

## BRANDEAUX STEERS ITS GROUND RENT FUNDS THROUGH THE TURMOIL OF THE FINANCIAL CRISIS AND ENTERS 2011 WITH CONFIDENCE

Dear Supporters,

**GROUND RENT INCOME FUND** Launched 29 February 1996

**GROUND RENT PORTFOLIO** Launched 24 March 1999

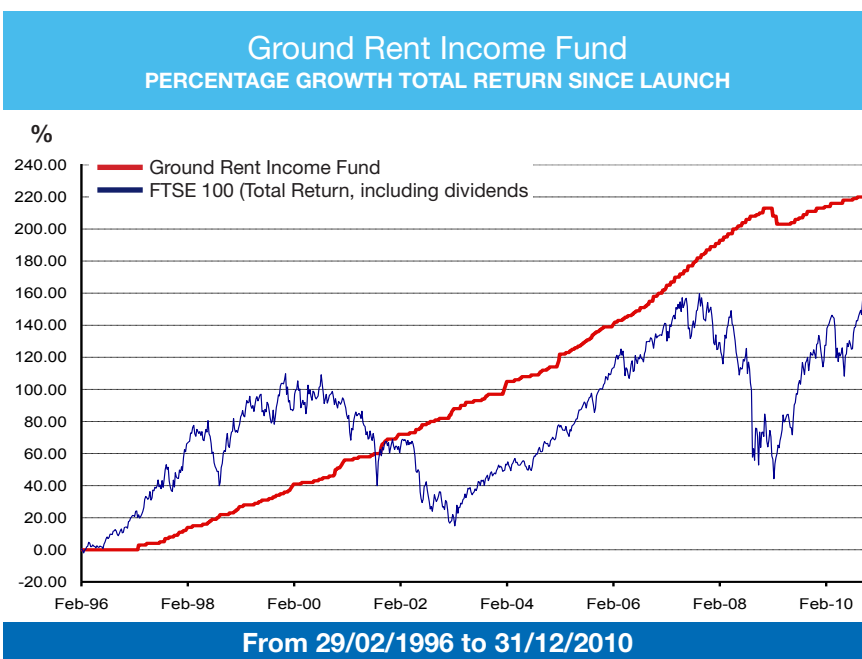
**GROUND RENT PORTFOLIO PLUS** Launched 17 August 2001

Together "the Funds"

As we enter 2011, the 16th year of Brandeaux's Ground Rent Funds, I am as enthusiastic and confident of this asset class as I was when Brandeaux was founded in 1996.

The economic turmoil over the last 2½ years shocked the world and has resulted in many changes in the investment industry. Brandeaux has not only weathered the storm but has come through it stronger and even more confident. The quality of Brandeaux's ground rent portfolio has been tested in the extreme and has proven its low correlation to the general UK residential property market.

No shareholder has lost any value of their investment as the Funds have maintained positive performance overall throughout the financial crisis, and for that matter since launch 15 years ago. Brandeaux's first priority is to preserve investors' capital and second, to increase investors' share value. We have done both.



FTSE 100 Source: Lipper Hindsight

The above graph shows the volatility comparison between the fund and the FTSE 100. It is not intended to compare performance between them.

“Against the backdrop of the economic and property sector turbulence of the past two and a half years, ground rents have provided the secure income and low risk profile that most investors have been striving for. They have been seen by many investors as a way to diversify their portfolios and better manage risk in their property exposure.”

CB Richard Ellis,  
Residential Ground Rent Investments Report,  
September 2010.

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## RE-OPENING OF FUNDS

The Funds successfully re-opened for subscriptions and redemptions in May 2010, with revised redemption terms more appropriate to the nature of a property asset class. The revised terms prescribe a six clear month redemption notice period and importantly the directors have discretion to advance redemption requests subject to available liquidity, or postpone redemption requests longer than six months. The revised redemption terms allow flexibility for managing cash flow and eliminates the necessity for a suspension if additional time is needed to create liquidity by the sale of property assets.

## LIQUIDITY MANAGEMENT

As anticipated, after the 17 month suspension period, there is a redemption 'hump' following the re-opening of the Funds. To date, a significant portion of this 'hump' has already been redeemed out of available liquidity. Liquidity is being created primarily through planned property disposals, without detriment to ongoing performance of the portfolio. The market for disposals continues to remain challenging and the timeline is not precise. As a result some redemption requests are taking over six months to satisfy. However all redemption requests will be fulfilled even if it takes a bit longer.

