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Ground Rent Review

Coast Freehold Income Fund

MARCH 2013

Coast Freehold Income Fund	
Investments	Freeholds with leases in excess of 95 years
Liquidity	Monthly with up to 6 months notice on redemptions
Investment Horizon	Long term
Security	Highest level as ranking above the mortgage providers
Target Return	5 to 8% Net
Leverage	Limited to 10% for strategic acquisitions only

Contents

Rating Quality	1	2	3	4	5
Management Team	✓				
Property Team	✓				
Administrator	✓				
Auditor	✓				
Surveyor	✓				

Rating: 1 highest, 5 lowest

Recommendation	AA+

contact:
coast-info@coast-fund.com

Conclusions

The Fund is an opportunity to invest in long leased freeholds. Ground rent investments are highly over collateralised and experience close to no default (Below we outline how ground rent investments work). The collection of ground rents and the management of the income stream have been packaged to take advantage of the know how of the management team and generate economies of scale not available to investors outside the industry. The investors have a long term horizon for an above market income (the manager anticipates 4.5 to 7% annual) and a capital growth inclusive of inflation, targeting a doubling of investment over 10 year periods.

The respective records of the property adviser and the property manager of buying and managing residential property, along with the Manager's structuring and investment expertise, should place the Fund in the vanguard of investments securitising ground rents, creating an affordable investment opportunity whose popularity has risen with both private and institutional investors.

Description

- Invests in Freehold blocks of residential flats.
- All ancillary incomes generated by the ownership of the assets are acquired to the unit holders of the Trust.
- Remaining term leases at purchase are longer than 95 years outstanding.
- 90% (min) of leases have periodic upwards reviews.
- Leases under 150 years remaining generate unrealised annual reversionary capital gains.
- Leases above 150 years remaining should generate higher annual income.
- The Investment Manager has over 25 years of Fixed Income and fund management experience.
- The Manager has partnered with the RCP Group who's principles have over 25 years of property and ground rent management experience.
- Subscription costs of 5.75% reflect the actual costs of acquiring property, such as Stamp Duty, solicitor's conveyance fees, initial Standing Independent Valuer's survey and potential agent fees.
- Redemption fees of 0.75% reflect the solicitor's conveyance costs and potential agent fees.
- The Coast Freehold Income Fund is the first real estate fund where the homogeneity of the assets across England and Wales is strong enough to allow for a 100% monthly mark to market of the properties based on independent values, such as the Kennington-Coast Long Lease Index which has been created for the Fund.
- Leases above 95 years have a small reversionary value proportionate to the acquisition price at time of purchase. The Fund is limited to only buying leases above 95 years and so fund managers are not making value judgements on residential values.

Fund description			
Manager (JFSC Regulated)	Coast Management	Legal structure	Jersey Property Unit Trust
Advisor (FSA Regulated)	Capital Advisory Partners	Minimum investment	GBP equivalent to USD100,000 for Qualified
Property Investment Adviser	RCP Capital		£1,000,000 for Institutional Units
Ground Rent Manager	RCP Ground Rent	Management Fee	1.25% Institutional Units
Administrator	State Street (Jersey)		1.50% Qualified Units
Auditor	Grant Thornton	Income Performance Fee	20% above 4.50% (or 10 year gilt +1% if higher)
Regulatory supervisor	Jersey Financial Services Commission	Capital Performance Fee	20% of realised capital gains above last monthly available property valuation

Conclusion

The Fund offers investors an easy way to access the ground rent market whilst benefiting from a unitised structure that provides monthly valuations, better liquidity than a direct investment, a more diverse portfolio and economies of scale.

The investment management team provide a high level of oversight and rigour for investors and they aim to provide institutional levels of transparency, reporting and processes. This is coupled with a very experienced property management team to deal with all the property related issues, which are key to the Fund's performance versus the market.

Ground rents are highly over collateralised and experience close to no default. In addition to the ground rents, freeholders enjoy other potential income streams. The income yield, net of costs, should be significantly higher than gilts. As this fund concentrates on long-term leases there will be little initial exposure to property prices. Furthermore, where ground rent reviews are linked to RPI or HPI there is direct protection against inflation. The Fund provides an attractive, viable alternative to gilts or AAA corporate bonds

Overall we feel that the ground rent market is attractive for investors. Funds, such as this one, which concentrate on long-term leases offer investors an attractive net income yield underpinned by the very secure ground rents. The Coast Freehold Income Fund is well structured, has a sensible cost structure and provides investors easy access to the market combined with the expertise of its property and investment management teams.

For further information from the Fund Managers contact: coast-info@coast-fund.com

Residential Ground Rents – Generic Description

The legal structure of freeholds and leaseholds in England and Wales creates the investment opportunity.

Income

On completion of a property the original freeholder will sell flats or houses on underlying long leases of between 95 and 999 years (typically 125 years). Under the terms of the lease the leaseholder is required to pay a low annual rent (e.g. £200) to the freeholder (the ground rent). The rent may be subject to periodic reviews linked, for example, to the RPI or with pre-determined uplifts. Review periods range from every 5 to 50 years.

If the ground rent is not paid the leaseholder risks forfeiting the lease. (i.e. the property reverts to the freeholder who could then sell a new long lease). Given that the ground rent is usually a very small amount compared to the value of the long lease it is extremely rare for the leaseholder to risk forfeiture by not paying. As the ground rent sits at the top of the capital stack it ranks ahead of any mortgage or other debt on the property. Consequently, where the underlying lease is subject to a mortgage the mortgage provider would usually pay (if the leaseholder failed) in order to protect their collateral. Interest (and sometimes a fee) can be charged for late payments. Given that the ground rent is secured against the vacant possession value of the leasehold interest there is close to zero default and this element can be referred to as "hard income".

Appendix One summarises the relationship between landlord, leaseholder and mortgage provider.

There are also opportunities for other less predictable or less secure income streams for the freeholder. This ancillary or "soft income" includes charges made for assignments (sales) of the lease, solicitor's enquiries or for alterations or extensions to the property or for works carried out without formal consent. Furthermore, the freeholder often has the right to place, at the leaseholders' cost, the building insurance and management of the property. These rights can produce further income.

Capital

There is also the opportunity for capital profits primarily from lease extensions or enfranchisement. Capital profits can also arise, for example, where common areas such as basement or roof space or garages can be developed to provide further accommodation.

Residential leaseholders have a statutory right to extend their lease by a further 90 years.The right can be exercised at any time during the life of the lease after two years as leaseholder. If agreement cannot be reached on the premium payable then it is set by the Leasehold Valuation Tribunal who follow a set valuation methodology (see below).

Because mortgage lenders generally insist on a minimum lease term (55-65 years) any leaseholder looking to sell their property will need to purchase a lease extension once the remaining term is too short to be accepted by the mortgage provider for the new buyer. Also purchasers themselves can be wary of leases with less than, say, 75 years remaining. This drives leaseholders to consider extending their leases as they approach, say, 85 years remaining.

Leaseholders can also collectively, and subject to certain criteria, enfranchise (purchase the freehold of the property in which they have leases). They also, collectively, have the right of first refusal if the freeholder agrees a third-party sale. The valuation methodology is also set by tribunal (see below).

