line with levels of inflation throughout the forecast period. The growth rate required to return $1 by the end of the seven year period is approximately 1.2%. The likely capital growth is estimated to range between 0.2% p.a. under the downside scenario, to 4.6% p.a. in the upside scenario. Two interlinked factors likely to determine the annual capital growth of the portfolio are the level of interest rates and the spending habits of consumers.

Whilst the RE has fixed the interest rate of the Trust, interest rates do have an effect on the viability of retailers and on the potential of any upside in rents. If interest rates move upward too quickly in the near future (possible due to concerns regarding inflation in the USA at the current time) consumer spending may be constrained to such an extent that property values decline so that these properties may be valued at higher yields than current levels of 7.5% - 9.0% p.a.

The RE has hedged 98% of the capital portion of this investment for a period of seven years at an exchange rate of $0.7414. This provides some surety on the capital portion should the RE need to sell properties to meet redemptions at the end of the first seven year investment period.

PIR believes that emergence of any downward trends in consumer spending is unlikely to severely affect the performance of assets within this portfolio, due to a tenant profile comprising many supermarket stores and national retailers (proportionately less discretionary orientated retail). In any case, overseas management can possibly add capital value through redevelopment/extension and refurbishment of some properties, thereby lowering the probability of a fall in future rents.

PIR has adopted a weighted average terminal capitalisation rate of 8.13% for the expected case scenario, taking into account the valuers' initial capitalisation rates and their terminal capitalisation rates at the end of a ten-year period, as well as having regard to forecast yields for retail property in the USA.

PIR has discussed the RE's strategy for the properties with representatives of MFML and has some confidence that the Trust may deliver income returns and capital values better than the valuers' estimates, on which PIR's expected case is largely based.

Although MFML has only included financial forecasts for a period of three years in the PDS, PIR has reviewed the RE's forecasts to 2014. These forecasts indicate that MFML has budgeted for capital expenditure to be funded from income over the forecast period.

The percentages in Table iv provide figures for use as benchmarks and replace the former NTA calculation, the true meaning of which has dissolved with the increased application of accounting convention. For further analysis and benchmark comparisons of transaction and establishment costs, subscribers should visit www.pir.com.au.

PIR has viewed building condition reports on the condition of the properties. Whist PIR does not purport to be an expert in building structures or matters of engineering, inspections were of centres that appeared to be in generally good condition.

| Application of Funds | $'000 | Sources of Funds | $'000 |
|---|---|---|---|
| Repayment of loan from MFML | 18,240 | Equity from unit holders | 33,578 |
| Balance of proceeds required to settle properties | 69,216 | Notes issued to note holders | 3,729 |
| Initial cash at bank | 1,315 | Equity from outside equity interests | 169 |
| Property acquisition and REIT establishment costs | 2,978 | | |
| **Total acquisition costs** | **91,749** | | |
| less US borrowings (excluding Notes) | 57,116 | | |
| **Total US investment** | **34,633** | | |
| Trust establishment costs | 2,793 | | |
| Initial cash at bank | 50 | | |
| **Funding required** | **37,476** | **Funding required** | **37,476** |

Table iv

*This report does not form any part of any offer document*

*Debt*

Debt funding for the Trust will originate in both the USA and Australia. The RE has secured a Syndicated Bank Facility of US$42.3 million ($A57.1 million) for the US REIT based on an intended long term loan to value ratio of 65% from substantial financial institutions, including the National Australia Bank (NAB). The debt will be used to effect settlement of the purchase of the properties in the USA.

The Facility will be secured by first ranking security over the assets and undertakings of the US REIT, including mortgages over the properties. The Bank's recourse in the event of US REIT default will be limited to the assets of the US REIT, including any cash amounts in the US REIT to which Trust investors are entitled. The term of the Facility is seven years. The RE has a fixed interest rate only finance facility with an effective interest rate of 6.11%, which has been achieved using interest rate swaps. The US REIT has hedged 100% of initial borrowings against US interest rate changes for a seven year period.

*Taxation*

**Income tax:** There are taxation benefits available to investors by way of a tax advantaged component, which represents a percentage of 'tax deferred' income. This tax advantaged component is due to allowable deductions, such as depreciation of improvements, plant and equipment and certain establishment costs.

**Capital Gains Tax:** Tax is payable on accumulated tax deferrals as well as on increases in property value (net of sale costs). PIR understands that under current law the taxable income of the Trust will include any capital gains made on the sale of the US REIT interest owned by the Trust. The cost base used in calculating such capital gain will be reduced by any amounts already claimed as a deduction. Based on the RE's financial projections, Australian investors can expect to receive an income stream that is tax advantaged to an average of around 100% for at least seven years, based on figures supplied to PIR by the RE. This estimate does not include any foreign tax credits that may have the effect of further increasing the ratio of tax-sheltered distributions to investors.

**US Withholding Tax:** The taxation implications of investing in the Trust may vary according to the investment structure adopted by investors and potential changes to the Australian Taxation Act and/or overseas tax regulations. PIR understands that payments to investors by the US REIT (holding 0.5% of the US REIT), will be subject to US tax. PIR also understands that normal rates of capital gains tax discount apply. Under the current forecasts, some foreign tax credits are available in the latter years. The ability of investors to claim these credits will depend on the investment circumstances of the individual investor.

