



PROPERTY REVIEW Q4 2007

JANUARY 2008

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1. OVERVIEW

Overall 2007 proved to be a conflicting year for property investors. Markets began the year buoyant, if a little cautious, following several years of above average returns. As the year progressed these concerns proved well founded as the western property markets first wobbled then, consequent to the credit crunch, stopped completely in the UK. The reason for this was as the funding rate, LIBOR, spiked in the second half of the year the rental yields on property had to rise to keep these investments attractive. This would necessitate a fall in capital value as yield is a function of income and price. Yet the few buyers that were present in the market were not satisfied that the sellers were discounting adequately. As a result, supply and demand did not meet a level that either party were both comfortable with. Combine this with the fact that net redemptions from many property funds provided the market with plenty of sellers and the poor performance of property globally in the second half of 2007 has some context.

The performance of the developed property markets in 2007 will undoubtedly disappoint after three years of above trend growth. It is likely that these above trend years have indirectly contributed to the recent falls, it is clear that property in the UK and US especially had probably gone past fair value. There was some evidence of this going into 2007 as the more conservative property fund managers were cutting their leverage in anticipation of greater volatility. As central banks increased their interest rates through 2006 and into 2007 the rental yields of property became increasingly unattractive. This combines to suggest that a correction in the developed property market was likely in 2007. Indeed we positioned ourselves in anticipation of this by having no exposure to the US and a high exposure to Asian property. Also the exposure to the UK market had a large component of direct property investments, which typically are far less volatile than the equity markets. One event which took many by surprise was the severity and rapidity of the sell off in the listed property space. This was due to a number of factors. Firstly the equity markets are forward-looking and therefore can act as a leading indicator to the direct property markets. Thus the bearish sentiment was first expressed through the securities market. Couple this to the credit crunch in the second half and property, viewed as a highly leveraged asset class, suffered. This devaluation of listed property combined with a wall of negative sentiment and media stories to result in high net redemptions from the asset class. This was felt, initially, by the large liquid property stocks which were easily sold to meet net redemptions out of these funds, now however where funds are still experiencing net redemptions, they have little liquid stock left. As a result many property funds have introduced measures to make redemptions less attractive for investors. These include a widening of the bid-offer spread, putting redeemers on a longer notice period or even temporarily stopping redemptions altogether.

Going forward, the long term investment case for property within a multi asset portfolio remains intact, property should be viewed as an asset class that will provide a return in excess of government bonds, but with correspondingly higher risk. In 2007 property shares have been unusually volatile and this will have created less conviction towards the asset class for many investors. Despite the 2004-2006 returns in excess of 20% per annum and the recent large falls in listed property, real estate should be considered as a conservative asset class over the longer term, providing inflation beating capital growth with a yield slightly in excess of cash deposits.

Source: RMB Asset Management



The regional variations mentioned previously were less clearly demonstrated by the Q4 2007 performance of property as the correlation of returns increased. Over the quarter despite providing negative returns, Asian listed property continued to out perform the other regions, returning -9.4%. The other regions performed poorly in comparison with UK listed property down -14.5%, European listed property lost -12.3% and US listed property lost -12.9% over the quarter. An investor who has chosen western markets by default would have therefore missed out on stronger returns elsewhere. This has been the case throughout 2007, where the returns for Asian property are in fact a strong positive compared to negative returns elsewhere. In 2007 the UK returned -36%, Europe -22%, the US -16% and Asia 14%. Going forward, investors will have to remain cautious about where to invest as not all opportunities present equally appealing propositions. For example the UK listed property market has sold off significantly and there are stocks trading at significant discounts to their NAV. Furthermore as interest rates fall in the developed markets the yields available on commercial properties may be more attractive. Whilst investors are somewhat bearish at present, each region will likely have an attractive entry point in the 2008 as the market readjusts to the new interest rate regime globally.

