Asset Managers Report
Year Ended 5th April 2012

10th October 2012

The Sycamore II Property Development Fund

The Fund raised £8.1M as at the 31st October 2010.

In line with the Information Memorandum it is our intention to pursue a varied portfolio of projects to spread risk and utilise cash effectively.

The Net Asset Value for 2012 has increased to 85.6% from 79.9% in 2011. This has not increased as much as we would have liked due to delays in selling the units at Worthing, and Sutton Scotney's planning application being delayed due to local authority bureaucracy. I am pleased to say that, since year end, planning applications have now been submitted for Woolavington and Sutton Scotney and we expect both projects to achieve planning and be at least under offer by April 2013, thereby increasing the NAV further. In addition the build at Burgess Hill is now complete and our partners are in the process of making the project operational. We then have the option to refinance the project, thereby recouping our investment (plus interest), whilst still keeping a majority share in the business until the end of the fund. This could equate to circa £300k+ per annum and with the equity release at the end, thereby achieving much better returns for the fund.

We are also in the process of signing up a project in the Somerset area which has already been allocated (for housing). This has great potential and along with Burgess Hill will contribute substantially to the required returns of the fund for its remaining life.

Current Strategy

The current property market conditions continue to represent a very good opportunity for the fund to acquire land, options and projects in a number of areas in the UK. There are however challenges in the current climate for the sale of completed units. The disposal of sites with planning is challenging but with the level of contacts we have with the major house-builders we have a receptive audience once we have achieved planning on a site.

Land Acquisition

Land options and Joint Ventures continue to become available with liquidity an issue for most house-builders and smaller developers. However, the funds reputation is growing in this arena and we are continually being presented with a wide range of opportunities.

Residential Development

Although we have now exchanged contracts, we are still awaiting the completion of the sale of the second refurbished property on the Worthing site. We have also started work on the refurbishment of the final four units at the Shoreham site and marketing will commence shortly. In the short term, we will not be looking to acquire or develop out any other sites as the current market is very slow and development does not represent a good use of the funds money, since we are not willing to utilise any gearing.

Projects in our portfolio

The below project summaries are based on the May 2012 summary project information table which is shown following this narrative.

12 Apartments, Shoreham, West Sussex – Development Project. We purchased this block of 8 apartments and 4 B1 offices in April 2009 from Bovis Homes. The site was purchased for £750,000 with the internal works requiring completion. The first phase of the project completed in November 2009 five weeks ahead of schedule. All 8 apartments were sold in 2010. The change of use planning permission was granted in June 2011 and we are commencing the fit-out of these units in August. These units are due to complete by early November and we are looking to have all units sold by March 2013. Profit on the project is currently projected to be over £450k.

Jasmine Cottage, West Wellow – Development Project. The fund purchased this project at auction in September 2009. The cottage occupied a large site which we divided up. Following negotiations with the local council, we received planning permission in June 2011. Due to the length of time this project has taken, we have now sold the plot with planning permission and works on the cottage are underway. The cottage is on the market for £235,000.

Sandhurst School, Worthing – Development Project. This three phased project is situated in a prime location, 100 yards from the sea in central Worthing. Our initial budget was for a GDV of £2.2M, however, with a new improved scheme and further consultation with the planners, this was increased to £2.8M. By summer 2011 phase 1, the refurbishment off 2 and 4 Madeira Avenue, was completed. We subsequently sold 4 Madeira Avenue and although the second unit attracted several offers these failed to complete. Towards the end of 2011 planning was granted for phase 2, but due to the aforementioned delay, it was decided to sell the plot of land with planning rather than risk building out ourselves and having to sell the new units.

Now the sale of the two Madeira Avenue units and the plot are all but completed, our investment in the project is all but returned and any remaining capital employed will be minimal. Discussions are now underway to sell the remaining school building and gatehouse (phase 3) to a developer.

