

Alps Mutual Funds Services

Moderator: Marc Rappaport
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11:00 AM ET

Marc Rappaport's comments:

At Alpine we're committed to regularly keeping you informed of what our thinking and strategy is at Alpine, and we thought a call would be particularly useful during the heart of tax loss selling season. At this point, it's important to state a few things up front:

1. One, our funds have no leverage.
2. Two, the monthly dividends on all our funds is perfectly intact.
3. And three, our funds have no direct exposure to sub-prime lending companies.

Our comments are going to be brief today and we really want to just open the call up to hear a lot of your questions, the main purpose of the call, and to be responsive to you.

Steve Lieber's comments:

- Each of our portfolio managers has demonstrated success in investment research
- Our focus is not on market trends and index participation. The focus is not just industry or company, it is management, competition, and evaluating potential.
- Their focus is also on broad economic insight in today's volatile market, with sensitivity to the risks generated by domestic and international currency and credit problems. They have effectively moved through the short-term challenges and are building portfolio strength through longer-term turn-around opportunities.
- Our Fund Managers have the additional support of a dedicated group of security analysts who are working with them in achieving the goals of these funds. I am pleased to tell you that since our last call, this team has been enlarged. We have broadened new capabilities, and we have further scanned the world of opportunity as we had every intention of doing and will continue to do.

Sam Lieber's comments:

Real estate is a cyclical industry and currently, the market is very much focused on the negative side of that cycle. Our view is that the U.S. is in the middle of a deleveraging process brought about initially by the sub prime situation which is having, of course, a broader impact on the overall CDO structured finance market. That said, there is much debate in the market and of course a lot of fear and concern that this could even lead to a recession next year. We're not so sure that's the case but certainly we're going to see a slowing economy with mortgage resets and other issues impacting consumers.

On the other hand, our fund is global and our investment approach we have with all three of our funds here is truly global. And we look for opportunities around the world. Our view is that the U.S. may be slowing, Europe may be slowing a little bit, but we don't think that there is going to be a dramatic global recession in the offing.

So I would suggest that there is a heightened level of fear. And as often happens in the equity markets and sometimes the debt markets, they can overreact. We're not suggesting that the worst is past. There is still considerable uncertainty in the marketplace. But we think that provides opportunity.

Finally, as it applies to real estate, we believe that we've seen considerable pullback in the market, but not necessarily in terms of prices or rents. We feel there has been a retrenchment of the highly leveraged aggressive buyers, who are no longer in the market. But this is creating opportunities for many public companies that are more conservatively positioned in their balance sheets. This applies in the U.S., and equally in Europe.

Jill Evans' comments:

We would say with today's soft retail sales numbers and the benign PPI data, we believe that the odds of a fed rate cut in December continues to rise and that should be supportive for the equity markets.

We think there's been really three major themes that have caused the recent market volatility.

- 1 - global financial risks escalating.
- 2 - oil approaching \$100, and
- 3 - a disappointing third quarter earnings season with tempered growth for the fourth quarter.

In the third quarter, year over year EPS actually declined 2% versus an estimate of an increase of 5% as much as a month ago. So we really had a big earnings miss in the third quarter and the fourth quarter outlook has also been revised down substantially from a high of about 12% to about 5%. So that really has been a lot of the -- attributed to a lot of the slowdown in the markets lately as stocks have reacted to this revised earnings outlook. Actually about four of the categories had negative earnings in the third quarter. Those are discretionary, energy, materials, and financials. And those attributed to most of the decline. But interestingly, six categories actually had double digit earnings growth in the third quarter. Technology, healthcare, telecom, industrial, staples, and utilities. So the point is that there's still opportunity out there for strong earnings growth, you just need to be selective and do your homework. And that's what we do at Alpine, we pick our stocks on a stock by stock basis.

So versus June 30th, we've made some similar adjustments to our portfolio based on the earnings outlook. We've lowered our weightings in financials and energy and we've added to materials, technology, and industrials, many of which had gotten very oversold in the summer sell off. Actually our best performance in the third quarter were in these sectors with some of the names rebounding more than 25% in the quarter. And on the defensive side, we've added to our global telecom exposure with also several very attractive names that have been hit, we've been able to pick up. And lastly, we continue to be very cautious on the consumer, and we've continued to trim our retail exposure.

