



VAM PROPERTY FUND GLOBAL PROPERTY MARKET UPDATE – MAY 2009

The past 18 months have undoubtedly been painful for many investors, not least those invested in property including the VAM Property Fund investors. Both listed and direct property markets have suffered extreme and unprecedented turbulence, and with virtually nowhere to shelter from the volatility, many investors have reduced or tried to reduce exposure to the asset class.

However, since the lows reached in mid March, investor sentiment towards listed property seems to have improved significantly (see the Appendix below for listed holdings in the VAM Property Fund). This, combined with the successful capital raisings by a wide range of listed property companies, including British Land and Land Securities, has lifted listed property from trading at distressed levels. On the direct side, there have also been nascent signs of some investors willing to return to property investing. In the UK for example, historically low interest rates are making the yield on UK commercial property more attractive, while its unprecedented yield spread over gilts has been a further incentive to re-appraise the asset class. While we remain negative about economic prospects and property fundamentals for 2009, more positive news is beginning to filter through with the UK listed company, London & Stamford, actively buying and the recently announced launch of Max Properties headed by Nick Leslau, chairman of Prestbury and Mike Brown, former deputy chief executive of Helical Bar. Max Properties is a £200m seven and a half-year "bottom-fishing" fund to be listed on AIM with the largest investor, the US hedge fund Och-Ziff, putting in £35m. We believe this supports our view that prime UK property yields at these 7%+ levels and higher in the listed markets are very attractive on a risk adjusted basis.

ANOTHER CHALLENGING YEAR IN PROSPECT

While some forward-looking indicators are signalling a more stable investment environment for global property, we still expect a further challenging period ahead. The spread between property yields and the yield on other asset classes is one trigger we look at when assessing property's relative value. We also look at equity and debt capital availability. These measures currently suggest that listed property markets could be poised to further their recovery process in the second half of 2009. The main caveat to this view is that risks remain in the financial system and the necessary de-leveraging process, in respect of commercial property lending, could take months, if not years, to play out.

Listed property markets traditionally recover sooner than direct property by around six to nine months. The VAM Property portfolio has benefited from low volatility through its focus on the UK property unit trust funds which are a proxy for the direct property market. However, over the last three months the portfolio value has fallen by -10.66% (see Appendix below), of which -10.55% was due to the direct unlisted property element and +0.60% was due to the listed holdings and -0.70% to the reduction in cash. As a comparator to the unlisted performance, the unleveraged UK IPD All Property Index fell by -7.13% in this period but VAM's unlisted portfolio is on average currently 36% leveraged at current valuation levels and this has further adversely affected performance in this down market.

The listed performance element in itself was up +9.40% and would have been better had the investment in Nordic Land, the Swedish retail group, not fallen by -23% in a very thinly traded market. The EPRA index of European property stocks has risen by +4.24% in this three month period.

We believe direct property has further downside risk, particularly as we expect negative rental growth to be a drag on total returns. In particular, VAM Property's holding in the Redleaf Shopping Centre Fund which represents 1.9% of the portfolio will need to be written down in May as we have now received its annual report and the properties have been valued at much higher yields.

UK commercial property is probably furthest through the corrective phase of the cycle relative to other direct property markets. Therefore, we would expect an earlier upturn for the UK market versus overseas property markets. However, we are not anticipating any meaningful recovery until the second half of 2010.

For VAM Property we are therefore working to increase the cash position of the Fund thereby reducing the amount held in direct property through the unlisted property unit trusts. At the same time we would like to increase the Fund's holding of listed property securities and funds where we see better value as the listed markets are much more forward looking than the direct market and share prices have already factored in the expected deterioration in property fundamentals. As long term investors we believe the coming months provide a once in a life time opportunity to invest at the bottom of one of the deepest property market cycles experienced this century.

John Dwyer

27 May 2009

APPENDIX

PORTFOLIO PERFORMANCE

Fund	Value	Value	Value	Performance	Performance
	30.4.09	31.1.09	+ / -	1 month	3 months
	£000's	£000's	£000's	%	%
Hercules	1,228	1,612	-384	-4.16	-22.59
Blackrock	1,927	2,075	-148	-1.64	-6.12
UBS Triton	1,386	1,507	-121	-2.32	-7.88
Lionbrook	967	1,128	-161	0.00	-14.34
RREEF Industrial	1,461	1,576	-115	-1.34	-6.15
RREEF Office	1,279	1,442	-163	-2.21	-10.44
API Goodman	319	392	-73	+1.42	-16.38
Shopping Centre Holdings	0	155	-155	0.00	-100.00
Standard	302	333	-31	-2.77	-9.02
Unite Student Accom	657	711	-54	+1.75	-7.57
Mercury	633	678	-45	-8.83	-6.71
Redleaf VI	335	335	0	0.00	0.00
Mosaic CEE	1,383	1,853	-470	-27.09	-25.39
Boka Fund	559	636	-77	-3.06	-12.20
Grainger G:Res 1	911	951	-40	-4.17	-4.17
Total Unlisted	13,347	15,384	-2,037		-13.24
	194	118	+76	+13.85	+64.44
Trinity Trikona	361	306	+55	+24.70	+18.05
European	74	54	+20	+14.08	+37.29
AFI Development	9	6	+3	+27.75	+41.69
	298	391	-93	0.00	+23.76
REIT	391	338	+54	-6.02	+15.74
Total Listed	1,327	1,213	+114		+9.40
Net Cash	2,580	2,715	-135		-4.97
Total Portfolio	17,254	19,312	-2,058		-10.66

PERFORMANCE VS TOTAL PORTFOLIO

Total Unlisted	13,347	15,384	-2,037		-10.55
Total Listed	1,327	1,213	+114		+0.60
Net Cash	2,580	2,715	-135		-0.70
Total Portfolio	17,254	19,312	-2,058		-10.66