Q1

Quarterly Update March 2012

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 March 2012

	Total Return (%)
3 months	**-0.45**
12 months	**-2.85**
3 years	**-5.66**
Since inception	**-37.60**

Fund Data

calculated as at valuation date 31 March 2012

Net Asset Value	€81,536,648.11
Net Asset Value per share	€546.7140
Quarterly distribution per share	€2.041713
Number of underlying Funds	12

European Economy

The intensified European financial crisis has made the first quarter of this year feel like a 'new' credit crunch or double dip recession, however the economic sentiment appears to have improved since then, albeit very marginally. There are signs that the financial strains in the Eurozone economy are lessening. The first quarter of 2012 has been particular interesting as the ECB cranked up its 'non standard' measures at the turn of the year with the Long Term Refinancing Operation proving a real bonus for sentiment. The ECB lent €1 trillion to over 800 banks and lenders in two tranches easing liquidity and nervousness in the economy.

Figures show that after improving in January and February, the Economic Sentiment Indicator (ESI) decreased in March by 0.8 points in the EU and by a marginal 0.1 points in the euro area, to 93.2 and 94.4, respectively. The Euro area unemployment rate is recorded at 10.9% as at March 2012 a further increase from 10.4% in December 2011. The highest was recorded in Spain at 24.1% with the lowest being recorded in Austria at 4.0% and Germany at 5.6%. In March 2012, compared with March 2011, the retail sales index dropped by 0.2% in the Euro area, but grew by 1.0% in the EU27. The highest increases were in Bulgaria and Poland whereas the largest declines were in Portugal and Estonia with Ireland and Sweden remaining stable.

Expectations for the Eurozone growth have been revised down with a fall of 0.5% expected for 2012 and business sentiment remains fragile. Conditions vary though and there is very much a two-tiered market. Among the core economies, the UK and Germany are likely to show stronger economic growth, while expectations for France are flat. Struggling economies such as Greece and Portugal, are anticipated to see further falls as they continue to be hit by the significant fiscal squeeze and corresponding reaction in the financial markets.

Executive Summary

- EPF recorded a Q1 2012 total return of -0.45%. The EPF's 12 months total return now stands at -2.85%.
- The capital return was -0.82%, this has improved since last quarter albeit this is still marginally negative as pressure continues on values in Europe due to the sovereign debt crisis. There was some yield contraction in prime core markets within the portfolio; however the falls in values elsewhere diminished the total return for the quarter.
- The income return was 0.37%; this is lower than the previous quarter as a result of the bi-annual distributions made by some of the underlying funds. .
- In Q1 2012 European commercial real estate investment activity weakened to €23.8 billion. This is a fall of 18% compared to the same period last year. This reflects a general slowdown across all markets across Europe. Values remained broadly stable with only a marginal decline of -0.6%.
- However, the Nordic region has seen investment activity as its economy is supported by the stability of its government's financial systems and fiscal balance; this also applies to Germany.

European footprint

European Property Fund country and sector allocations as at 31 March 2012, based on underlying funds' strategy and current valuation

Country Allocation

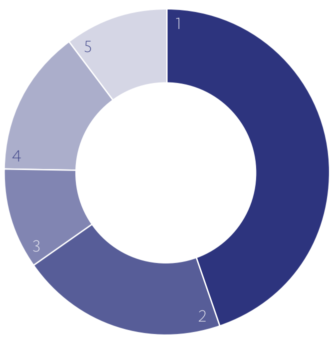
1 **Core Europe 44.88%**
(France, Germany)

2 **Southern Europe 20.48%**
(Spain, Italy, Portugal, Greece)

3 **Nordics 14.49%**
(Sweden, Denmark, Finland, Norway)

4 **CEE 10.21%**
(Poland, Czech Republic, Hungary, Romania)

5 **Benelux & Other 9.94%**
(Austria, Netherlands, Switzerland, Belgium)



Sector Allocation

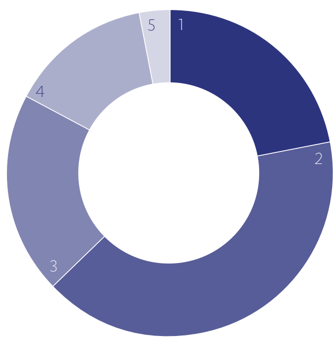
1 **Retail 41%**

2 **Office 22%**

3 **Logistics 20%**

4 **Residential 14%**

5 **Other 3%**



Feature: Henderson Retail Fund

The Henderson HERALD Fund is a closed-ended real estate fund, investing in retail assets mainly across the Eurozone; namely, France, Germany, Italy and Spain.

