



Seven Dials European Property Fund

Q4 2008 Update

1. NAV Falls in the three months to December 2008

We report falls in the Fund NAVs in the quarter to 31st December 2008 of around 17%. This movement reflects falls in the underlying property values but also movements in exchange rates and substantial falls in the value of interest rate hedging instruments, owing to the large downward movement in interest rates. Full details are given below.

Fund NAVs as at 31st December

Share Class	Bid NAV (gross)	Bid NAV (ex-Div)*	Sep 08 NAV	Change
A	8.125	8.039	9.68	(17.0)%
B	8.158	8.051	9.71	(17.1)%
C	8.174	8.060	9.72	(17.1)%
R	7.927	7.854	9.45	(16.9)%
P	7.949	7.856	9.46	(17.0)%

Dividends

Share Class	Div per share €*	Annual rate**
A	0.086098	1.8%
B	0.106848	2.2%
C	0.113131	2.3%
R	0.072094	1.5%
P	0.091839	1.9%

*Dividends and ex-dividend prices are subject to Board approval, which is anticipated shortly.

**Based on September NAV

Over recent weeks it has become clear that there was a substantial fall in economic activity in the fourth quarter of 2008 and with this there has been a sharp deterioration in the near term economic outlook. Whilst a contraction in activity in Europe had been expected, the pace of decline in the fourth quarter surprised most commentators and analysts.

As economic growth prospects fall, inevitably so do the prospects for near term rental growth. Against this backdrop, it is no surprise that property values are falling, although



there is very little transactional evidence upon which to base values. However, the rapid slowdown in economic activity has been accompanied by sharp reductions in interest rates across Europe. Indeed, real long term interest rates are now extraordinarily low. This, together with increases in the yields on property assets means that prospective returns on property investments are also adjusting quickly and becoming attractive compared to risk free rates. With the returns available on cash falling to very low levels, the yields on property will once more start to look attractive as investors regain confidence.

2. Performance Analysis

German Aktiv

The NAV of the Fund's investment in German Aktiv fell by 22.5% during the quarter reflecting a fall of around 5% in property values over the six months since the end of June. Around 60% of the NAV fall was due to the reduction in property values and around 40% was due to falls in the values of interest rate hedging instruments.

The movement in the valuation was almost entirely driven by increases in yields as we believe that the Manager had continued to be quite successful in its asset management activities in the fourth quarter. In time the fall in interest rates will have some beneficial effect on the fund as not all of the debt is hedged.

Nordic Aktiv

During the quarter, the property assets on this investment were not re-valued externally¹. The Manager's NAV does include adjustments for all other items. However, because of the rapidly changing market conditions the Board decided to adjust downward the gross value of the Nordic Aktiv property assets by 3.75%. The Board believes this gives a better estimate of the underlying NAV on this occasion.

Based on the above, the NAV on the Fund's investment in Nordic Aktiv fell by just under 21%. About half of this is attributable to movement in property values, but some 37% of the total is due to adverse movements in exchange rates, specifically the Swedish Krona / Euro rate. A large portion of Nordic's assets are in Sweden and the Euro strengthened significantly against the Krona during the quarter. The balance of the NAV movement was mostly attributable to falls in the value of interest rate hedging instruments.

The dramatic economic events of 2008 have resulted in the Governments of most countries choosing to implement very large stimulus packages. Sweden is much better placed financially than most countries to accommodate such support and it is hoped that this will result in due course in a more moderate recession than would otherwise be the case and so less reduction in rental growth prospects.

¹ The change in valuation timetable referred to in the previous Fund Update has not been implemented.



3. Debt and LTV Covenants

The falls in value have put the loan covenants on both funds under pressure. As reported last time, dividend payments have been suspended on Nordic Aktiv and this is likely to happen also on German Aktiv. The Manager is in the advanced stages of discussions with the lender to Nordic Aktiv about a possible debt re-financing. The process is complex and not helped by the dramatic changes in the UK banking landscape but it is hoped that this will be completed in the next couple of months.

The debt covenant on German Aktiv has been under less pressure than in the case of Nordic but recent falls in value mean that re-financing discussions are also required on this fund.

One of the advantages of investing with a larger Manager like Valad (the manager of both Nordic and German Aktiv) is that it has extensive banking relationships and so has the possibility of being able to achieve better terms from re-financing than it might otherwise do on a standalone basis.

4. Outlook

The near term prospects for European commercial property are not great but the high quality of the funds that the Seven Dials European Property Fund has invested in gives us good reason to expect the Manager to be able successfully to work through the current problems. The large downward movements we have seen in interest rates means that prospective returns in many property sectors look attractive compared to risk-free rates and in some cases very attractive. We don't anticipate an overnight change in sentiment towards European property but in time the prospect of relatively high real returns such as are now on offer will attract investors back to property.

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