
EDMOND DE ROTHSCHILD REAL ESTATE SICAV SWISS

Investment report – 3rd quarter 2014

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1 APRIL 2014

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INVESTMENT REPORT

Dear investors,

In more than one respect, 2014 is an important year for ERRES, since it has reached several key milestones. The merger of the Swiss and Helvetia sub-funds, approved at the February general meeting, was the most notable of these milestones, since it has given ERRES the critical mass it needs for future years. With a fully invested portfolio now worth more than CHF800 million and set to grow further as a result of construction projects in progress, ERRES has now achieved the requisite degree of maturity to pay out regular dividends to its investors.



Forum-Nyon project, show apartment

Another defining feature of this year has been the changes in the asset management team. Alexandre Col, the SICAV's founding chairman, is leaving the Rothschild group after 20 years of service. Even so, he will remain a member of the Board of Directors. At the same time, Jaume Sabater, the team leader, has decided to take his career in a new direction, and he will leave as of 1st November 2014. From that date, Pierre Jacquot will take over the management of the fund and supervise the real estate management activities at Edmond de Rothschild (Suisse) S.A. He is as well CEO of Orox Asset Management, the real estate partner of the Bank, he has a good knowledge of the portfolio and the buildings, having supervised the

administrative and technical management since the launch of ERRES.

ERRES' Board of Directors and the senior management of the Edmond de Rothschild group are working together to secure the development prospects for the ERRES fund, not just for the next few years but also over the long term.

Thank you for the trust you have placed in ERRES and in its managers. We hope you enjoy reading this newsletter, which we now plan to publish every quarter.



PRINCIPAL EVENTS SINCE 1 APRIL 2014

► Finalisation of the process of merging the Swiss and Helvetia sub-funds

► Ordinary general meeting

in July to approve the 2013-2014 financial statements and the appointment to the Board of Directors of Manuel Leuthold as Chairman.

► Acquisition of 4 existing and yet-to-be-built residential properties:

- Avenue de Gilamont in Vevey (Vaud): 2 buildings with 63 apartments to be built alongside the Veveyse river with a construction value of CHF27.9 million.
- Ch. de Mouille Galand 2E-F in Vernier (Geneva): 2 blocks of 84 apartments in addition to the 4 other blocks already owned at the same address. Transfer of ownership of property 2C is scheduled for the 1st quarter of 2015, giving ERRES ownership of all 7 blocks on the site, representing a total of 282 apartments.

► Future commitments to acquire:

- A complex of 160 apartments in the Canton of Geneva, plus commercial space occupied by top-tier tenants. A major renovation plan with energy efficiency improvements is scheduled to take place at this complex over the next few years.
- A complex of 35 apartments in the Canton of St. Gallen.

► Sale of properties:

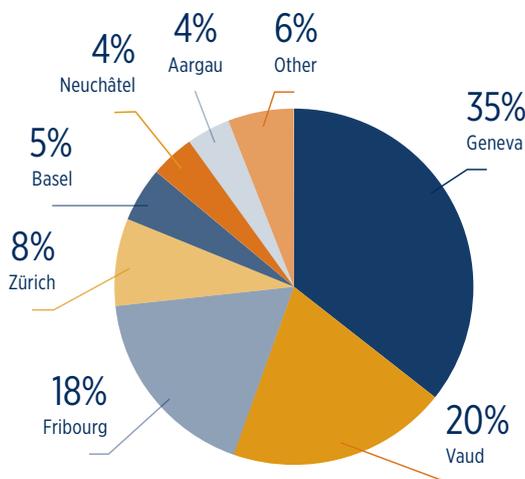
- Rte de Bugnon 15 (Villars sur Glâne - Fribourg)
- Rte du Lac 21 (Granges-Paccot - Fribourg)
- Alte Strasse 2 (Reinach - Argovie)
- Impasse du Castel 10 (Fribourg)
- Rte de Moncor 21, 23, 25 (Villars sur Glâne - Fribourg)
- Rue des Tuillières 1 (Gland - Vaud)

► Transfer of properties from the Orox Capital Investment fund to ERRES:

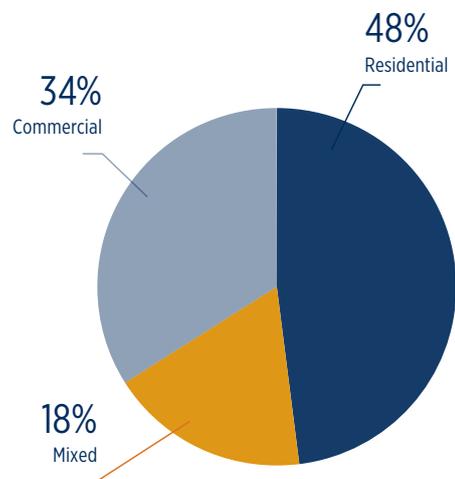
Ownership of the Bois des Frères property in Vernier (Geneva) and BaslerRing property in Olten (Solothurn) was transferred to ERRES. At 30 September, only 4 properties had yet to be transferred compared with 11 properties 18 months ago.

