



Seven Dials European Property Fund

Q2 2009 Update

1. NAV* Movements in the three months to June 2009

*Please note that the NAVs reported below are indicative only. The Fund has suspended dealing and the official calculation and publication of net asset values.

We report indicative falls in the Fund NAVs in the quarter to 30th June 2009 of 7 to 7.5%. This movement reflects assumed falls in the underlying property values. Full details are given below.

Fund NAVs as at 30th June

Share Class	Bid NAV	Jun 09 NAV	Change
A	6.62	7.14	(7.3)%
B	6.65	7.16	(7.1)%
C	6.66	7.17	(7.1)%
R	6.45	6.97	(7.5)%
P	6.47	6.98	(7.3)%

2. Performance Analysis

German Aktiv

The NAV of the Fund's investment in German Aktiv is estimated to have fallen by around 9% during the quarter. The property portfolio has not been re-valued since December 09 but the Manager of the Seven Dials European Property Fund again decided to allow for a 2.5% fall in property values over the quarter for the purposes of estimating the NAV. Property values continue to fall in Europe and this approach is considered to provide a better NAV estimate than assuming no change in values.

Over the quarter the NAV of the holding in German Aktiv increased slightly before the application of the 2.5% downward movement in property values. The increase was due in part to retained operating profit and also because of a moderate increase in the value of the interest rate hedging instruments.



Whilst the fall in NAV is unwelcome, there is some good news on German Aktiv with regards to the bank debt. Valad, the Manager, has recently concluded the restructuring of many of its corporate assets and loans, which has resulted in the creation of an investment vehicle called DUKE, which is a joint venture between Valad and Bank of Scotland. DUKE has taken over the substantial investment that Valad had in German Aktiv.

As part of this re-structuring, Bank of Scotland has agreed to waive the LTV debt covenant on the loan to German Aktiv for three years, at no additional cost or change in terms. The covenant is at 70% LTV and the last time the LTV was calculated formally it was very close to this level. This is a very good deal for the German Aktiv fund, giving it breathing space to work through the current downturn and, hopefully, preserve equity value for investors.

Nordic Aktiv

As in the first quarter of 2009, the property assets of Nordic Aktiv were not re-valued externally. As with German Aktiv, because of the rapidly changing market conditions the Manager of the Seven Dials European Fund decided to adjust downward the gross value of the Nordic Aktiv property assets by a total of 2.5% for the purposes of estimating the NAV. The Board believes this gives a better estimate of the underlying NAV on this occasion.

Based on the above, the NAV on the Fund's investment in Nordic Aktiv fell by around 10% from the previously estimated value.

The Manager continues to negotiate with the lending banks to the Nordic Aktiv Fund for a possible relaxation in the LTV covenant and is hopeful of securing an agreement before the end of the year. Unfortunately, Nordic Aktiv must expect to pay a substantial increase in margin to secure an LTV relaxation.

3. Outlook

The economic outlook in the UK is still poor, though there are increasing signs that the worst may be behind us. In Europe, economic forecasts for 2009 continued to worsen in the second quarter, with GDP forecasts for Germany being particularly hard-hit following the worst than expected figures for the first quarter. However, more encouraging news has just been released as both France and Germany reported growth in GDP of 0.3% in the second quarter, well ahead of expectations.

In the UK, there is a noticeable upturn in interest in UK property, to the extent that some parts of the market, noticeably prime assets, have seen price increases since beginning of



the year. The rate of decline in the published capital indices has slowed and there has been a decrease in the prime yields as measured by CBRE.¹

In Europe, the flow of property market information is less than in the UK. However, there is little doubt that values are falling and are expected to continue to do so at least for the rest of this year. Prime yields have increased from their peak levels across Western Europe by rather less than in the UK, but there is no prima facie reason why the increase in yields should be the same. The main source of pressure on values appears to be moving from yield expansion to that of the weak occupational markets, which lead to falling rental values and occupancy levels. Given that the economic outlook remains bleak, weak occupational markets are likely to remain a problem for some time to come.

As reported in the last Fund Update, the Directors do not expect to be able to lift the current suspension on dealing until markets stabilise and a degree of liquidity is evident in the Fund's underlying interests. The timescale for these improvements is impossible to predict but no early resumption of dealing is anticipated.

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¹ UK Prime Rent and Yield Monitor, Quarter 2 2009, CB Richard Ellis