



Emirates Real Estate Fund: Notification of temporary suspension 31st March 2009

It is with great reluctance, and after having considered a wide range of practical alternatives, that the Directors of Emirates Fund Limited (“EFL”) have decided to suspend temporarily dealing into and out of the Emirates Real Estate Fund (“EREF” or the “Fund”). This suspension, which is effective immediately, is anticipated to be in force indefinitely until market conditions normalise or until the Directors are confident that it will not disadvantage remaining investors to lift the suspension.

Over the past few months, and in line with the declining global risk appetite, EREF has experienced increasing calls for liquidity, largely from investors requiring cash for other areas of their investment portfolios or businesses. EREF has been able to meet liquidity calls in full up to and including 1st March dealing (27th February 2009 NAV). However, cash available within the Fund is now insufficient to meet further redemption requests.

The Directors of EFL have explored, over a number of months, a variety of ways to maintain liquidity within the Fund. However, regrettably, it is the opinion of the Directors that no means exist at the current time to meet redemption requests without prejudicing the interests of remaining shareholders of the Fund.

It is recognized that suspending liquidity in any Fund is a difficult decision but the Directors felt it appropriate for the following reasons:

1. To honour their fiduciary duty to all shareholders;
2. To ensure no forced sale of assets at distressed prices;
3. To avoid taking finance which is currently only available at unattractive rates;
4. To recognize the difficulty in ascribing fair value to assets in the portfolio in the current market conditions; and
5. To allow time for the property team to manage assets, maximize rentals and capital values and to seek long-term shareholder value without having to concentrate on shorter-term cash management strategies.

As a result of this decision, and in line with point (4) above, the Directors will value the portfolio on at least a quarterly basis and, if they believe that these prices are a true and accurate reflection of fair value, will publish prices at the end of each calendar quarter, beginning from 30th June 2009 subject to regulatory consent.

In order to answer questions pre-emptively, this document aims to cover as many issues as possible with regard to the suspension, options considered, future actions, fund outlook and resulting impact to shareholders. Should you have any further questions, please contact your relationship manager in the first instance.

Emirates Investment Services Limited
Regulated by DFSA
March 2009



How long will the suspension period last?

The Directors of EFL intend to minimise the period for suspension as far as possible. However, they need to ensure that sufficient liquidity is available to meet reasonable levels of redemptions before re-commencing dealing. It is currently unclear when this may be possible.

Why are you suspending dealing?

EREF is a physical property fund. Physical property is by nature less liquid than other asset classes such as cash, sukuk, bonds and equities. Whilst EREF had maintained an element of liquidity, typically 5% of NAV (and until recently much higher levels), the recent redemption requests have now exhausted this liquidity. As an example, cash held by the Fund in November 2008 represented 13% of the NAV. As at 27th February NAV this liquidity had fallen to c. 2% of the NAV of the Fund.

Due to current market conditions it is increasingly difficult to liquidate physical property at this time. Even where investors are seen to be active in the market place the terms of any transaction are typically equivalent to distressed sale conditions and as such are detrimental to shareholders. Very few transactions, if any, have recently taken place amongst assets similar to those held by EREF.

What are the benefits of suspension?

If the Fund is not required to generate liquidity, EREF does not need to liquidate properties at distressed prices. Moreover, the fund management team can work to normalise conditions and stabilize cashflows (and therefore prices), as far as possible within the portfolio in order to restore sufficient liquidity in due course.

When will normal liquidity conditions be resumed?

At this stage the exact timing is unclear. The fund management team hopes to reduce the volatility in rental income streams over the next few months. However, the wider market conditions and lack of active purchasers in the market may take further time to resolve. We anticipate further announcements from the Government in due course on the likely allocation of the USD 10bn that has been announced to ease liquidity, and earmarked at least in part for the property sector. We remain hopeful that this will move to stabilize certain sectors of the property market. However, even an imminent announcement, will take some time to play out and the full effect be experienced within the wider market.

A return to financing norms by the banks and finance companies will also be a positive move, as would a continued reduction in financing rates. These factors may however still take some time.



Where will future liquidity come from?

Rental income is a strong continued source of liquidity. EREF continues to benefit from a strong and attractive tenancy roll. However, the collection of rental income during the current market conditions is providing some short-term volatility. The team is working closely on ensuring that rental income is collected and that, where tenants are struggling to meet their obligations, viable solutions are negotiated. This process takes time and, also as a result of income being re-scheduled over differing time frames, may take a pro-longed period to show clearly in property valuations. The majority of our tenants wish to continue to reside in our properties. However, some require additional support during these challenging times in order to manage their cash flows and continue to survive as a business and remain our tenants over the longer term.