In the unlikely event that the lease is not extended or enfranchised then, at the end of the lease the property reverts to the freeholder (hence the term "reversionary interest"). The leaseholder then has the right to remain in the property paying a market rent. In this unlikely scenario the value at that point to the freeholder would be the open market value of the property (subject to the tenancy) at that time. Similarly, in the unlikely event of forfeiture the lease would revert immediately to the freeholder providing a very substantial capital profit.

Where a lease is extended, the ground rent on the flat is no longer payable, although the freeholder still maintains the right to the other 'soft income'. The payment to the freeholder for the extended lease compensates him for the diminution of his interest. This is composed of:

- The loss of the ground rent income for the remainder of the original term.
- The loss due to the additional 90 year wait for the reversion.
- For leases of less than 80 years remaining, half of the marriage value – being the potential increase in the value of the flat arising from the grant of the new lease.

The longer the lease, the more the value of the ground rents payable over the life of the lease will influence the premium; the shorter the lease, the greater is the importance of the underlying property value – the reversionary interest and the marriage value.

There will be a step in the value of the lease as it moves from 81 years remaining to 80 as it is only at that point that the marriage value impacts on the price.

The three key variable elements in pricing the premium will be the yield rate applied to discounting the future ground rent income, the yield rate applied to discounting the future reversionary interest and the valuation of the property.

Similar valuation provisions apply in the case of enfranchisements. However as this is a sale of the freehold the premium incorporates other factors.

The price to be paid for the freehold includes:

- The loss of the ground rent income.
- The reversionary value of the freehold on expiry of the leases (the reversion).
- 50% of the marriage value being the increase in value arising from the joining of the freehold and leasehold interests.
- The value of other interests, e.g. Rent Act tenancies, commercial properties or garages.
- Compensation for other losses e.g. loss of access or development opportunities.

As with lease extensions the key variables are the discounted yield rates (both term and reversion) and the valuations of the property and other interests.

Lease extensions and enfranchisements provide the potential for a capital profit but there is also a risk of capital loss if yields or property values have moved against you since acquisition. Currently tribunal rates are below open market rates, which would produce a capital profit.

It's also worth remarking that an unrealised reversionary capital gain stems from the passage of time. Every year there is one year less on the lease, and the freeholder is one year closer to the reversion. The increase is exponential (geometric progression). Hence the book value of the reversionary interest increases each year, but it is only realised through lease extensions, enfranchisements or by the sale of the freehold in the open market.

Similarly its also worth noting that if the rents are subject to upward review than the net present value of the future rental income stream also increases in flat money each year until you pass the final rent review date. Whilst this may seem counter intuitive its due to the fact that money in a year's time has less value than money today and also that the period to wait until the higher rents arrive is closer.

Both of these mathematical increases produce an unrealised capital gain each year. The asset appreciates in value (assuming constant yields).

The value of the reversionary interest depends on the value of the property and this can produce a hedge against inflation (assuming a strong correlation between inflation and property values).

We can see, therefore, that the value of a freehold depends on a number of factors such as lease terms, lease period, rent review structure, property values and importantly the relevant yields which are driven by the market and the Leasehold Valuation Tribunal.

Investment Appraisal

Residential ground rent investment generally follows one of two strategies. Acquisition of freeholds where the leases are relatively short (50 to 80 years) with the principal aim being to benefit from the reversionary interest. The price of these investments will bear a greater relation to the value of the property. These funds should, therefore, fall within an investor's real estate allocation as you would expect a closer correlation to property prices.

Alternatively, as is the case with this Fund, the investment strategy is to buy freeholds with longer leases to enjoy the income from the ground rents, with much less immediate exposure to the reversionary interest (and, therefore, correlation to property prices on initial purchase). The income yield will therefore be higher than on shorter leases. Given the very high security of the hard income these types of funds should fall within the fixed income allocation of the investor's portfolio.

Residential Auction Property Investment Data (RAPID) provides useful historical data on ground rent yields from auctions, which we reprint below. This shows yields from ground rents with between 80 and 125 years unexpired have shown relatively low volatility. From a low of 5.08% in 2006, average yields in the 80 to 125 year lease market rose to 6.5% falling back to 5.8% in 2011.

Conversely, the data shows average yields for very long leases of more than 800 years unexpired fell from a peak of 6.36% in 2007 to 4.4% in 2009 rising again to 6.1% in 2011 (later data is not available).

Particularly curious is the anomaly between 2008 and 2010 where the yields for long term leases and mid term leases moved in opposite directions.

Its important to remember the effect on capital values of yield fluctuations. If the annual ground rent is £100 then a yield of 6.5% implies a price of £1,538 for the freehold.

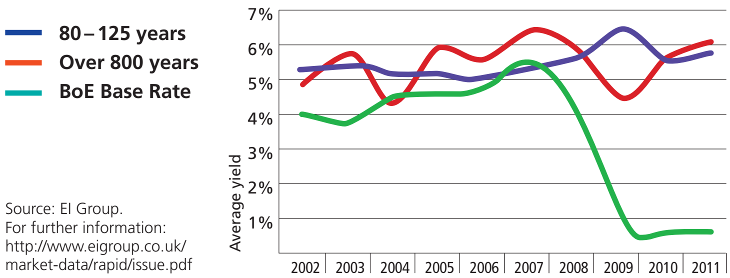
The same freehold sold off a yield of 5.8% implies a price of £1,724.

This implies a 12% capital gain between 2009 and 2011 for leases between 80 and 125 years. The converse is also true and if yields rise, capital values will fall.

Whilst this data is useful as a guide it is drawn only from auction data and there will be a wide variety of underlying leases in the sample which could explain the anomaly btween 2008 and 2010 which was noted above.

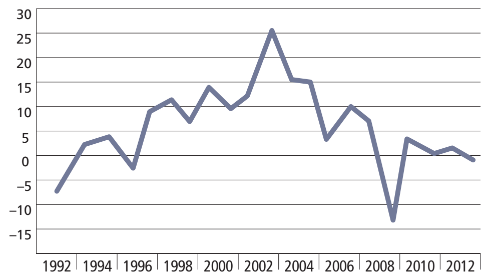
We have found little data on the correlation of long or very long leases to longer term gilts. Intuitively one would expect to see a strong correlation. It is clear, however, that there is generally a yield premium for longer term leases versus gilts. This high headline rate is, not surprisingly, attractive to investors in the current market. It is wise however to temper that with the realisation that the higher yield will need to compensate for the following factors: Less liquidity, the collection and management costs of ground rents, high frictional costs of buying and selling, financial risks of ownership and the risk of legislative change. Nonetheless, we feel that the yield premium coupled with the soft income opportunities and reversionary interest make these types of investment attractive to investors in the current market.

Average Ground Rent Investment Yields vs BoE Base Rate



Source: EI Group.
For further information:
http://www.eigroup.co.uk/market-data/rapid/issue.pdf

Changing National HPI Annual



Shorter term leases are more driven by reversion values, which are linked to property market values, the Nationwide House Price index has risen by an average 5.83% since 1992, as can be seen in the chart below. These funds offer an interesting alternative property investment.

