Glanmore Property Fund

Updated Report – December 2008

In light of the events of 2008 where global financial markets have been in freefall as a result of the continued global credit crisis, we would like to take the opportunity to write to you and give a further update on the UK Commercial Property Market and the Glanmore Property Fund specifically. Much of this has been presented by the fund manager of the Glanmore Property Fund on his recent visit to South Africa but, nevertheless, we felt the need to put the information in a concise and clear format for you and your clients.

UK Commercial Property Market Summary

The past 12 months has witnessed the UK commercial property market, suffer the sharpest decline in capital values since IPD (the UK real estate index) records began. The decline has been caused by the extraordinary behaviour of the debt markets which have been ravaged by the global credit crisis, and has resulted in virtually no financing in the commercial property market sector.

As a direct result of the financial crisis, UK economic conditions have deteriorated markedly, in line with most of the major economies, and there is very little market activity in the sector. The current position is that the few transactions occurring are by opportunistic cash rich buyers, purchasing from distressed sellers at heavily discounted prices. There is no real market evidence of 'willing seller and willing buyer'. Therefore the valuers have had little evidence on which to base their assessments, and can only use as evidence purchases made by 'vultures' from distressed sellers. This in effect has led to the continued mark-downs in share price of the Glanmore Property Fund. However, while capital values have tumbled, the income stream to the fund remains relatively healthy and is evidenced by the increase in rental income from GBP£64.29 million in September 2007 to GBP£70.35 million as at November 2008.

The fund managers of the Glanmore Property Fund remain confident that once liquidity in debt markets improve, values should start to revert back to fair value levels, as the crisis does not reflect the intrinsic characteristics of the assets, for example; tenants continue to pay rent and these rents generally continue to be inflation proof as illustrated above by the increasing rental income. The immediate issues or concerns with which the Glanmore Property Fund has to address include:

- The Loan-to-Value (LTV) Ratio of the portfolio, and
- The Redemption Notice Period

Loan-to-Value Ratio (LTV)

While rental income of the portfolio improves and the portfolio remains strong, the LTV ratio is at the mercy of the independent valuers who continue to aggressively mark down the capital values of the Glanmore Property Fund. The key effect of the de-valuation of the capital values of the property portfolio is the resulting increase in the LTV, because while values fall, the loans remain constant and as a percentage of the net asset value (NAV) of the portfolio, the loans become greater.

Within the terms of the prospectus of the Glanmore Property Fund the fund was to have the LTV at no greater than 65% of NAV, while the intention of the managers was in fact to have the LTV no more than 55% of NAV. However, with capital values continually being eroded during the course of 2008 the LTV limit within the prospectus had to be increased by special resolution from 65% to 75%. Currently the LTV (as at 1st November) is 66% and while this is within the new remit of the prospectus, the banking covenants with the funds lenders allow for no greater LTV than 70% of NAV. The primary lender to the Glanmore Property Fund is the Royal Bank of Scotland (RBS) and they have categorically stated that they do not want to foreclose, because even at 70% or 75% LTV this is not high by UK standards. While the size of the Glanmore debt with RBS is sufficiently large that it is 'on the radar' and, they would probably prefer it to be smaller, they are not being unreasonable under the circumstances.

Extensive discussions continue with RBS as to what might occur if and when the 70% LTV is breached and the issue comes down to a question of pricing. We can only surmise what might happen at this stage, but we will keep you up dated as the situation changes.

