Seven Dials
Independent Fund Management

Seven Dials European Property Fund

Q4 2010 Update

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

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

We report no material change in the Fund NAVs in the quarter to 31st December 2010. Both underlying portfolios were re-valued in December.

Fund NAVs as at 31st December

Share Class	Bid NAV	Sep 10 NAV
A	5.71	5.74
B	5.79	5.81
C	5.82	5.84
R	5.54	5.58
P	5.61	5.64

2. Performance Analysis

There has been only minor movement in the NAVs of the Seven Dials European Property Fund although the two underlying investment funds performed rather differently.

Nordic Aktiv

There has been a modicum of good news on Nordic Aktiv with the underlying portfolio being valued 1.2% higher at the year end compared to the value at the end of 2009 on a like for like basis. The assets in Sweden, the largest portion of the portfolio, increased by 2.5%, reflecting the success of some of the asset management initiatives and a moderate inward yield shift on some of the assets. Denmark suffered a decrease of 3.6% and Norway an increase of 12.7%.

The generally good performance of the Nordic property markets in part reflects the relative strength of the Nordic economies. Unlike some other European countries, the Nordic region is characterised by stable government finances and well functioning labour markets.

The valuation increase has resulted in a fall in LTV to 72% and an increase in the NAV of the Nordic Aktiv fund of around 4%.

German Aktiv
The German Aktiv portfolio suffered a valuation fall of 2.7% compared to the value in June 2010. Whilst disappointing this was not a complete surprise. The fall in value reflects a reduction in portfolio income owing to lease expiries and in increase in the valuation yield. In the wider German property market yields for prime assets have tightened over the year and were fairly stable over the quarter. However, transactional evidence for secondary assets is still very limited as investor interest is heavily focused on prime assets, as it is in most countries.

The German economy has performed well in 2010 and is expected to do so in 2011. Against this backdrop there has been and continues to be a lot of international investor interest in Germany. Over time it is hoped that this interest will have a knock-on effect on the market for more secondary assets. The robust economic activity also means that there is increasing activity by occupiers. The German Aktiv fund had a notable success in December with the Manager completing a letting of a high quality but very specialised building in Hamburg, the largest deal in the city in 2010. This building had been vacant since 2009 and its letting reduces the overall portfolio void by some 2.5% to 14.9% by ERV.

The fall in value increases the LTV to 79.3%. The Manager has commenced discussions with the lender about a possible renegotiation of the loan facility. Investors will recall that the LTV covenant on the existing facility was waived until June 2012. The main lender is also a substantial equity investor in the fund and it is hoped that an acceptable deal can be reached.

The fall in portfolio value was the main factor in a 14% fall in the NAV of the German Atkiv fund.

3. Outlook

The economic recovery seen in Germany and Scandinavia has been supportive for property markets. As in most markets, investor interest has been heavily skewed to prime assets, reflecting the risk appetite of investors and also the limited availability of debt finance. There are some signs that investor interest may be widening but this trend is not expected to accelerate quickly.

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Concerning the dealing suspension, there is little prospect of a resumption of dealing in the near-term. The Manager and Fund Adviser continue to explore possible ways forward for the Fund but unfortunately there are no quick or easy solutions.

A steady or gradually improving property market is expected in both Germany and the Nordic region but increasing the income on the two underlying portfolios is the key to long term increases in value. With continued growth in the German and Nordic economies the Manager should be able gradually to reduce the void on the portfolios and thus increase the income and hence the value of the assets.

Contact

Brett Robinson
brett.robinson@7dials.com

Tel: 020 7408 4752
Seven Dials Financial
19 Short's Gardens
London WC2H 9AW