For a private investor with assets of under GBP1 million, there are two principal ways to access the market: direct property funds which own office blocks and industrial warehouses, or property securities funds which purchase REITs and property companies listed on equity markets. Whereas the latter have lower explicit fees and more liquidity, the former provides the greatest levels of portfolio diversification and the lowest volatility.

We have collated data on the fourth quarter of 2007 returns from a variety of property funds. These include the funds that are managed by RMB Asset Management, funds on our watch list as well as some others, which are widely owned by private investors. We have also provided some longer-term performance numbers for interest. The universe remains very small compared to other asset classes though there has been a raft of new product launches over the last few years. This is demonstrated by the number of funds with no longer term track record.

Source: RMB Asset Management, Bloomberg.



2. IMPORTANT ISSUES TO BE CONSIDERED WHEN ASSESSING PROPERTY FUNDS

As property is inherently an illiquid asset class with limited transparency, investors should be aware of several factors that can influence the stated performance of property funds.

▪ **Direct funds vs property securities funds vs funds which blend the two**

Whilst it is possible to compare a direct UK property fund with a fund investing into property securities in the UK market, investors should be aware of the important differences between the two. The direct property fund will often revalue monthly or even quarterly and therefore produce steady returns with reduced volatility. All market values are based on independent assessments from just one or two sources and this can lead to a 'smoothing effect' in terms of quoted investment performance. Only when a building is sold will its true market value be known. On the other hand, property securities and REITs price constantly as they are listed on stock exchanges. In the short to medium term, these securities will be affected by moves in equity markets. Property equities tend to have higher gearing than direct property investments and therefore should outperform in strong markets.

▪ **Leverage**

Comparing a fund that gears 50% with one that does not gear at all is misleading and unfair on the ungeared manager in rising markets. A degree of leverage in this asset class is a sensible approach, but it is important to understand the risks when comparing two funds. All property benchmarks are ungeared, whereas most funds will have at least 30% gearing.

▪ **Regional exposure**

Property is a regional asset class and it is only really appropriate to compare two funds operating within the same regional mandate. Of course, investors are able to make that asset allocation call themselves, but comparing an Asian property fund with a US property fund for example would not be appropriate. The investable universe of offshore funds within direct property is centred on UK commercial property.

▪ **Currency of performance vs currency of underlying**

Some funds report in GBP terms but invest globally, thus producing an artificial boost to performance when international currencies are stronger than Sterling. Other funds hedge all international exposure back to the base currency. A full and detailed analysis of currency exposure should be conducted before assessing a property investment.



▪ **Costs**

With regard to total expense ratios, the transparency of property funds is often very poor. There are several distinct fees inherent in property investments and many of these are rarely disclosed:

1. an annual management fee payable to the fund manager (typically 1.5%)
2. possible initial charge payable to the fund manager (often 1%)
3. possible performance fees payable on returns in excess of cash deposits
4. 4% stamp duty payable to the UK government on every purchase
5. estimated 1.75% payable to estate agents on every purchase
6. estimated 0.75% legal fees on every purchase and sale
7. estimated 0.8% mortgage and valuation fees on every purchase
8. possible 15% of the rent payable to a lettings agency
9. possible 1.5% fee payable to the fund manager on every purchase or sale
10. possible withholding taxes on rental income payable to the government

Although these details are usually not openly disclosed, we estimate that based on a three-year holding period, the total expense ratio of a direct UK commercial property fund is 5% per annum. This explains why the UK property benchmark, which does not take into account any of these fees, is very difficult to out perform.

