

AUSTRALIAN

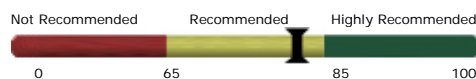
# RESEARCH



## Multiplex Development & Opportunity Fund – September Update

Aegis Ratings	Inception	Assessed Remaining Investment Term	Status	Min/Incremental Investment	Exchange Symbol
80 out of 100	27 May 2002	76.5 years to 1 March 2082	Unlisted Open Ended	A\$10,000 / A\$1,000	n/a

### Aegis Commentary



#### Offer Overview

- The Multiplex Development & Opportunity Fund (*Fund*) investment recommendation and rating are unchanged at **Recommended**. This report is to be read in conjunction with our original report, dated February 2005.
- Few development funds possess the depth and breadth of projects held by this Fund or the project sourcing capability available through the Multiplex Group (*MXG*). This lowers investor risk; in what is a volatile industry, requiring a diverse range of skills.
- *MXG*, the parent company for the Responsible Entity (*RE*), Multiplex Investments Ltd, has suffered a loss of investor confidence, which is yet to fully recover. Despite this, the Funds Management division of *MXG* continues to perform strongly, predominately meeting financial forecasts for its funds. Fund performance is not correlated with *MXG*'s UK projects.

#### Project

- All the projects (A\$144.4M of capital invested) listed in this report have commenced. With the exception of the Castlereagh Street project (mezzanine debt), all the projects are equity investments.
- The investment criteria are broad and the Fund has a wide diversity of projects across property type and geographic boundaries.
- Average remaining project duration is 1.7 years, (previously 1.5 years). Investments range from A\$1.1M to A\$15.0M. The average investment is A\$7.3M. The median investment is A\$5.9M. All projects are proceeding broadly within revenue, cost and project timelines.

#### Management

- *MXG* suffered a massive loss of investor confidence after the Wembley project profit write-down. Management has improved divisional disclosure, but this remains well short of expectations. All divisions should be profitable in FY06 and beyond, but we note the inherent risks in construction and development earnings. Income from Multiplex Property Trust and Funds Management is expected to be the standout performer. Overall, we believe *MXG*'s business is fundamentally sound.
- *MXG* will continue to leverage its market leading position in Australia and NZ and moderate its expansion in the UK and/or the UAE, with an increased focus on negotiated and development work (as opposed to low-margin, tender-based work). The construction division has some A\$7B in projects. The development division has a good platform of projects (A\$14.4B) in the core property, urban regeneration, hospitality and hotel sectors and from assets from which it can generate annuity-style profits.

#### Finance

- The Fund was restructured in late 2004 to allow investment from *retail* investors. Since then, the Fund has achieved targeted returns.
- Since inception, the Fund has participated in 15 projects that have provided an average and median return of 20.5%. The range of returns has been 16.6% to 37.9%.
- The Fund has a total fee structure of approximately 5.8% of gross assets; therefore, it must secure projects that have a total return above its 15% return target. Based on *MXG*'s current development activity, the *RE* is in a position to provide this return.

#### Project Profile

Number of projects	19
Average project duration (years)	1.7

#### Financial Forecasts

IRR target (pre-tax and after fees, %)	15.00
Actual IRR return (FY05, %)	15.48
NTA (A\$, as at 31 August)	1.02
Franking (%)	100
Distribution frequency	Quarterly

#### Distribution (%)

Breakdown (per project)	Base	Target*
	8.0	15.0+

\* Includes base distribution.

#### Capitalisation (as at 30 June 2005)

Equity (A\$M)	149.5
Liabilities (A\$M)	45.4
Total (A\$M)	194.9
Property (gross, A\$M)	178.9
Gearing (total assets, %)	3.7
Debt hedging	Not Applicable

#### Legal Structure

This is an open-ended, unlisted unit Fund that pools individual investors' money to invest debt and/or equity funds in development projects. Investors are allocated units at an issue price determined each month. The value of the units is tied to the performance and/or duration of the Fund's invested projects. The price of units may rise or fall over time. This Fund is classified as a public trading trust; paying tax as if it were a company. Unit holders distributions are expected to be fully franked.

