

ALL SAINTS

NEWSLETTER JANUARY 2011

We are very pleased to announce that All Saints has now invested nearly all the original equity of c£4million. We therefore hope to attract new investment before the proposed final closing on 31st March 2011.

Having been out of the market for around 4 years, evolve made its first investment for All Saints within a month of the first close. In partnership with a syndicate of clients of one of our adviser friends, All Saints paid c£3.5m for the property in central Norwich that has another 30 years unexpired to Whitbread's budget Premier Inn (top right). The net yield is 6.5%.

All Saints then made a £630,000 mezzanine loan in May 2010 yielding 11% (bottom right) and has now just completed the acquisition of a £2.5m industrial investment in Epsom yielding 8% (middle right). As at January 2011 the fund is very nearly fully invested but evolve has a healthy book of other possible transactions that fit the All Saints 'lack of land', prime property profile and hence are keen to grow the fund.

"All Saints can be regarded as a Family Office commercial property fund. Friends of friends and clients of our financial adviser friends can get access to the deals we are happy to put our own money into, or more importantly, let our close friends and family invest in."

It is similar in structure to the Strata Fund – i.e. a minimum 5 yr period but with a commitment to extend. Anticipated dividends of 5-7% p.a. and expected capital growth through our stock selection and asset management to achieve 10% p.a. plus total returns.

Track record: We believe that the Strata Fund, a residential mezzanine lending business, is a top performing private investor fund. It is evolve's other discretionarily managed pooled fund. Over the 3 years to October 2010 the total return was +26.5% (including distributions of 11.5%).

All Saints is tax transparent and available to SIPP's as well as non-pension equity.

Please also look at the Fund's bespoke website www.evolveallsaints.co.uk. Not only is this convenient for potential investors, but it is also updated with news regarding acquisitions, fund closings and will have NAV Unit prices past the final closing date.

The Information Memorandum and other marketing material are now available via the website or contacting evolve (info@evolvefs.co.uk).



Premier Inn, Norwich



Industrial investment, Epsom



Retail warehousing, King's Lynn

Fund Overview

Structure	UK Limited Partnership
Term	5 yr 'tie in' from 3/2010 with exit opportunities thereafter
Anticipated Return	Distribution 5-7% p.a. Total return 10-12% p.a.
Key Differences	evolve 'lack of land' stock selection and track record Portfolio approach Unique exit strategy Cautious level of debt

“Lack of land” - a market view with a difference?

“In May 2010, an evolve newsletter was circulated the week before the UK election, a time that seems so very long ago now. It was an election, like the US, based on an ambition for ‘change’, but without perhaps quite the same sales pitch.

Back then we started by noting another change... the voluminous number of ‘change of address’ letters we had received in the previous few months. We queried if this experience was worthy of being compared to City analysts basing their forecasts for UK plc on the number of different champagne Cru’s upon Tesco’s shelves. Sticking with this word ‘change’, what has changed since May 2010 – property wise that is?

Well, we have had fewer change of address letters! This of course correlates with all other, rather more official, residential market benchmarks. Pity the generation of 20 something aspiring property owners that will have to stay at home or rent for the foreseeable future. (This is why, rather obviously, our Strata Fund focuses on non first time buyer developments.) But will there be a secondary price correction in the resi market? It is easy to follow Bootle’s theory based on earnings multiples and lack of lending. However, our belief is that the core South and East house markets we are professionally involved with may fall 5% over the next 12-18 months, but a flat market is more likely. Nothing sensationalist about

that I am afraid. No headlines to be grabbed. It is easier, of course, to expect significant rental voids and rotting ‘For Sale’ boards in the UK’s less affluent locations.

And what changes in the commercial markets? From where we are, it is plain to see that the prime commercial property market is unchanged in that it is as dominated as ever by the office sector... in London.

Dominated in terms of the media being attracted to the ‘Cheesegrater’, the ‘Shard’, the ‘Walkie Talkie’. Big numbers, glamorous architects, amazing images. London in general, and the City in particular, is where the big ticket transactions take place and where foreign buyers want to invest.

Note these new schemes are being built on the premise that London remains a dominant global financial district and they

will catch the new wave of rental growth and occupational demand. Fingers crossed. Good luck to all involved. We have our doubts.

