

## The future of your investment is important to ReCap

15 September 2009

Dear Unitholder

By now you would have received a Notice of Meeting and Explanatory Memorandum relating to Real Estate Capital Partners' ("ReCap") proposal to replace MacarthurCook Fund Management Limited ("MacarthurCook") as the responsible entity of the MacarthurCook Industrial Property Fund ("MIF" or the "Fund"). I thank you for taking the time to consider our proposal.

As a fellow Unitholder, we urge you to read the documents and exercise your vote.

As a response to the ReCap Notice of Meeting and Explanatory Memorandum, MacarthurCook released its own document on 10 September 2009. Given your vote is required by next week – Monday 21 September if you are voting by proxy or Thursday 24 September if you are attending the meeting – we thought it would be appropriate for us to respond directly to certain statements made by MacarthurCook in its correspondence to you.

But before we provide you specific and direct information in response to MacarthurCook, we wanted to make a few background comments so that you can better understand the reasons why we are proposing to replace MacarthurCook as responsible entity.

We believe it's important for you to know that prior to sending you the documents, we had several meetings and discussions with MacarthurCook and AIMS to talk about the future of our Fund. They were not able to provide any specific strategies to improve its performance or demonstrate any long term strategies. We were told to be patient. When we proposed the ReCap strategies and a management joint venture through which to execute these strategies, the proposal was rejected.

We then considered the reasons for investing in the Fund in the first place. Many of you may have invested in the Fund on its establishment or through the Fund's product disclosure statement dated October 2007 ("PDS"). I'm sure many of you may have invested on the basis of the information provided and the undertakings of MacarthurCook.

Here are some examples of where MacarthurCook has failed to deliver what they stated in the PDS:

### Statements in the PDS

### Current status

MacarthurCook forecast cash distributions of 8.71 cents per unit and **8.82** cents per unit for the financial years ending 30 June 2008 and 2009 respectively.

The distributions you received were 8.46 cents per unit and **1.81** cents per unit for the financial years ended 30 June 2008 and 2009 respectively. You would not have received a distribution since December 2008.

The investment team responsible for the investments of the Fund was detailed in Section 6.5 of the PDS, which was headed by Craig Dunstan and Chris Calvert.

No single executive of the investment team detailed within the PDS remains with your Fund.

"..the Fund will actively seek to invest in industrial properties located in Australia and overseas, including key industrial real estate markets located in Asia, Europe and the United States."

MacarthurCook has not acquired a single direct property asset since raising equity capital under its PDS in December 2007. The only investment that the Fund made was in its related party Singapore based property trust, MacarthurCook Industrial REIT ("MI-REIT"), which has booked substantial losses.

Further, MacarthurCook has not presented any strategies for the future of your Fund. It has specifically defended its strategy of contracting the size of the Fund.

## Statements in the PDS

"Longer term, MacarthurCook intends to redraw the Fund's debt capacity to continue building the Fund's portfolio of industrial properties."

## Current status

The Fund's current financier, National Australia Bank ("NAB") has not allowed any further drawdown of debt. This has caused distributions to be suspended. As a Unitholder, ReCap is not aware of the reasons why NAB has frozen the debt as the Fund appears to be operating within its financial covenants. MacarthurCook has not disclosed the specific reasons behind the frozen NAB facility, while at the same time denying that there is a problem.

MacarthurCook has sold core performing assets at below valuation to pay down debt, which has not only reduced the size of the Fund, but has contracted the earnings of the Fund.

We need your support to remove MacarthurCook as responsible entity of your Fund. ReCap's dissatisfaction with the Fund's performance is exacerbated by the following:

- MacarthurCook has been unable to properly articulate strategies to improve the performance and to put in place a long term strategy for the Fund.
- MacarthurCook continues to defend its contractionary strategies.
- MacarthurCook has failed to explain in detail the reasons why the NAB debt facility has been frozen.
- The investment team at the time you invested in the Fund, including Craig Dunstan and Chris Calvert, have left the company.
- The new investment team led by key AIMS executive Mark Thorpe-Apps has considerably less direct Australian property funds management experience than that of the original team.
- The new AIMS led investment team has no stated strategy other than to retain management of this Fund and accuse ReCap of lacking property management skills.
- Whilst ReCap welcomes MacarthurCook's recommendation to vote in favour of resolution 1, we note that it has only waived fees after ReCap challenged its position as responsible entity of the Fund.

