

January 2008

Summary

Lonsec reviewed the MAB International Retail Trust (MIRT or the Trust) in November 2006 and issued a detailed report and rating.

The purpose of this note is to highlight and discuss any changes in the Trust since that report was released. In Lonsec's view, there have not been any significant events that have impacted on the Trust. In short,

- there has been no further acquisitions or disposals of properties;
- the occupancy of the portfolio has improved to 98.8%;
- the value of the property portfolio has increased and the hedged Net Asset Backing is \$0.90;
- distributions are being paid in line with forecasts.
- changes in management have been adequately covered
- the performance of the Manager's other trusts has mostly been in excess of industry benchmarks.

As a consequence, Lonsec's rating is reaffirmed as "Recommended (Lower End)".

Portfolio Valuation changes

Since the five USA assets were acquired in late 2006, there has not been an independent valuation update. However, the Manager has made Directors' assessments of valuations as at 30 June 2007 to reflect any changes in income or tenancies at the property level.

MIRT – Property Portfolio Valuations

Property	Cost (US\$m)	Valuation (US\$m)	
		Mid 06	Jun 07
Eastfield Village, Charlotte	18.34	18.70	19.50
Terraces, Charlotte (NC)	14.75	15.50	15.90
Cheshire Centre, Charlotte	13.93	14.00	14.10
Summerville Plaza, Charleston (SC)	11.85	12.10	12.25
Grandview Plaza, Winston-Salem (NC)	6.00	6.00	6.40
Total Portfolio	64.87	66.30	68.15

Net Asset Backing

The calculation of the net tangible asset backing (NTA) per unit at each period end uses the spot exchange rate, in accordance with the AIFRS accounting regulations. The spot rate NTA as at December 2007 reduces as the net US\$ amounts translate to lower A\$ amounts.

However, due to the hedging put into place on the initial investors' equity (\$1.00), 98% of this underlying value has been protected for the seven year term of the Trust.

The increase in hedged rate NTA from \$0.88 to \$0.90 largely reflects the increase in the property portfolio valuation from US\$66.3m to US\$68.15m.

In both the Hedged and Spot Rate NTA values, there are also fluctuations due to the revaluation movements of long-term foreign currency and interest rate swaps.

Net Asset Backing

	PDS	Dec 07
Spot Rate	0.7417*	0.8738
NTA (AIFRS)	\$0.88	\$0.80
Hedged Rate	0.7417*	0.7565
NTA (Hedged)	\$0.88	\$0.90

(Note*: PDS is assumed rate)

MIRT Portfolio - Occupancy Levels (Area)

Property	Initial	Current
Eastfield Village, Charlotte	96.6%	100.0%
Terraces, Charlotte (NC)	95.3%	95.3%
Cheshire Centre, Charlotte	98.3%	100.0%
Summerville Plaza, Charleston (SC)	98.3%	100.0%
Grandview Plaza, Winston-Salem (NC)	100.0%	97.8%
Total Portfolio	97.6%	98.8%

Eastfield Village

There were two vacancies which have been filled. In addition, the new pad site and extension have been completed and leased at better than forecast rents. All vacant spaces were subject to an 18 month rental guarantee from purchase.

Cheshire Centre

Ace Hardware commenced trading in July 2007 after signing a 10 year lease (expires July 2016). A small vacancy was also filled (although this was covered by a 12 month rental guarantee).

Grandview Plaza

There is now one small vacancy of 111m2. In addition *Dollar General* (17% of income) has been on a month to month basis since March 2007 after the lease held by *Eckerds* expired. The Manager is seeking to conclude lease renewal discussions shortly.

Distribution Forecasts unchanged

The distributions for the period ending 30 June 2007 were in line with the PDS forecasts at an annualised rate of 8.40%, with 90% tax deferred.

The unit price remains \$1.00 and the forecast distribution for FY08 and FY09 is as detailed in the PDS:

MIRT – PDS Distribution Forecast

	June 08	June 09
Distrib. /unit	8.45c	8.50c
Yield @ \$1.00	8.45%	8.50%
Tax Deferred	90%	90%

Structure / Management

In December 2006, MAB American Property Fund LLC merged with MAB American Property REIT Inc. The former entity was the most efficient holding structure until the units and notes were issued to investors. The REIT structure provides the most beneficial tax treatment for the Fund and its investors.