The team will also continue to review regularly other liquidity options such as financing, sale of a property, possible fund listing and any other means of increased liquidity and report accordingly if the conditions and viability of such options change.

Why hasn't EREF simply borrowed more money?

The terms available from the market are too expensive and unsuitable for EREF at this stage. It should be remembered that the basis for financing should be that it contributes to the performance of EREF and does not unduly increase risk to the Fund and subsequently the risk profile to remaining investors (as any finance taken will be attached to EREF and thus become the burden of remaining investors). The Directors do not currently believe that financing would be in the best interests of the Fund, or remaining shareholders.

Why can't Emirates Bank/Emirates Islamic Bank/another bank offer finance to me outside of the fund?

The Directors of EFL are not permitted to make such decisions on behalf of other entities. Investors would need to pursue these avenues separately based on their own personal circumstances and wider asset base. However, we understand that conditions generally for financing within the market are tight, especially with real estate assets offered as security.

When will the Fund consider selling properties?

EREF is always open to considering a disposal of assets. In 2008 EREF disposed of three properties at, or above, valuation – Naif, Baraha and the Sharjah warehouse. These properties were sold due to their small size and therefore minimal contribution to weighted performance. They were sold as and when market conditions ensured that good value could be achieved. Current market conditions, however, make the sale of any property incredibly challenging. With fewer buyers, tight financing conditions and limited cash, any investor now expects what are, in effect, distressed prices.



These transactions are few and far between and are not, in the opinion of the Directors, in the best interests of shareholders. Once conditions normalise, EREF is happy to consider all sensible offers to acquire properties within the portfolio and as such continue to speak to long term focused investors in this regard.

Will investors who wish to remain in the Fund be penalized by any of these decisions? Will they be forced to assume losses of selling properties cheaply?

It is not the intention of the Directors to increase the risk profile of the remaining investors. This is why, for example, at this time, finance has been deemed inappropriate. Sale of properties will also only be considered as and when conditions start to normalise and appropriate prices can be achieved. It is not the intention of the Directors to initiate distressed sales in order to meet liquidity demands. However, in due course, the Directors may deem that it is in the interest of all shareholders at some time to sell physical property. At this time a balanced view of the interests of redeeming shareholders and the effect to remaining shareholders will be considered.

There are very good deals in the market, when will the Fund purchase?

The Directors agree that there are a number of attractive deals in the market place. However, at this time, all liquidity has been directed towards funding redemptions and therefore the Fund has no capital available for acquisitions. This is unfortunate as some very good opportunities are being seen in the marketplace especially in terms of sale and leaseback transactions to high quality covenants and for attractive yield profiles. However, at the current time it is anticipated that any liquidity raised in due course, be it from a property sale, financing or other available means, will be focused towards funding redemptions.

What is the background for the fall in January and February performance? How was performance positive still in just December?

In Q408 EREF was still signing new leases on vacancies, rent renewals were being achieved at increased rental rates, and few major tenants were in any form of payment default scenario. The impact of the global credit crunch, and UAE real estate market sentiment, took some time to show its full effect onto completed, fully leased, property. Major effects only really started to occur from mid-January 2009 when a number of tenants began to default on payments, some element of vacancies started to occur within the portfolio and further tenants requested down-sizing or exit options.

Whilst these situations were not totally new, the scale increased through January 2009. The Fund valuer also took the view that this was symptomatic of the wider market. Therefore, as would be expected, the valuer took a conservative view and included many of these factors within the valuations, either through relevant assumptions or de-compression of the yield profile. As such, the Fund fell in January 2009 for the first time in its life, although this effect was mitigated to a certain extent by positive events elsewhere in the portfolio.



In February, the market situation worsened, in particular the office market which saw the highest vacancy rates on record. Whilst some of the commercial assets within the portfolio are currently holding up well, the leasing of our only vacant building – Garhoud - has been severely impacted. This market has practically stalled. This situation has therefore been reflected in the February NAV in terms of further reduced rental assumptions and vacancy lead times. This led to a significant reduction in the Garhoud valuation. We also continue to suffer the effect of payment defaults of two major tenants in February. This said, current negotiations are proving more promising in this regard and, once some recovery of outstanding obligations is evident, this will be reflected within the Fund, as will any leasing of space at Garhoud. The team is highly active in both matters.

Unfortunately so far in 2009 much of the positive news that had previously been forthcoming via our asset management initiatives has been overridden with the effect of a number of challenging macro factors coming to the forefront. The team is working hard to ensure that various challenging matters can be concluded by the time the first indicative NAV is published in June 2009 but we expect the volatility in the intervening period to be fairly high.

Will the Fund still be valued during suspension?