Whilst the Fund can invest in all areas of the retail sector its strategy is to concentrate on retail warehouse parks and shopping centres where asset management potential is greatest.

The Fund has a gross asset value of €795.5 million (Mar 2012) and a portfolio of 21 assets. This has delivered a total return of 3.99% for Q1 2012 comprises of a capital return of 2.11% and an income return of 1.87%.The total value of the Fund's properties held during the quarter increased by 0.4%.

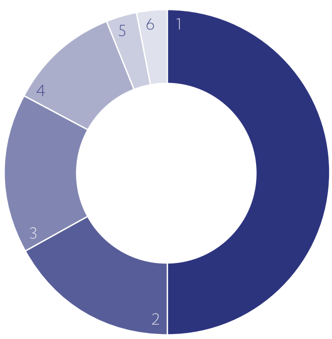
Henderson's local asset management teams in Paris, Frankfurt, Munich, Madrid and Milan are focused on sourcing opportunities in markets that have balanced supply and demand and where rental growth prospects are good. The Funds asset management initiatives currently include the extension negotiation at the Franconville asset in France and the Miramar asset in Spain; both of these are close to being finalised.

The Fund also continues to focus on leasing vacant space within its portfolio and its vacancy rate has reduced to 5.3% as at March 2012, from 5.8% last quarter. This has been primarily due to increased leasing activity in Elche, Spain. The average lease length for the portfolio is currently 8.3 years and the current gearing level in the Fund is 42.4% as at March 2012, which has reduced from 54.73% over the last 12 months.

Henderson Retail Fund country and sector allocations as at 31 March 2012

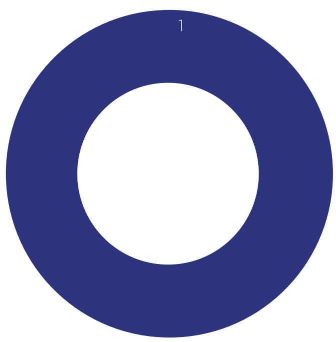
Country Allocation

1 **France 19%**
2 **Spain 14%**
3 **Italy 20%**
4 **Germany 22%**
5 **Belgium 6%**
6 **Greece 5%**
7 **Switzerland 7%**
8 **Sweden 7%**

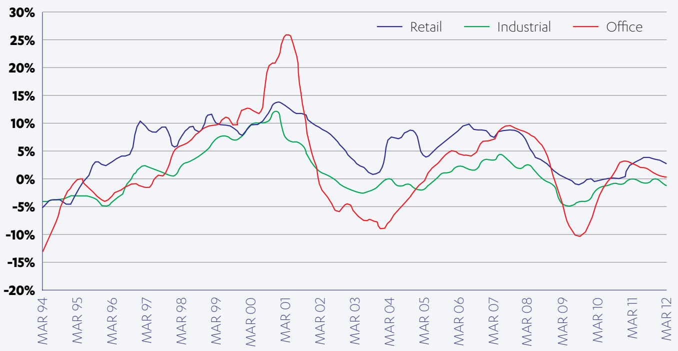


Sector Allocation

1 **Retail 100%**

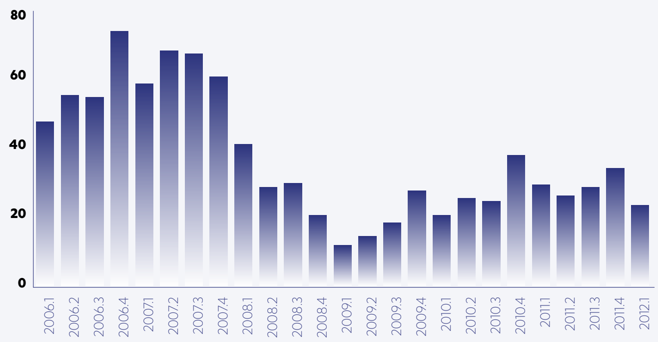


CBRE EU-15 Rent Index – Annual Change



Source CBRE

European Investment Turnover



Source CBRE

Real Estate Markets

In Q1 2012 the commercial real estate investment market reported a slow down to €24 billion equating to a fall of 18% compared to the same period last year and 31% quarter on quarter. Although disappointing, this was not entirely unexpected given the downgrades in economic growth forecasts. There is a suggestion however that this may recover in the second quarter, as there is a pipeline of large transactions in hand but not yet completed.

