Geared Property Update – Syndicated Property Fund 5 – H1 2013

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1. About the Properties

The Fulwood Business Park, Preston is situated in the business district to the north east of Preston city centre. The property comprises a two storey office building totalling 34,068ft^2 (3,165m^2) with 179 car parking spaces.

The Nottingham retail property is located on Pelham and Thurland Street which is close to the prime retail core in Nottingham City Centre. It consists of a refurbished period building providing two retail units.

2. Performance of the Fund

Property Valuation – June 2013

The Preston property was purchased in 2005 for Stg£6.175m (plus costs). The value of the property has decreased by 2.94% to Stg£3.3m in the six months to June 2013.

The Nottingham property was purchased in 2005 for Stg£4.05m (plus costs). The value of the property has decreased by 10% to Stg£2.34m in the six months to June 2013.

The overall valuation of the properties in the fund is Stg£5.64m, a decrease of 6% in the six months to June 2013 as a result of the increase in the yields of the two properties. See section 4 for further details on the valuation of the properties.

Negative Net Asset Value of Fund

The current guide value of your policy is €0.00 because the net asset value of the fund is negative. The loans for the properties (Stg£7.05 million) are in excess of the property values (Stg£5.64 million) and combined with the loan interest expense, fund costs, rental income, exchange rate movements and fund management charge have resulted in the fund having negative equity. However, as the debt is on a non-recourse basis, the fund is valued at nil.

Please note that this negative equity would have to be recovered before the net asset value of the fund increases to a positive value and before the plan would be valued at greater than €0.00.

As you're aware, the fund is a closed fund and investors cannot exit until maturity. When the properties are sold, investors will receive a maturity value based on the sale price achieved at the time.

The value of your plan is in your annual benefit statement and is the current guide value. This guide value also reflects any movements in the fund since 30 June 2013.

3. Loan Maturities

The loan on the Nottingham property is held with permanent tsb and matured in September 2012. A 6-month loan extension was agreed with permanent tsb to give time to facilitate a sale. As indicated in our previous communications, the Nottingham property was brought to the market for sale in 2012 when it was hoped to achieve a price above the current valuation. The amount outstanding on the loan is Stg£2.55m. The loan to value (LTV) ratio of the property is currently 109%.

While the property remains on the market we are exploring other potential options with ptsb.

The loan on the Preston property is also held with permanent tsb and matured in December 2012. The current valuation of the property (Stg£3.3m) is less than the outstanding loan (Stg£4.5m) and the loan to value (LTV) ratio of the property is currently 137%.

As reported previously permanent tsb had advised that they required repayment of the loan, which would have required the property to be sold.

However after extensive negotiations, permanent tsb have now agreed to an extension on the Preston loan for a further 2 years on the following terms:

- A 1% arrangement fee
- Margin increased by 1.3%, which brings it to 2.55% over the cost of funds, giving a current all-in rate of 3.05% (reduced from the previous 6.09% on the fixed element of the loan).
- A 1% exit fee when the property is sold.
- Quarterly rental sweeps of surplus income to reduce the balance of the loan.
- permanent tsb reserves the right to review its position if the property valuation falls more than 10% from the December 2012 valuation of Stg£3.4m.

Whilst the extension of the Preston loan term means that the property does not need to be sold at this time, the current loan-to-value ratio of 137% gives rise to a strong possibility that the property may still need to be sold at a later date without a return for policyholders. For example at 31st March 2015, Irish Life may decide, taking all of the circumstances into account, not to seek a further extension of the loan term with the current lender or with an alternative lender and may, using its sole discretion as provided for in the fund's terms and conditions, decide that the property should be sold and the fund closed.

As explained in the terms and conditions, when the geared pension property fund ceases, the value of the fund will be the amount received from the sale of the fund assets less any outstanding balance on the loan of the fund. Your accumulated fund at that time could be valued at zero.

4. Factors impacting the performance of the fund

Source: Irish Life

Market Overview

Property investment transactions in the UK in the first half of 2013 have been strong at approximately £16bn. UK institutions and listed property companies continue to be reasonably active but the most significant participants have undoubtedly been the overseas investors, who have been focussed on the Central London market. A continued widening of the gap between prime and secondary asset pricing also remains a key factor of the market. More recently however, investor demand has started to extend to key regional locations in response to strong competition and limited availability of prime stock in London.

The deleveraging by the banks has been ordered to date but there is an expectation that further deleveraging must take place to bring exposure by the banks to more modest levels. Commercial property debt has still been difficult to raise and although there is an emergence of insurance firms and pension funds entering the market the focus for this debt is on prime assets.

Occupier demand remains soft and availability rates high resulting in limited expectation of rental growth, other than in selective locations. The over-rented nature of properties has a large gap to close before landlords will see increases in passing rents.

Property Update - Preston

The building is entirely let to Homeserve Membership Limited, having been assigned from Homeserve Claims Management Limited, a company within the same corporate structure. The lease expires in 2019 and there are 5 yearly upward only rent reviews.

A number of attempts have been made to initiate discussions with the tenant on its continued occupancy of the building in an effort to extend the lease term beyond the current remaining 6 years. To date the tenant has not been interested in entering into any discussions. In general a typical timeframe for tenants to explore their occupational needs is when lease lengths drop below 5 years.

The property valuation of Stg£3.3m in June 2013 reflects a yield of 12%. This is not expected to improve over the short to medium term, particularly considering the shortening period to the lease end.

Property and Sale Update - Nottingham

Consumer sentiment remains subdued, footfall figures nudged down 0.7% on last year with shopping centres experiencing the largest decline (-1.7%) whilst high streets reported a fall of 1%. It is not expected that there will be the same number of administrations as in the last few years but it is not ruled out that there may still be some more to come.

In general, the UK market for secondary retail assets, particularly where the lot size is below Stg£4 million, is currently very weak, primarily due to lack of interest from institutions.

5. Keeping you up-to-date on your fund

Property valuations are completed in June and December each year. This property update reflects the last property valuation as at 30 June 2013. The accompanying benefit statement reflects an up-to-date value of your investment.

You can call your adviser or contact our Geared Property Services Team on 01 704 1831 to get an up-to-date value at any stage on your investment. In the interest of customer service, we will record or monitor calls.

The information provided is a guide only and may be subject to change. The valuation details regarding the asset(s) in question are confidential and should be considered price sensitive information.