## **The future of your investment is important to ReCap. With the support of fellow Unitholders we can implement positive strategies for the Fund's future.**

As a fellow Unitholder, we ask for your support. Please vote in favour of all three resolutions that we have put to you so that we can try to ensure that our Fund has a future. You would have received your proxy form with the Notice of Meeting and Explanatory Memorandum. Please advise us if you require a replacement form by contacting us on 1800 648 328.

We look forward to working with you to create a real future for our Fund.

Yours sincerely



Andrew Saunders  
Chief Executive Officer

## Response to MacarthurCook's information for Unitholders

ReCap responds directly to the statements made in MacarthurCook's information to Unitholders dated 10 September 2009.

### Team and expertise

#### MacarthurCook claims...

- It has "a team which is highly experienced in the management of Australian industrial and commercial direct property funds and Australian REITs" and that "ReCapMIL does not manage any industrial direct property in Australia". The following people have been put forward as the investment team for your Fund
  - Mark Thorpe-Apps – property equities background
  - Russell Bullen – real estate advisory background
  - Doug Simonds – manager of MIF, valuer and direct property experience
  - Joanne Harvey – property portfolio manager

#### ReCap response...

- The ReCap team has very specific direct property expertise – we recently sent you a brochure which outlines the direct property expertise of the ReCap team. Please refer to that brochure for the CVs of our team which is summarized as follows:
  - **Andrew Saunders** – direct property and property funds management background at Macquarie Bank, Challenger and CB Richard Ellis
  - **Jason Bennett** – licensed real estate agent, qualified valuer with very relevant direct property expertise across industrial and commercial sectors
  - **Tony Dixon** – direct property manager for groups such as Mirvac, Leighton, Investa and Dexus, including specific expertise in the industrial sector
  - **Tamara Williams** – property funds management background across a wide variety of sectors including industrial and commercial
- The new investment team of MacarthurCook is a substantially different team from the management team set out in the PDS. In addition, it is now driven by AIMS, a company with a reputation in debt securitisation and mortgage lending where any experience referred to in direct property does not appear to relate to property held by it in a property funds management capacity.
- ReCap's industrial property expertise sits predominantly with Jason Bennett and Tony Dixon. They have significant experience and a serious track record of managing direct property across most sectors including the industrial sector.

- Andrew Saunders as CEO has a direct property background. He has a disciplined approach to property funds management combined with a track record of undertaking direct property transactions.
- ReCap's direct property team has extensive experience in leasing and sales of industrial and commercial properties, within both property trust management and agency roles.
- ReCap believes that its team holds more direct property expertise in the Australian market than the team currently put forward by MacarthurCook and AIMS.

#### MacarthurCook claims...

- An unrivaled, in depth knowledge of your Fund and all the properties held by your Fund.
- Relationship with the existing tenants, property managers and leasing agents.
- A change in responsible entity will significantly impact relationships with existing and prospective tenants, adversely affecting the ongoing management on your Fund.

#### ReCap response...

- Two properties – 22 Rodborough Road, Frenchs Forest, and Titanium Crescent Crestmead, Queensland, remain vacant without the benefit of rental banking guarantees that have now expired. Despite having the rental guarantee periods to lease the properties, MacarthurCook has not been successful in leasing them since December 2008.
- If any capex is required to assist in the re-leasing of these properties then the Fund has an issue in that it cannot use its frozen NAB debt facility. It is interesting to note that this is the same problem that gave rise to the suspension of your distributions in December 2008.
- While the bank guarantees meant that these long term vacancies did not impact the income of the Fund for FY2009, there may be an impact for the current financial year. MacarthurCook has stated that it intends to reinstate distributions for the September 2009 quarter, yet the Fund continues to be plagued by such recurring issues, which leads ReCap to question the sustainability of a distribution program under MacarthurCook management.
- There has been a 100% turnover of the MacarthurCook property team. Any relevance placed on relationships with existing tenants at a personal level is unfounded as there has been no continuity.
- In any case and like many fund managers, MacarthurCook has engaged agents to lease the properties.