However, the Nordic region experienced over €5 billion of activity during the first quarter of the year, which is the highest level of quarterly turnover since Q4 2010. Investor interest continues to grow in response to the region's economic independence from the Euro and relatively strong domestic economies. For similar reasons, the UK market continues to appeal to both local and foreign investors. Germany also experienced strong investor demand in the first quarter with over €5 billion transacted, again driven by its relative economic strength.

The Central Eastern European (CEE) market was far less active with just under €1 billion transacted in Q1 2012. This reflects a number of factors; the lack of large deals, the shortage of prime stock and the tightening of bank lending for all but the best assets. CEE activity was dominated by Poland, the one market where activity remained broadly in line with historic levels of activity.

Prime rents were broadly unchanged during Q1 2012 in all market sectors. Prime office rents were generally flat, although there was an overall reduction of 0.3% this quarter. According to the Jones Lang LaSalle Office rental index, prime rental decreases were recorded in Brussels, Madrid, Barcelona and Paris, whereas rents increased in Luxembourg, Stockholm and Hamburg. In the retail sector in spite subdued sales, rents across Europe were relatively stable as retailers competed for limited space in the major cities. Industrial rents were under pressure across the region as a result of reduced manufacturing production. However, German industrial assets are proving to be robust due to hubs linking east to west and are forecasted to have stronger occupier demand in 2012. Furthermore, the European vacancy rate has reduced below 10% for the first time since Q3 2009 to 9.9%. This was largely due to the London and German market according to Jones Lang LaSalle.

Overall, a small number of European countries continue to outperform, namely, Poland, Germany and most of the Nordic countries that are still experiencing growth well ahead of the rest of Europe. However, despite the ECB's injection of €1 trillion of liquidity into Europe's banks, their terms for real estate lending continue to tighten. The introduction of new non-bank lenders is making a difference, but only for specific types of product and not across the market as a whole. This will further polarise the performance of prime and secondary property in the short to medium term.

Fund Activity

The EPF fund continues to invest into a portfolio of 12 funds with exposure to 20 countries and 387 commercial assets. 76% of this is invested in the Eurozone, of which 45% 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 where possible on all assets for investors and also to take advantage of attractive investments coming on to the market. Underlying funds invested in Western Europe continue to see some investor interest due to investments in prime core liquid markets and continue to search for deals using new equity.

The void level in the fund currently stands at 9.06% as at Q1 2012, a marginal decrease from 9.22% in Q4 2011 mainly due to a reduction in the void rate of the Henderson HERALD fund. Although the current European occupier markets remain fragile various successful asset management strategies have been completed across the portfolios. The fund manager has also continued to work closely with the underlying managers with a particular focus on the active funds. Underlying gearing has remained on target and was 45.69% in the 3 months to March 2012 as funds continue to restructure loans and some valuations continue to increase or stabilise, albeit marginally.

The Goodman GELF fund managers have been active in the market with 4 previously confirmed forward funded acquisitions, in Poland, Germany and the Netherlands. Additionally the fund has confirmed another acquisition for an asset in Germany, which is a forward funded purchase, pre let to Amazon on a 10 year lease. The purchase price reflects a Net Initial Yield of 7.2%. The fund leasing activity totals 197, 899 sqm for the quarter and the fund has an occupancy rate of 97%.

The Standard Life European Growth fund has completed the purchase of a pre-leased logistics asset in Erfurt Germany. This will be let to Redcoon, the online retailer. The 49,000 sqm asset will be handed over to the tenant in August 2012 and will have a firm 10 year lease term offering a potential attractive future income return.

Throughout 2012, the quality of assets and income will be the key for value and provide defence against the continued uncertainty in the European markets. Although, the regions with solid economic fundamentals will remain the most attractive; 2012 will be the beginning of investors turning towards good secondary assets in these core locations rather than investing in the peripheral regions where there is greater uncertainty relating to these markets future participation in the Euro currency.

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Unitholder Information

Launch date

31st 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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