Strategy

Coast Freehold Income Fund (the Fund) is an open-ended property unit trust regulated by the Jersey Financial Services Commission (JFSC). It is deemed to be an unregulated collective investment scheme (UCIS) in the UK. The structure is tax transparent.

There are two classes of units: qualified has a minimum investment of the sterling equivalent of $100,000; institutional has a minimum investment of £1 million and has a cheaper cost structure.

The Fund is aiming to raise £100 million over three years and should be viewed as a long-term investment.

The Fund intends to buy freehold blocks of flats in England and Wales with underlying leases of at least 95 years. At least 90% of the Fund's underlying lease purchases will have rent reviews in place. The potential 10% of leases that the Fund can buy without inbuilt reviews will be priced at a discount to those with such reviews, raising the Fund's initial overall yield. The Fund will invest in short term diversified cash instruments, while awaiting deployment of funds.

The Fund is able to borrow up to a maximum of 10% of its net asset value but plans only to use this for tactical acquisitions, if at all.

The Manager will employ the property expertise of RCP Capital and RCP Ground Rent Management Ltd to source investment opportunities, collect the ground rents and other income and deal with all property issues.

Each property purchase will be accompanied by an independent 'blind' surveyor valuation from Keningtons LLP, a long-established member of the RICS.

The Manager will look to pay no more than the surveyor's valuation. No fees or commissions are payable to the management team on acquisitions, sales or lease extensions. No existing investments will be transferred to the Fund.

A particular feature of this fund is the fact that the fund's asset values will be adjusted monthly in line with either the Keningtons-Coast Freehold Long Lease Index or the Keningtons-Coast Freehold Very Long Lease Index both of which are published by Keningtons LLP. Properties with leases under 150 years are correlated to the Long Lease Index; properties with leases over 150 years are correlated to the Very Long Lease Index.

As both of these indices have been created specifically for the Fund there is no track record to see how accurately they will work. Nonetheless, given the types of freehold interest being acquired it should be possible to apply market yield rates to arrive at a reasonably accurate picture. Furthermore, each property will be subject to a physical, independent valuation every five years and whenever the remaining lease term falls to 80 years (when 50% of the marriage value kicks in). This will address any variance in actual value per property versus the index.

This is, in effect, a monthly mark-to-market valuation providing investors with a much clearer and timely idea of the performance than most property or ground rent funds. Full details of the valuation methodology can be found in Appendix Six.

There will be monthly dealing on the Fund units and investors can withdraw their investment monthly with up to 6 months notice.

The Fund is targeting an annual return over long periods of time of 5% – 8% after fees with an inbuilt inflation hedge.

Periodic reviews can raise the ground rent to offset inflation. Increases can be fixed to the RPI, tied to rental or open market values for the flat or reviewed on a fixed basis. Reviews can occur any time, though generally range from five to 50 years.

Upward only rent reviews, under the terms of leases, provide an element of inflation protection. Furthermore, the value of the reversionary interest depends on the value of the property and this can provide a hedge against inflation (assuming a strong correlation between inflation and property values).

The tax transparent nature of the fund has attractions for non-domiciled individuals. UK domiciled investors may wish to consider holding the fund in their personal pension or an offshore bond (subject, as always, to taking independent financial and tax advice).

Income

Given the focus of this fund on leases greater than 95 years the primary driver for investors will be the income streams.

The primary and most secure income stream is derived from the ground rents themselves. The fund will focus on leases with in built rent reviews. These reviews will generally be linked to either a pre-determined uplift (e.g. doubling every 25 years), fixed to increases in RPI, or linked to the open market value of the property.

In addition to the hard income there are opportunities to enjoy less predictable or secure income streams. Many leases give the freeholder the right to place, at the leaseholders' cost, the building insurance and management of the property. These rights can produce income which can also arise from granting consents for alterations or by charging fees for assignment of the lease.

As each lease is different it is not easy to aggregate the initial yield derived solely from the ground rents. For example you may accept a lower initial yield on a lease that allows significant insurance commissions or one which is close to an upward review date.

Nonetheless, as a guide, we have taken an initial ground rent yield of 6.25% and then subtracted the fees charged to income to arrive at a net level of secured income. This calculation is shown below. It has been calculated for qualified investors. Institutional investors have a lower annual management fee of 1.25% pa and their secured base income will be 0.25% higher each year.

As some of the costs are fixed their impact will depend on the level of fund subscriptions – the larger the fund the smaller their percentage impact. What this analysis shows is that even after subtracting the fees and costs investors see a secured base income that still shows a significant premium over current gilt yields and, of course, you still have the other soft income streams. The Manager estimates that the soft income will be around a further 1% pa. Consequently at subscription levels greater than £25m (which we expect) qualified investors can therefore expect a net annual income of circa 4.5% and institutional investors circa 4.75%.

Fund subscription level	£10m	£25m	£50m	£100m
Ground rent income (est)	6.25%	6.25%	6.25%	6.25%
Collection cost*	-0.44%	-0.44%	-0.44%	-0.44%
Five yearly valuation cost – annualised**	-0.20%	-0.20%	-0.20%	-0.20%
Trustee and Administration costs	-1.17%	-0.47%	-0.23%	-0.12%
Fund management fee for qualified units	-1.50%	-1.50%	-1.50%	-1.50%
Secured base income***	2.94%	3.64%	3.88%	3.99%
Re-rated to include 5.75% bid spread	2.78%	3.44%	3.67%	3.77%

* 7% plus VAT
** Which will not come into effect before 2018
*** This income results only from the ground rent payments which, if unpaid, are secured by the leaseholders' leases.

Capital

The Fund will acquire freeholds with leases of between 95 and 999 years. In our view there will be very few lease extensions or enfranchisements within the first ten years of the Fund's life as there is little motivation on freeholders to do so until their unexpired lease term is around 85 years. Consequently the main driver for initial investors will be the income opportunities referred to above.

Nonetheless, each year the Fund will benefit from the aforementioned unrealised reversionary gains due to the passage of time.

Thereafter, there is good potential for capital profits especially whilst the Leasehold Valuation Tribunal continues to apply current yields and property values continue to rise.

Lease extensions provide the most likely source of capital profits, as seen in these examples:

- A freehold on a flat with a ground rent payable of £100 per annum with 116 years unexpired on the lease has an open market value of approximately £1,500 (Yield of 6.67%)
- Assuming the flat has an open market value of £150,000 the value of the 90 year lease extension would be around £2,000
- This payment goes to the freeholder. Although the freeholder no longer has the £100 per annum income, he has received £2,000 versus an open market valuation of £1,500 providing him with a capital profit of £500 and still retains the right to the soft income and the "clock starts ticking" again on the reversion.
- As leases fall below 80 years, the potential for capital profit increases, since legislation allows for the valuation calculation for the extended lease to include 50% of the marriage value between the existing lease and the extended lease being paid to the freeholder. This "marriage value" is linked to the value of the leasehold property.
- Assuming the same theoretical flat as the above example, but with only 75 years left to expiry of the lease, the 90 year lease extension would be valued, including 50% of the marriage value at around £3,000, giving the freeholder a capital profit of £3,250 (2.95% annual capital gains compounded over 41 years)
- If the value of the property increases, this will increase the return as the value of the reversionary interest would also increase. (Assuming a 3% annual increase in property values the compounded annualised return increases to 5.2% versus the 2.95% with no property inflation)

Appendices Two to Five provide illustrations and Manager's models on how the Fund could benefit from reversions under different investment strategies and lease lengths.