## EQUITABLE TREATMENT OF ALL SHAREHOLDERS

The directors have a duty to treat all shareholders fairly and this means ensuring that available liquidity is applied pro rata between all shareholders (institutional platforms) in accordance with their shareholding in the Funds at re-opening. This pro rata allocation of liquidity ensures that no one institutional platform is able to 'hog' the liquidity.

Some shareholders (institutional platforms) have received a relatively small percentage value of redemption requests from their underlying investors so the pro rata liquidity management process each month has released sufficient cash to meet all their redemptions. Conversely, there are other shareholders who have had a significant percentage value of redemption requests from their underlying investors and sufficient cash has so far not been available to meet these in full, resulting in a queue.

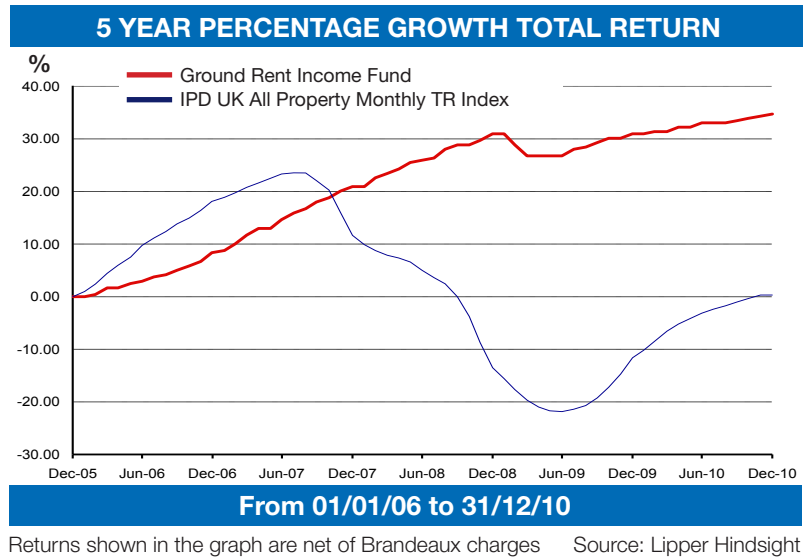
In summary, some institutional platforms will have had all their redemption requests fulfilled and some will have redemption requests outstanding which will be met as soon as sufficient liquidity is created.



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WHILE LIQUIDITY IS BEING CREATED, THE SHARE PRICE HAS CONTINUED TO RISE

The directors have a duty to protect the interests of all shareholders and not disadvantage continuing shareholders in favour of those wanting to redeem. The directors do not intend to sell properties below market value to enhance the process of creating liquidity. All property disposals to date have been made at valuation or above, and the share prices of the Funds has continued to rise and significantly outperform the IPD All Property Monthly TR Index as the chart opposite demonstrates.



## OUTLOOK FOR 2011

Brandeaux's ground rent portfolio, with its secure income streams, no debt and strong reversionary value, places the Funds in an excellent position over the long term to deliver what these Brandeaux Funds are best known for, capital preservation and increasing value with low volatility.

The property portfolio is located throughout the UK with over 85% of value concentrated in the prime residential property market in the affluent central London locations of Chelsea, Kensington, Mayfair and Knightsbridge. This prime central London market in times of economic turmoil has historically significantly out performed their main stream counterparts.

We expect to see the demand for prime central London properties increase, mainly from overseas investors who are not dependent upon mortgages or sensitive to mortgage rates. We believe that this demand will drive this market and we should see our reversionary values positively enhanced as a result. The year ahead will present its challenges not least as we create liquidity and continue to manage the portfolio in such a way as to enhance value. We have made significant progress in this respect during 2010 and we are confident that the year ahead will be positive for the Brandeaux ground rent Funds.

On behalf of the Brandeaux team, we thank all our loyal supporters and investors for your confidence and patience as we go forward.

Kay Brandeaux  
Chairman

VISIT BRANDEAUX'S WEBSITE AT [WWW.BRANDEAUX.COM](http://WWW.BRANDEAUX.COM) FOR INFORMATION ON ALL BRANDEAUX FUNDS

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