

# The Prime London Capital Fund: a smart way to invest?

Interview with Stephen Yorke, CEO and Partner of D&G Asset Management



## Q: Who is behind the Fund?

A: The Fund manager is D&GIM which is based and regulated in Guernsey. The Fund itself is also regulated by the Guernsey Financial Services Commission. Both the Fund and D&GIM are backed by blue-chip names. Investec is the administrator and Kleinwort Benson is the Trustee. Eversheds are the UK lawyers and RBS provide the Fund with a very favourable lending facility. D&GIM is advised about property investments by D&G AM and on the investment committee of D&GAM there is a huge wealth of Prime London experience and expertise. Douglas&Gordon Limited is a significant, and strategic, investor in the Fund, as am I. There are other well-known names and London property investors who are invested in the Fund.

## Q: What does the Fund invest in?

A: Only the very best residential property in the top postcodes of London (no new build).

## Q: Where are the Fund's current investments?

A: Knightsbridge (Cadogan square), Chelsea, South Kensington and Belgravia.

## Q: How does one invest in the Fund?

A: You can invest in the Fund with £10,000. You can buy, or sell, units every month. You can invest your SIP in the Fund. Before you invest though you should take advice from your IFA and, to my mind, you should only commit money to the Fund that you can afford to keep invested for a minimum of 5 years.

## Q: Why would I invest in the Fund, rather than own outright?

A: Outright ownership is not for everyone. For a start to own outright in the sorts of postcodes the Fund invests in requires large amounts of capital. Some people would rather own a small percentage of the highest quality property assets rather than all of something of inferior quality. Investment in the Fund spreads your risk across a range of properties, it means that you do not have to worry about finding the property, re-furbishing it, letting and managing it. If you own units in the Fund you can add to, or redeem, those units every month giving you flexibility but it very important to stress that this is not a "Trading" Fund - if you like the asset class of Prime London and would like to invest via a Fund, rather than direct, you should be prepared to hold your investment for the long term (5-7 years).

## Q: How did the Fund fare in 2007?

A: Last year was one of the hottest markets in living memory in Prime London and buyers were falling over themselves to buy the best assets. The Fund was often in sealed bids with tens of others. Advised by D&GAM the Fund refused to be sucked into crazy bidding wars and walked away from a lot of deals. Instead the Fund concentrated on buying very selectively off-market, through its contacts, and only bought assets that (a) it could add value to, and (b) were priced sensibly. As a consequence the Fund entered 2008 in strong position with cash to invest in a cooler market, and very low gearing (approximately 30%).

Notwithstanding the competition for properties last year the Fund acquired some very good assets and is adding value to all of them. By sticking to top quality properties the Fund's performance was pretty good compared to other liquid UK property investment s (see chart below).

## Q: What do you think is the outlook for the Prime London market this year?

A: Before I answer that I think it is very important to state that it is dangerous for any property investor to invest because he has a "market" view. You make money consistently on property investments by (a) sticking to what you know better than others, (b) buying something specific with an angle ie where you can add value, (c) being prepared to hold that investment for a decent period of time. That is what the Fund does. Last year the Fund was looking at upto 30 properties before putting an offer in, suggesting the Fund considered that 29 of those 30 properties were overpriced and/or not of high enough quality. Every potential acquisition is thoroughly analysed from a valuation, lettings, and re-sale perspective by D&GAM before it is recommended to D&GIM. The experience of knowing what similar properties have sold/let for is invaluable and is what gives D&GAM the authority to advise the Fund.

The Fund's investment strategy will be the same in 2008 as it was in 2007 - stick to the highest quality stock, add value, let it to top -flight tenants, hold.

I have no better idea than anyone else what will happen to the Prime London "market" during 2008 but what I can tell you is that trend growth over the last 25+ years is 9% p/a. What I can also

tell you is that every 3-5 years there is a 20% + year and that year normally catches everyone by surprise. The slower years are the time to buy well, improve and build one's asset base. What history tells you about Prime London property is that, during the good years, you enjoy substantial upside growth but, unlike shares and UK commercial property, during the slow years you do not experience substantial losses and/or volatility. This is as you would expect because, unlike shares and commercial property, big institutions do not own the bulk of the Prime London stock so you don't get that herd buying or selling that comes with large institutional ownership. Indeed The Prime London Capital Fund is the only open ended Fund that invests exclusively in Prime London residential property - the vast bulk of the stock is owned by private individuals, often with no gearing, and they rarely have to sell. If these potential vendors do not get the price they are looking for, they are likely to remove the stock and wait for another day. It is this supply-constraint that is the explanation for why Prime London has historically been such a safe, low volatile investment.

## Q: You are still ducking the "market" question - come on get off the fence!

A: Ok - I think the Savills Index for Prime London could show the first quarter of 2008 flat to down 3%-5%, but I expect the second half of 2008 to be a 5%+ p/a period and I have a hunch 2009 could be a pretty good year. But I do stress my view that the really good stock (like that owned by the Fund) will out-perform the Index.

## Q: If people want to know more what do they do?

A: Either speak to their IFA and/or go to the Fund's website [www.dngim.com](http://www.dngim.com), or call me on 0207 9634622.



'If you invest via this Fund you can gain access to the best Prime London property for only £10,000 and you do not have to worry about acquiring your asset and/or then managing it.'

## The Prime London Capital Fund: 1st year track record

## The Prime London Capital Fund vs. Other Property Funds/Indices (Indexed on 01/01/2007)

Property Funds Used  
Aberdeen Property Share A Acc  
M&G Property Portfolio A Inc  
Margetts Greystone Property GBX Acc NAV  
New Star Portfolio UK Property Inc  
Premier Pan European Property Share NAV  
Resolution UK Property  
SWIP Property Trust Inc

REITS Used  
Brit Land Co Plc  
Brixton PLC  
Big Yellow Group  
Hypocapital REIT  
Hammerson PLC  
Primary Health  
Segro plc  
Town Centre Secs  
Workspace Group  
Warner Estate



— D&GIM The Prime London Capital Fund  
— Basket 7 UK Property Funds  
— FTSE 350 Real Estate Index  
— REITS

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Premier Pan European Property Share NAV  
Resolution UK Property  
SWIP Property Trust Inc

REITS Used  
Brit Land Co Plc  
Brixton PLC  
Big Yellow Group  
Hypocapital REIT  
Hammerson PLC  
Primary Health  
Segro plc  
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Workspace Group  
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