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20 April 2010

Dear Unitholder

**Investa Fifth Commercial Trust ('I5CT')  
Fund Update**

**1. Distributions will be reinstated – aiming to pay the March quarter distribution by 30 May 2010**

We are pleased to report that distributions will be reinstated at 1.75 cents per unit per quarter. This follows an improvement in I5CT's capital position as a result of agreeing terms to refinance I5CT's debt facility on favourable terms (see section 2 below). The new debt facility will provide I5CT with sufficient capacity for future expenses that will or may arise in respect of the trust. As a result, we:

- do not need to raise further equity as previously anticipated;
- have no immediate requirement to sell an asset (although we plan to sell 595 Collins Street later this year). The sales strategy for the four assets in I5CT is set out in section 4 below; and
- will reinstate distributions for the quarter ended 31 March 2010 at 1.75 cents per unit subject to signing the formal debt documentation on the terms set out below, on or before 20 May 2010.

**2. New three year debt facility**

Terms have been agreed to refinance I5CT's debt facility for a further three years. Under the new facility which is yet to be formally documented and signed:

- the facility amount increases from \$85 million to \$95 million to allow I5CT to fund its potential capital commitments to upgrade buildings and attract new tenants or renew existing tenants on new terms (see section 3 below), and to fund other future expenses;
- increasing the loan-to-value ratio covenant from 55% to 65%, which reduces to 50% once 595 Collins Street, Melbourne is sold; and
- increasing the interest cover covenant from 1.4x to 1.5x, which increases further to 1.8x once 595 Collins Street, Melbourne is sold.

This is a great outcome for unitholders in I5CT as its capital position is significantly enhanced.

**3. Capital position improved**

Once the new debt facility is in place, the majority of issues facing I5CT have been resolved allowing distributions to be reinstated. In particular:

- the loan to value ratio at December 2009 was 52% (following a decrease in property values by 20% since their peak in December 2007) against a covenant of 55%. This meant that if property values fell another 5.5%, I5CT may have breached this loan covenant. With the new 65% loan to value ratio covenant, property values would have to fall another 20% to breach the covenant;
- the debt facility was expiring in May 2010. Under the new debt facility, the loan will expire in May 2013; and
- given the existing headroom in the debt facility, I5CT was unable to fund all of its potential capital commitments to upgrade buildings and attract new tenants or renew existing tenants on new terms where the existing lease was coming up for expiry. With the higher facility amount of \$95 million, combined with the amendments to the loan covenants, I5CT can fund most of these potential commitments. Using this debt to upgrade the properties should achieve a higher rent and secure longer lease terms at some of I5CT's properties, which will in turn increase our ability to service the debt and continue to pay distributions.

#### **4. Sales strategy – 595 Collins Street, Melbourne may be sold later this year**

The sale of 595 Collins Street, Melbourne was contemplated by us as a way of improving the capital position of the trust and reinstating distributions – rather than selling an asset, we achieved better terms under the debt facility.

As you are aware, I5CT is a fixed term trust that is 7 years into a 12 year life. We will actively monitor property markets to determine the best time to sell these assets. However, we may look to sell I5CT's 50% interest in 595 Collins Street, Melbourne towards the end of 2010 for the following four reasons:

- The new debt facility provides for a lower cost of debt once we sell 595 Collins Street, Melbourne and repay part of the debt;
- We can lock in a capital gain on this asset – a special distribution will be made to unitholders reflecting the gain;
- The other 50% co-owner of 595 Collins Street is seeking to sell its interest later this year and it is a lot easier to sell a 100% interest than a 50% interest in a property; and
- The surplus proceeds from this sale, after repaying part of the debt facility and making a special distribution to unitholders reflecting the taxable gain, should be sufficient to allow I5CT to fund its other capital commitments on all of its remaining properties.

The sales strategy for the other three assets was discussed in the mid-term review which is still available on our website at [www.investa.com.au/I5CT](http://www.investa.com.au/I5CT) (by clicking on 'Publications' and then on 'I5CT Fund Update and Mid-term Review'). Succinctly, all other assets will be considered for sale progressively over the term of the trust's life taking into account the following matters:

- the lease expiry profile of the property (which, other than 595 Collins Street, is currently less than 3 years) – in the current property market, properties with a short lease expiry profile are not in demand compared to properties with a longer lease expiry profile;
- the relative performance of the property markets in which the assets reside;
- the relative performance of the property market generally; and
- the Trust's ability to only offer its partial interest (50%) for sale – in the current property market, partial interests in properties are not in demand compared to a 100% interest in a property.

In line with the feedback from the mid-term review late last year, we will also investigate merging I5CT with another fund such as the Investa Diversified Office Fund with the aim of providing liquidity and greater diversification.

#### **5. Further questions**

We thank you for your ongoing support. We will continue to actively manage I5CT and keep you updated as we progress with our initiatives by posting updates on our website at [www.investa.com.au/I5CT](http://www.investa.com.au/I5CT).

Please contact our Client Services Team on (02) 8226 9342 or [clientservices@investa.com.au](mailto:clientservices@investa.com.au) if you have any further questions.

Yours faithfully



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**Investa Fifth Commercial Trust**