▪ **Pricing Methodology**

In the second half of 2007 there has been much media interest in the fact that many property funds from managers such as New Star, M&G, Skandia, Resolution, Norwich Union, Standard Life, Prudential and Scottish Widows have switched from offer to bid pricing, due to net redemptions from clients of these funds. This change in pricing effectively represents an immediate reduction in the price of the Funds in question by up to 6%, penalising any investors who wish to redeem. In addition to this, as the liquidity of these funds can be restricted at times of net redemptions, the investors in these funds may experience both a reduction in the price of their assets and of the liquidity of their holdings. RMB Asset Management has a strict policy of not investing in property funds which offer over ambitious levels of liquidity which could not be satisfied were there to be a large number of redemptions, nor is it invested in daily dealing direct property funds, which become illiquid at times when investors redeem. As a result of this, RMB Asset Management's property investments have not been affected by the changes in pricing methodology employed by some managers and the attendant loss of liquidity.



3. SUMMARY OF PERFORMANCE TO 31 DECEMBER 2007

Funds with significant UK exposure	Q4 2007 in GBP	6 months in GBP	1 years in GBP	2 years in GBP	3 years in GBP
Brandeaux Sterling Fund Ltd	2.7	5.6	11.0	23.8	33.6
Brandeaux Student Success Fund Ltd	2.5	4.6	10.8	20.6	31.4
Brandeaux Ground Rent Portfolio Fund Ltd	2.4	5.3	10.7	20.4	31.3
Brandeaux Student Accommodation Fund Ltd	2.6	4.8	10.6	20.7	31.1
Glanmore Property	0.6	0.7	7.7	23.6	40.0
British Real Estate	-0.4	-1.3	4.4	17.4	38.4
Schroder Indirect Real Estate A	-6.8	-5.8	-0.9	30.1	52.7
Belgravia Property Limited UK Growth GBP	-2.6	-6.3	-1.6	16.7	44.7
Legal & General UK Property R Inc	-5.2	-6.1	-3.2		
BlackRock UK Property	-6.8	-9.9	-4.3	17.5	43.4
Threadneedle Property Unit Trust	-8.2	-9.6	-5.1	12.3	32.6
UBS Triton Property	-9.8	-10.1	-5.9	10.7	27.8
Credit Suisse UK Real Estate	-6.5	-7.9	-6.3	14.3	37.5
Close Property Active Commercial Estates Acc	-12.9	-12.1	-10.0	7.4	14.0
Premier Diversified Property EUT	-13.6	-14.4	-11.6	-1.2	5.3
Premier Diversified Property plc GBP	-10.1	-14.1	-11.8	-2.4	4.2
M&G Property Portfolio Sterling A Inc	-16.0	-16.0	-13.1	-3.2	
Norwich Property Investment	-14.2	-15.2	-13.4	-0.5	14.6
Thames River Property Growth & Inc Acc GBP	-9.3	-14.2	-15.0	16.8	
ResolutionAsset UK Property Acc	-16.7	-17.7	-15.4	-5.6	9.8
Goodman UK Active Property Fund plc	-15.1	-19.6	-17.9	-5.2	
Norwich Property Inc	-11.7	-19.0	-18.8	-3.1	11.6
Skandia Property Acc	-17.4	-18.9	-19.0	-4.0	
New Star UK Property Inc	-12.5	-18.6	-19.2	-4.9	6.4
TR Property Investment Trust PLC	-13.6	-18.9	-30.7	10.8	40.3
Aberdeen Property Share A Acc	-17.2	-26.9	-37.9	-9.5	8.1
SWIP UK Real Estate A Acc	-15.3	-25.9	-39.5		
St James's Place Property Acc	-14.1	-16.0			

Source: Lipper (past performance is not necessarily indicative as to future performance)

London & Capital has closed

Investors should be cautious as some of the funds above have suspended dealing and redeemers cannot necessarily exit with this performance



US Property Securities Funds	Q4 2007 in USD	6 months in USD	1 years in USD	2 years in USD	3 years in USD
Janus Selection US REIT A USD	-10.5	-9.8	-13.2	5.7	11.2
Lehman Brothers US Real Estate USD Inst Acc	-9.3	-7.9	-14.5		
Amadeus US RE Securities Fund -A- USD	-11.0	-8.4	-16.3	8.8	21.6
Morgan Stanley US Property A USD	-15.4	-14.7	-17.2	12.6	29.5
GinsGlobal US Property Index	-14.7	-15.1	-21.7	4.2	17.0