The taxation implications of investing in the Trust may vary according to the investment structure adopted by investors and potential changes to the Taxation Act. **It is strongly recommended that investors seek/obtain professional and independent financial and taxation advice before choosing to purchase units in this or any investment property vehicle.**

## Risk and Total Returns

PIR has undertaken a cash flow analysis as part of the financial rating model. An expected IRR of 8.92% per annum after tax was calculated for investors with a marginal tax rate of 46.5% and 0% gearing by the individual investor. Using the standard PIR methodology, a downside IRR of 4.92% per annum was derived, with an estimated 16% chance that the actual outcome will be lower than this. An upside IRR of 12.78% after tax was calculated, with an estimated 16% chance that the actual outcome will be higher than this.

This analysis assumes that there is no change to the portfolio in the form of redevelopment, forced or other deleterious sale or expansion not assumed in the company's forecasts during the seven-year horizon. The earlier than expected or delayed disposal of assets may have a significant impact on investor returns.

PIR's analysis indicates that investors on a 15% marginal tax rate can potentially achieve a higher IRR, with an expected IRR of 10.51% calculated after tax. The corresponding expected after-tax IRR for taxpayers in the 31.5% bracket is 9.86%.

PIR assumptions for the upside and downside scenarios are intended to indicate a 'range of reasonable likelihood' for outcomes. PIR has reviewed the RE's forecast net property income, which includes allowance for the lease conditions, vacancy, market rental growth and repairs and maintenance, however PIR has, in the normal course of evaluation, utilised its own modelling exclusively.

PIR is advised that in arriving at these allowances, the RE has taken into account the relevant assumptions of the valuers, although the adopted figures may vary from those of the valuers. For the upside and downside scenarios, PIR has varied the expected net property income to allow for a more favourable outcome (+ 3.0%) and for a less favourable outcome (- 3.0%). The combination of a large number of individual tenants and lease expiry profiles means that rental growth for the entire portfolio is expected to be relatively stable. Table v summarises the after-tax IRRs for each scenario in PIR's ratings model for an investor with 0% individual gearing.

Forecasting future investment performance is problematic at best and relies on a number of assumptions about future events that may or may not necessarily occur. Changes in even one of the variables affecting investment market performance may have a significant and decisive impact on future outcomes. This report provides no more than a general guide to possible future market conditions and must not be relied on in isolation.

Given that the RE has not hedged the foreign exchange risk of the capital value, there remains a risk that if enough investors wish to withdraw from the Trust at the end of the first seven year period, and there has been an adverse movement in the exchange rate, then investors could suffer a loss of capital investment.

In addition, there remains the risk in terms of capital value that capitalisation rates on the properties may soften over the period and/or there is a reduction in rental income. Any decrease in capital value at the same time that there is an appreciation in the value of the Australian dollar could give rise to a capital loss. Alternatively, a gain may result if the Australian dollar depreciates against the US dollar.

| Trust estimated after-tax IRRs | Downside | Expected | Upside |
|---|---|---|---|
| 46.5% tax rate | 4.92% | 8.92% | 12.78% |
| 31.5% tax rate | 5.61% | 9.86% | 13.92% |
| 15% tax rate | 6.10% | 10.51% | 14.68% |

Table v

## Assumptions

Risk is measured by variance from the expected case. For the upside and downside scenarios, alternative assumptions from the RE's financial forecasts have been used in accordance with the standard PIR methodology.

PIR's forecasts are based on assumptions listed in Table vi with respect to critical inputs identified by sensitivity analysis. The following assumptions have been made with respect to future growth in operating expenses and letting up allowances in the financial forecasts prepared by the RE.

The combination of the number of individual tenants and lease expiry profiles, which for many tenants extend beyond seven years, means that rental growth for the entire portfolio is consequently likely to be relatively stable. PIR's forecast of 2.25% p.a. has been adopted in the expected case analysis. This linear forecast is generally not in-line with the RE's, which itself is reflective of the lease renewal dates. PIR's assumptions relating to lease incentives for existing tenants at times of lease renewals has been somewhat harder than the RE's. PIR estimates these periods to be approximately six months on average, for the expected case. Terminal capitalisation rates are assumed to be largely in-line with the valuer's figures.

| PIR assumptions | Downside | Expected | Upside |
|---|---|---|---|
| Weighted Average capitalisation rate at end of investment period | 8.88% | 8.13% | 7.37% |
| Rental Growth | 1.25% | 2.25% | 3.25% |
| Vacancy Period including Incentives | 18 | 12 | 6 |
| Likelihood of Lease renewal | 50% | 75% | 95% |
| Growth in Operating Expenses | 3.00% | 2.00% | 1.50% |

Table vi

As the centres are on the whole either relatively new or well maintained, PIR has assumed that any capital expenditure will be met out of increased borrowings and hence will not affect cashflows. The vacancy period for that portion of income assumed not to be leased includes any rent free period or incentive allowances.

The RE has indicated that it will adopt a reserving strategy over the three year forecast period to smooth out returns. In years where the income is above forecast, the excess income will be reserved to enhance distributions where the income is below forecasts. PIR's modelling makes different vacancy allowances to the RE. In addition, PIR has forecast leasing and re-leasing commissions to be paid, based on a renewal of leases for an average five year period.

