

FPIL Student Accommodation Fund (J99)

Isle of Man product and fund range

February 2007

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Fund Objectives

- To deliver consistent annualised positive returns of 8% to 10% while maintaining a profile of low-volatility performance.
- To invest in student and key worker accommodation throughout the UK
- To provide investors with access to an actively managed fund holding assets with little correlation to traditional asset classes.
- To provide long term positive performance through a combination of capital appreciation and increasing net rental income.

Student Accommodation Fund is now in its 7th successful year having been launched in June 2000.

The FPIL Student Accommodation Fund mirrors Brandaux's Student Accommodation Fund Limited ('the Fund') which was launched at the same time.

Investment Strategy

The investment strategy focuses on owning and managing student and key worker accommodation in the UK which offers the opportunity of increasing net rental income and ancillary revenues.

The Investment Process

The investment process can be summarised as follows:

- acquiring purpose built properties for students and key workers with emphasis on properties in key university locations offering higher quality accommodation at affordable rents whilst still producing an income yield that meets the Fund's investment objectives;
- developing and maintaining strong working relationships with universities and partnering with them to meet their accommodation needs;
- identifying opportunities to enhance income and capital values through active asset management to maximise net rental income and enhance capital values;
- using capital expenditure to enhance existing properties to generate additional income and capital uplifts – such as improving students' internet facilities, recreational facilities and security.

Source of statistics Brandaux Advisers (UK) Ltd unless otherwise indicated



FRIENDS PROVIDENT
INTERNATIONAL

Fund History

Brandeaux Advisers (UK) Limited identified an investment opportunity for the provision of student accommodation early in 1999. The increasing numbers of students attending UK universities along with a trend for universities to begin outsourcing their student housing requirements created a new asset class in its own right and an investment opportunity for the private sector.

The trend toward universities outsourcing their student accommodation needs was partially a result of their limited cash resources. At the same time universities were coming under increasing pressure from the UK Government to use cash resources for improving teaching facilities and research.

Many universities had insufficient housing for their existing student population. Additionally, much of university owned accommodation was built in the 1960's and 1970's. By the late 1990's a significant proportion of university halls was becoming obsolete, costly to maintain and was in need of extensive refurbishment. Students began demanding better housing standards with modern security, en-suite facilities and internet access in their own rooms, recreational facilities and parking.

These factors convinced Brandeaux Managers Limited that there was an investment opportunity to participate in this new specialised sector and the Brandeaux Student Accommodation Fund Limited was launched in June 2000.

Early acquisitions began with smaller residences of between 50 to 200 beds. These acquisitions were quickly followed by the purchase of larger blocks of residences in Liverpool, Manchester and Sheffield. The first new purpose built accommodation totalling 464 beds was acquired in Coventry in 2002. This was followed in 2003 with the purchase of newly built accommodation in Leicester and Leeds providing a further 1200 beds. In 2005, an additional 1400 beds were acquired from another private provider. In May 2006, a further major acquisition of 4200 beds was successfully completed by the purchase of Domain, another private provider of student and key worker accommodation. The most recent acquisition of three student residences from the University of Birmingham was completed in August 2006.

Source of statistics Brandeaux Advisers (UK) Ltd unless otherwise indicated

Location of the Portfolio

The Fund currently invests in a portfolio in excess of 10,000 beds in residences located in thirteen major university towns and cities throughout the UK. Of the top ten cities where students live (excluding London), as reported by the Higher Education Statistics Agency, the portfolio is represented in eight of those locations.

Liberty Living PLC, the Property Asset Manager, has developed an expertise in managing quality student and key worker accommodation. It has established a unique brand which represents high standards of service and value for money in the sector, and focuses on developing strong relationships with universities. The Liberty Living brand is exclusive to the portfolio.

Liberty Living's student accommodation sites



Market Overview

- 170 higher education institutions in UK. The total number of students in higher education is over 2.2 million and growing steadily (Source HESA – Higher Education Statistics Agency).
- UK universities are making major efforts to attract foreign students who pay higher fees and demand quality accommodation which universities use as a strong marketing tool.
- UK universities have insufficient housing for existing student population.
- UK universities generally lack funds to build new student accommodation or to refurbish existing accommodation built mainly in the 1960's and 1970's.
- Students demanding better standard, modern, security rated housing; internet access in individual rooms, recreational facilities, parking, private en-suite facilities; walking distance to university.
- Universities under pressure to use current funding for teaching facilities, salaries, research.

Low Risk is achieved through:

- Occupancy high – 99% occupancy for 2005/2006.
- Low bad debts (less than 0.5%).
- Built-in mechanisms for annual rent increases.
- Students pay rent in advance, with security and damage deposit.
- Direct lets to students and Nomination Agreements with universities.
- Trend toward longer rental terms eg. 44 to 52 weeks.
- Summer lettings and conferences provide additional income.
- Good relations with students and universities result in repeat business year after year.
- Strong brand recognition amongst students – Liberty Living.
- Low volatility with consistent returns that are positively correlated with rising markets and negatively correlated with declining markets.

