

BRANDEAUX UPDATE

An Update from Kay Brandeaux, Chairman

Dear Supporters,

GROUND RENT INCOME FUND GROUND RENT PORTFOLIO GROUND RENT PORTFOLIO PLUS

The past 18 months have seen perhaps the worst economic downturn in living memory. The Brandeaux Ground Rent Funds continue to show positive returns while most other UK property funds have suffered heavy falls in values. The Brandeaux Ground Rent Funds' positive returns during these turbulent times have demonstrated the portfolio's limited correlation to what may be termed the "general property market".

As at 20th March 2009, Lipper Hindsight* reports Brandeaux's Ground Rent Income Fund has returned:

	One Year	Three Years	Five Years
Ground Rent Income Fund	+5.12%	+27.27%	+50.24%

The Ground Rent Portfolio and Ground Rent Portfolio Plus are showing very similar gains for the same periods.

As at 20th March 2009, returns reported by Lipper Hindsight* over a sector average of 54 UK property funds show:

	One Year	Three Years	Five Years
Sector Average	-22.91%	-19.79%	+4.74%

Brandeaux's Ground Rent Income Fund produced a strong +8.30% return during the turbulent 12 months of 2008. However, from 1st January to 31st March 2009, the share price of Ground Rent Income Fund has fallen 3.20%; Ground Rent Portfolio, and Ground Rent Portfolio Plus have slipped 3.39% and 2.70% respectively. Performance over the last 12 months to 31st March 2009 still remains positive for all Ground Rent Funds.

Whilst it is difficult to predict whether there will be further downward movements in the portfolio valuation in the short term, we have confidence in the reversionary value of the portfolio and we remain positive in our outlook for the longer term.

Ground rents should be considered as a long-term investment, and these small movements reflecting a minor fall in the valuation of the portfolio should be considered in the context of the long-term performance.

Why have Brandeaux's Ground Rent Funds continued to perform over the last 18 months when almost all other UK property funds have big losses?

In simple terms, a ground rent is created when the owner of a freehold property (the freeholder) grants a long lease to a leaseholder, who enjoys the use of the property during the term of the lease. The leaseholder pays an annual ground rent, and on expiry of the lease, the property reverts back to the freeholder (the Fund).

Thus the ground rent investment becomes more and more valuable to the Fund the closer the lease gets to the end of its term, reflecting the fact that the Fund will get back the use of the property on expiry (vacant possession). The ground rent investment, therefore, automatically increases back to the full value of the freehold through the passage of time.

The Brandeaux Ground Rent Funds have continued to remain in positive territory over the last 18 months because the ground rent reversionary investments have continued to increase in value through the passage of time, by a greater amount than any effect caused by a fall in the vacant possession freehold values.

However, the reduction in the share price of the Brandeaux Ground Rent Funds over the last two months reflects the current opinion of the external independent valuers of a greater fall in the vacant possession freehold values than the increasing value of the ground rent reversionary investments resulting from the passage of time.

The strength of the reversionary element of the portfolio over the past 13 years has demonstrated its resilience to market fluctuations, especially during the past 18 months. We believe that the reversionary nature of the portfolio will continue to deliver positive returns, and the short-term negative effect of falls in vacant possession freehold values is expected to be mitigated as freehold values stabilise.

Most other UK property funds do not own properties with the benefit of reversionary assets such as those inherent within ground rent investments, and have, therefore, been directly affected by falls in value of the more traditional property asset classes. Furthermore, most UK property funds have debt, which compounds their negative falls. None of the Brandeaux Ground Rent Funds have any borrowing and, therefore, do not suffer any negativity from debt.

Re-opening of the Brandeaux Ground Rent Funds

During December 2008, we experienced an unusually high level of redemption requests on the Brandeaux Ground Rent Funds over and above the liquidity available. This forced the directors to suspend share dealing.

Therefore, we must create a level of liquidity to meet anticipated redemptions before we can re-open these Funds. This will be achieved through carefully managed property disposals of those assets where the business plan has been fulfilled. These sales will not be made on a “fire-sale” basis. We intend to make disposals only at valuation or better.

It is impossible to predict the time-frame necessary to achieve a satisfactory liquidity level, which will enable the re-opening of the Brandeaux Ground Rent Funds. We have now agreed several medium-sized sale transactions at valuation or better during the past few weeks, and these are currently in solicitors’ hands. We are encouraged by the recent increase in level of activity especially in the Central London market, where a major portion of the portfolio value is held.

It is unlikely with the current fragile property market conditions that we will achieve the necessary liquidity levels to re-open the Brandeaux Ground Rent Funds before the latter part of this year. We will be striving to advance this time frame but not to the detriment of investors’ value. We will continue to report progress with our regular Brandeaux Updates.

We remain acutely aware of the inconvenience caused especially to those investors who have been taking regular withdrawals. However, any withdrawal is a “redemption”, and with dealing suspended, we are legally prevented from making any redemptions regardless of their size or nature.

Please be assured that the Brandeaux team is working to achieve the goal of re-opening all Brandeaux Funds as quickly as possible and we are grateful to all of you who have shown us so much patience and support.

We are determined to get there!

*Figures for one year from 21/03/08 - 20/03/09; three years from 24/03/06 - 20/03/09; and five years from 19/03/04 - 20/03/09. Figures are quoted from the 1, 3 and 5 Year % Total Return for UK Property Funds as Reported by Lipper Hindsight.

[Click here](#) to download a copy of the Lipper Report showing the full ranking.

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