

BRANDEAUX UPDATE

GROUND RENT INCOME FUND GROUND RENT PORTFOLIO GROUND RENT PORTFOLIO PLUS

We have made no secret of the fact that last December, of all the Brandeaux funds, the 3 Brandeaux ground rent funds were the hardest hit by redemption requests. The events during 2008 are still vivid: Bear Stearns, Lehman Brothers, Northern Rock, HBOS, Icesave, Madoff, and many more, with daily news of funds suspending with vast losses. The financial world and investors were in panic mode.

The Brandeaux ground rent funds continued to perform strongly throughout this period, with year-on-year performance to the 31st December 2008 of +8.3% for Ground Rent Income Fund, and the other 2 funds, returning only slightly less.

Nevertheless, Brandeaux did not escape unscathed. We took a battering in early December 2008 when, in spite of strong performance across all Brandeaux funds, we were hit with a spike of redemption requests, far more than we had ever experienced before, and we did not have the liquidity (cash) to meet these. As a result, we had no choice but to suspend dealing.

There was no market in December 2008 in which to sell properties to create liquidity. Prior to December 2008, and for the entire 14 year history of these ground rent funds, we had always met redemption requests within 7 business days. But by December 2008, the financial world was turned upside down, and had changed dramatically. Strategies and conventions which had been appropriate historically became unworkable. Brandeaux, like everyone else, has had to adapt and re-structure in this new environment.

The Brandeaux team are working tirelessly towards re-opening the funds, while continuing at the same time to preserve investor value. We successfully re-opened the Student Accommodation Fund in March 2009, and we have just re-opened the 3 dual asset funds for new subscriptions, namely Brandeaux Sterling Fund, Brandeaux US Dollar Fund, and Brandeaux Euro Fund.

Investors are fairly asking: “what about the ground rent funds?”

We set out below the most frequently asked questions and responses which we hope will be helpful.

Q: Why have the ground rent funds not re-opened when the other Brandeaux funds have?

A: The level of redemption requests in December 2008 in the ground rent funds was substantially higher than in the other Brandeaux funds, and fulfilling these would have required significantly greater liquidity (cash) than the funds had at that time. In order for the ground rent funds to re-open, properties must be sold to create the liquidity needed.

Q: You have reported encouraging property sales during the last few months, so what is the problem?

A: It's true that we have made some sales at or above valuation, but selling property takes time, and we haven't yet sold enough to create sufficient liquidity.

Q. Why don't you reduce sale prices to speed up sales?

A: Offering properties at “fire sale” prices doesn't necessarily speed up the process. Even now, the market for selling property is fragile and thin, and selling property takes time, even in a strong market.

It would be seriously damaging to shareholder value to adopt a “fire sale” approach, which would inevitably result in a knock-on detrimental effect to the entire portfolio value, while unlikely to result in generating liquidity faster.

Q: When do you expect to re-open the ground rent funds - can you give us a date?

A: We cannot guarantee a time frame or date because we don't know how long it will take to achieve enough sales of properties to create the liquidity needed. The timing is not 100% in our hands, but our best estimate at the moment is that it will be at the end of this year, or possibly into 2010.

We are steadily making property sales but we are dependent upon buyer demand and their ability to finance acquisitions.

There was no market for selling property up to late March 2009, even at heavily discounted prices. A trickle of buying activity began towards the end of March 2009 in central London, where a significant portion of the portfolio value is held. Even now the market for selling property is patchy, but we are making property sales and we have not had to sacrifice shareholder value to do so.

2009 remains an extremely challenging year for Brandeaux.

It should be of some consolation for those ground rent investors who are frustrated at not being able to access their money, that the Brandeaux team have preserved investors' value for all 3 ground rent funds. The share price of the 3 ground rent funds is beginning to move upward, which is proof of this success.

The current share price for Ground Rent Income Fund and Ground Rent Portfolio is less than 1% down from the price at the time of suspension on 12th December 2008; Ground Rent Portfolio Plus is down only a fraction more than 1%.

We do not expect a round of applause, just a bit of an understanding of the considerable efforts that all at Brandeaux are making to create liquidity while maintaining investors' value. We continue to be committed to re-opening these 3 funds as quickly as practically possible without risking another suspension.

Fund	Share Price As At 12/12/08	Share Price As At 31/08/09	Share Price Movement	Total Return to 31 st August 2009			
				Average Since Launch	Last 12 Months	3 Years	5 Years
Ground Rent Income Fund (Launched 29/02/96)	£3.10	£3.07	-0.96%	8.65%*	0.33%	22.31%	46.89%
Ground Rent Portfolio (Launched 24/03/99)	£2.34	£2.32	-0.85%	8.38%*	0.43%	22.11%	44.10%
Ground Rent Portfolio Plus (Launched 17/08/01)	£1.84	£1.82	-1.08%	7.73%*	0.55%	20.53%	44.44%

*Average annual return since launch compounded annually on Fund anniversary date. All returns are shown net of Brandeaux charges.

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