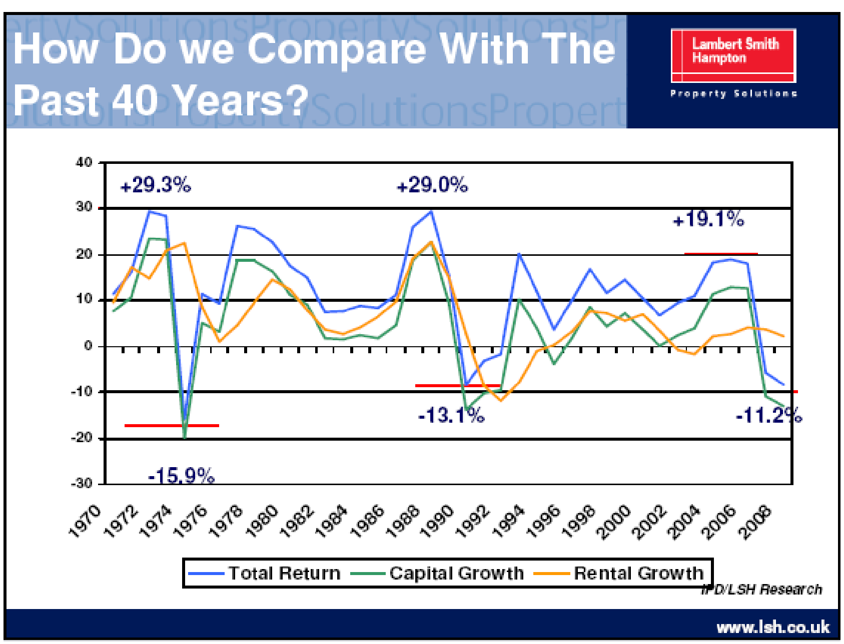
Redemption Notice Period

There has been much debate about the issue of redemptions and the need to suspend redemptions on an ongoing basis. We continue to maintain the view that the continued suspension of redemptions is in the best interests of the majority of investors. To be 'fire-selling' properties in the market conditions prevalent in 2008 would mean crystallising losses for the portfolio as a whole and the votes exercised during the course of the year has confirmed that the best interests of the majority of shareholders are being protected. Currently the redemptions that were submitted originally in January 2008 are due to be processed in January 2009. However, it is our understanding, that the Directors will more than likely in the coming weeks – pass a further resolution to suspend redemptions for a further 6 months. Once this resolution is implemented, it is understood that depending on market conditions and the ability of the fund to realise sales of buildings, existing redemption requests will be dealt with in chronological order.

With regard to any new redemption requests, these will be processed on the basis of 6 months notice from the month following receipt of the request to redeem, but on the basis that all outstanding redemptions are honoured in the first instance in chronological order.

UK Commercial Property Cycle

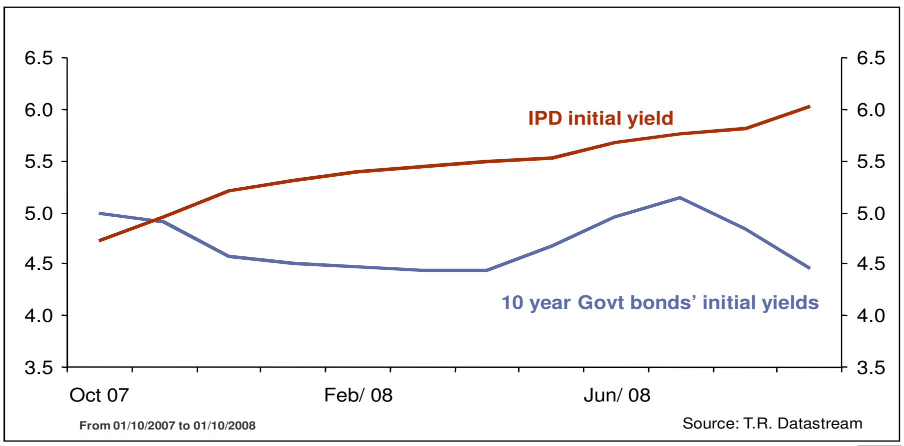
Assuming that the UK economy does not irretrievably collapse, there is every reason to believe that when the banks start lending again (more about this below) values will return fairly quickly. The following graph prepared by Lambert Smith Hampton of the last 40 years performance in the commercial property market clearly illustrates past trends. You will see that there was a correction between 1973 and 1974 (the oil crisis) and a second correction between 1990 and 1992 (being over-supply of newly constructed buildings hitting the market just as global recession had a major impact on potential occupiers). Both market corrections were relatively short-lived and you can see how values returned fairly quickly. The managers of the Glanmore Property Fund believe that the same type of situation will occur in the UK once the banks start lending again in volume and at a reasonable pricing level.



The Current Contradiction

When looking at the UK commercial property market in the current environment, without necessarily dwelling on the negativity of the market over the last 12 months but rather on the future, one must remember that good quality, well located property, with good tenants on long leases paying their rent, is still a solid investment for the medium to long term. This point is all the more pertinent when you consider that the divergence of yield on the IPD Property index from that on a 10 year Government Bond would suggest that the time is right for investors to consider investing in the good yield potential of UK commercial property:

IPD Property Index UK versus 10 year Government Bonds



Glanmore Property Fund Outlook

The managers of the Glanmore Property Fund remain positive on the medium/long term outlook on the basis of the above, but the short term turbulence, purely caused by lack of liquidity in the debt provision market, is obviously a concern to any investor in the Glanmore Property Fund.