The RE has hedged the annual distributions from the US REIT. The foreign exchange (FX) rate at which the annual distributions have been locked in ranges between $US/$AUD 0.694 for the first seven years of the Trust. Due to the differential in interest rates in the two countries, forward markets are trading at lower levels than today. This is based on the notion that in perfect markets there should be no arbitrage (trading strategies which take advantage of mis-priced securities to generate riskless profit). The overall hedging strategy is deemed appropriate.

## Offer Structure

This investment vehicle is an unlisted open ended property trust. The issue price of each unit under the current offer is $1.00 and the minimum subscription in the Trust is $10,000, thereafter in multiples of $1,000. The offer is suitable for superannuation funds. It is not underwritten.

The investment structure for unit holders is now somewhat standard for unlisted syndicates investing in the USA, in that 90% of the investment will be in the form of units in the Trust and 10% will be in unsecured notes being a fixed interest loan to the US REIT with an interest rate of 8.3%. This loan is effectively an equity interest and has been treated as such by PIR for modelling and rating purposes. It is effectively an equity interest, as the US REIT's requirement to pay this interest affects the equity return to unit holders in the event of the REIT suffering a drop in revenue. This equity/loan split is required to enhance returns by reducing US withholding tax requirements, which would otherwise negatively impact returns. PIR is comfortable with this investment structure, which has been used for several USA based syndicates for the past two years.

The PDS indicates that MFML may acquire additional properties for the Trust, using future capital raisings and/or debt, provided this would not dilute the investors' yields.

The RE has indicated that subsequent capital raisings to finance additional properties are considered to be highly likely. Investors should be aware that this would necessarily change the investment metrics of the Trust and invalidate the assumptions underlying the evaluation of this project.

While neither the Constitution nor the PDS provide much detail of MFML's criteria for property selection, PIR has reviewed a statement of the RE's property selection strategy. This emphasises the importance MFML places on long term lease profiles to quality tenants, diversified income streams, quality assets, capacity to deliver tax advantaged income, strategic locations and potential for future capital growth. Whilst admirable sentiments, an increasingly competitive environment makes earnings accretive acquisitions difficult to source, particularly given that these strategies are generally universally desirable.

This Trust currently has an interest in five multi tenant properties in two states on the US East Coast through its 99.5% holding in the US REIT. The other US investors in the US REIT, required for legal and tax structure purposes, are individuals holding a combined 0.5% of the equity. The nature of these individuals has not been disclosed to PIR.

## Liquidity and Exit Mechanism

*Withdrawal Opportunity*

Whilst this is an open ended trust, it is structured in a similar manner to a closed ended property syndicate. At the end of the first seven years the RE intends to give all unit holders the option to withdraw and at the next (possibly each) seven year interval thereafter. The requested redemptions will be funded by asset sales if cash reserves and/or alternate investors cannot be identified to meet redemptions. The withdrawal unit price will be calculated in accordance with the constitution. This may have a negative impact on remaining unit holders.

It will be possible for a unit holder to request a partial withdrawal, provided there is a minimum balance of 10,000 units retained, with less than 10,000 units per holding precipitating the right for the RE to exercise its right to redeem all the unit holders' units.

The RE does not intend to make any withdrawal offers prior to the seventh anniversary of the issue of the units offered under this PDS.

*Limited Liquidity Option*

In addition, the RE will be offering a limited liquidity option throughout the term of the Trust. This facility will operate quarterly after the first anniversary of the issue of units in the Trust.

This option offers unit holders the opportunity to redeem some or all of their units (provided a minimum holding of 10,000 units is maintained). This will be on a first come-first served basis up to a maximum of 2.5% of the units on issue being redeemed each quarter. Any units that are not redeemed will be held over until the next quarterly redemption offering.

The redemption price will be calculated as Net Asset Backing per unit as at the end of the relevant calendar quarter, on an ex-distribution basis, as determined in accordance with the RE's then latest available calculation of unit value, less a discount of up to 5% of that value at the discretion of the Liquidity Facility Provider.

## Fees

The Responsible Entity and others are entitled to several fees, which have been included in the financial forecasts. The principal fees are outlined below:

- An up-front capital arrangement fee of 6.6% of equity raised under this offer (the constitution permits a fee of up to 10%), equating to $2.4 million for this offer;
- Up front set up costs/expenses related to the offer which are equivalent to 5.38% of equity raised under this offer ($2.0 million for this offer);
- There will be no annual management fee charged until 30 June 2007. Thereafter the RE will charge an annual management fee of 0.6% of gross assets of the US REIT unless forecast distributions in any year are exceeded, in which case the rate increases to recoup the excess distributions so long as the fee does not exceed 0.65% of gross assets in that year. The constitution permits a fee of up to 1.5% p.a;
- A retirement fee of 2% of gross value of assets should MFML retire, or be removed as RE and replaced by new management;
- A Due Diligence fee of 1% of the purchase price of any property investment on which the RE or MAB Rosenthal conducts due diligence which becomes an asset of the Trust (the constitution permits a fee of up to 1.5%); $874,000 for this offer;
- The establishment costs of 0.49% of the US REIT equating to $1.06 million;
- Administration costs of the US REIT of 0.2% of the gross assets of the Trust for the first year and 0.35% of the gross assets of the Trust thereafter;
- A performance fee of 20% of out performance of the return on a unit in excess of the Mercer Unlisted Property Funds Index. It should be noted that the RE reserves the right to change this benchmark index;
- The RE is entitled to recover annual administration costs up to 0.49% of gross assets per annum.