Management/Advisers

Advisers	
Investment Manager	Coast Management Ltd
Investment Advisor	Capital Advisory Partners Ltd
Property Investment Advisor	RCP Capital Ltd
Administrator	State Street (Jersey) Ltd
Trustees	Pavilion Trustees Ltd
Auditor	Grant Thornton
Standing Independent Valuers	Keningtons LLP
Legal Advisor	Mourant Ozannes, Jersey
Ground Rent Manager	RCP Ground Rent Management Ltd

Coast Management Ltd (Coast) – Manager

Coast was founded in 2012 and is authorised by the Jersey Financial Services Commission. The Directors are Sven Miserey, Antonia Coltman, and Philip Hendy.

Capital Advisory Partners (CAP) – Investment Adviser

CAP will provide investment management and advisory services to the Fund. CAP was founded in 2006 and is authorised by the UK Financial Services Authority.

The Directors are Sven Miserey and Philippe Watteaux.

Sven Miserey has over 25 years of financial services experience. Sven previously managed €15 billion funds for the Commerzbank group as the head of credit and money market funds, and set up GLG Partners' Structured Credit portfolio.

Antonia Coltman is a specialist in the launch of real estate funds. Antonia was Global Head of Client Services and Strategy at Mourant International Finance Administration, after working for Mourant's European property funds. Previously, Antonia led the Jersey property team and is an English qualified solicitor, having practised as a real estate lawyer.

Philip Hendy is a chartered surveyor with 18 years experience. He is the in-house property specialist for State Street Jersey Real Estate. Philip joined Mourant, now State Street, in June 2009 after working in private practice for DTZ Plc, Donaldsons LLP, and Chesterton. Philip is a director for a number of other real estate funds, providing real estate expertise to the administration teams.

Philippe Watteaux has worked in financial services for over 25 years. After starting his career with Drexel Burnham Lambert where he focused on financial futures, Philippe moved to GPK, a Parisian stockbroker, and created the department on the newly formed CAC40 futures and options' market. Philippe is an independent financial advisor and wealth manager.

RCP Capital Limited – Property Investment Manager
RCP Ground Rent Management – Property Manager

These companies were incorporated for the specific purpose of acting for the Fund and consequently there is no track record to provide details on.

Clive & Paul Rayden, the principals of these companies have, however, been in the Ground Rent and Property Management business since 1986. They established County Estate Management as a manager of residential property in 1991. By 2008, when the Raydens sold their shares in Sonata Group Ltd (which owned County Estate Management along with other residential management businesses), it was the third largest manager of residential blocks of flats in England, employing over 250 people, operating from 8 offices and managing almost 60,000 units.

One division of the Group was solely involved in the acquisition of ground rents. On average, over the last two years of the Raydens' involvement, approximately 15,000 ground rents were acquired annually.

After selling their shares in Sonata Group, the Rayden's set up RCP Property Management Ltd (in March 2008). This company currently manages around 1,000 residential units as well as commercial property. The total value of assets under management is in excess of £50m.

Clive and Paul Rayden currently have 10 members of staff who will be utilised on RCP's work for the Fund.

As RCP Ground Rent Ltd and RCP Capital Ltd increase their activities in line with the growth of the Fund it is anticipated that further team members will be recruited.

Both Paul and Clive have very significant experience and expertise in all aspects of residential property management and ground rent acquisitions & management.

We rate the combination of the investment manager's structuring and investment expertise with the extensive experience of the property managers. The success of the fund will depend in part upon the ability of these managers to select properties and manage them well on behalf of investors.

Appendix seven provides details of the processes and reporting functions that have been put in place for the Fund. The managers are aiming to provide institutional levels of transparency and processes.

Liquidity

A significant advantage of this Fund is the fact it will be priced monthly by reference to the Kenington-Coast lease indices. Dealing will also be monthly with up to six months notice for redemptions to allow for selling off the underlying ground rent investments (if sales can be made earlier or new subscriptions are sufficient then redemptions will be paid earlier). Please note that there is effectively an exit fee (see Costs and Fees below) of 0.75% on redemptions to cover the frictional costs of selling the property. Given our comments on deal flow below we feel that six months would be adequate to arrange a sale.

All income (less fees charged to income) will be paid every six months.

Costs and Fees

Management Fees

There is an annual management fee (split 50% - 50% between the Manager and Property Investment Advisor) of 1.5% for investments of less than £1m and 1.25% for larger investments. This is charged to income.

There is a monthly fee payable to the property manager of 7% of the monthly property income.

To incentivise the managers to maximise investor returns there are two performance fees again split 50% - 50%:

- **Income performance fee:** 20% of the net annual fund income greater than UK 10 year gilt yield plus 1%. The fee is subject to a minimum net income of 4.5%. Given the length of the underlying leases we feel that 30 year gilt yields would have been a more suitable benchmark.
- **Capital gains performance fee:** 20% of the realised capital gains in excess of the most recent book value of the asset. Given that the assets are marked to market each month this fee only comes from out-performing the market.

We feel that these management fees are set at an acceptable level and structured to correctly motivate management in the best interests of investors.

Costs charged to Capital

In addition to the management fees there a number of costs associated with the acquisition and sale of the freehold interests and the fund set up costs. These will all be charged to the Trust Fund (as opposed to income). The costs of acquiring the property include such elements as legal fees, Stamp Duty (up to 7%), and initial valuation fees. These frictional costs of acquisition can be significant. The initial costs of setting up the fund have been met by the Manager who will in turn charge those fees back to the Fund during the first four years.
These costs are estimated at £150k in total or £37.5k for each of the first 4 years.

Other third party fees to be paid out of the Trust Fund include the auditor's fees (estimated at £20k pa), data protection registration fees, JFSC annual return fees and international service entity registration fees.

The Fund will operate a dual pricing structure to equitably reflect these costs:

- The subscription price which is Net Asset Value of a unit plus a charge of 5.75% and
- The redemption price which is Net Asset Value of a unit less a charge of 0.75%.

We estimate that the 5.75% Bid spread will be sufficient to meet acquisition costs of properties of less than £500k. For properties above £2m the 7% rate of Stamp Duty will mean acquisition costs greater than 5.75%, which will dampen investor’s returns. As an example with a purchase price of £1.8m the total acquisition costs are 5.40%, below the 5.75% protects investor’s returns.

Where an investor’s adviser chooses to receive an introductory commission from the Fund an equivalent initial charge of up to 5% will also be charged which, again, would dampen investor returns. None of this introductory commission may be received by parties of the management of the fund.

Costs charged to Income

Income related costs include trustee, administration and on-going valuation charges. We estimate these at £117k pa plus 0.2% pa for the five yearly valuations, which will not come into effect before 2018.These fixed costs will prove a significant drag on returns at very low levels of subscription.
If the Fund size is £10m they will be 1.37% pa. At £50m subscription this reduces to 0.43%.