As a result, while the fund managers are more than cognisant of the continued difficulties within the UK commercial property market, they are confident of a turn in fortune in the near future.

The belief is that when the banks turn on the debt provision tap again, which is looking imminent given the Bank of England's recent substantial reduction in base interest rates from 4.5% to 3%, the market will pick up relatively quickly and values should return. However, the fall in the base interest rate needs to filter down to the consumer, and until recently, the commercial banks have not been passing on the rate reductions, as can be seen from LIBOR (London Interbank Offer Rate).

In normal times LIBOR is about 0.25% above the Bank of England base interest rate. However, since the onset of the 'Credit Crisis', counterparty risk has forced the banks to increase the cost of LIBOR substantially.

The Bank of England has tried to assist in the process by guaranteeing all interbank lending between UK banks and also by taking large shareholdings in many of the commercial banks that were seen as potential counterparty risks.

The result of all this action, in recent weeks, has seen LIBOR fall from 6.3% to 3.8% which should be good news for the Glanmore Property Fund and, assuming the position continues to improve, should provide evidence for independent valuers to be more prudent in their valuations.

However, the fund managers continued aims in the short term are to;

- Keep cash flow strong.
- Re-let vacant units as quickly as possible.
- Maintain strong relationships with lending banks.
- Continue to asset manage the portfolio.
- Do not 'fire-sell' assets at hugely discounted prices.
- Raise new equity.

With regard to raising new equity (client investments) into the Glanmore Property Fund, this is a key point for the short and medium term prospects for Glanmore.

Raise New Equity

The managers of the Glanmore Property Fund, as you are no doubt aware, are owned by Deutsche Bank, one of the world's largest and best capitalised banks. With market sentiment towards commercial property still uncertain but with the potential to turn positive soon, Deutsche Bank have made it clear to the fund managers that they are in a position now to raise substantial capital for Glanmore from their very high net worth clients. The mechanism to raise the capital is in the process of being investigated by the company's attorneys and the feeling from Deutsche Bank's wealth management division is that Glanmore is looking attractive at present prices. With additional capital raised for the fund the aims of the fund managers thereafter will be to:

- Pay down debt and reduce the Loan to Value (LTV) ratio.
- Meet all redemption requests remaining.
- Open Glanmore Property Fund to normal redemption requests.
- Look to purchase new property stock at deflated prices with a view to benefiting from a turn in market conditions.

Conclusions

It is worth reiterating that Glanmore already holds a large, balanced property portfolio, of good quality buildings, let to good quality tenants on relatively long leases in good locations. The managers continue to collect the rents, implement rent reviews wherever appropriate, re-gear leases whenever they can and generally carrying on business as usual on the property and asset management side of the business. The problem, which is shared with the rest of the commercial property funds sector, is that because of the 'credit crisis' the market value of the assets has diminished. As intimated, this is totally outside the control of the managers of the Glanmore Property Fund. As and when the situation changes the expectation is that Glanmore property values will return fairly quickly, and the managers are planning appropriately for this eventuality.

The prevailing view remains that, as part of a medium/long term balanced investment portfolio, commercial property should form part of the asset mix. It has been frustrating for all of us that the global banking crisis continues to be an issue, which in turn has impacted considerably on the commercial property market.

All shareholders, however, should be reminded that the following key points on the Glanmore Property Fund are still valid now and for the foreseeable future:

- Fund of properties, with 95 commercial properties.
- Diversified amongst 68 towns and cities throughout the UK.
- Occupancy rate on the portfolio is approximately 97%.
- More than 80% of the funds leases have more than 5 years to run.
- More than 80% of the funds tenants are of the highest quality.
- September 2007 Rental Income: GBP64.29 million.
- November 2008 Rental Income: GBP70.35 million.
- Estimated Rental Value Projection: GBP78 million.
- Current running yield: 6.7%.

We hope that the above goes some way to explaining the current position and views regarding the UK commercial property market and more specifically the Glanmore Property Fund. We must point out, however, that the comments and our interpretations of the current position or on the basis of information supplied and have not been approved for distribution by Deutsche Bank and Tilneys Private Wealth Management.

As always we thank you for your continued support and patience in these difficult times. However, if you have any queries or require anything further please don't hesitate to contact us.

Kevin Jarrett

Riverstone Distribution Services

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