Brookfield

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ASX Announcement

8 December 2014

Brookfield Prime Property Fund (ASX: BPA)
Chairman's Address

Please find attached for release to the market the Chairman's address to be made at this afternoon's Unitholder Meeting of Brookfield Prime Property Fund ("the Meeting").

The address will be presented to the Meeting by Mr Allan McDonald, Chairman.

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Brookfield Customer Service
Ph: 1800 570 000

Chairman's Address to the Unitholder Meeting of Brookfield Prime Property Fund to be held at The Menzies Sydney Hotel, 14 Carrington Street, Sydney on Monday, 8 December 2014 at 3:00pm

As announced on 31 October 2014, unitholders are being asked to consider two resolutions relating to a proposal from the Brookfield Group to acquire all Units not currently held by the Group at the Acquisition Price of $5.50 per unit.

Brookfield Group approached the Independent Directors with an initial conditional offer. In response to this offer, the Independent Directors formed an independent committee, established internal protocols to ensure a strict separation of personnel and information, and appointed independent legal advisers. After considerable review and discussion, including negotiation by the Independent Directors of a significantly higher price than was first proposed, Brookfield presented an offer at $5.50 subject to execution of the Implementation Deed and satisfaction of the conditions contained in that Deed. Given the size of the premium above the current and all historical trading prices, the Independent Directors believed that unitholders should be given an opportunity to consider and vote on the offer.

The Explanatory Memorandum that accompanies the Notice of meeting sent to Unitholders sets out the advantages and disadvantages of the Resolutions proposed for this meeting.

Having regard to those advantages and disadvantages the Independent Directors have unanimously recommended that you vote in favour of the resolutions, provided the Independent Expert does not withdraw its conclusion in relation to the Proposal, and in the absence of an alternative which is considered to be superior and in the best interests of unitholders.

In particular, the Independent Directors recommend the offer in view of:

- the offer being 20% above the market trading price at the time of announcement;
- lack of liquidity in the stock and therefore limited capacity for investors to monetise their investment with certainty; and
- the risks set out in relation to continued investment in the Fund.

The Brookfield offer was at a premium to the trading price but at a discount to NTA. It is noted that the market has not reflected NTA in recent years.

The independent directors have given consideration to the alternatives which were detailed in the Explanatory Memorandum.

I would like to briefly discuss a number of these alternatives.

Wind up of the Fund

The Independent Directors have considered a wind up of the Fund and do not consider this to be in the best interests of unitholders as a whole.

Brookfield (which holds 80% of the economic interests in the Fund) has advised that it does not currently support a wind-up. While this is not itself determinative, it is a significant factor for the Independent Directors in deciding whether a wind-up is in the interests of unitholders as a whole, in circumstances where the properties continue to perform in line with expectations and the Fund continues to meet the objectives for which it was established.

A sale of assets on a winding up also involves incurring costs and a number of risks and delays. There is no certainty that the current value of the properties would be realised upon a wind up. Any wind-up carries with it risk around achieving current values and timing of sale, particularly for those assets where co-owners carry existing pre-emption or first rights of refusal.

It is important to note that if Brookfield's offer is not approved today, it is not proposed that the Fund be wound up as an alternative. Brookfield has made an offer which the Independent Directors believe provides an attractive exit opportunity for investors. If investors reject that opportunity, it is proposed that, absent some change in circumstances, the Fund will continue in its current form. Rejection of the offer will not require the directors to terminate a fund which, despite the challenges, has a property portfolio performing in line with expectations and in accordance with its investment objectives.

Raising Capital

The ability to source debt funding at competitive pricing in recent years has limited the need to raise additional capital from Unitholders. As the trading price remains below net asset value, any capital raising would be undertaken at a value that would be at a discount to net asset value. This would have the effect of diluting the relative holdings of those Unitholders who choose not to commit further capital to the Fund.