## Capital Management and Expansion

### MacarthurCook claims...

- A strong and disciplined approach to capital management to protect Unitholders' capital.

### ReCap response...

- ReCap believes that MacarthurCook has not adopted strategies to enhance Unitholders' returns and grow Unitholders' capital. The strategies of suspending distributions and selling core assets at below combined valuations are regressive strategies for your Fund.
- MacarthurCook has failed to meet a number of its capital management strategies as outlined in the PDS, such as diversifying funding sources in either the debt or equity markets. NAB is the only financier to the fund, and has frozen the debt facility which has resulted in your distributions being suspended since December 2008. ReCap believes that the lack of institutional investors on the MIF unit register has contributed to the illiquidity of the stock and the Unit price remaining low. ReCap believes that the Fund would benefit from a broader investor base, to ensure that the stock is actively traded and supported. The only way to attract this level of investor is through the expansion of the Fund and a consequent expansion of the equity base.

### MacarthurCook claims...

- One of the most prudent capital management strategies in the last 12 months has been MacarthurCook's decision not to refinance debt or undertake a highly dilutionary capital raising.

### ReCap response...

- This capital management strategy has meant that MacarthurCook has suspended distributions and has not executed strategies that it highlighted in its PDS. ReCap believes that MacarthurCook's contractionary policies are not in the best interests of Unitholders. ReCap is not suggesting a rights issue or acquisitions to increase its fee base or marginalize existing Unitholders, it has suggested this stabilisation strategy as it believes it is necessary for the Fund – to improve the balance sheet and ultimately the returns to Unitholders over the long term.
- If you are a Unitholder that is able to participate in a rights issue, you will not be diluted as a Unitholder of the Fund. ReCap believes that a rights issue may benefit Unitholders as you will be able to average down your entry price, which should result in an enhanced yield across the average cost base of your portfolio of shares or units. A purely numerical example of averaging down is as follows:
  - Assume that cash distribution = 8 cents per unit
  - Assume your original investment = \$1 per unit
  - Therefore your original yield expectation = 8%
  - A rights issue is undertaken on a one for one basis at \$0.25 per unit
  - Let's assume cash distribution drops to 6 cents per unit

- Original investment = \$1 per unit
  - Rights unit issue price = \$0.25 per unit
  - Average unit price = \$0.625 per unit as you now have two units
  - New yield expectation per unit = 9.6% ( $\$0.06 / \$0.625$ )
  - Marginal yield expectation on the unit that you acquired under the rights issue = 24% ( $\$0.06 / \$0.25$ )
- For those not able to participate, you will be diluted and your yield could potentially be diluted if the rights issue is not combined with an increase in earnings. The rights issue which ReCap wishes to carry out to stabilise the balance sheet is necessary. Many Australian REITs have engaged in stabilisation strategies to ensure the future of their funds, at significant discounts to NTA per unit. ReCap believes that the Fund needs to engage in a similar strategy to ensure a healthy balance sheet. Any further rights issues will be undertaken when a portfolio of assets that provide satisfactory yield to the Fund is identified. ReCap is currently in discussions with a number of parties to acquire a portfolio of properties that will be complementary to the Fund's existing portfolio.

### MacarthurCook claims...

- MacarthurCook has a long term commitment to Unitholders.

### ReCap response...

- ReCap questions MacarthurCook's long term commitment to Unitholders. MacarthurCook has not announced any long term strategies that demonstrate it is considering the future of the Fund. Contractionary policies that reduce the size of the Fund are short term in nature and have adversely affected its performance.
- ReCap believes that the strategy of selling good quality assets in a soft market to pay down debt (where that debt cannot be utilised for further acquisitions) is not in the best interests of the Fund.