Deal Flow

Ground rent portfolios trade relatively frequently with the majority being bought direct from housebuilders or traded privately between investors. Smaller reversionary portfolios tend to be sold through auctions.

Residential property developers can typically make more money from developing sites than from passively collecting ground rents, and will therefore sell freeholds to free up funds for projects.

Smaller developers may sell to rid themselves of the administrative burden, whose cost cannot be offset by the economies of scale from having a large portfolio.

Housebuilders are now specifically structuring new residential leases to make them attractive to ground rent investors.

This particular Fund will concentrate on new or relatively recently built blocks of flats. As all properties require an independent valuation before acquisition they will not buy at auction but via private treaty. The experience and market contacts of RCP are therefore critical.

CB Richard Ellis estimate that the total value of residential ground rent investments produced by newly completed flats for the period 2005 to 2010 was £830m. In addition to new builds there are existing mature portfolios of freeholds traded between investors.

Consequently, even at a maximum level of subscription (£100m) we do not forsee deal flow issues for the fund unless there is significant new investment into the sector.

Illustrative Property Purchases

The following are examples of the types of properties that RCP has bought for recent portfolios and are similar to those that the Fund might buy:

Example One: the Focus Building in Liverpool

Purchased in 2010, contains 78 residential units with car parking and a commercial unit on the ground floor.

Leases were granted for 99 years from 2005.

Ground rent income equals £17,650 per annum.

Ground rent reviews are set for every 25 years.

Example Two: Ferry Quays in Brentford Dock, London

Purchased in 2009, contains 400 residential units with car parking spaces, and 14 commercial units on the ground floor.

Leases were granted for 125 years from 2001.

Ground rent income is £88,675 per annum

Ground rent reviews are scheduled for every 25 years.

Risks

Capital values

The capital value of the assets can go down as well as up as freehold/ground rent yields will fluctuate. Fortunately, the evidence suggests that ground rent yields have been relatively stable. In our view the key elements affecting asset values will be gilt yields/interest rates and inflation. As some of the ground rents will be linked to RPI or HPI and the reversionary element is linked to house prices this provides some protection against inflation.

As the most likely source of realisations (ignoring sales due to redemptions) will be through lease extensions it's important to remember that these values are effectively set by the Leasehold Valuation Tribunal. Currently it appears that these produce valuations above open market valuations. There is a risk that these rates or valuation methodologies can change.

Income

Whilst the ground rent income itself is highly secure the yields that the fund will achieve on this element may vary from the Manager's expectations. Soft income is either less predictable or secure. Furthermore, there is the risk of legislative changes (e.g. in relation to insurance commissions) negatively impacting on returns. Note our purchase criteria doesn't value insurance as much as other income flows.

Valuations

The assets will be valued each month by reference to their respective index. The assets will also be physically valued every five years. There is a risk that the index will not accurately reflect market conditions. Furthermore property valuations are based on surveyors (red book) methodology which reflects their anticipated market value. Actual prices achieved on a sale may differ from their valuation.

Low subscription levels

There is risk that the Fund will not be successful in fund raising. This would negatively impact on returns due to the impact of the Fund's fixed costs and would also impact on its ability to achieve a diverse portfolio.

Management / Operational risks

Investors can take comfort from the expertise and experience of the Management team to adequately deal with these risks. However, there is a risk that key members of the team may leave.

Legislative changes

We have already referred to the risk that LVT rates and methodologies can change or legislation may impact on the Fund's soft income. But there is also the risk of more substantive legislative changes to the freehold / leasehold relationship.

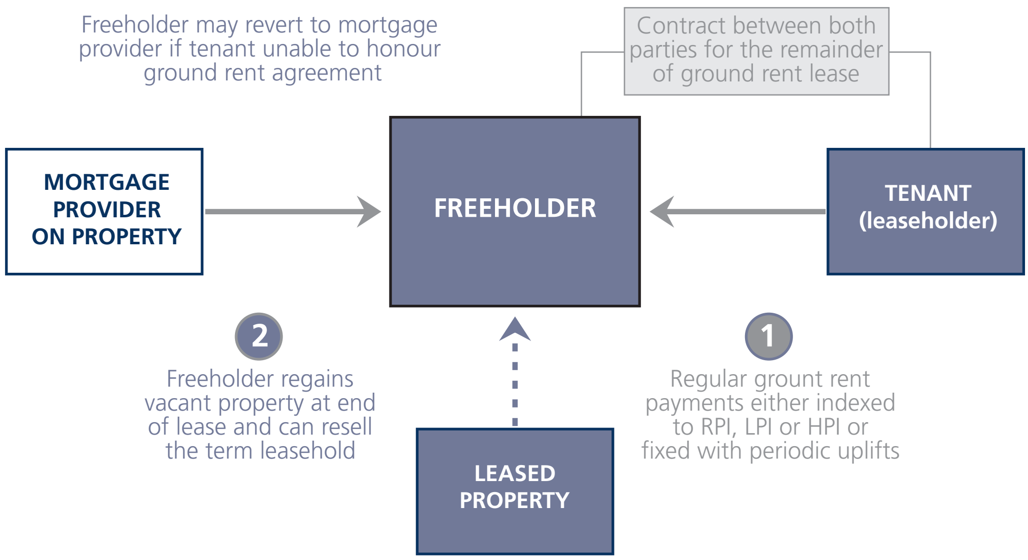
Tax risks

The usual tax risks apply. Tax rates and legislation may change.

Appendices

Appendix One

The following illustration[1] shows the relationship between landlord, leaseholder and mortgage provider:



1 Source: Redington Spring Collection 2010

Appendix Two

Lease extensions provide the main source of capital profits as shown in the following illustration:

Lease details / value	
125 years from July 2000	
Unexpired term	**125 years**
Ground rent	£100 for 25 years
	£200 for 25 years
	£400 for 25 years
	£800 for 25 years
	£1,600 for 25 years
Court determined LVT rate	7.00%
Property value	£150,000
Reversion discount	5.00%

Valuation as at July 2009 (116 years unexpired)			
Term (loss of rental income)			
Ground rent		**£100**	
YP	15 years @ 7%		£911
Ground rent		**£200**	
YP	25 years @ 7%	£2,331	
PV	15 years @ 7%		£845
Ground rent		**£400**	
YP	25 years @ 7%	£4,661	
PV	40 years @ 7%		£311
Ground rent		**£800**	
YP	25 years @ 7%	£9,323	
PV	65 years @ 7%		£115
Ground rent		**£1,600**	
YP	25 years @ 7%	£18,646	
PV	90 years @ 7%		£42
Reversion (at lease end)			
Capital value		£150,000	
PV	115 years @ 5%		£549
Total premium payable			**£2,773**

This example property acquired in the market on a 15 times multiple of ground rent, or £1,500, would be valued for a 90 years lease extension under the Act, based on the above calculations, at £2,773.

This extension would generate the realisation of an 85% profit whilst retaining the ancillary incomes and ownership of the freehold interest.