Investors should note that under the Constitution, the RE has the power to charge higher fees or additional fees above those which are set out in the PDS with just three months notice.

The US REIT will also charge ongoing property and management and leasing fees, which are usually paid to third party property manager:

- A property management fee of 4.0% of gross rental income, payable quarterly in arrears;
- A leasing fee of 4% of new leases and 2% of lease renewals.

A fee to the financier:

- A debt establishment fee of 1.6% of the value of any debt raised ($541,000 for this offer). Thereafter this fee will be 1% of the debt raised;

## Capacity of Manager

The RE; MAB Funds Management Limited (ABN 36 098 846 701), is a wholly owned subsidiary of MAB Corporation; a Melbourne-based property company established in 1995 by Michael and Andrew Buxton. MAB Corporation is developing the major mixed-use project at Melbourne's Docklands known as New Quay. It has previously developed a David Jones department store in Perth and is developing business parks and mixed-use developments in Melbourne.

MFML was established in November 2001. It currently has approximately $170 million in assets in Australia and New Zealand under management in three unlisted property funds. PIR is advised by the RE that these syndicates are currently meeting prospectus forecasts.

The directors and executive personnel have a depth of property experience that will be relevant to the asset management role as RE for this Trust. The RE is also proposing to employ local property managers to assist with the hands-on property management that will be required for the retail properties on the East Coast as well as relying on the services of MAB Rosenthal.

PIR has conducted a compliance review of MFML on 3 August 2006 in respect of this Trust. Compliance obligations are taken seriously and appropriate, skilled resources support a well-developed compliance management culture. Compliance management performance is monitored, supervised and reported quarterly to an independent Compliance Committee with relevant and current compliance and property expertise. MAB Funds Management has the structure, skills and resources to manage compliance risk successfully as a Responsible Entity.

PIR's assessment indicates that there is a formal and disciplined approach to compliance management, effected by MFML's Compliance Manager and Company Secretary, Anthony Calvi. The RE has indicated that as it grows, it will implement a discrete compliance management function. MAB Corporation has a group-wide risk management framework and a sophisticated staff performance management system. No material compliance breaches were noted in PIR's assessment.

MFML is breaking into new ground with the Trust. At the time of PIR's review, MFML was still settling aspects of the scheme and staff were still being recruited in the USA. Aside from these product development issues, MFML is a competent and professional business, whose standards are comparable to many larger organisations. In many respects, the compliance management system has not changed since the business was reviewed in 2005. However, a new form of compliance plan has been implemented for the Trust, which seems to be based on a widely adopted industry standard. In conclusion, based on its existing operations, MFML possesses a competent compliance management system. The Trust will challenge the capabilities of MFML, given that it will depend on a joint venture business in California to manage the Trust's assets (currently all in Carolina), and will have to manage FX and swaps. In summary, MFML appears to have a compliance framework suited to the current size of its operations that will need to be enhanced as the company grows.

The financial accounts of The RE as at 30 June 2005 show Total Equity of $776,328 and Total Assets of $1,713,272. RE accounts to 30 June 2006 are not yet available. PIR assumes that there has been no material change to the RE's financial position in the last financial year.

**Financial performance MFML ($)**

| Year ended 30 June | 2003 | 2004 | 2005 |
|---|---|---|---|
| Total Assets | $247,118 | 1,082,672 | 1,713,272 |
| Total Liabilities | 716,974 | 1,236,700 | 1,636,944 |
| Net Assets | (469,856) | (154,028) | 76,328 |
| Debt to Equity | -1.5 | -8.0 | 21.5 |
| Current Ratio | 6.4 | 22.7 | 6.9 |

Table vii

Directors and key individuals of the Company are:

**Andrew Buxton, B.Sc (Chairman):** Mr Buxton was the co-founder of MAB Corporation in 1995, and has 14 years experience in the quarry and asphalt industry. He has over 20 years experience in the property industry and is also Managing Director of MAB Corporation.

**Michael Buxton, AAPI, MREI (Director):** Mr Buxton has more than 40 years experience in the property industry. He was co-founder of Becton Corporation in 1976 and Joint Managing Director until 1995, when he departed to co-found MAB Corporation, of which he is an executive director.

**Nicholas Gray, B.Sc, AAPI, MRICS (Director):** Mr Gray has 28 years experience in the property industry, including 21 years in property investment and funds management. He is responsible for the overall operation of MFML. His previous appointments include Head of Property at Norwich Union and Norwich Investment Management Ltd and Fund Manager of the Colonial First State Commercial Property Trust.

**Anthony Calvi (Company Secretary):** Mr Calvi is a solicitor with 15 years experience. Mr Calvi commenced in private practice and for the past 12 years has acted as in-house counsel for two organisations. Mr Calvi joined MAB Corporation in 2001 and was appointed as Company Secretary of MFML in 2005.