Burgess Hill, West Sussex – Development Project. This project is a joint venture with Supported Living Housing Solutions who are specialists in extra care and supported living developments. The project is for a 50:50 profit share of the four unit site, which we expected to take a year to complete. We have two options for disposal, either a sale to the open market or to Social Living Housing Solutions, our JV partner. As this project does employ a small element of gearing, it was important that we chose the right lending partner. By changing banks, we were able to achieve £0.5M more from an alternative lender and a guaranteed operational loan for our JV partner on completion, thereby closing the exit for the project.

Following completion of the build in August 2012, we are now awaiting the fit-out of the units by Supported Living Housing Solutions and the take up of users of the facility. At this point the operational business will be valued and the fund will exit the project. Half of the investment in this project has been on a loan basis at an interest rate of 30% per annum, so whilst it has been delayed the fund has not suffered heavily as the interest will be taken from profit before the profit share is calculated. As stated previously, we have the option of remaining in this project for the life of the fund as we will make a better return.

Codsall, South Staffordshire – Land option with Hallam Land. We continue to work with Hallam Land, one of the top land developers in the UK, on this option as it progresses through the planning process. This is a longer term play, so progress will not be as rapid as some of the other projects in the portfolio.

Sutton Scotney, Nr Winchester – Land Option. Signed up in August 2009 against competition from major housebuilders, we have undertaken a significant amount of work on this project and the planning application is in the approval process. This project has been delayed in the last 12 months as a result of the planners requesting changes to the scheme to enhance it. We are now in the last throes and already have a major house-builders signed up to purchase the site on grant of planning, likely to be September 2012. We have also managed to achieve a further commercial office unit on the site to increase the GDV and hence profit. The length of time we have had money tied up in the project has meant that the Return on Capital Employed (RoCE) is below budget at 36%, however still a good return.

Options for Cuckfield House, Maresfield and Epsom – This covers a number of smaller options and we have a personal guarantee from our JV partner for our investment and interest.

Cuckfield House has received its planning permission and was sold in January 2012 for £1.15m achieving an RoCE of 27%.

Epsom has been subject to a number of further discussions with the local council as planning permission was rejected by the local council. However, we have now progressed the planning to the central inspectorate as the scheme was originally given the support by the council planners. This project has been delayed but the underlying return is underwritten by our JV partner.

Maresfield, the site has now been granted planning permission for 9 units and we are currently in discussions with our joint venture partner as to whether to sell the site or build out.

Woolavington (Large and small) - These two sites are planning plays and following lengthy consultation with the parish council and local residents, which achieved significant support, and have now submitted the planning application. We are hoping to achieve planning without an appeal so that this site could be sold to a major house-builder and be completed towards the end of April 2013. Projected RoCE on this projected is around 50%.

Winchfield - This is another longer term large scale development site which has been identified as being in a strong position for planning in Hampshire. A current preferred site was rejected so we had to act quickly to work with a group of landowners to get this site put forward as an alternative. It is expected that this site will produce its return towards the end of the fund life (between years 5-7) and produce strong returns.

Loan to Sycamore I - The loan to Sycamore I has enabled a good rate of interest on monies which need to be reserved for land option commitments rather than leaving them on deposit at the bank. With progress starting to be made in Sycamore I it is likely this loan will start to be repaid over the next 12 months.

These are headline projects in the portfolio at this time, we will, of course, keep investors informed of progress in our regular updates throughout the year.

Summary

The fund has a range of projects which are producing strong returns, as with all portfolio type approaches a couple of projects have not performed as expected however on balance the asset manager expects the returns for the fund to be achieved. Subject to getting sales completed on the current round of projects, the first distribution will be in line with the Information Memorandum and will be paid within 6 months of October 2013 which will coincide with the April 2014 accounts. It is possible that returns will differ from the IM due to accounting treatments and returns will be payable annually from 2014 onwards as they will be payable on profit realisation. The main change will be that the 200% return forecast in year 7 will start to be realised earlier in the funds life from year 4 onwards.

Yours sincerely,

Mark Yadegar
Managing Director
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