Appendix Three

Lease extensions provide the main source of capital profits as shown in the following example:

Remaining lease	125 years	124 years	100 years	99 years
Ground rent PV	£1,833	£1,861	£3,623	£3,676
Reversion value of flat with no inflation	£337	£354	£1,141	£1,198
Lease extension value	**£2,170**	**£2,215**	**£4,763**	**£4,874**
Annual capital gain		**2.08%**		**2.32%**
Reversion value of flat 3% inflation	£337	£364	£2,388	£2,583
Inflation revised lease extension	£2,170	£2,225	£6,011	£6,259
Annual capital gain		**2.57%**		**4.13%**

Reversion value refers to the net present value reverting to the freeholder when the lease expires. Flat valued at £150,000 with no price increase or 3% pa inflation: ground rent of £100 to double every 25 years. Discounting rate 7% for area and documentation.

Notes for the above illustration

- The market values freeholds on a multiple of ground rent.
- Lease extensions and enfranchisements under the Act, are valued on a net present value basis which is currently above market value.
- At 15 times the ground rent, the above example would have a market value of £1,500. A lease extension or enfranchisement would realise a 44% gain at 125 years remaining.
- Holding a freehold with a 125-year lease outstanding generates an annual unrealised capital gain of 2.08% in the above example.
- If the flat's value increases by 3%, the annual capital gain increases to 2.57% at 125 years.
- With 100 years remaining on a lease, the valuation for a lease extension or enfranchisement under the Act increases annually by 2.32%.
- If the value of the flat increases by 3% annually that increase is 4.13% at 100 years.
- As lease length shortens, the annual reversion value appreciation increases exponentially.
- Every year that a leaseholder does not extend the lease, the Fund increases exponentially its embedded capital gain potential. When a lease reaches 80 years or less, half the marriage value is attributed to the freeholder and generates a significant further increase in the surveyor's valuation.

Appendix Four

The table below shows our analysts'* forecasts under different combinations of income targets and lease maturities:

GR Purchase Price	1700	1700	1700	1700
Income Scenario	4%	4%	6%	6%
HPI Scenario	0	3%	0	3%
Flat price today	£160,000			
Investment with income reinvestment at 125 years to maturity average				
Maturity	125			
Initial Reversion	£359			
Terms	10	10	10	10
Reversion end value	£585	£787	£585	£787
Compound	£764	£764	£1,252	£1,252
Capital Gain	£226	£427	£226	£427
Total Gains	£990	£1,192	£1,478	£1,679
100 invested	**158**	**170**	**187**	**199**
Investment with income reinvestment at 95 years to maturity until year 80 (half marriage value)				
GR Purchase Price	3000	3000	3000	3000
Maturity	95			
Initial Reversion	£1,553			
Term	15	15	15	15
Reversion end value	£3,228	£5,030	£3,228	£5,030
Compound	£2,236	£2,236	£3,865	£3,865
Capital Gain	£1,6750	£3,447	£1,675	£3,477
Marriage value	2.02%			
Marriage value	£1,600	£2,493	£1,600	£2,493
Total	£5,511	£8,205	£7,140	£9,834
100 invested	**184**	**274**	**238**	**328**
Investment with no income reinvestment at 125 years to maturity average				
Maturity	125			
Initial Reversion	£359			
Term	10	10	10	10
Reversion end value	£585	£787	£585	£787
Accumulated distributed income	£680	£680	£1,020	£1,020
Capital Gain	£226	£427	£226	£427
Total Gains	£906	£1,107	£1,246	£1,447
100 invested	**153**	**165**	**173**	**285**

* Allenbridge Yadgaroff Research

Appendix Five

The table below factors historical figures into our analysts' above models to create hypothetical returns, if past housing market increases were to be repeated:

With Historical House Price Movements				
GR Purchase Price	1700	1700	1700	1700
Income Scenario	4%	4%	6%	6%
HPI Scenario	5.83%	7.01%	5.83%	7.01%
Flat price today	£160,000			
Investment with income reinvestment at 125 years to maturity average				
Maturity	125			
Initial Reversion	£359			
Holding term in years	**10**	**10**	**10**	**10**
Reversion end value	£1,031	£1,152	£1,031	£1,152
Compound income	£764	£764	£1,252	£1,252
Capital Gain	£672	£793	£672	£793
Total Gains	£1,436	£1,557	£1,924	£2,045
End value of 100 invested	**184**	**192**	**213**	**220**
Investment with income reinvestment at 95 years to maturity until year 80 (half marriage value)				
GR Purchase Price	3000	3000	3000	3000
Maturity	95			
Initial Reversion	£1,553			
Holding term in years	**15**	**15**	**15**	**15**
Reversion end value	£7,553	£8,920	£7,553	£8,920
Compound income	£2,236	£2,236	£3,865	£3,865
Capital Gain	£6,000	£7,367	£6,000	£7,367
Marriage value	**2.02%**			
Marriage value	£3,743	£4,421	£3,743	£4,421
Total	£11,979	£14,023	£13,608	£15,652
End value of 100 invested	**399**	**467**	**454**	**522**
Investment with no income reinvestment at 125 years to maturity average				
Maturity	125			
Initial Reversion	£359			
Term	**10**	**10**	**10**	**10**
Reversion end value	£1,031	£1,152	£1,031	£1,152
Accumulated distributed income	£680	£680	£1,020	£1,020
Capital Gain	£672	£793	£672	£793
Total Gains	£1,352	£1,473	£1,692	£1,813
End value of 100 invested	**180**	**187**	**200**	**207**

***** Allenbridge Yadgaroff Research

Appendix Six

Ground Rent Portfolio NAV Calculation

Each property in the Fund is subject to an initial and a five yearly independent external physical survey and valuation.

The portfolio's monthly valuation is derived from a formula based on the independent five yearly valuations and monthly independent indices.

There is no interpretation from the Investment Manager.

The Standing Independent Valuer (SIV) publishes 2 indices monthly:

- The Keningtons-Coast Freehold Long Lease Index for a nationwide block of 100 units with 125-year leases
- The Keningtons-Coast Freehold Very Long Lease Index for a nationwide block of 100 units with 999-year leases

Properties with leases under 150 years are correlated to the Long Lease Index; the properties with leases over 150 years are correlated to the Very Long Lease Index.

From purchase to the first five yearly SIV's physical survey valuation, the property will be valued at purchase price adjusted by the relevant index.

After the first five yearly survey, each property will have a Property Specific Discount (PSD) discount value calculated as the smallest non-negative value between the initial survey minus the purchase price and the first five yearly survey minus the same month's index-adjusted purchase price. The Property discount keeps the Fund from incorporating unrealised goodwill in its NAV and reflects the probable market bid for the property.

From the first five yearly survey, the property will be valued at the latest five yearly survey value, indexed monthly, minus the PSD.

The freeholds generate income and incur costs.

The portfolio's valuation is the aggregate sum of the marked-to-market freeholds, securities held and the cash accounts, whilst the result of the income and expense accounts generate the value of the semi-annual income.

Appendix Seven

Processes and Reporting

Lease Compliance
Acquisition Checklist
Purchase Procedure Report
Rent Collection
Collection of Other Charges
Lease Extension Process
Maintenance Management
Reporting

Lease Compliance

As each property is purchased or comes under management, the lease terms of the leases granted including the freeholder's and leaseholder's covenants are specifically scheduled and recorded onto RCP's system so that they can be easily referenced.