As far as personnel within MAB Funds Management (MFML), there have a number of changes since Lonsec's review of MIRT in November 2006. The important changes in regard to the Trust concern the staffing of the USA management joint venture **MAB Rosenthal LLC** (the latter partner is a related entity of the experienced USA property consultants Curtis-Rosenthal based in Los Angeles).

Former Australian-based MFML executive Robert Wallace left in August 2007 to join another large Australian property group. He had been earmarked to move to the USA with MAB Rosenthal.

Cary Uretz was appointed as Senior Vice President – Investments in early 2007 and is based in a recently established MAB Rosenthal office in Charlotte (North Carolina). He has been appointed to the boards of MAB Rosenthal and MAB Inc.

With 25 years experience having sourced, structured and closed in excess of US\$1b of commercial investment properties, Cary will lead the acquisitions and asset management initiatives of MAB Rosenthal.

Cary is from Chicago and was most recently with NEP Netlease Investments, a real estate private equity investment company, where he was a Principal and Director of Acquisitions. He holds a Bachelor of Arts and MBA (Finance & Accounting).

In Australia, Rob Wallace's position has not been directly replaced, with Nick Gray (Director/GM Funds Management) assuming this role assisted by two other new appointments.

John Ryan (Financial Accountant)

B.Comm (Acc/Fin), CA.

John is responsible for the financial accounting, reporting and modelling for MAB FM trusts. He has

four years of experience in public practice accounting, most recently with William Buck Chartered Accountants.

Toli Prantzog (Asset Manager)

B.ASc (ConsrMgt), Grad.Dip Build Mgt

Toli is jointly responsible for asset management of MAB FM trusts and oversees strategic and financial management of MAB FM properties. With experience across extensive commercial property portfolios, he worked with listed and wholesale property funds at Investa Property Group before joining the MFML team.

Richard Marshall was Manager Capital within MFML but has transferred within MAB. His expertise with regard to finance, structuring and capital solutions remains available to MFML.

Two other positions within the MFML support team (Compliance Officer/Funds Administration and Distribution Manager) have been filled with suitably qualified personnel.

The loss of personnel has been adequately covered and the addition of Cary Uretz will ensure that the MIRT assets are closely managed with the prospect of the identification of further assets for the expansion of the Trust.

MAB / MAB Funds Management performance

The privately-owned MAB Corporation P/L has continued to grow with annual revenues and net assets of around \$200m and a staff of over 100 covering Property Investment, Development and Funds Management.

Since being established in 1995, the group has completed or commenced projects worth in excess of A\$3.5b. The Buxton family has a long history of involvement in the real estate industry.

MAB Corporation does not publish its financial statements, but given that a large portion of its business is in property development it would be reasonable to assume that gearing is normally relatively high. MAB has indicated that the group's gearing level across all of its businesses is currently at conservative levels.

Performance of MFML Trusts

	Period	Ttl Rtn	Index*
MAB Healthcare (wound up)	Mar 03 to Dec 06	15.4%	13.8%
MAB Development Fund 1 (wound up)	May 04 to Apr 07	17.6%	15.5%
MAB Bourke St	May 02 to Dec 07	21.0%	15.0%
MAB Diversified	Sept 04 to Dec 07	13.4%	17.7%
MAB IRT (Dec 07 values unaudited)	Mar 07 to Dec 07	-3.4%	24.6%

(Note *: Mercer Unlisted Property Fund Index)

Two of the MFML trusts have been wound up after selling the properties within the trusts, returning unit-holders good total returns in excess of industry benchmarks, after absorbing the initial costs involved in establishing the trusts.

The other trusts continue to pay distributions in line with forecasts and the **Bourke Street Trust** has produced a strong growth in the value of the property from \$15m to its current \$24.1m (+60%) along with an income yield of 9-11% pa. Net Asset Backing per unit is \$1.82.

The **Diversified Fund** has also seen the value of properties rise and Net Asset Backing is estimated to be around \$1.15 per unit.

The **MIRT's** underlying property values have improved and distributions are being paid in line with PDS forecasts. However, the Trust has not yet had sufficient time for its performance to be meaningfully compared.

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