Quarterly Update December 2011

Q4

European Property Fund

LOTHBURY Investment Management

European Property Fund

Fund Description

The European Property Fund (EPF) is an investor fund structured to provide an indirect exposure to Real Estate across Continental Europe. Regulated by the Irish Financial Regulator it invests into best in class managers and funds across all commercial sectors.

Fund Objectives

- To provide a diverse investment opportunity to investors seeking indirect exposure to the Continental European real estate markets, excluding UK and Ireland.
- To provide investors with exposure to a large portfolio of underlying assets across countries and sectors through a Fund of Funds structure.
- To continue to implement a core/active investment strategy.
- To deliver a positive and stable income return.

Fund Returns

calculated as at valuation date 31 December 2011

	Total Return (%)
3 months	**-3.06**
12 months	**-0.92**
3 years	**-7.75**
Since inception	**-37.31**

Fund Data

calculated as at valuation date 31 December 2011

Net Asset Value	€84,945,255.51
Net Asset Value per share	€551.2450
Quarterly distribution per share	€2.462306
Number of underlying Funds	12

European Economy

The growing uncertainty surrounding the future of the Euro currency and sovereign debt position of individual countries continues to create a climate of instability. This, in turn, is affecting liquidity and making it difficult to access bank financing, increasingly driving away the reduced number of possible new investors from potential deals. Notwithstanding the difficulties, there is still healthy, albeit selective appetite from investors towards specific countries like Sweden, Finland, Czech Republic and Poland, where there are more attractive economic and retail sales growth prospects and pricing is driving investor appetite for the right product. Additionally, there have been some major deals that have taken place in Germany and France. The depth of existing equity remains and will continue to fuel demand, particularly for quality retail and office assets.

In December, the Economic Sentiment Indicator (ESI) rose by 1.2 points. The improvement was mainly driven by increasing confidence in the services sector and, to a lesser extent, among consumers and in the construction sector. The cuts to the public sector continue to represent a threat to the unemployment rate, particularly across the Eurozone. Indeed, the Euro area unemployment rate was 10.4% in December 2011 a minimal increase compared to 10.2% in September 2011. European retail sales increased at the fastest rate in more than four years in January 2012, led by gains in France and Germany, according to Bloomberg, although the year-end figure showed an increase, the December figure revealed a decrease.

Central Eastern European countries such as Poland and the Czech Republic, as well as Sweden, continue to attract investment and are outperforming most of the Eurozone, with growth prospects expected to be high.

Executive Summary

- EPF recorded a Q4 2011 total return of -3.06%. The EPF's 12 months total return now stands at -0.92%.
- The Q4 capital return was -3.49%, this has declined since last quarter as pressure continues on values in Southern Europe, as well as other parts of Europe, due to the sovereign debt crisis. There was yield contraction in prime core markets within the portfolio, however, the falls in values elsewhere diminished the total return for the quarter.
- Income return for the quarter was 0.43%; this is lower than the previous quarter due to bi-annual distributions by some of the underlying funds.
- In Q4 2011, commercial real estate investment activity in Europe grew to €32bn, an increase of 15%, compared with Q3. The annual investment total of €115bn represents only a slight increase on 2010. However, this is concentrated on a few large deals, thus it is not reflective of the entire European market.
- Prime rents in the Retail sector increased in Q4, with the CBRE Prime Retail Index for the EU-15 up by 0.6% in the quarter and 3.4% over the year.

European footprint

European Property Fund country and sector allocations as at 31 December 2011, based on underlying funds' strategy and current valuation

Country Allocation

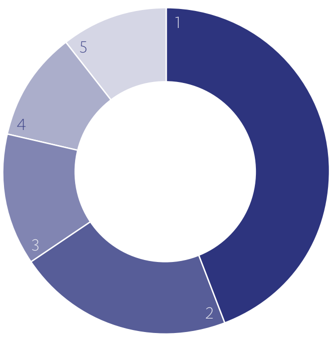
1 **Core Europe 44.26%**
(France, Germany)

2 **Southern Europe 21.35%**
(Spain, Italy, Portugal, Greece)

3 **Nordics 13.10%**
(Sweden, Denmark, Finland, Norway)

4 **CEE 10.96%**
(Poland, Czech Republic, Hungary, Romania)

5 **Benelux & Other 10.33%**
(Austria, Netherlands, Switz, Belgium)



Sector Allocation

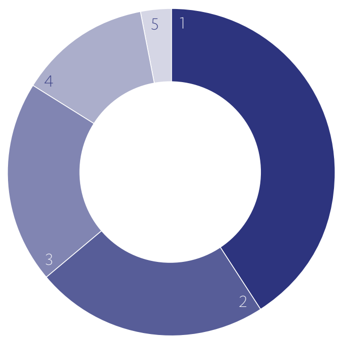
1 **Retail 41%**

2 **Office 23%**

3 **Logistics 20%**

4 **Residential 13%**

5 **Other 3%**



UBS Euro Core Fund

The UBS Euro Core Fund (UBS ECF) is an open-ended real estate Eurozone fund, investing across all main commercial sectors in the markets of France, Finland, Germany, The Netherlands, Italy and Spain.