In respect of certain specific covenants (for example any relating to sub-letting of the property) these are actioned immediately to ensure that all relevant licences are in place and that there are no breaches of covenant by the tenants.

All specific dates applicable in respect of, for example, ground rent reviews, decoration periods etc. are diarised.

Ground rent reviews are actioned through the diary system which each month flags any reviews due to take place over the subsequent six month period to allow sufficient time for the review to be correctly implemented and ensure compliance with any conditions the relevant lease may contain in this regard.

RCP Ground Management monitors all aspects of the property including carrying out periodic inspections to ensure full compliance with the terms of the leases by both the tenants and freeholder.

Where breaches of covenant have taken place or are on-going then RCP Ground Rent Management seek to resolve these as quickly as possible direct with the tenant, but where there is a lack of cooperation from the tenant, then solicitors are instructed to enforce the provisions of the lease.

Acquisition Checklist

RCP's ground rent acquisition checklist, dealt with in conjunction with the Fund's conveyancing lawyers is as follows:

a) Ensure vendor deals with Section 5 procedures and consider any replies received.

b) Consider and agree the draft Contract.

c) Consider and agree draft Transfer.

d) Verify all income receivable.

e) Verify and consider all lease terms including covenants and obligations of tenants and landlord relating to repairs, alterations, ability to assign/sublet, forfeiture, insurance and service charge management.

f) Submit searches and consider the results of the same.

g) Consider the title to the development and ensure no issues arise from this document.

h) Consider the planning conditions and any planning obligations and, in particular, to ensure that they have been discharged.

i) Raise such enquiries on replies received and all relevant documentation including in respect of disputes, breaches of covenant and/or statutory obligations, arrears and management information.

j) Raise requisitions on title and consider the replies to same.

k) Complete the purchase and deal with any post-completion formalities.

RCP Ground Rent Management keep a fully diarised database detailing the terms and covenants of each lease along with all critical dates. The database is reviewed on a monthly basis in order to deal with all action points arising over the subsequent month.

Purchase Procedure Report

The Coast Freehold Income Fund has procedures in place to provide an audit trail for the purchase of each property thus ensuring approval procedures are adhered to.

Purchases are dependent upon the net availability of funds in the Capital account of the Fund.

RCP Capital Ltd analyses the ground rent market and potential acquisitions suitable for the Fund. Properties that meet the Funds purchasing parameters as laid out in the Prospectus are selected.

RCP Capital Ltd presents the suitable purchases to the Investment Advisor (Capital Advisory Partners, an investment manager Authorised and Regulated by the Financial Services Authority in the UK) with full details of the property proposed. Details might include vendor’s asking price, income, lease length, review patterns and other relevant information.

CAP has built a model that calculates both the cumulated acquisition costs as a percentage of the transaction value in order to ensure a cost in line with the Fund’s Acquisition Subscription Cost, as well as the running yield to the Fund based on all variables. The specific details of each property under analysis all for ancillary income such as fees for various consents and mathematically determine the reversionary annual capital gains resulting from the passage of time. CAP determines from this running yield and other characteristics a maximum price that can be paid for each property presented to it by RCP Capital Ltd.

The Investment Manager, Coast Management, which is Authorised by the Jersey Financial Services Commission, has delegated to the Investment Advisor the right to instruct negotiations of properties up to GBP 750,000 or 4% of the Fund’s AUM if above GBP 20 million. For these, CAP instructs RCP Ground Rent Ltd to negotiate up to the determined price. For properties above that level, CAP presents to Coast Management the property details and its calculated maximum target price, Coast Management may then instruct RCP Ground Rent Ltd to negotiate.

Once instructed either by CAP or Coast Management, RCP Ground Rent Ltd then agrees with the Vendor the best price it can negotiate subject to that price being less or equal to that provided by CAP or Coast Management. RCP Ground Rent Ltd then issues a confirmation of the agreement to the management team.

RCP Ground Rent Ltd instructs the solicitors to prepare the necessary information for completion and upon receipt of all these documents, RCP Ground Rent Ltd and the Trustees review all the Property Purchase Pack signed documents and resolve to transfer the monies to the solicitors’ account for completion.

Each step described above detailed in the Property Purchase Pack documentation where approved signatories are responsible.

Once the transaction is completed, RCP Ground Rent Ltd instructs the Standing Independent Valuer to proceed with the “blind” appraisal of the property.

Where a property’s purchase price is above 120% of the Standing Independent Valuers valuation, the Investment Advisor, CAP has to provide a form explaining why it priced the property above the valuers’ post completion valuation according to a number of criteria. This ensures that there is full justification in such instances.

Rent Collection

At the beginning of each month a schedule is produced of all rents and other charges due to invoiced during that month.

All relevant demands are sent out 14 – 21 days before the due date.

Reminders are sent out 10 – 14 days after the due date.

If payment has not been received within 10 days of the reminder (20-24 days after the due date) then arrears recovery action commences on relevant properties.

Arrears recovery action consists of referring relevant properties to solicitors. Relevant properties will be those where arrears are greater than £350.00 (current legislation only allows for legal action to be taken for recovery of ground rent where either the amount involved is £350 or more or where amounts have been outstanding for at least two years) or where there are amounts which have been outstanding for 5 years (to avoid issues over the Statute of Limitations).

Solicitors send out standard "letters before action" requiring payment within seven days. If payment is not received, solicitors then write to the tenant's mortgagees. If the mortgagees fail to make payment or if there are no mortgagees then proceedings are issued in the County Court for recovery of the debt.

Once proceedings are issued, a "stop" is placed on the tenant's account to ensure that no further demands are sent out, since this would represent a waiver of the outstanding debt.

Payments by Leaseholders are made into the client bank account held by RCP Ground Rent Management. Payments are allocated (based on the account code identifier within the payment reference) against the individual leaseholder account sales ledger account (which shows all invoices raised, all payments and allocations of payments against invoices (demands raised). These accounts are linked to an overall property by hierarchical coding enabling summaries to be generated at property level of invoices raised, payments received and outstanding debtor balances.

Any receipts from other sources, are similarly allocated against an individual sales ledger account, based on available information or obtained from the payee where necessary.

Collection of Other Charges

As each property is purchased or comes under collection management, the terms of the leases granted including the freeholder's and leaseholder's covenants are specifically scheduled and recorded onto RCP's system so that they can easily be referenced. This includes details of any extra charges that the freeholder is entitled to make.

The above is held on RCP Ground Rent Management's central database and used for reference purposes when dealing with enquiries, sales and property inspections in order to ensure that all additional charges are levied accordingly.

Invoices are raised by RCP Ground Rent Management on behalf of the Fund and collected accordingly. In most cases, the relevant fee is collected in advance and accounts for on an accrual basis.

All monies collected on behalf of the Fund are deposited into a specifically designated client bank account held on behalf of the Fund and used exclusively for the Fund. All funds held above a minimum level are placed into an interest bearing account with all interest earned credited to the Fund.

