Seven Dials European Property Fund

Q2 2010 Update

1. NAV Movements in the three months to June 2010*

*Please note that the NAVs reported below are indicative only. The Fund has suspended dealing and the official calculation and publication of net asset values.

We report falls of approximately 7.5% in the Fund NAVs in the quarter to 30th June 2010.

Fund NAVs as at 30th June

Share Class	Bid NAV	Mar 10 NAV
A	5.68	6.14
B	5.74	6.19
C	5.76	6.22
R	5.53	5.97
P	5.58	6.02

These NAVs are based on a half year property valuation for the German Aktiv fund and Dec 2009 valuation for the Nordic Aktiv fund.

2. Performance Analysis

The German Aktiv property portfolio was externally revalued in June and a fall in its value has led to the drop in Fund NAVs.

In 2009 it was the Manager's view that property values across Europe were falling and hence it took the approach of reducing property values by 10% p.a. for the purposes of estimating NAVs during the year. At the end of 2009 the average fall in the two underlying portfolios was close to 10%.

In late 2009 and early 2010 there was clear evidence of a recovery in prices for prime assets and the Manager halted the policy of writing down property values for estimating NAVs in March 2010. However, outside of the market for prime assets there have been very few transactions in 2010 and hence little evidence for establishing values.

As first half of the year drew to a close the risk appetite of investors appeared to be falling back and the yields on non-prime assets have started to soften slightly. However, given the stability and even improving market for prime assets and the lack of transactional evidence elsewhere, for the purpose of estimating NAVs it is not considered appropriate to make assumptions about underlying movements in property portfolio values. Both German Aktiv and Nordic Aktiv will be revalued in December 2010.

Nordic Aktiv
As in all of Europe business conditions remain tough in the Nordic region and occupiers are seeking to cut costs through better lease terms, lower rents and exiting unoccupied space. Despite this, investment demand has been quite strong although heavily concentrated on prime assets, as in other regions.

The Manager completed more than 80 new lettings in the first quarter although the additional voids also created during the quarter resulted in a net loss of rental income for the portfolio. This vividly illustrates the challenging conditions and the importance of asset management activity in trying to maintain portfolio income.

The re-financing of the loan facility to the Nordic Fund has completed. This increases the cost of borrowing but brings the benefit of a period of financial stability. The current LTV is around 75% although sales expected to complete in Q3 will bring this down.

There was no external valuation of the Nordic Aktiv portfolio in June. The next revaluation will be in December 2010.

German Aktiv
Demand for prime warehousing space in the five largest conurbations in Germany has improved in Q1 2010 over the previous year although this general picture hides wide variation. There are also large differences in take-up between prime and secondary locations.

In a difficult occupational market, the Manager of German Aktiv has been reasonably successful in the asset management of the portfolio during the first half of the year. A significant portion of the portfolio rental income is due for expiry in the near term but the Manger has a good record in retaining tenants and re-letting. However, the short term nature of the rental income and the lack of investor interest outside of prime assets have led to a reduction in the portfolio value of around 5% at the June valuation. Given the high level of gearing, the fall in portfolio value has had a significant downward impact on the NAV of the fund, which fell by around 23%.

It is likely that the fall in the portfolio value reflects more an adjustment in relative pricing between prime and non-prime assets than a general fall in values.

3. Outlook

The resurgence of interest in property investment evident in the first quarter has waned somewhat. There remains good interest in prime assets but much more muted interest in other parts of the market. The financial crisis in Greece and the wider economic problems of the Eurozone have led to a reduction in the appetite for investment risk. Occupational markets remain challenging as businesses continue to seek to cut costs.

On a more positive note, institutional investors have money to invest in real estate and they are expected to increase the geographical diversification of their investments over time. This is supportive for European real estate in the medium term although current market conditions suggest there is no need to rush the process.

The Manager and Adviser of the Seven Dials European Property Fund continue to work on finding a way forward for the Fund. Options include raising new money to increase the size of the fund, the sale of assets to provide liquidity as well as a possible merger with another similar fund. The recent softening in some parts of the investment markets has probably extended the time it will take to achieve one of these alternatives but it is hoped that more positive longer term trends the will lead to an acceptable solution in due course.

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