**Robert Wallace, B.Bus (Prop), AAPI, F.Fin, (Fund Manager):** Mr Wallace has in excess of 12 years experience within the property industry. He joined MFML in 2002 from Jones Lang LaSalle, having been based in both their Melbourne and San Francisco offices. He is responsible for property acquisition analysis and assists in operational functions, property strategy and asset management.

Key Executives of MAB Rosenthal

**David Rosenthal, B.Sc, MBA, CGREA, MAI (Managing Director):** With 25 years of experience in the property industry, Mr Rosenthal is a Certified General Real Estate Appraiser. He established his west-coast based appraisal and consulting firm, Curtis-Rosenthal Inc in 1983 and brings significant property expertise to the MAB Rosenthal management team. Mr Rosenthal's credentials include an MBA with a specialisation in finance and accounting, and experience in the banking industry at Security Pacific National Bank. Mr Rosenthal jointly leads the operations of MAB Rosenthal and is a member of its Board.

**Jonathan Dishell, B.Sc (Bus Admin) (Adviser):** Mr Dishell has over 22 years of experience in the areas of commercial real estate, including finance (debt and equity - private and institutional), acquisitions/dispositions, development, analysis and appraisal. He previously spent 11 years with Douglas Emmett Realty Advisors, one of Los Angeles' largest landlords, where he was a Senior Vice President and member of the firm's Investment and Executive Committees. Since 2004, Mr Dishell has been President of Wilshire Partners, a real estate investment firm which has acquired or developed via affiliated entities over one million square metres of real estate in 12 US states.

## Property and Location Analysis

The Trust's Portfolio will initially include properties located in the Carolinas on the East Coast of the USA. The initial portfolio will be located in the three cities of Charlotte, Winston-Salem and Charleston.

A demographic overview of those three cities, in comparison the US national figures, can be seen in Table viii.

| | Charlotte | Winston-Salem | Charleston | US |
|---|---|---|---|---|
| Population (millions) | 1.50 | 0.33 | 0.59 | 296.41 |
| Median Household Income (USD) | 47,563 | 41,239 | 40,950 | 43,318 |
| Population Growth – YE June 2005 | 3.2% | 1.6% | 2.0% | 0.9% |

Table viii

*Charlotte, North Carolina*

Charlotte has achieved a position of regional significance, providing the services expected of major commercial centres. Its influence has spread beyond the Carolinas, primarily through its emergence as a major banking centre. The Charlotte housing market has been strong throughout the 1990s continuing into the 2000s. The region enjoys a moderate climate with many positive social factors, such as recreational opportunities and a relatively low cost of living. The success of the Charlotte economy is linked to its growth as a major financial services centre, stemming in part from merger and acquisition activity by the area's major banks. In addition to financial services, other services and emerging high-tech industries will support long-term growth. The area is less exposed to traditional manufacturing than many other areas in the State, limiting downside risks. Healthy population trends, continuing transition toward services, an educated workforce, and expanding corporate headquarters are expected to help maintain Charlotte as a top performer going forward. Corporate headquarters located in Charlotte include Bank of America, Wachovia and Duke Energy.

*Winston-Salem, North Carolina*

Winston-Salem is the location of the corporate headquarters of the R.J. Reynolds Tobacco Corporation, Branch Banking and Trust Company (BB&T), TW Garner Food Company and Lowes Foods Stores Inc. Although traditionally associated with the textile, furniture, and tobacco industries, Winston-Salem is attempting to attract new businesses in the nanotech, high tech and biotech fields. Wake Forest University Baptist Medical Center is the largest employer in Winston-Salem.

In December 2004, the city secured an agreement with Dell Inc to build a computer assembly plant nearby in southeastern Forsyth County. Construction of the plant was completed during the summer of 2005 and the plant had its official opening in October 2005 with 350 employees. Dell expects the number of local employees to increase to 700 and economic studies have projected that, by 2010, the region will gain 1,500 Dell jobs and potentially as many as 6,000 indirect jobs. Nevertheless, currently the median household income is below the US benchmark.

*Charleston, South Carolina*

Charleston has the fourth largest sea port in the US, which assists in providing high value jobs in the local economy. It is an economy which can be best described as having strong demographics and below average living costs to complement its lower median income on a national standard. Employment growth in Charleston has been strong over the last four years, outpacing the US average, with almost every major industry adding jobs.

Boeing is constructing a new factory in North Charleston for its 787 Dreamliner with projected jobs in excess of 600. Charleston's diversified industrial structure has helped it to maintain positive migration and population growth and the presence of higher valued industries has helped it to attract and maintain a skilled workforce.

Charleston also includes a US Naval Weapon Station and Charleston Air Force Base provide a strong basis to the economy. Major employers within Charleston include Piggly Wiggly Carolina Co., Robert Bosch Corp – Automotive Group and Trident Medical Centre.

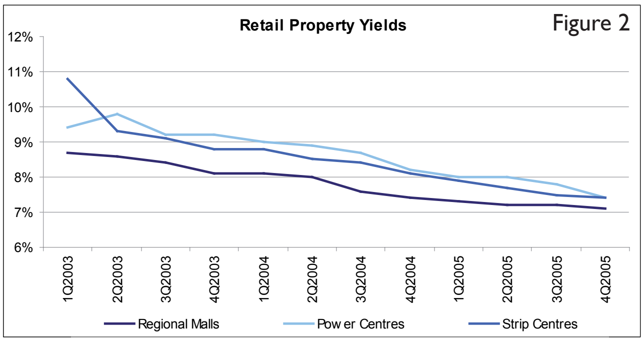
*Investment Trends*

Demand for well located and well leased retail properties continues at a strong pace. Investors are continuing to seek superior, more consistent, stable returns and have placed increased investment in most segments of real estate.