BREAKDOWN BY CANTON AND SEGMENT

BY CANTON

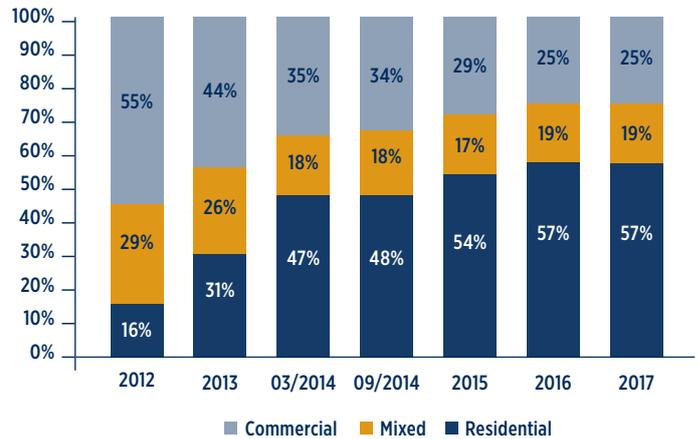


BY SEGMENT



COMMERCIAL VERSUS RESIDENTIAL

One of the main strategic priorities defined in 2013 was a gradual reduction in the commercial portion of the portfolio in return for a larger residential allocation. The residential portion has been increased gradually (see chart below). This change has been structured around several concrete measures, including an acquisitions drive focused solely on residential or mixed-used properties with a bias towards apartments, since the number of apartments has risen from 706 to 1,172 over the past 18 months. This acquisitions drive has gone hand in hand with the sale of commercial assets, which kicked off in 2013 with the sale of two clinics in Sierre and Versoix, and that of the Corminboeuf semi-industrial building. Steps have also been undertaken to sell other commercial properties. These efforts have already started to pay off, with the recent signature of the future sale of the administrative property at Rue de Tuilières 1 in Gland that will give rise to a capital gain.



GROWTH IN RENTAL INCOME

During the portfolio-building phase, we focused, among other factors, on developing new buildings or major overhauls of existing properties to secure ownership in the medium term of healthy assets generating market-rate rentals and with a low level of service charges. Nonetheless, this strategy used up considerable capital without generating any income in the immediate aftermath. Even so, this strategy will start to pay dividends from this year onwards with the finalisation of its initial projects. This will continue over the next two years with the letting of new apartments and space and the introduction of graduated rents for the renovated apartments.

The main properties covered by this approach are as follows:

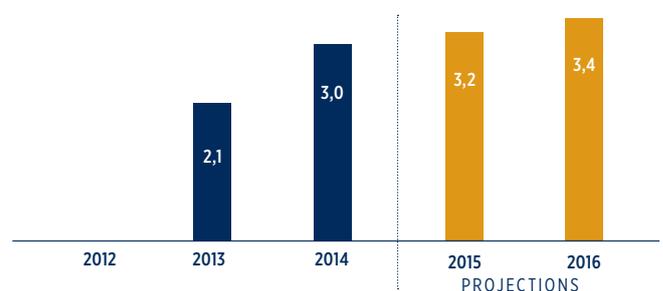
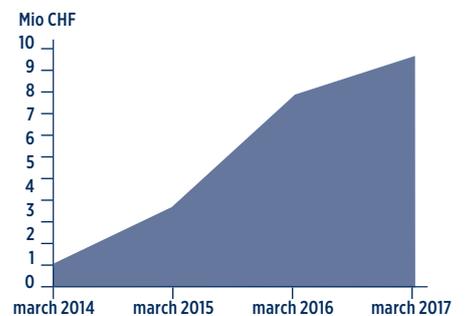
- Biopole IV in Epalinges: construction completed in September 2013
- Pt d'Arve 46 in Geneva: major renovation completed in March 2014
- Av. de l'Europe 20 in Bulle: construction completed in June 2014
- Margarethenstrasse/Blauenstein in Basel: major renovation completed in September 2014
- Les Cèdres in Cognoy: construction due to be completed in January 2015
- Forum Petite-Prairie in Nyon: construction due to be completed in summer 2015
- Gilamont in Vevey: construction due to be completed in spring 2016.

At end-March 2014, rental income from all these properties came to CHF0.97 million on a capital investment of CHF126.05 million. The following chart shows projected income for the

aforementioned properties over the next few years, totalling CHF9.79 million in March 2017.

Visibility on these projects' income is very high given the progress made. In almost all these properties, the graduated rents have already been contractually agreed, residential lettings have already begun or even been finalised in certain cases, and commercial leases have also already been firmed up.

Taking these factors into account, we project gradual growth in dividend payouts over the next few years, as shown in the chart below.