Lease Extension Process

The Fund will only deal with applications from leaseholders for lease extensions where formal Notice is served under the relevant Act. This means that at the point of serving Notice, the leaseholder is likely to have already incurred legal and valuation costs. There is therefore more certainty of their seriousness in proceeding. Equally, once formal Notice has been served, the leaseholder becomes responsible for the freeholder's (the Fund) reasonable legal and valuation fees.

Once received, a copy of the Notice will be sent to the Fund's solicitors to check the validity of the Notice (this mainly relates to the wording, inclusion of all obligatory information, including the leaseholder's offer price and checking that the leaseholder is a qualifying leaseholder under the terms of the Act).

A copy of the Notice will also be sent to the Fund's valuer so that they can start making arrangements to inspect the property.

If the Fund's solicitor confirms that the Notice is valid then once the valuer has reported, a Counter-Notice will be served as per the provisions of the legislation covering this process. The Counter-Notice will include the price at which the Fund will be prepared to sell the lease extension.

If the Fund's solicitor advises that the Notice is invalid for whatever reason, then the Fund has a choice whether the reject the Notice and thereby force the leaseholder to serve an amended Notice or to continue as above in terms of serving a Counter-Notice "without prejudice" to the fact that it considers the Notice to be invalid.

Once the Counter-Notice has been served the Fund's valuer will proceed to see whether agreement can be reached over the premium with the valuer appointed by the leaseholder. If no agreement can be reached then the matter is referred to the Leasehold Valuation Tribunal within specific timescales provided for within the legislation.

Once the premium has been agreed or determined then the Fund's solicitor will deal with relevant legal process and take the matter through to completion.

Maintenance Management

Where the Fund has the right to appoint the managing agent, then RCP Ground Rent Management will appoint an agent on a fixed fee basis (which is payable by the leaseholders as part of their service charge expenditure).

Reporting

The reports provided to the fund administrators comprise of the following:

- Cash summary showing the total receipts, and deductions from such receipts with the balance being the net funds transferred to the Fund
- Debt summary showing the total summarised debt position at "property" level, the opening position, cash received from leaseholders and or other third parties, charges issued in respect of such properties with a closing debt position. In addition the closing debt position is aged, and the number of tenants with overdue amounts noted, together with the calculation of collection fees shown
- Summary P&L by property showing summarised information at a property level
- Detailed P&L by property showing at a property level the detailed analysis of income and expenditure
- Detailed balance sheet items by Property showing at a property level the detailed analysis of "balance sheet" items

The Team

Anthony Yadgaroff

Anthony Yadgaroff is founder and Chairman of Allenbridge Limited, which publishes research through its 'Tax Shelter Report' on VCTs and EISs, Ground Rents, high yielding Property Funds and other investment vehicles through the Yadgaroff Report. Mr Yadgaroff founded Allenbridge Group plc in 1984, the retail division of which was acquired to Close Brothers Asset Management in February 2011.

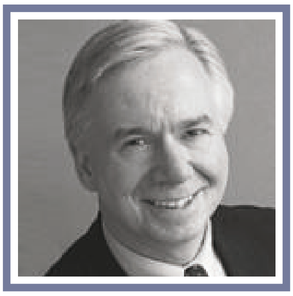
He is chairman of Allenbridge Investment Solutions LLP ("AIS") and is a member of the partnership alongside Moody's, the global rating agency. AIS is a leading UK investment advisory business, consulting to pension funds and charity clients which control some £30 billion of assets.

He is also a non-executive director of Anglo-Pacific Group plc, a FTSE All-Share, London-listed company specialising in mining royalties, and serves on the boards of a number of charities and non-profit organisations. He is a member of the Chartered Institute for Securities & Investment.

Alan Saunders

Alan Saunders has had a long career in financial markets in a variety of roles which have given him a broad perspective on investment issues. He has been involved with Allenbridge for some ten years but has a variety of other directorships and consultancies. He started his career as a stockbroker at Simon & Coates, becoming a partner before leaving the City to join Shell as their Chief Economist. He then returned to the City as an investment director at Lazards before joining UBS Private Banking where he was responsible for discretionary and advisory clients. Currently, he is the independent adviser to Dorset CC Pension Fund and an independent trustee of Hays plc and Fujitsu Pension Schemes. Alan is a member of the Oversight Committee of CBRE Global Investors, the UK property fund management company. He is also chairman of the JP Morgan Emerging Markets Investment Trust plc, and a member of the Investment Committee of Lloyds Bank Insurance.

Gareth Roberston



Gareth Robertson has over twenty five years' experience in institutional fund management, with Barclays Bank, M&G and Invesco, and in UK and European corporate stockbroking as a director of Swiss Bank Corporation. He has also carried out management consultancy work for a wide range of clients such as Siemens, Compart-Montedison, Sumitomo Finance International, Man Group and the European Commission, and was group marketing director at a London-listed financial services company for six years before joining Allenbridge in 2007.

Disclaimer

Investors should be aware that the price of units in Ground Rent companies, and their income generated, can go down as well as up and that neither is guaranteed. Past performance is not a guide to the future. Investors may not get back the amount invested. Changes in asset value may have an adverse affect on the price or income of an investment. Investors should be aware of the additional risks associated with investment in the UK ground rents market, which are unique to this asset class, these include but are exclusive to:

Lease Extensions and Enfranchisement: during the term of the lease there is the potential risk that a leaseholder will seek to extend, or as a group a number of leaseholders collectively enfranchise their leases. Under statute law in England and Wales, at lease extension or enfranchisement, the lessees pay a premium to the freeholder in return the ground rent reduces to a peppercorn.

The freeholder could therefore potentially lose the rental income receivable.

Portfolio Size: the relatively low rents payable on each individual unit means a substantial portfolio is required to maximise all investment benefits. There is a risk that smaller investors may find their income return significantly eroded by the cost of operating a residential ground rent investment portfolio. Small investors will find it difficult to generate the economies of scale that their larger competitors benefit from.

Reputational Risk: as with all residential investment assets, ground rent investments can expose the investor to reputational risk. A freeholder's reputation can be significantly damaged if lessees view that they are not fulfilling their lease obligations. Issues can arise in the provision of repairs and maintenance, issuance of management charges and the calculation of service charge costs.

Management Intensive: there is a significant management responsibility and cost involved with ground rent investment portfolios. Responding to leaseholder's requests and queries can be both time consuming and costly.

Index Linked Rent Review Uplifts: a significant proportion of ground rent investment rent review clauses are index linked. Common index linked provisions include: RPI (Retail Price Index) uplifts, uplifts based directly or indirectly upon HPI (House Price Inflation), uplifts based upon the average earnings index. An investor with a portfolio dominated by any of these provisions may be vulnerable to movements in the economy or residential sector.

Political / Legal Risk: government intervention in the ground rent investment market remains an issue. The most recent changes have been in the Commonhold and Leasehold Reform Act 2002. It is widely considered that further legislation may be necessary to regulate investors who, in some cases, could be considered to have been neglecting or overemphasising their obligations to leaseholders.

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6 Grosvenor Street, Mayfair, London, W1K 4PZ
Telephone 020 7409 1111

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