The decline in interest rates during 2003 and through 2004 further fuelled interest in real estate. The recent raising of interest rates by the US Federal Reserve does not appear to have softened that demand, a situation that is paralleled in the Australian market.

Those properties with superior credit worthy tenants and long-term leases typically obtain many offers in a short period and usually can command a premium price. This competition for stable returns, in conjunction with favourable financing, has caused capitalisation rates for properties such as the subject to tighten significantly, thus resulting in increased prices. The demand for such properties continues, while the supply of available properties has declined, placing further downward pressure on capitalisation rates, and a corresponding increase in sale prices. This is evidenced in Figure 2 (courtesy of CB Richard Ellis, Valuers of the portfolio).

Figure 2




In terms of retail centres, investment activity remains strong and capitalisation rates continue to firm as competition for well located and leased assets remains strong with the main buyers being large private investment funds and REITs.

*Issues with Neighbourhood centres.*

Generally, neighbourhood centres such as those making up the Trust portfolio are anchored by a supermarket or similar grocery store or a discount department store. America's largest discount department store, WalMart, has recently begun opening "super WalMarts". These are very large hypermarket size stores that combine the discount department store along with traditional supermarket items. Owing to the buying power of this large company, retail items are usually sold at a lower price point than most of the existing supermarkets can offer.

The experience in many areas where WalMart super stores have emerged so far has been that apart from the existing dominant supermarket, many other grocery retailers are forced to close due to a significant decrease in sales. It is possible that if any of these Super WalMart stores open up in the vicinity of any of the Trust's neighbourhood centres, then it could have a substantially negative impact on the existing supermarket anchor tenants. If the anchor tenant suffers, or indeed closes, it is probable that the speciality retailers may also suffer a loss of income, affecting their ability to pay rent and as a result the value of the property would decline materially.

*Notes to the property profiles*

In a departure from the standard PIR layout, where the valuation details are given, PIR has not used a passing yield, instead PIR has used an indicative yield. This is due to the fact that the Valuers have used a "stabilised income" approach rather than a capitalised passing income approach. This method values the projected income upon the property reaching its stabilised occupancy, which is the projected long term occupancy based on industry averages and adjusted for vacancies and other allowances.

The indicative yield has been calculated by dividing the stabilised net income used by the valuer, by the valuation figure.

| 1. EASTFIELD VILLAGE SHOPPING CENTER<br>13108 Eastfield Road, Huntersville, Mecklenburg County, North Carolina | | | | | |
|---|---|---|---|---|---|
| % of Portfolio | 28% | | Completion Date | 2004/2006 | |
| Ownership | 100% | | Purchase Price | US$18.27 million | |
| Title | Leased Fee | | Vacancy | 7.6% | |
| Type | Retail | | Gross Lettable Area | 8,128m$^2$ | |
| Location | Charleston, NC | | Total Site Area | 39,560m$^2$ | |
| Major Tenants | Lease Terms | | | % Area | % Rental |
| Lowes Food | To September 2024 | | | 67% | 44% |
| Valuation Date | US$ Value | Valuer | Indicative yield | Cap rate | US$/m$^2$ |
| July 2006 | $18,700,000 (100%) | CBRE | 7.25% | 7.25% | $2,313/m$^2$ |

Table ix

Eastfield Village is a very well presented, near new shopping centre; constructed in four buildings, containing 18 tenancies. The property is set on a sloping site below the road, with a mixture of food and service shops supporting the supermarket. The buildings are of brick façade, offering an olde world look. There is a mixture of food and service/beauty shops supporting the supermarket. Adjacent is a childcare centre.

Currently, there are plans for another two buildings to contain two additional tenancies, which are scheduled for completion in November 2006. The figures in Table ix are on an as complete basis. There are vendor guarantees over the vacant and to be constructed space. The vacant space is high, due to tenancies for this new space not as yet being confirmed. Of the vacancies in the original buildings, PIR notes that one has not yet been let since being constructed. There is an H&R block office, which is only open for less than six months of the year.

The centre is located in a rapidly growing northern suburb of Huntersville in Charlotte. Eastfield Village forms a part of Prosperity Village, a master-planned community comprising of over 283 hectares, which is still in the process of development. Currently, access is off two minor roads; the locality will be further enhanced by the planned intersection of the Charlotte Interstate 485 Ring Road and Prosperity Church Road approximately two and a half kilometres to the south of the property.

Population in the vicinity is expected to grow by over 5% p.a. over the next 5 years. This is an area that attracts younger families.