Summary

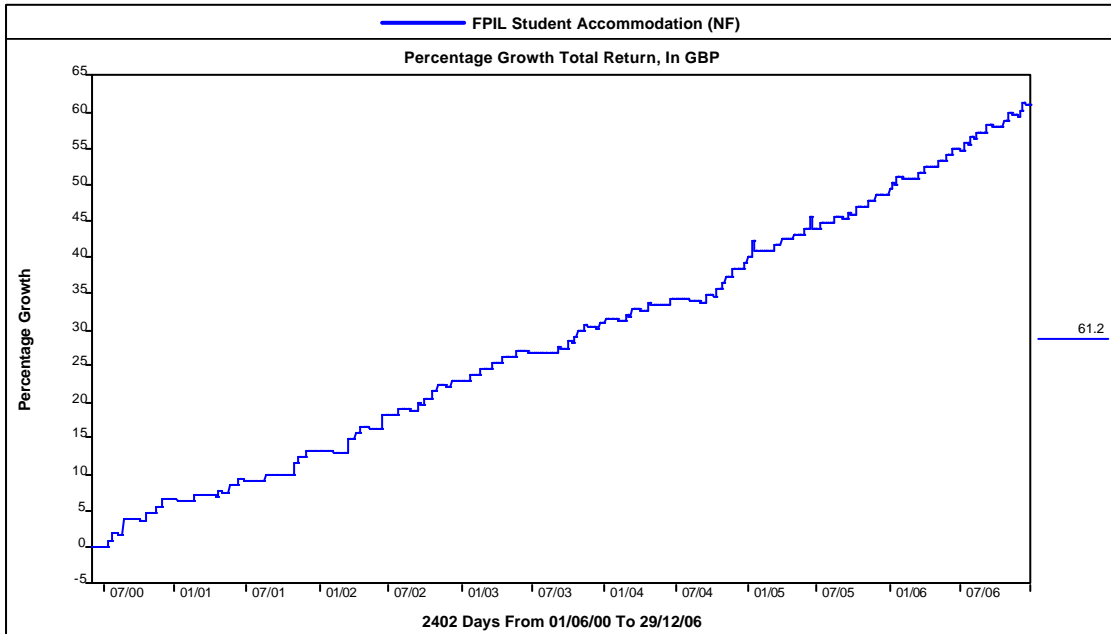
The outlook for the student accommodation fund is positive, demand for quality accommodation continues to far outstrip supply. The managers continue to see attractive opportunities to generate positive returns:

- Excellent investment opportunities and asset characteristics;
- Brandeaux was an early entrant in 1999 and is now the fastest growing fund manager in the student and key worker sector;
- Strong market position;
- No negative performance since launch;
- Low volatility and consistent positive returns.

Source of statistics Brandeaux Advisers (UK) Ltd unless otherwise indicated

FPIL Student Accommodation Performance

The FPIL Student Accommodation mirror fund has consistently produced positive performance – over 1, 3 and 5 years the fund has returned 8.0%, 23.2% and 42.2% respectively (Source: Friends Provident international Limited. Figures as at 16 November 2006, performance net of all fund charges).



Percentage Growth over individual years as at 31 December					
Years	2001-2002	2002-2003	2003-2004	2004-2005	2005-2006
FPIL Student Accommodation	8.44	6.47	6.98	6.61	8.00

Source: Lipper, gross income reinvested

Past performance should not be viewed as an indication of future performance. Fund prices may go up and down depending upon investment performance and are not guaranteed. Your clients may get back less than you paid in. Fund prices and performance figures are net of annual charges.

Important Note

Property is an illiquid asset. Where a fund invests in properties, sometimes the properties may not be so easy to sell and this means that this fund cannot guarantee to be completely liquid during the lifetime of your investment in it. It must be recognised that an investment in a fund of this type may have liquidity constraints in the future that may lead to delays in the switching or liquidation of fund units.

Definition of a Mirror Fund

Friends Provident International Limited (FPIL) has set up its own fund that invests exclusively in the underlying fund(s), apart from a small amount that may be held as a cash balance. This means that the price of the FPIL mirror fund will be different from the corresponding fund but will move mainly in line with it.

FPIL has produced this guide to the Fund. It is for information only and should not be considered as a financial promotion. Whilst every effort is made to ensure the accuracy of the information, it should not be relied upon for buying and selling decisions.

It is important to remember that, as with most investments, the value of your clients' investment is not guaranteed and can go down as well as up. Therefore we suggest that your clients only invest money that can be committed in the medium to long term. Your clients should also bear in mind that securities held within a fund may not be denominated in the currency of that fund, so unit prices may fall purely on account of exchange rate fluctuations.

Past performance should not be viewed as an indication of future performance. Fund prices may go up and down depending upon investment performance and are not guaranteed. Your clients may get back less than they paid in. Fund prices and performance figures are net of annual charges.

The unit-linked products through which your clients may invest in this fund are not designed for early surrender and a discontinuance charge may be applied. This fund is intended for medium to long-term investment.

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Friends Provident International Limited

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Incorporated company limited by shares. Registered in the Isle of Man No 11494

Authorised by the Isle of Man Insurance & Pensions Authority and regulated by the Financial Services Authority for the conduct of investment business in the UK. Provider of life assurance and investment products.

The rules and regulations made by the Financial Services Authority for the protection of investors will not normally apply to persons resident outside the United Kingdom.

FUND DETAILS

Fund Code: J99

Currency: Sterling

Bid/Offer spread: 7% on certain contracts. Please refer to the individual product brochures for details.

Administration charge: 1.2% per annum.

Product Links: The Fund is available across the entire FPIL product range.

Dealing: The Fund deals weekly.

Risk/Reward profile: FPIL Risk Grade 3 – this fund is a focused specialist investment.



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