#### Operations

Responsible Entity (RE)	Multiplex Investments Ltd
Group Funds Under Management	A\$5.5B
Custodian	Multiplex Funds Management Ltd
RE's parent reviewed by Aegis	Yes

**Exit Project**

The repayment of project construction costs is the first priority, then senior debt, mezzanine debt (if any) and equity. The Fund will then receive (assuming no reduction in project return) a minimum priority return of 16.8%, followed by other equity. Of this, the Fund will equally share any remaining interest with MXG.

**Fund**

At a fund level, the RE currently offers a quarterly liquidity facility. The facility's administration fee is dependent on the amount of time a unit holder has held the investment. If units are held for less than three years, the fee will be 4% on the Fund's Net Asset Value (NAV). If held for less than five years, but more than three years, the fee is 2% on NAV. There is no fee for investments held for more than five years.

**Fees (averaged over Fund term, %)**

	Total assets	Ind. avg
Mgt Est.	4.0	4.7
Mgt Ongoing	1.5	0.9
Mgt Sale	n/a	3.1
MER Avg p.a.	1.8	1.2
Total (Est, MER, Sales)	5.8	8.5

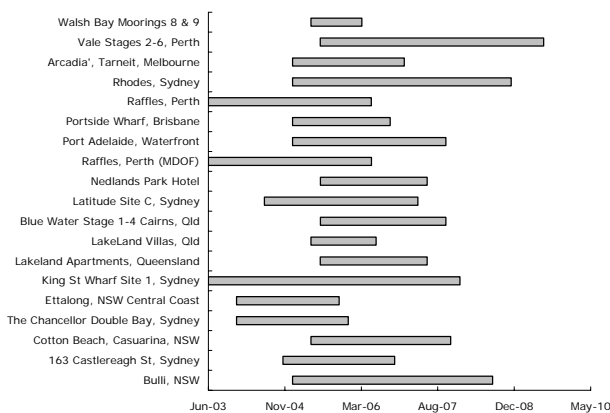
**Advisor Broker Fees (%)**

Upfront	0.00-4.00
Ongoing (trailing)	0.00-0.65

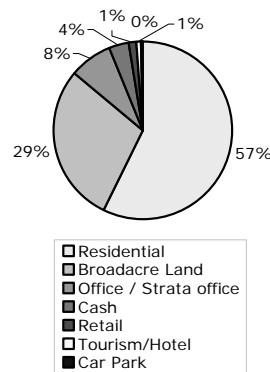
Note: Establishment fees include brokerage.

**Income Sources (as at 01 September 2005)**

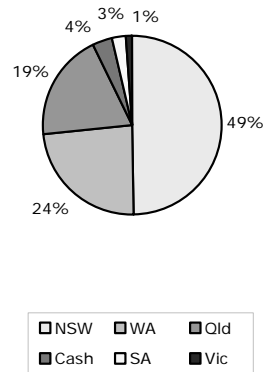
**Time to Completion**



**Project (by industry)**



**Location (by investment)**



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**SWOT**

**Strengths**

- Three independent directors must approve all MXG projects.
- The Fund generally invests via a wholly owned company into a project-specific trust.
- MXG guarantees a base distribution of 8%.
- Quarterly liquidity facility.

**Weaknesses**

- Distributions above the 8% guarantee will depend on the timing of property sales and the completion of projects.
- Unit holders are exposed to construction and market risk; although many of these risks are known and may be mitigated.

**Opportunities**

- To achieve above target returns.
- To further grow and diversify the Fund, resulting in a lower risk adjusted returns to unit holders.

**Threats**

- Investment returns vary through the development cycle and therefore so do risk levels.
- MXG does not guarantee the performance of any project.
- Default by MXG or its contractors (not assessed) may affect Fund performance.

**Investment Opinion**

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