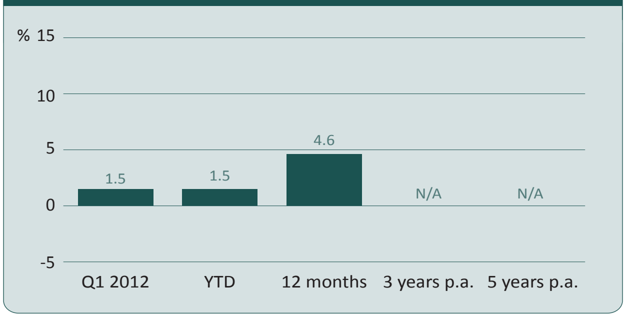
Total Fund Return



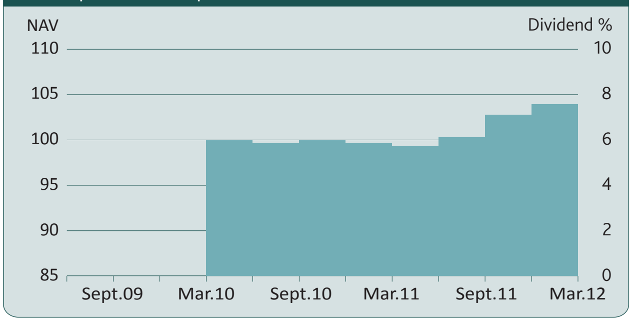
Total fund return is calculated as NAV-to-NAV taking into account distributed dividend and net capital invested for the year

Net initial yield (NIY) p.a. and direct property yield (DPY) p.a.

NIY (light blue) is calculated as the net operating income divided by gross property value annualized. DPY (dark green) is calculated as the net operating income divided by the acquisition costs annualized.

Much of Q1 was also spent investigating and negotiating investment targets in the fund's acquisition pipeline. At the end of Q1, there was a breakdown in the negotiations to acquire a supermarket in Riga, Latvia due to a mismatch of interest between the fund as a buyer, the seller, and the anchor tenant. That being said, the fund has concluded head of terms to acquire another retail property in Riga and expects to finalize the acquisition by the end of Q2, subject to satisfactory due diligence findings. In addition, several negotiations are ongoing in Tallinn and Vilnius to acquire fully rented office buildings which comply with the investment strategy of the fund. Some forward commitment opportunities to acquire brand new development retail properties, to be completed over the next 12 months at pre-agreed conditions, are also currently being considered.

Development in NAV per share

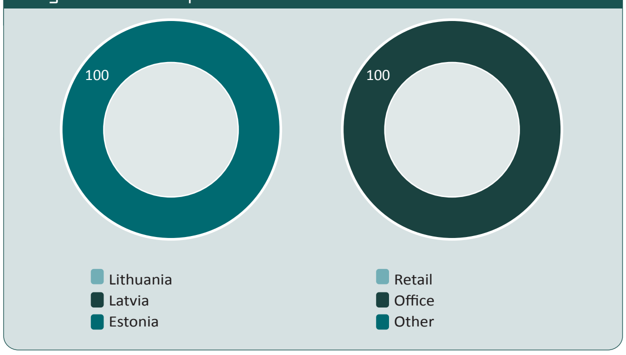


Development in NAV (light blue) is excluding reinvested dividends. Historical dividends (none so far) will be shown at the time they are deducted from the NAV per share.

MARKET OUTLOOK

Since 2010 office rents in Tallinn and Vilnius have stabilised with Riga following suit in 2011. At the end of 2011, all Baltic capitals have experienced slight increases in CBD rents and this trend is also expected to continue in 2012. Fuelled by this demand the supply is also starting to pick up and in Tallinn and Vilnius the construction of new office space has gained some momentum due to the substantial decrease in vacancies. Several projects will be delivered to the market in 2012-2013 thus moderating the growth of office rents in general.

Target allocation in percent



With gradually increasing wages and slowly declining unemployment, private consumption has shown double digit growth in Q1 2012 in all Baltic countries. Vacancies in the most successful shopping centres on the Baltic retail market are close to zero as demand has remained high. Along with rising rents, landlords are now removing the discounts for prime retail which were used to attract or keep the tenants during the recession. Remotely located and ill-developed shopping centres however are still struggling with high vacancies and no prospects of rising rents and they will most likely have to be redeveloped in the coming years.

Fees	
Management fee	1.9% of NAV per annum
Success fee	20% above a hurdle rate of 11% return on paid-in capital

In 2011 the Baltic States were the fastest growing economies in the European Union (EU). At the front of the race, Estonia's gross domestic product (GDP) demonstrated a 7.6% increase over the year followed by Lithuania (GDP growth of 5.9%), and Latvia (GDP growth of 5.5%). While growth has slowed down for Estonia, figures for the region remain strong in Q1 with 3.9% for Estonia and Lithuania, and 6.8% for Latvia, which is now showing the strongest y-o-y growth in the EU.

For 2012, economic growth in the Baltic States - albeit slower than in the previous year - is forecast to continue due to dynamic and competitive exports to the Nordic countries, Russia and Germany as well as pickup in domestic demand and private consumption. Despite the favourable loan interest rates, private balance sheets are strengthening due to negative net loan absorption. At the same time deposits are increasing as (among other things) earnings from working abroad (Nordics) and remittances have added significant funds to the households' disposable income in all three countries. This in turn is contributing to both consumption and savings.