There are 384 car spaces. The property will be managed by a locally based retail property manager, who will be overseen by MAB Rosenthal.

| 2. THE TERRACES AT THE PARK<br>9101 Pineville Matthews Road, Charlotte, Mecklenburg County, North Carolina | | | | | |
|---|---|---|---|---|---|
| % of Portfolio | 23% | | Completion Date | 1981 renovated 2001 | |
| Ownership | 100% | | Purchase Price | US$14.75 million | |
| Title | Leased Fee | | Vacancy | 7.9% | |
| Type | Retail | | Gross Lettable Area | 7,655m$^2$ | |
| Location | Charleston, NC | | Total Site Area | 37,923m$^2$ | |
| Major Tenants | Lease Terms | | | % Area | % Rental |
| Bi-Lo | To November 2016 | | | 55% | 34% |
| Valuation Date | US$ Value | Valuer | Indicative yield | Cap rate | US$/m$^2$ |
| April 2006 | $15,500,000 (100%) | CBRE | 7.50% | 7.50% | $2,024/m$^2$ |

Table x

The Terraces at Park Place is a supermarket anchored shopping centre consisting of one main building and two adjoining buildings containing 15 tenancies and parking for 410 vehicles. The property currently has two tenant vacancies, which have a vendor rental guarantee of 13 months.

The property was renovated in 2001 and presents well. The Terraces at Park Place is situated 19 kilometres from the Charlotte Central Business District. The property occupies a prominent site, with frontages to Pineville-Matthews Road (Highway 51), the Interstate 485 (the Charlotte Ring-Road) and Park Road.

Supporting retailers comprise a Starbucks outlet, Alltel Communications and a large tenancy leased to KB Homes as a display home showroom.

This is a more established area comprising older households. The population growth rate within the catchment area is expected to average only 0.7% per annum over the next 5 years. The area is quite affluent, with predominantly smaller households and yet significant concentrations of younger adults who are often renting.

| **3. CHESHIRE COMMONS<br>6430-6434 W Sugar Creek Road, Charlotte, Mecklenburg County, North Carolina** | | | | | |
|---|---|---|---|---|---|
| **% of Portfolio** | 21% | | **Completion Date** | 2004 | |
| **Ownership** | 100% | | **Purchase Price** | US$13.93 million | |
| **Title** | Leased Fee | | **Vacancy** | Nil | |
| **Type** | Retail | | **Gross Lettable Area** | 9,654m² | |
| **Location** | Charleston, NC | | **Total Site Area** | 67,563m² | |
| **Major Tenants** | | **Lease Terms** | | **% Area** | **% Rental** |
| Bloom (Delhaize Group) | | To March 2024 | | 82% | 72% |
| **Valuation Date** | **US$ Value** | **Valuer** | **Indicative yield** | **Cap rate** | **US$/m²** |
| June 2006 | $14,000,000 (100%) | CBRE | 7.50% | 7.25% | $1,524/m² |

Table xi

Set on an sloping site between two roads. A relatively new neighbourhood centre in the burgeoning NE suburbs of Charlotte. The property comprises one strip of shops containing a Hairdresser, Nail shop, Drycleaner and two restaurants flanking the anchor tenant which is a Bloom supermarket. There is also a freestanding restaurant.

The property appears in new condition and there is ample parking and good access to the rear for deliveries. Located adjacent is another larger neighbourhood centre containing national fast food outlets, drug store and a supermarket as well as a vacant supermarket. This is a sprawling eclectic complex built in several styles.

The centre benefits from strong residential and business growth along the W.T. Harris Boulevard, a popular corridor in northeast Charlotte. The property is close to the 1,300 hectare University Research Park, which is home to 40 major corporations employing more than 23,000 people. The University of North Carolina at Charlotte is close by.

The population growth rate within the catchment area is expected to average 3.8% per annum between 2006 and 2011. The area is generally affluent, with a good mix of families and younger residents working in northern Charlotte.

| **4. GRANDVIEW PLAZA SHOPPING CENTER<br>4613 Yadkinville Road, Winston Salem, Forsyth County, North Carolina** | | | | | |
|---|---|---|---|---|---|
| **% of Portfolio** | 9% | | **Completion Date** | 1996 | |
| **Ownership** | 100% | | **Purchase Price** | US$6.00 million | |
| **Title** | Leased Fee | | **Vacancy** | Nil | |
| **Type** | Retail | | **Gross Lettable Area** | 5,0734m² | |
| **Location** | Winston-Salem, NC | | **Total Site Area** | 40,5024m² | |
| **Major Tenants** | | **Lease Terms** | | **% Area** | **% Rental** |
| Food Lion (Delhaize Group) | | To December 2016 | | 60% | 57% |
| **Valuation Date** | **US$ Value** | **Valuer** | **Indicative yield** | **Cap rate** | **US$/m²** |
| July 2006 | $6,000,000 (100%) | CBRE | 7.50% | 7.50% | $1,202/m² |

Table xii

Grandview Plaza is located in Pfafftown, a suburb of Winston-Salem, North Carolina. The catchment area is experiencing growth of 1.6% per annum and has an affluent demographic. A strong presence from Wachovia, AON Consulting, Dow Corning, Frisby Technologies, Pepsi Cola Customer Service Center and Sara Lee Corporation supports the growing economy of Winston-Salem. The property consists of 8 tenancies in total, with parking for 329 vehicles. The building is a single structure with brick façade. The Supermarket sits between specialty retailers.

