

Cromwell pulls out of Orchard auction

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Cromwell Group has pulled its offer for struggling property fund manager Orchard Funds Management after failing to win support from the Melbourne company's bankers.

The announcement leaves in limbo the 15,000 unit holders in Orchard's retail funds and its "fund of funds", the \$730 million Orchard Diversified Property Fund.

It will also send a shudder of concern through tens of thousands more investors who remain trapped in other heavily-g geared retail property funds in the sector who are all hoping for a solution.

Backing from Orchard's bankers was crucial for Brisbane-based Cromwell's proposed solution.

But Cromwell told the market yesterday Orchard's bankers – which include National Australia Bank and Bank of Scotland International – had not accepted its proposals on refinancing.

Chief executive Paul Weightman indicated Cromwell had been prepared to work through Orchard's troubles on the right terms.

"The bottom line for us is that we were happy to drive the ambulance but we are not all that interested in driving a hearse," Mr Weightman said.

On the upside, Cromwell's departure, just one day before its due diligence period finished, leaves the field open to a number of players who had also put forward bids.

Among the potential contenders is the Taemas Consortium, which is being run by the locally-based Taemas Capital, a private investment firm controlled by former Babcock & Brown executive Rob Topfer.

Backing the Taemas team are the London-based billionaire brothers David and Simon Reuben, whose property and trading empire is estimated to be worth \$8.8 billion. It is believed the Taemas Consortium remains interested in taking over Orchard and its management of around \$1.5 billion in property assets.

Another private equity player, Australian Capital Strategies, led by businessman Grant Latta, had made the final shortlist before Cromwell was given exclusive rights last month.

And a privately-backed fund manager, Corval, has previously shown interest in Orchard but declined to comment when contacted by *The Australian Financial Review* yesterday.

Cromwell had offered \$15 million as well as a further earn-out fee for the rights of Orchard's funds management business.

Under Cromwell's "bottom-up" approach, individual funds in the Orchard stable – including its second largest, the \$465 million Commercial Office Fund – would have been stabilised first through asset sales and equity raisings.

At the end of the line and most problematic stands the Orchard DPF, which has stakes in other Orchard funds, as well as direct property assets it held on its own or jointly with the other funds.

That fund is almost 100 per cent leveraged and owes around \$420 million to its main bankers, NAB and Bank of Scotland.

Those banks, and other lenders, are concerned to ensure they are not faced with any "hair cut" – or discount – on their loans in the work-out. In contrast to Cromwell's proposal, Taemas had proposed a capital injection into the largest Orchard fund, split between an equity raising and credit.

The Taemas proposal has won public endorsement from a group of financial advisers who say they represent between 30 per cent and 50 per cent of the Orchard unit holders.

Centre Capital director Robert Coyte said yesterday he still supported the Taemas proposal.

Rather than lose value by selling assets at distressed prices, unit holders were likely to agree to an equity raising, he said.

"If you want to save your original dollar and let it get back its value you will actually have to tip in more money, that is



Orchard Funds Management CEO David Hinde. The manager will now have to hope for another suitor. **Photo: Jessica Shapiro**

KEY POINTS

- Orchard's bankers have rejected Cromwell's refinancing proposals.
- This leaves the field clear for several bidders interested in the business.

the only way to solve the problem,” he said.

“The reality of it is that is what is required to fix the problem.”

The Australian Financial Review

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