Asian Property Securities Funds	Q4 2007 in USD	6 months in USD	1 years in USD	2 years in USD	3 years in USD
Credit Suisse Equity (Lux) Asian Property B	-4.0	7.0	21.7	57.8	
SGAM Asian Real Estate Dividend Fund	-3.7	6.3	18.6	62.5	
Morgan Stanley Asian Property A USD	-6.0	2.5	15.8	50.1	82.6
Amadeus Asian RE Securities Fund -A- USD	-7.7	-0.5	13.5	58.6	
First State Asian Property Securities III	-8.9	-3.3	12.0		
Henderson HF Asia-Pacific Property Equ A2 USD	-8.9	-2.0	7.8	40.2	

European Property Securities Funds	Q4 2007 in EUR	6 months in EUR	1 years in EUR	2 years in EUR	3 years in EUR
Thames River Property Growth & Income Acc EUR	-9.6	-14.7	-16.1	13.3	
RREEF European (ex-UK) RE Securities IC	-13.7	-20.7	-21.2		
ING (L) Invest European Real Estate P Cap	-12.7	-19.6	-27.4	7.9	32.2
Aviva Morley European REIT C	-14.5	-22.8	-29.6	0.1	18.9
GinsGlobal Real Estate Index	-15.1	-27.3	-30.9	0.4	26.0
Henderson HF Pan Euro Property Equ A1 EUR	-18.9	-29.1	-34.7	-1.2	
Morgan Stanley European Property A EUR	-16.8	-26.1	-34.8	-0.9	23.3
Credit Suisse Equity (Lux) European Property B	-15.0	-25.8	-35.0	-3.8	19.1
TR Property IT Sigma Shares*	-18.7				

Source: Lipper (past performance is not necessarily indicative as to future performance)

* Performance is in GBP terms



Global Property Funds	Q4 2007 in USD	6 months in USD	1 years in USD	2 years in USD	3 years in USD
Invesco Global Real Estate Securities A	-10.0	-4.6	-6.2	32.0	
Henderson HF Global Property Equities A2 USD	-11.0	-9.1	-8.0	31.0	
ING Global Real Estate Securities A	-11.0	-6.3	-8.3	22.9	
JPM Global Real Estate Securities A Acc USD	-12.5	-11.2	-9.1		
Sarasin CI Real Estate Equity USD	-10.3	-8.8	-9.7		
World Real Estate Liquidity	-10.7	-10.3	-10.9	18.1	34.9
First State Global Property Securities III	-13.8	-12.3	-11.1		
Schroder ISF Global Property Securities A Acc	-12.2	-11.7	-11.4	29.4	
Franklin Global Real Estate USD A Acc USD	-11.0	-13.0	-12.7	8.2	
Fidelity Funds - Global Property A USD	-12.9	-10.6	-13.9	19.6	
Skandia Global Real Estate Securities USD	-12.7	-11.2	-16.3	18.4	
Forsyth Global Property USD	-13.4	-14.1	-16.7	18.0	24.4
RMB MM Global Property USD Unhedged	-10.1	-9.9			

Source: Lipper (past performance is not necessarily indicative as to future performance)



4. COMMENTS ON PERFORMANCE

In previous reviews it has been noted that a strong allocation to Asian property was our favoured option. At present this remains a key recommendation and through 2007 the performance of Asian property in comparison to the other regions has justified this. The present allocation in the RMB MM Global Property Fund is 55% of assets in pan Asian property (Japan, India, Hong Kong, China and Singapore), a minimal allocation to US property and the remaining assets split between the UK and Europe. Investors with a clear base currency are advised to invest globally, but to choose an appropriate currency hedged share class.