Population growth has averaged 2.2% per annum for the past 5 years – it is forecast that growth will decrease to 1.9% per annum during the next five years. The opening of the nearby Reagan High School in August 2005, the first new high school in Winston-Salem in almost 40 years, reflects the expected growth in population in this area. Overall property prices are best described as "affordable".

| 5. SUMMERVILLE PLAZA SHOPPING CENTER<br>602-680 Bacons Bridge Road, Summerville, Dorchester County, South Carolina | | | |
|---|---|---|---|
| **% of Portfolio** | 18% | **Completion Date** | 1972 |
| **Ownership** | 100% | **Purchase Price** | US$11.85 million |
| **Title** | Leased Fee | **Vacancy** | 2.5% |
| **Type** | Retail | **Gross Lettable Area** | 9,996m$^2$ |
| **Location** | Summerville, SC | **Total Site Area** | 54,303m$^2$ |

| Major Tenants | Lease Terms | % Area | % Rental |
|---|---|---|---|
| Piggly Wiggly | To June 2013 | 38% | 21% |
| Eckerd Pharmacy | To March 2020 | 10% | 22% |

| Valuation Date | US$ Value | Valuer | Indicative yield | Cap rate | US$/m$^2$ |
|---|---|---|---|---|---|
| June 2006 | $12,100,000 (100%) | CBRE | 7.50% | 7.50% | $1,186/m$^2$ |

Table xiii

The property comprises 3 buildings situated in an L-shape, plus an additional freestanding Eckerd pharmacy of relatively new construction. Overall an older property that shows signs of ongoing maintenance requirements.

There are 15 tenancies plus an ATM, as well as 327 car spaces. Tenants also comprise two mini anchors in the form of Dollar Tree and Tuesday Morning, which are discount department stores that complement the very large Goodwill second hand store. There are also a number of office style tenancies. There is a nine month vendor rental guarantee over the vacant space.

Summerville Plaza is located in the north west suburbs of Charleston at the intersection of Bacons Bridge and Trolley Roads a few minutes drive from central Summerville. It is easily accessed by the entire Dorchester County submarket via the SC-18 99 and SC-165, both of which are major commercial corridors in Dorchester County. Summerville's economy is driven by the Port of Charleston, US military, and tourism. Summerville also benefits from a growing population base, due to its proximity to historic Charleston, a mild climate and overall reasonably high quality of life.

The population growth rate within the catchment area is expected to average 2.0% per annum over the next five years. The catchment area demographic structure can be characterised as traditional, middle-class families.

## Due Diligence

PIR was engaged by **MAB Funds Management Limited** to undertake this investment evaluation for a fixed fee established prior to commencement of work on the investment evaluation. Property Investment Research Pty Ltd (PIR) advises that in the compilation of this report, a full due diligence on this offer has not been conducted. Investors would be well advised to consult the offer document, conduct their own inquiries, and receive professional advice. This report was not prepared to form any part of any offer document.

PIR has relied upon information contained in the Product Disclosure Statement dated 3 November 2006. PIR has carried out its own independent inquires by:

- inspecting all portfolio properties with the exception of Grandview Plaza Shopping Centre;
- having discussions with representatives of the Responsible Entity;
- reviewing the offer document dated 3 November 2006; and
- conducting a compliance review of the RE on 3 August 2006.

PIR has received copies of the valuations, sale contracts, leases, tenancy schedules, legal and building engineering due diligence reports as well as the PDS and the RE's electronic financial analysis. PIR has received copies of the Trust Constitution and the Compliance Plan which have been registered by the Australian Securities and Investment Commission (ASIC). Other documents received by PIR included copies of valuation report, due diligence reports for each of the five properties in the current portfolio.

## Explanation of Investment Rating

The Investment Rating Financial Model (patent pending) provides a single measure of the overall investment merit of this vehicle for various investor profiles. It incorporates the level of expected returns (IRRs) from the investment and adjusts these for both illiquidity and risk associated with this investment, presenting them across the three main marginal tax rates. The Investment Rating is based on the premium of the estimated risk-free, after-tax IRR adjusted for illiquidity over the prevailing 10-year bond rate. This measure enables the valid comparison of an investment with any other for nine (tax rate and risk tolerance) investor profiles. This facilitates the task of tailoring investment selection to the needs of the individual investor. Further, it provides ratings in which the advisers and investors can have unprecedented confidence. The ratings presented in the risk tolerance/tax rate matrix are only a representative sample of those available on PIR's unique individually tailored on-line investment selection system.

Visit www.pir.com.au or phone (03) 9670 7767 for assistance.

Except when investor gearing is involved, a lower marginal investor tax rate would normally attract a higher rating because investors on higher tax rates (nearly) always pay more tax. An investment which rates AA- for a 46.5% tax rate investor may be relatively better for that investor profile than for a 15% taxpayer for which the rating is AA+. A high rating for a higher marginal investor tax rate is generally less common than the same rating for a lower marginal investor tax rate.

For ease of comprehension, the Investment Rating uses symbols similar to those applied by credit rating agencies. These ratings should not, however, be confused or compared with those used by credit rating agencies. The seven published Investment Ratings from lowest to highest are: **A- A A+ AA- AA AA+ AAA**. Projects with ratings below A- are not considered investment grade.

Investors should visit pir.com.au to view and download a detailed explanation of the PIR Investment Rating System or phone

(03) 9670 7767 for a complimentary copy.