The fund is designed to allow tactical overweight/underweight allocations to countries and sectors. UBS ECF fund manager has taken a tactical decision to be overweight in France, where it holds 50% of its asset value as at December 2011.

A portfolio of 17 assets with a net asset value of €423.1m (as at December 2011) allows UBS's local acquisitions teams in Paris, Frankfurt, Munich, Madrid and Milan to seek opportunities in markets that have balanced supply and demand and where rental growth prospects are good. The Fund completed the purchase of a 7,800 sq m logistics unit near Stuttgart, Germany for €13.4m in the first few days of January 2012, in addition to the previous acquisition of a logistics asset in Vantaa, Finland, where the second phase of development is expected to be completed by Q2 2012. During Q4 2011, the Fund sold one of its two properties in Fontenay, Paris, which are fully leased on a 6/9 year lease to RATP, the major public transport provider in Ile de France. The Fund received a net purchase price which was 1% higher than the valuation of the property as at September 30, 2011.

The Fund continues to focus on leasing vacant space within its portfolio and its occupancy rate was 91.4% by year end. In Valcarcel, Madrid, all works have been completed and the asset manager is seeing encouraging levels of interest from potential occupiers, of which two are international tenants.

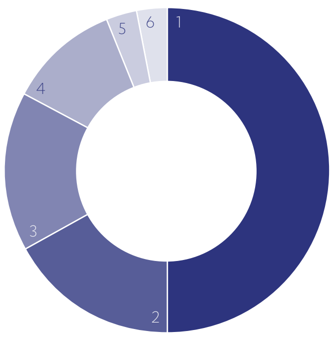
The UBS ECF's total return of 1.07% for Q4 2011 comprises of a capital return of 0.14% and an income return of 0.93%. The total value of the Fund's properties held through the quarter increased by 0.32% during Q4 2011. This was mainly due to indexation on rents in the French offices, which more than offset decreases elsewhere in the portfolio. The gearing level in the Fund is a very low 11.6% as at December 2011, which is positive in the current economic environment.

The UBS holding was part of the original seed portfolio that was used to launch EPF and since then, the core strategy of minimal gearing, secure income and Eurozone regional weighting, means the fund has maintained a good defensive position.

UBS Euro Core Fund's country and sector allocations as at 31 December 2011

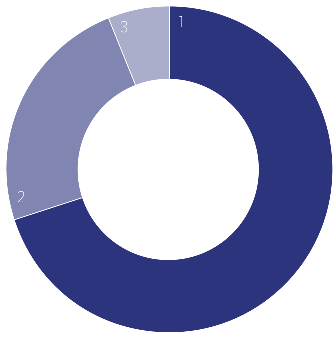
Country Allocation

1 **France 50%**
2 **Spain 17%**
3 **The Netherlands 16%**
4 **Germany 11%**
5 **Finland 3%**
6 **Italy 3%**

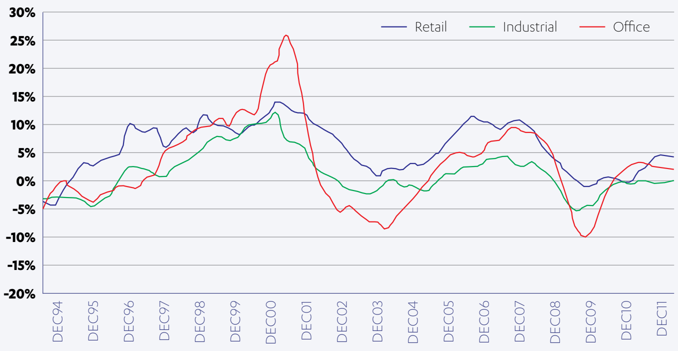


Sector Allocation

1 **Office 70%**
2 **Retail 24%**
3 **Logistics 6%**

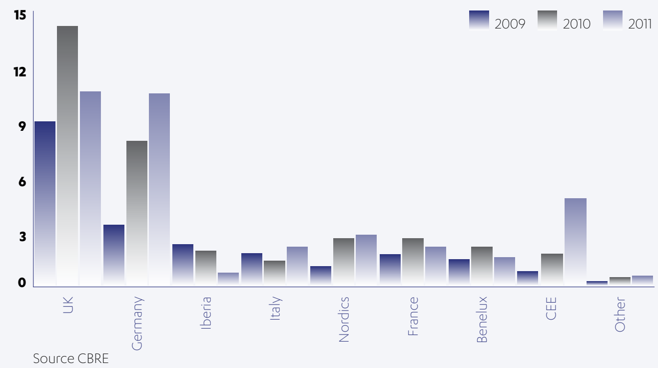


CBRE EU-15 Rent Index – Annual Change



Source CBRE

European Retail Investment (€ billion)



Source CBRE

Real Estate Markets

The first estimates of commercial real estate investment activity for Q4 2011 suggest that it grew to €32bn, an increase of 15%, compared with Q3. As anticipated, however, the pick up in Q4 was not as strong as in 2009 or 2010 for the same period, when capital values were still rising. CBRE European value indices suggest that there was virtually no change in capital values across Europe this quarter. The annual investment activity total of €115bn represents only a slight increase on the 2010 full-year figure.