But no doubt British Land and Land Securities are praying their City projects will help improve their investment performance. They need it. They were two of the UK REITs, alongside Hammerson, SEGRO and Liberty to have been heavily criticised in the press recently. These five REITs have collectively “destroyed £22.3bn of shareholder value in 2006-2009...more than their combined stock market value of £17bn” (Property Week). Is that more astonishing than the Morgan Stanley losses of \$5.4bn (out of \$8.8bn, -61%) and Goldman Sachs losses of \$1.77bn (out of \$1.8bn, -98%) we mentioned in May 2010? -98%!! By Goldman’s!!

Interestingly, the research also noted that the overall benefits of being listed are questionable. Hear hear we say! This concurs with our long stated objections on the ‘must be listed’ approach from so many financial advisory businesses. Will they never appreciate that alongside the hedge against inflation, a key attraction of commercial real estate investing is a lack of volatility due to the high income profile. Insisting on a listing just introduces volatility.

Looking at the the market as a whole, we are not lovers of the office sector. Along with big distribution warehouses, they rarely tick our ‘lack of land’ box (i.e. demand from tenants can generally be expected to exceed supply of accommodation). An exception, the West End of London, appeals but is too susceptible to excessive bidding under the influence of ‘trophism’. Of course there are



www.evolveallsaints.co.uk

If you are potentially interested in investing with us in All Saints, then please look at the new website.

The website provides links to all the marketing material and will be used in the future to provide NAVs and news on Fund activity.

Passwords will be circulated in due course to investors and their advisers to keep their information secure.

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exceptions. But it is interesting to note that in Q4 2010 the property press witnessed a mini boom in 'new stores required' advertisements... the likes of Wilkinson (150 stores), Topps Tiles (71), McDonalds (30 p.a.), Pizza Hut (50 p.a.), Asda Living (150), Premier Inn (350), Domino's, Sainsbury, Lidl, Deichmann Shoes, Majestic Wine etc. This excludes the likes of Debenhams, House of Fraser, Travelodge, John Lewis, H&M and others with well known requirements. Surprise you?

Read on...

Three observations. First, these sorts of tenants will more likely need properties that would tick our 'lack of land' box and thus be All Saints tenants. Several are already tenants of other evolve funds. They need to advertise widely because they have to... they need people, not the internet, to create new store opening opportunities and they need lots of such opportunities when the hit rate in obtaining successful planning consents is still so unpredictable! And then there are the City expectations, the analysts to keep happy with tales of new openings... sorry, we are not getting back to the pro's and con's of listing!

Secondly, let's hope that lots of new jobs can be created from these expansion plans in the UK 'regions', as this is where the public sector cuts are going to bite deepest. In our view London will cope, the South will be OK but the regions will suffer most.

(NB research shows that Ipswich and Hastings are the two locations most at risk in the South!)

Thirdly, these occupational requirements won't bail out any of the distressed property being put onto the market by the banks. There is more of this stock around, but it is typically a residential development site here or a multi-let office there, the latter not worth more than it cost to build... 10 years ago. Not the product all the Opportunity

Funds want as there is no turn around prospect, so little office occupational demand. Lloyds recently confessed that secondary and/or regional property made up most of Lloyds' £81bn lending book. They will have it on their books for a very long time.

Any major changes in the investment market since the election? Not really. The market has been in a relative state of normality since the summer. Appropriately priced, prime investments attract good interest, but we are not seeing a return to 2006/2007 recklessnesses! Yield hardening back to 2007 lows won't happen, or it should not happen. Current yields for prime stock are correctly priced now. But the current income return offered by good quality property is very appealing compared to equities and gilts, especially if UK plc inflates away its debt problems in the next few years!

To emphasise the point, IPD's property initial yield is now running at 6.5%. Buyers of medium term gilts at c2.5-3.0%, betting on low inflation and a weak economy, are now accepting a real term loss, (albeit a lesser loss than those who stay in cash!). This 250-300 bps difference exceeds long term averages and means prime property pricing is less likely to move out than to remain

stable or nudge in a bit in 2011. The high level of income (say 6.5%) relative to total return (say 10%) also ensures less volatility than gilts and equities... unless, of course, you are listed!"

So evolve believes strongly that the market is well placed to offer those with access to the prime investment markets, an attractive income profile and some interesting value enhancing asset management opportunities – the summarised All Saints investment strategy.

www.evolvefs.co.uk – Our new-ish website

Have you seen the new evolve website?

A key feature is the 'My Investment' section that was recently launched with the 2010 year end accounts. Passwords were circulated to investors and their advisers.

There is a direct link to the All Saints website and information about each of the other evolve funds.



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