

Private Wealth Management

Deutsche Bank

For Existing Investors Only

November 2009

Investment Outlook – Glanmore Property Fund

In our last Outlook, in January, we said we expected UK Commercial Property valuations generally to drift further downwards through the first half of 2009, with values stabilising and activity slowly picking up later in the year.

That looks to have been a fair forecast. Prices continued to fall, but much more slowly through the second and third quarters. Indeed some of the benchmarks have pointed to an imminent recovery. The UK IMA Property Sector average, which includes funds that invest in property equities, turned positive in the second quarter. Listed property securities often serve as a precursor to the direct market by six to nine months. In August the IPD UK Monthly Index showed the first month on month increase in 26 months, when it posted a capital increase of 0.2%.

Transactions volumes are also rising, and a number of larger deals have been concluded, for instance the recent sale of a 50% stake in the Meadowhall shopping centre and the sale of the Broadgate Centre in the City of London. The devaluation of Sterling has made the UK market even more attractive to overseas investors, however their interest is largely confined to London and AAA covenants. At this end of the market we are seeing yields tighten, while elsewhere demand is still weak.

We are beginning to see some more positive commentary on UK Commercial Property, with the Investment Property Forum (IPF) predicting returns of over 6% in 2010 and nearly 11% in 2011 (IPF UK Consensus Forecasts August 2009). This is welcome news after the torrid time the asset class has endured in the wake of the liquidity crisis.

Though many commentators feel that the worst of the economic crisis appears to be over, unemployment, so often an overhang from a recession, is still a concern. The coming months could see unemployment rise, which is likely to result in High Street spending contracting further still and more retailers struggling. Office space, particularly in the City of London, is still facing a tough time.

This, coupled with any rise in interest rates, could lead to loan defaults. Our concern is that the banks might take possession and over-supply the market with property. The message from the lending institutions is that they learned their lesson from a similar position in 1990/91, but the possibility remains.

Please read in conjunction with important risk warnings on the following page.



In light of this, we remain optimistic but cautious. We believe the market will continue to stabilise this year: if the banks can show restraint and patience, we expect asset prices to be higher at the end of 2010 than the beginning. The scale of this movement will be affected directly by the supply and demand ratio and the perceived health of the underlying economy.

The Glanmore Property Fund

Though, like all such funds, the Glanmore Property Fund has had a difficult 18 months, the future looks more reassuring. We believe the fund's composition makes it attractive going forward:

- Well-diversified portfolio of 68 buildings spread across towns and cities throughout the UK
- Diversified in terms of building use, including offices, warehousing, retail and leisure
- Better-than-average occupancy – currently around 96%, though it may move down a shade if we see High Street casualties in the run-up to and wake of Christmas
- Strong tenancy agreements – three quarters of our tenants have contracts with more than five years to run; a quarter of them have leases with more than 10 years unexpired.

The success of the recent capital-raising exercise and the support of shareholders to extend redemption restrictions has put the Glanmore Property Fund in a much more secure position.

We have met the first tranche of redemption requests (in the region of £12m) and have paid down £79.25m in debt to bring the current loan-to-value ratio to 70%*.

The Fund is under no immediate pressure to raise further capital through asset sales; it may, liquidate one or two assets should opportunities arise that represent fair value for shareholders.

Finally, the Board has now agreed to a dividend distribution in 2009. Details will be announced later in the year.

John Raff

Cardales UK Limited, Property Adviser to the Glanmore Property Fund

* As at 30th September 2009.

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