The French market posted an exceptional fourth quarter, despite the current economic circumstances, with €6.5bn transacted in the final three months of the year. This does include a mixture of large single-asset and portfolio deals and almost 80% of the total transaction amount is attributable to the office market. This was the highest quarterly turnover for France since Q3 2007. On an annual basis, France, Belgium, Germany and the Nordics, all showed relatively strong growth in transactions and turnover.

The economic divide between northern and southern Europe reflects that commercial real estate investment in 'core' northern markets, particularly the UK, France, Germany and Sweden, have shown growth on an annual basis. In contrast, investments in Portugal, Spain and Italy have suffered from lower levels of activity in 2011, compared with 2010.

Prime rents remained unchanged during Q4 2011 in all market sectors, following a gradual decrease during the year. The CBRE EU-15 Prime Rent Indices for office and industrial properties remained broadly unchanged. The CBRE Prime Office Rent Index for EU-15, in particular, showed only a slight year-on-year gain of 0.7% and any rental declines were less than 2.0%, with the exception of a 3.7% drop in Sofia. European industrial rents were flat in the quarter and the Prime Rent Index for the EU-15 was up slightly by 0.1% over the year. The largest fall in industrial rents in Europe was in Copenhagen, whilst the largest increase was in Stockholm. Prime rents in the retail sector increased slightly in Q4 2011 with the CBRE Prime Retail Index for the EU-15 increasing by 0.6% in the quarter and 3.4% over the year. The largest increases occurred in Berlin by 4.0% and Manchester by 4.35%.

Q4 figures have reinforced some of the earlier trends witnessed in the European property markets over the last year. Prime real estate is holding up fairly well, relative to other asset classes, even in the current uncertain climate, however, weakness continues to be seen in secondary markets. The overall picture is one of steadiness, with movements in value both small and sporadic. This demonstrates the resistance of at least the prime end of the market to growing economic weakness to some extent, but there is a degree of nervousness among both occupiers and investors that is constraining any upward progression in the market for the first half of 2012.

Fund Activity

The EPF Fund continues to invest into a portfolio of 12 funds with exposure to 20 countries and 447 commercial assets. 77% of this is invested in the Eurozone, of which 44% is within France and Germany. This asset allocation continues to be justified by the investment activity in the Eurozone. The EPF Team is also working with managers on asset management initiatives in order to secure income on all assets for its investors and also to take advantage of attractive investments coming on to the market, which was evident in 2011.

Underlying funds invested in Western Europe continue to see some investor interest due to investments in prime, core, liquid markets and have already completed deals using new equity in the second half of 2011. The void level in the fund was 9.22% as at Q4 2011. The office, retail and industrial voids were 5.0%, 2.6% and 0.7% respectively, with the residential and "other" sectors making up the remaining 0.9%, which are comparatively low. Due to successful asset management strategies, coupled with a marginal increase in the strength of some occupier markets, various leases were renewed throughout the underlying funds in the last quarter. Underlying gearing has reduced marginally from 47.9% to 47.8% in the 3 months to December 2011, as funds continue to restructure loans and valuations continue to increase, albeit marginally.

The Goodman GELF Fund Managers have been active in the market with 7 new acquisitions, "Project Thunder", approved by their investment committee in December 2011. The net initial yield for the total value of the properties is 7.8%. The average weighted lease to expiry is 8.5 years, which will help the portfolio lengthen its lease term.

The AXA Fund has been very active with asset management initiatives. For example, a new 10-year lease has been signed with Mekonomen at Boras, in the Retail and Logistics portfolio in Sweden.

Continuing uncertainty about the future of the Eurozone will suppress investor and occupier activity. Prime locations will be more resilient in value terms, but the rental growth is likely to be poor, as consumer and business sentiment weighs on expenditure decisions for both. In terms of EPF, it is anticipated that values generally will come under pressure for the first quarter of 2012, with prime, core assets being more defensive, but this continues to depend on the overall quality of the asset, i.e. the location and occupancy level. Although a limited number of regions with solid economic fundamentals will remain the most attractive, 2012 may be the beginning of investors turning towards good secondary assets in core locations, rather than invest in the peripheral regions, where there is greater uncertainty of these markets' future participation in the Euro currency.

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Unitholder Information

Launch date

31 March 2006.

Valuation Day

Last business day of March, June, September and December.

Prospectus

Copies of the Prospectus and Application Form are available from Lothbury Investment Management Limited.

Subscriptions

Quarterly. Applications required by the last business day of March, June, September and December. Payment must be received no later than four business days after the dealing day.

Minimum Subscription

Minimum investment is €250,000.

Redemption

Quarterly. Notice to be served four months prior to the last business day in the quarter.

Secondary Market Trading

No stamp duty is payable on the purchase of existing units.

Distributions

Quarterly. Paid gross of tax on the last business day of April, July, October and January.

Charges

Investment Management and Trustee fee of 0.55% per annum.

Contact

The European Property Fund is managed by Lothbury Investment Management Limited. For any further information on this Factsheet or investment in the Fund, please contact:

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