It is the intention of the Directors to value the portfolio quarterly and, subject to regulatory consent and provided that directors believe that the price is a true and accurate reflection of fair value of the Fund, will publish a price. It is the intention of Directors that the first valuation following suspension will take place in June 2009. We will of course, as far as is practicable and sensible for shareholders, seek to communicate developments to investors as frequently as possible in the interim period.

What happens if investors wish to sell shares in the Fund during suspension?

Redemption requests will be queued until such time as dealing re-opens. These will be dealt with on a forward pricing basis in line with the scheme documentation.

Will investors continue to receive income payments?

EREF continues to have a strong rental profile and as such it is the intention to continue to distribute bi-annual dividend distributions to income class shareholders. It is not possible to predict the level of dividend which will be payable by the Fund.



What happens when EREF re-opens?

Investors will be notified in advance of the date that EREF is intending to re-open for subscriptions and redemptions. Investors wishing to subscribe may do so in the usual manner. Investors queued for redemptions will be contacted to confirm whether their redemption request still stands. Where a client cannot be reached, it will be assumed the request still stands. The standing redemption requests will then be fulfilled as far as possible at each future dealing point.

It may be that upon re-opening for dealing that only a certain level of liquidity is available and as such only partial redemptions may be able to be fulfilled. Investors will be advised at the time.

What positive measures are being taken to improve liquidity?

The fund management team is reviewing all aspects of the portfolio and working hard to maintain income and reduce expenses where possible. In terms of income the team is actively chasing in rentals, getting vacancies to market as swiftly as possible, and negotiating with existing tenants for renewals.

Expense wise, it is expected that some savings can be made as the cost of maintenance reduces and the market also becomes more competitive. However, it should be noted that the bulk of expenses will continue to occur in order to ensure that EREF properties are attractive to existing and incoming tenants. It is also imperative that the team continues to protect the assets as far as possible in order to avoid any unexpected costs and ensure assets remain in good condition.

What additional challenges do you foresee?

We are concerned that the full effect of the redundant work force is yet to be seen. We believe further vacancies will occur throughout Q2 and possibly into Q3 throughout the wider market. This will largely be due to those that have already been retrenched not finding alternative work and taking the decision to return home. We are actively moving to ensure the portfolio remains as resilient as possible to any further vacancies.

We further believe that additional stock will come to the rental market as more properties reach completion and the owners cannot sell. We have already seen the effect of this in the office market and, as such, our Garhoud property is having significant challenges achieving tenants, even at rental levels of 50% of those being achieved just three to four months ago. This is one of the main drivers for performance as at the February NAV, where this impact has been reflected in the valuation. Leasing for office space has seen a considerable negative impact in Q1-09.

The team, however, is working hard to beat the wider market and ensure that tenants remain attracted to the Fund's properties. They are also focusing on ensuring that corporate tenants can continue to meet their financial obligations in line with their leases in order to remain at the property, viable in business, and fulfill their long term lease obligations with the Fund. As such we are hopeful of having some headway to report in the coming few months.



What other positive news should investors be aware of?

As the Fund has been running since June 2005, many of the properties have been subject to rent caps over the past 2-3 years, and as a result been fully occupied for some time. Whilst this presented challenges in terms of increasing rental income over this period, it now presents EREF with an opportunity in the current market conditions. This is due to the fact that any tenants vacating, typically are doing so still at rents below the wider market. This permits EREF latitude to effectively undercut the wider market when competing for tenants. This is important where the available pool of tenants looking for new space, or to relocate, is incredibly small and highly competitive. It is a “tenant’s market” at this time and, therefore, important to retain existing tenants and attract new tenants.

The fund management team has actively been working through focused asset management strategies at many of the properties throughout 2008. They are committed to ensuring that properties are well maintained, well managed and competitively priced and marketed, and as such remain attractive to existing and new tenants. EREF must be a landlord of choice for both tenants and sales agents/brokers to ensure that EREF properties beat the wider market in terms of void periods and vacancy rates, protecting value for investors over the medium to long term.

The portfolio continues to offer a diversified and robust range of properties to investors. Many of the properties are in key areas, close to existing transport links and with many near to the new up and coming Dubai Metro lines and stations. Most of the properties within EREF are not in the hardest hit luxury end of the market, none are in the development or off plan segment of the market. Instead EREF properties offer affordable accommodation to a wide segment of the market in sought after and accessible locations. EREF properties should continue to show resilience relevant to the wider market and are well positioned to contribute to performance again once the initial volatility subsides within the wider market.

As soon as conditions stabilize, and day to day volatility subsides, the Directors will endeavor to provide indicative valuations more frequently for investors and, in due course, return to fully published valuations and normal dealing procedures.

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