Costs in raising capital, including underwriting costs, would be borne by the Fund.

It may be that such a capital raising is required in the future but to date the directors have not considered this to be optimal.

Asset Sales

The sale of one or more properties may potentially provide a means of decreasing the risk around cashflow in the Fund by reducing debt or reducing the need for additional capital. However, such a course of action brings with it the disadvantages of the loss of the opportunity associated with the property/ properties chosen to be sold and diversification across different markets, and the risks associated with realising current market value for any properties sold. In managing the Fund, the directors need to take account of both short term and longer term objectives. Asset sales may satisfy some immediate cash outcomes, but do not ultimately meet the Fund's mandate. Nor is there any assurance that asset sales will result in an increase in the trading price.

Alternative Offer

An alternative third party offer appears highly unlikely given Brookfield Group's 80.47% holding in the Fund. No additional offer has been made by Brookfield.

Continuing the Fund in its current form

The Explanatory Memorandum sets out a number of relevant considerations for future performance of the Fund.

Expected cashflow in the Fund is likely to result in distributions remaining at current levels for the immediate future. Expiry of the Fund's interest rate swap in the 2016/2017 financial year may bring the capacity to increase distributions, but will coincide with renewal of the Fund's debt facilities.

The Explanatory Memorandum sets out the risks around future lease expiries and the immediate capital expenditure requirements of the Fund over the next four years. The capacity of the Fund to increase distributions will be dependent upon the ongoing performance of the Fund's properties in light of the risks set out in the Explanatory Memorandum.

The net asset value of the Fund of $6.37 at 30 June 2014 will continue to be impacted by a combination of factors including property values, operating performance of the portfolio and the continued unwind of the interest rate swap liability. The movement in net cash earnings of the Fund and the value of the interest rate swap liability as at 31 October 2014 are set out in the Independent Expert's Report. The Explanatory Memorandum also provides forecast cash-flows over the coming years and sensitivities around movements in property values. These are to assist unitholders in assessing whether they wish to accept the exit offer. With the exception of the interest rate swap liability that will continue to positively impact as it unwinds net asset value until its expiry in July 2016, all movements in net asset value will be subject to market forces and risks inherent in those markets.

In addition, there can be no guarantee that an increase in net asset value would result in a significant change in the trading price in circumstances where liquidity in the market remains limited by the Brookfield Group's holding.

The Independent Directors have given consideration to the alternatives and for the reasons set out in the Explanatory Memorandum, and in light of the opinion of the Independent Expert, recommend that unitholders vote in favour of the Resolutions.

Operation of the Fund post this Meeting

In the event that the Resolutions are not passed at this meeting the Fund will continue to be listed on ASX and will continue to be managed by Brookfield Capital Management Limited for the benefit of all unitholders.

Brookfield Capital Management Limited will continue to explore opportunities to enhance value for Unitholders. This includes the continued review of the capital structure of the Fund, its assets and its gearing.

As mentioned previously the Explanatory Memorandum provides a forecast of the ongoing cashflow position of the Fund which must be read in the context of the assumptions and risks set out in the document.

Consideration will be given to a distribution for the period ended 31 December 2014.

Financial statements will be prepared for the December 2014 half year and will be released in February. Operating performance and cash earnings in the period from 30 June 2014 is consistent with expectations and property values and NTA will be assessed at the balance date.

There were a number of conditions outstanding as at the date of the Explanatory Memorandum, I confirm that those conditions have been satisfied.

The Explanatory Memorandum sets out the key advantages and disadvantages of the Proposal. The Independent Directors believe the advantages outweigh the disadvantages but ultimately this is a matter for you to decide as independent unitholders. I trust that you have all considered the reasoning behind the advantages and disadvantages of the Proposal and the Independent Expert's Report which is on pages 25 to 105 of the Explanatory Memorandum. As such, I do not intend to provide any further commentary on the Proposal but will instead open the floor to questions.