The two core holdings within the RMB MM Global Property fund (Thames River and First State) may have slipped a little compared to their peers. The Schroders Indirect Real Estate fund remains towards the top of its peer group. None of these managers has been affected by the recent repricing of retail property funds and all are experienced managers who have the knowledge to cope with short term volatility. In the UK and Europe, Thames River Property Growth & Income Fund has prudently reduced the price at which investors may redeem to reflect the fact that the fund does hold some direct property investments. This step was actually insisted upon by the fund's management, and they asked that their valuers calculate a second NAV for their direct property portfolio based on a worst case scenario. Why this is prudent is that many funds with direct holdings have had to become forced sellers of property and this has been to the detriment of long term investors. Thames River's approach should therefore benefit investors in the long term. With UK listed property now at significant discounts to NAV, we would view the recent market declines as an attractive entry point. This example demonstrates the arbitrage opportunities that exist between direct and listed real estate. Arguably the direct market may have some room to fall in the short term.

In terms of a single global investment for clients with no particular bias to any global currency, Schroders, First State, Henderson, Morgan Stanley and JP Morgan continue to perform well. Whilst we continue to monitor these funds, our preference is for a combination of regional funds where a manager can use his local knowledge to generate alpha from what remains a highly inefficient asset class. In this regard, the RMB MM Global Property is focused on regional managers and combines both direct property investments and property securities. Three share classes are available: USD unhedged, GBP hedged and EUR hedged. This product allows clients to gain access to closed managers and also to those opportunities which require a minimum USD10 million commitment. Our global property investments returned -10.1% in the quarter in US Dollar terms compared to the average global property fund in the peer group which returned -11.6%. The fund's out performance was primarily due to the large allocation to Asian Property, which despite negative returns was the best performing property region in the quarter. In addition the fund's allocation to direct property investments in the UK will have dampened the fund's volatility.

Investors into any retail property fund that has been pricing at offer price instead of bid price are advised to contact the manager for an indication of future pricing policy. Any investors into direct UK funds that have yet to suffer any sort of drawdown would be advised to research the frequency of the independent valuation process of the underlying properties. This is because the listed EPRA UK property equities index, which is valued by the broader market and tends to look forward, is down -

Source: Bloomberg, RMB Asset Management. Past performance is not indicative of future results.



36% through 2007. Any property fund that is valued quarterly in arrears may be exposed to a negative revaluation as a result.



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We caution that the value of investments in discretionary accounts, and the income derived, may fluctuate and it is possible that an investor may incur losses, including a loss of the principal invested. Past performance is not generally indicative of future performance. Investors whose reference currency differs from that in which the underlying assets are invested may be subject to exchange rate movements that alter the value of their investments.

Our investment mandates in alternative strategies and hedge funds permit us to invest in unregulated funds that may be highly volatile. Although alternative strategies funds will seek to follow a wide diversification policy, these funds may be subject to sudden and/or large falls in value. The illiquid nature of the underlying funds is such that alternative strategies funds deal infrequently and require longer notice periods for redemptions. These Investments are therefore not readily realisable. If an alternative strategies fund fails to perform, it may not be possible to realise the investment without further loss in value. These unregulated funds may engage in the short selling of securities or may use a greater degree of gearing than is permitted for regulated funds (including the ability to borrow for a leverage strategy). A relatively small price movement may result in a disproportionately large movement in the investment value. The purpose of gearing is to achieve higher returns associated with larger investment exposures, but has concomitant exposure to loss if positive performance is not achieved. Reliable information about the value of an investment in an alternative strategies fund may not be available (other than at the fund's infrequent valuation points).

Under our multi-management arrangements, we selectively appoint underlying sub-investment managers and funds to actively manage underlying asset holdings in the pursuit of achieving mandated performance objectives. Annual investment management fees are payable both to the multimanager and the manager of the underlying assets at rates contained in the offering documents of the relevant portfolios (and may involve performance fees where expressly indicated therein).

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