Seven Dials
Independent Fund Management

Seven Dials European Property Company

March 2014 Update

1. NAV Movements in 2013

Below are reported the Net Asset Values of the various share classes as at the end of December 2013 and May 2013 for comparison.

Fund NAVs as at 31st December 2013

Share Class	May 13* NAV	Dec 13 NAV
A	3.21	2.18
B	3.33	2.26
C	3.40	2.31
R	3.05	2.07
P	3.18	2.16

*Post re-structuring and reduction in number of shares

Between May and December the NAVs fell by around 32%. Whilst this fall is large in percentage terms, it reflects relatively moderate changes in the underlying asset values within the Nordic Aktiv Fund. The high level of gearing within that fund means that the equity value moves sharply for any movement in asset value.

The property portfolio value within Nordic Aktiv was marginally above its end December 2012 level, on a like for like basis. The portfolio was valued by Jones Lang LaSalle. The fall in equity value of the Nordic Aktiv Fund reflected in the above NAVs was attributable largely to operating losses, which themselves are a result of reducing rental income and high interest charges. The high interest charges are a consequence of the very high LTV which triggers very high margins under the current facility terms. The new debt facility (see below) will lead to a reduction in ongoing overall financing costs.

2. Commentary

Investment volumes over the year were down in the Nordic region overall by about 7%, although volume changes were not uniform across the region, with Sweden, the largest market, seeing a 21% fall. However, the fall in activity does not reflect a weakening in demand, which remains strong for core product, but a lack of supply. Secondary assets remain less sought after, although demand is spreading, following a similar pattern to that seen in the UK.

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The most important issue for the Nordic Aktiv Fund has for some time been the re-financing of the debt facility which was due to expire in 2013. After a very lengthy process, the Fund has recently agreed a new debt facility. The loan facility is complex, and the process was slowed in its final stages by the transfer of the senior loan tranche from Lloyds Banking Group to a private equity group.

The terms of the new facility have been reviewed by CBRE, who have specialist skills in this area, and are considered ‘at least in line’ with current market practise. Given the 90%+ LTV, any financing with new lenders would be very difficult and we consider that the new facility is a good outcome for the Fund.

The new facility allows the Nordic Aktiv Fund a reasonable amount of time to achieve its sales targets over the next 3 years. Projections of the equity that may be returned to investors are very sensitive to the assumed exit values as the LTV is very high but it is quite possible that the outturn will be in the range of €20-50m versus the current €14m. Of course, there are many risks that may undermine the returns but at least the new debt facility gives the opportunity to achieve something much better than the current book value.

Alongside the new debt facility, a new management agreement was put in place. One of the key changes has been the alteration in the Manager’s fee structure, which has been altered to be based in part on the success in achieving sales. We consider this an appropriate change as the successful execution of the sales programmes is essential to any hopes of recouping any equity from the investment in Nordic Aktiv Fund.

3. Future Reporting

The next NAV will not be produced until the end of 2014. However, a newsletter will be published should there be any major developments.

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