FOCUS : ENERGY EFFICIENCY AND TAX PLANNING

We are used to hearing that the renovation of apartments in the Canton of Geneva is highly complex and that investment returns are highly unpredictable. The legislative environment laid down in the LDTR Act (Demolitions, Transformations and Renovations Act) aims to protect tenants against unduly large rental increases and also provides for a number of restrictions on the nature of eligible work, profitability and rent controls. As a result, to cope with these constraints, it is essential to know the local market inside out, to prepare projects well in advance and also to make time to meet tenants before taking any action.

Since 2010, the Geneva authorities have introduced a policy of incentives to protect owners' interests and harness energy savings without impacting tenants' position. Under law no. 10258 amending the Energy Act (LEN), properties satisfying a high (or very high) standard of energy efficiency are exempt from the additional real estate levy for a period of 20 years, in accordance with Art. 78 of

the LCP (Public Contributions Act). Properties with a Minergie® or Minergie-P® label are deemed to satisfy these criteria.

As part of our investments in Geneva, we have implemented this strategy of energy efficiency improvements and tax planning at the properties located at Boulevard du Pont d'Arve 46 (36 apartments in central Geneva finalised in March 2014) and the Vernier-Mouille Galand complex (282 apartments with a building permit awarded in June 2014).

The immediate net return on these energy efficiency investments is calculated by considering the reduction in tax expense, and it comfortably exceeds the initial net return on the building in both cases. In the medium term, this strategy will yield numerous benefits, including lower heating expenses, greater tenant satisfaction levels and enhanced property appeal. Other similar projects are currently being considered in our Geneva portfolio to continue applying this strategy.

PRICE

At 30 September 2014, ERRES units traded at CHF108, representing an increase of 11.3% over the year (assuming reinvestment of the CHF3 dividend). Over the same period, the index rose by 8.1%. The price of ERRES units was positively influenced by the decline in interest rates, which benefited the market as a whole, and also by

news of the merger of the two sub-funds at the beginning of the year. When the merger plan was first announced, the unit price had fallen back to a 4.4% discount compared with a premium of 3.7% at end-September 2014. Given the consolidation of the portfolio and prospect of rental growth, we are confident about the future.

FUND FACTS

Structure: SICAV	Custodian
Domicile: Switzerland	Banque Cantonale Vaudoise
Share category: A (distribution)	Independent auditor: KPMG S.A.
Launch date: 16/03/2011	Management fee: 0.5%
Financial year ends: 31 march	Taxation
Distribution: Annual	Exemption for investors
Investment: Edmond de Rothschild (Suisse) S.A.	ISIN: CH0124238004
Fund Management Company	Telekurs code: 12423800
CACEIS (Switzerland) S.A.	Ticker symbol: ERRES

KEY FIGURES AT 31.03.2014

Total assets: CHF 832.4 Mio	EBIT margin: 62.52%
NAV : 104.10 CHF/share	TERref (GAV) : 0.87%
Previous dividend: 3.00 CHF/share	Rate of loss on rents: 3.88%
Distribution ratio: 108.80%	
Performance: 2.79%	
Return on equity: 2.80%	

Disclaimer: Edmond de Rothschild Real Estate SICAV (the "SICAV"), Geneva is an externally managed société d'investissement à capital variable incorporated in Switzerland in the "real estate" category, as defined in the Swiss Collective Investment Schemes Act (CISA). The SICAV has delegated administration, management and distribution to its Fund Management Company, CACEIS (Switzerland) SA, Nyon, which has in turn delegated the SICAV's investment management and the exclusive distribution of its shares to Edmond de Rothschild (Suisse) SA, Geneva, which has also sub-distribution authority. Banque Cantonale Vaudoise, Lausanne is the SICAV's custodian.

This document reflects the opinions of the SICAV. Investors are advised to verify with a financial adviser if an investment in the SICAV is appropriate in view of their personal, financial and regulatory situation and in view of their investment objectives and risk profile. In particular, each investor is urged to verify the fiscal consequences of an investment in the SICAV with an independent tax adviser.

The main investment objective of each subfund shall be to preserve the substance of capital invested long term and to distribute appropriate income. To the extent possible the SICAV's Board of Directors and Investment Manager shall strive to pursue the specific investment strategy drawn up for each subfund as set out in the SICAV's Term Sheets relating to the investment regulations. The implementation of said strategies may nevertheless be subject to constraints and to regulatory and legal procedures such as the Swiss rules on purchasing property for residential purposes. No assurance can be given by the SICAV, the Board of Directors, the Fund Management Company or the Investment Manager that residential property contemplated for purchase by the SICAV will be confirmed by the relevant federal and/or cantonal authorities as not being subject to said constraints and procedures.

Subscriptions shall be valid only on the basis of the current prospectus including the investment regulations, together with the articles of association, the simplified prospectus and the latest annual report (or semi-annual report if it is more recent). These documents are available free of charge at the headquarters of the SICAV, Edmond de Rothschild (Suisse) SA, rue de Hesse 18, 1204 Geneva, and at the headquarters of CACEIS (Switzerland) SA, chemin de Précoissy 7-9, 1260 Nyon.

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