

## “If you can keep your head when all about you...”

In our February 2007 Newsletter we talked about Sir Isaac Newton and his thoughts about apples ... “what goes up must come down”.

Since then, but especially since August, it would appear that there has been a multi direction 'butterfly effect'. Chaos Theory caused by the trailer trash and ‘who owes who...I dunno’!? Whatever the cause of recent stock market and credit turmoils, it seems that FTSE has again summited in the Himalayas and descended to base camp super fast. Volatility? Not many savour it.

Of course the commercial property market has felt some of the cold wind. We saw a 100 bp rise in money rates, the journos' repeated scoops filling column inches with predictions of a property ‘crash’, everyone said secondary markets were up to 200 bps over-valued (prime was fine) and eventually the point was tipped and retail investors wanted 'out' of the institutional funds offered by New Star, Standard Life, NU etc. Having been previously awash with cash, such institutions pulled out from new acquisitions as well. Oh yes, and REITs' were whacked and Vector went the way of Hotel Babylon. It may sound awful, it certainly was if you only read the Sunday Times, but property valuations do not vary quite like shares. Although values will no doubt come off, investors are right to remember that rents will continue to be paid. It is more like a drive to Scotland than an expedition to Everest.

So what for our property friends? Well, with the exception of the agents, many are happier. For sure we are not yet in a bargain basement market caused by forced sellers. There is also always the problem of buying below a fund's valuation. But there are plenty of opportunists (realists?) out there waiting in the wings...including evolve.

Bearing in mind the possible / probable post Northern Rock unwinding of the excesses in the credit and debt markets, let's remember certain property fundamentals?

Commercial property has traditionally been promoted to investors as being first, a good hedge against inflation and secondly, an excellent portfolio diversifier given its lack of correlation to other markets, especially the stock market. Is this not truer now than ever? Out of inflation comes the protection of rental growth in property...so make sure you have exposure to property that benefits from a 'lack of land' characteristic. It is this that maximises rental growth - an inflation mitigating benefit.

As for diversification, yes there has been a notable paradigm shift these last few months; the debt backed market can no longer arbitrage interest rates and property yields. Yes, total returns in property may be half 2006 in the 8.5% territory, maybe less. But who would bet against this topping FTSE 100? And who would not be happy with a steady 8.5% p.a. from all or part of their portfolio? Unless you are a short term ‘profit taker’ with an excellent home for those profits, an appreciation of property's fundamentals and a review the medium term still makes a solid case for positive investment. A short term ‘wobble’ does not make a long term decision incorrect.

In some ways we are really back to the same sort of market as we were in 2001 when evolve was setting up. Pre 9/11 interest rates were 5%, the market was settled, etc. Notable changes would include many more SIPPs having been set up and evolve appreciating that sometimes it is as good to look at the property asset backed business, as it is the rent producing investment. Hence we have the likes of the St. Mary Fund and the Strata Fund.

Then as now, maybe more so in 2008, we feel sure that we can pick out the carefully selected asset. We certainly do not feel compelled to rush off to Europe. We had a very exciting first 5 years and have some interesting plans for the future.

We will try to “keep our heads...”

## Strata Fund – Next Closing 31<sup>st</sup> October 2007

We are pleased to say that the Strata Fund LLP was officially launched in April 2007. It is a very exciting project for evolve, working in conjunction with Davon and promoting through our friends at PIL.

The target Fund size is £15m with the expectation that the Fund will invest in circa 30 to 50 different developments / developers, up to 10 at any one time – a notable spread of risk and only in the South.

Applications and reservations for over £13 million have so far been received from investors with / with an interest in:

The anticipated IRR is 13% p.a.. Distributions are payable from the end of year 2 onwards.

- ☒ SIPPs & SSASs;
- ☒ Business Asset Taper Relief; and
- ☒ Business Property Relief (i.e. inheritance tax relief).

As ever Strata meets the evolve style of focusing on property where demand exceeds supply. It is only lending on developments complying with certain criteria. Although key ones include the developer's track record / financial commitment, and the profitability of the project, the local market conditions (demand vs supply) are paramount. There are also several other reasons why Strata is protected against any housing downturn.

The fund is lending, not joint venturing. It is a trading business. Within 3 months of launch the fund completed loans on developments in Wimbledon, Putney and Kensington putting it ahead of business plan. As at September 2007 the pipeline is strong. There will be a 6 month review distributed in October.

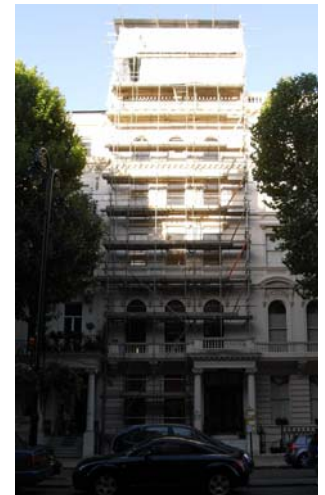


Wimbledon  
new build



Putney  
new build

Kensington  
Refurb/new build



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## All Saints Asset Management

We are very pleased to announce the recruitment of Elizabeth 'Lil' Birchley from Erinaceous and the formation of All Saints Asset Management. Elizabeth intimately knows the Saint property funds – she managed them before Erinaceous acquired Millar Kitching.

All Saints Asset Management will ensure all evolve's asset and property management matters will be dealt with most expeditiously.

Elizabeth can be contacted on:  
020 7486 9897 or [ebirchley@evolvestfs.co.uk](mailto:ebirchley@evolvestfs.co.uk).



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