

Orchard Update

Recently, Centre Capital attended the Annual General Meeting (AGM) of Orchard Funds Management Ltd and has also been liaising closely with Orchard and other stakeholders on the status of the funds which we are invested in.

Obviously, I will try and address the main issues in this update without getting bogged down in too much detail given its rather complex nature. There is also information which is commercially sensitive that I am unable to pass on at this stage.

AGM

The AGM saw the re-election of the Chief Financial Officer and the current Chairman, Charles Macek. Management said whilst the last couple of years had been difficult for not only the Orchard Funds but all property funds they were happy with the progress made. The 2009 calendar year was basically one of stabilising the funds which in the main involved getting more certainty regarding the current loan facilities from the banks.

In the words of Head of Investment Bernadette Spiterri, “we have been doing a great deal of work with the banks culminating in the successful renegotiation of \$700 million of fund debt facilities in the last four months alone. We are now in the final stages of those bank negotiations and, in the New Year, we should be in a position to roll out progressively our proposed fund strategies, including details of capital raisings where appropriate, and inform advisers and investors accordingly”.

The Chairman, Charles Macek gave an undertaking that Orchard are focused on “protecting value and recovering lost value” for existing investors. He went on to say that existing investors would be given first opportunity to participate in any capital raise (for any of the effected funds) to protect investors against dilution. This is a welcome comment given the recapitalisation of the former Orchard Industrial Fund (OIF).

Centre Capital has been lobbying not only senior management of Orchard but also other advisory groups, shareholders and unit holders to get board representation. We feel this is essential for advisers and investors to have more input into the running of the Orchard business, as it is our money. Our candidate, Andrew Meakin, has extensive experience and we have trust in him that he will do what is right (for the right reasons) and avoid mistakes such as those that have led the funds into their current position. He has been duly nominated and is currently undertaking discussions with Orchard management and his nomination has broad support from other stakeholders.

The Orchard Funds

Since Bryce Mitchelson has taken over the role of fund manager for the Diversified Fund, we and other stakeholders have experienced a greater degree of information and transparency regarding the state of the funds. This has been a much welcome development to what has occurred previously which left us, hence you as clients, disengaged from what was going on.

These developments have enabled us to be more active within the process. Having relevant information enables us to be aware of the issues and then can lobby the respective people to ensure investor's interests are being protected.

Centre Capital has actively been involved in the following initiatives regarding the Orchard funds;

- We have introduced Orchard to an alternative source of finance from overseas whose lending criteria, in our opinion, is more suited to commercial property investing than that currently offered by their existing bankers. Orchard is currently looking at options to refinance which would be a positive for existing investors as it would eliminate or minimise the amount of any capital raise.
- On behalf of clients we have let Orchard know in very specific terms that we do not want them to do another transaction like the recapitalisation of the Orchard Industrial Fund (OIF). Orchard recently stated that any capital raise (in any of the effected funds) will be offered to existing investors to enable them to protect against dilution which is a positive development.
- We have nominated Andrew Meakin for a board position with Orchard Funds Ltd. Andrew is duly qualified, arguably more qualified than anyone currently on the board, given the state of the Orchard funds and his previous work experience and professional contacts. We have also been liaising with other shareholders to ensure that his nomination is supported and ultimately accepted by Orchard.
- The largest dealer group in the country Professional Investment Services has a large influence on a number of the Orchard funds. We are in continual contact with them, and other advisory groups and points of influence, to ensure that everyone is working towards the same outcome the "protection and recovery of value" for unit holders.
- Orchard management are trying to get as many options on the table for how to fix each of the respective funds. By having more options they can then assess which deal is the best way to preserve existing value (and future value) for existing investors. This is the right approach and whilst we are all disappointed with issues such as the fall in unit price and the cessation of distributions at this point we need to be patient to ensure the right decision is being made so as to protect the most amount of "value" for us as investors. The quick fix solution may be the most detrimental to unit holders "value" so it is a balancing act that we need to allow the guys to get right.

Diversified Property Fund (DPF)

The main bankers to this fund, The NAB and BOSI are currently negotiating with Orchard on the long term funding of DPF and have indicated they would like to review at end of January whether satisfactory progress is being made. Whilst a breach would be triggered if these negotiations are deemed unsatisfactory by either party, Orchard management are confident this will not be the case.

NAB has security over the direct properties in the portfolio whilst BOSI has a debt secured by the other financial assets (primarily managed investment schemes) of the fund. BOSI have indicated orally that they are willing to work with the fund to ensure they are preserving the value of not only their security but that held by NAB. They are considering funding required capital expenditure and the capitalisation of interest to facilitate the fund operating as a going concern. Given the nature of BOSI's security position their interests are strongly aligned with investors. This is a positive for attaining the desired result.

A problem this fund has is that it has a number of holdings in sub funds with Orchard and 3rd parties. Given these sub funds may need to recapitalise, DPF would not be able to participate in any capital raise as it has no cash reserves. In regards to the Orchard sub funds, management have indicated that should a capital raise be required, individual investors in the DPF will be able to participate, in lieu of the DPF fund not being able, enabling individual investors to protect themselves against dilution.

Commercial Office Fund (COF)

Suncorp Metway is the principal lender to this fund and is looking to exit the loan in total, as they are for a lot of their banking activities.

Orchard is currently considering a number of different strategies to enable this to happen. They include;

- Refinance the portfolio as is which would potentially be a very good result for unit holders, the main one being the DPF. This would enable existing investors to benefit from recovering property valuations. Our introduction to the overseas source of finance may be instrumental in any positive development along these lines.
- Undertake a capital raise for sufficient money to reduce debt to a point that another lender can be sought.
- Given that market valuations are settling down it may also be possible that asset sales may now be a viable solution if reasonable price can be extracted from the sale and management do not believe there is too much value they could add for the particular asset.

Chevron Renaissance

There will be a small capital raise (about \$10mio) in the New Year which will effectively fix this fund so it can return to paying distributions.

Childcare Property Fund

Despite the collapse of the major tenant ABC Learning this fund has still been able to pay a distribution. The lenders are happy with current LVR's based on recent valuations and are looking to extend debt facility terms once the sale of ABC is finalised by its Receivers. It was recently announced in the media that this was reaching a late stage which as a landlord, Orchard will be actively involved in discussions.