### MacarthurCook claims...

- "refinancing of the Fund's debt is not required. If undertaken it would have given rise to a significant increase in the cost of debt to the Fund which would have further negatively impacted returns, in particular distributions"

### ReCap response...

- By not refinancing the debt or undertaking a rights issue, MacarthurCook has caused distributions to be suspended since December 2008, which ReCap believes has negatively impacted the Unit price.
- Despite being a Unitholder, ReCap is not aware of the specific reasons why NAB has frozen the debt; given the absence of any specific announcements to the contrary ReCap understands that the Fund has been operating within the financier's financial covenants. Therefore ReCap believes that there are issues with the NAB facility that require it to be refinanced.

- The margins contained within the ANZ commitment letter and indicative terms sheet are competitively priced for this market. The current NAB facility expires within 12 months so MacarthurCook would be forced to refinance the debt within this market in any case.

## MacarthurCook claims...

- “The decision undertaken by MacarthurCook to sell a number of properties has reduced the fees it is receiving, due to the total assets of the Fund being reduced through these asset sales. The proposal by ReCap would significantly increase the fees they would be likely to receive as new acquisitions would give rise to additional responsible entity fees”.

## ReCap response...

- ReCap believes that the decision taken by MacarthurCook to sell a number of properties has been suboptimal for the Fund. As a Unitholder, ReCap would have been happy to pay MacarthurCook fees for improving the Fund.
- ReCap believes there are many benefits associated with expanding the size of the Fund, and the responsible entity fees associated with a larger base of assets are not ReCap’s driver. To confirm ReCap’s commitment to the Fund, it will agree to reduce the annual management fees charged to the Fund to 0.50% of gross assets under management per annum (a reduction from the current fee of 0.65% of gross assets under management per annum), once the Fund has gross assets under management of in excess of \$300 million.

## AIMS and Focus on Asia

### MacarthurCook claims...

- MacarthurCook Limited’s corporate plans are separate to those of MacarthurCook and your Fund.

### ReCap response...

- ReCap notes that the corporate strategies of MacarthurCook Limited and AIMS is to expand their businesses in Asia. ReCap believes that this focus has been and will continue to be at the expense of actively managing the Fund.
- Prior to ReCap calling the Meeting, there were many announcements relating to this Asian strategy. In response to ReCap’s documents we note that MacarthurCook has now said that it has no intention of seeking new investments in Asia for the Fund in the near term and will focus on Australian industrial property opportunities.

## MacarthurCook claims...

- “This investment [in MI-REIT] has fallen in value due to falls in the unit price and currency losses. MacarthurCook believes that this remains an attractive long term investment.”

## ReCap response...

- The Fund’s circa \$20 million investment in MI-REIT has been the cause of circa \$19 million in realised and unrealised losses to date.
- ReCap believes that MI-REIT has problems associated with its financing and commitments relating to an onerous contract. In August 2007 MI-REIT entered into a put and call agreement to acquire a Singapore property called “Plot 4A International Business Park” for SGD91 million. In its annual accounts for the year ended 31 March 2009 it booked unrealised losses of SGD20 million, due to a drop in value of the building. More importantly, MI-REIT may be called on very shortly to acquire the building for the contracted price, which ReCap believes will not be entirely funded by MI-REIT’s financiers at the original agreed price of SGD91 million.
- ReCap is committed to ensuring the Fund exits this MI-REIT investment before there is any further fall in its value. ReCap has entered into a non binding agreement with Oxley Capital Group, a real estate investment company based in Singapore, to sell the Fund’s holdings of 22 million units in MI-REIT should ReCap be appointed the responsible entity of the Fund. The transaction is expected to be completed approximately two weeks after ReCap’s appointment, at a premium to MI-REIT’s average market price over that two week period.

## Contact us

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**Investor Services** 1800 648 328

**Michael Jaeger** 02 9222 8108

**Real Estate Capital Partners**

Email: [enquiries@recap.com.au](mailto:enquiries@recap.com.au)

Web: [www.recap.com.au](http://www.recap.com.au)

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## Vote in favour of all 3 Resolutions

### Resolution 1

Vote to save fees



### Resolution 2

Vote to remove  
MacarthurCook



### Resolution 3

Vote for an experienced  
manager with a focused  
growth strategy