Kevin Shacknofsky's comments:

In both AGD and AOD, our primary international exposure is in the U.K., Europe and Australia. We like these markets because the dividend yield in these markets is double the yield that you can obtain in the U.S. Our positions have been helped in these markets through rising currencies with markets like Australia and Norway that are up 11% and 16% year to date, respectively. The Euro has also performed well, up 12% year to date. However, there have been some companies in our portfolio with U.S. dollar sales whose share prices have been adversely affected by this move. We have preferred companies who are naturally hedged and have matched the cost base currency with their revenues currency and this provides us long-term certainty in earnings.

We are still of the view that the U.S. dollar is in a secular decline and we have not hedged our currency exposure of the portfolio as a whole. Next year we see growth slowing in Europe and the U.S., yet emerging growth staying relatively strong.

In our top ten holdings we own Nokia who controls more than 50% of the cell phone market in China and Nestle who is almost 30% of the sales from emerging markets. We also like the infrastructure space which is less economically sensitive and is based on government spending. In our top ten holdings we own ABB which provides equipment for building electricity distribution networks, and BHP in Australia which provide the key commodities, iron ore and copper, which are used to build out infrastructure. And with that I'd like to pass back to Marc.

Marc Rappaport:

Shawn, as our technical moderator, could you please now open up the line for questions from the group?

My question relates only to AWP -- I'm extremely disappointed in the steady downtrend of the fund. What are your thoughts on whether investors should stay with it, or what can you do to encourage me to say, hey, maybe I should be buying in because the current distribution rate is over 10%?

Sam Lieber:

I think we've been hit by a confluence of events that have impacted the share price. But let me talk numbers, okay? As of August 16th, which was the bottom, our NAV is up 4.4% and that's not even including the dividends that have been paid out on a regular basis. So we've had roughly a 10% annualized rate since that time on the share price. So we have made positive progress and indeed we're pleased with that. But we're not pleased with the share price which has declined by 3% since that time. And I would tell you that what we have seen in the last month in particular where the NAV has fallen in line with the indices by the way, a little bit better than our competitive group by a couple, by about 200 base points since October 10th which was roughly the high of the prior bounce back from the summer lows. And that tells me that we are getting a turnover in shareholder base because it's frankly a newer fund and because even though we've had superior NAV performance since this fund has been public, that the market is now in tax loss selling season. And I think that's what's been impacting us, particularly over the last month where we've seen this excess increase, shall I say, in our discount by about 10%. I think we're nearing the end of that. We believe in the fundamentals of the portfolio, we believe in the fundamentals for real estate going forward, and we believe that the yield is extremely

attractive, that if we can buy NAV at a significant discount, 15% discount or so, that it behooves us to be in the market.

Do you have a cushion built in of earnings so far for future dividends?

Sam Lieber: We have a cushion as far as the upcoming dividend, but we are just trying to make sure that we've got a lot of growth in this opportunity because candidly, if we took 100% of the portfolio and dedicated it just to the dividend, we would be able to provide a very, very significant cushion every single month. But our goal is also to make sure that we are buying opportunities that will create NAV later this year, next year, the year after. So I would tell you that a significant portion of the portfolio is dedicated just to creating the dividend, but if we need to increase the proportion of the dividend to add more income capacity, income earning capacity, we will do so.

What would have to happen in the markets to potentially cut the dividend? I know it's secure at this moment, but what might have to happen to potentially put that at risk?

Jill Evans:

In all of our funds, we are very conscious of over earning our dividend. We do a lot of planning and a lot of forecasting of future dividend yields. So I can assure you at this point we are, all of us here, more than earning our dividend and have already projected into 2008 where the future dividends are going to come from. So I can just assure you we do this on a daily basis and we're making sure that the dividend is our number one priority.

Sam Lieber:

Just to amplify what Jill said, looking at this from a purely hypothetical perspective, if we were to see a global recession, then I think we would clearly have the impact on share prices. But because we focus on dividend capture, rotating the shares, we are able to take advantage of the resets in the marketplace. But if, let's say a company that was yielding 5% all of a sudden was yielding 10% from a global recession, we would be able to go out and capture those dividends at those levels. Yes, we would have taken an NAV hit in other stocks that we might have had, and hopefully our stock and sector selection will support, provide outperformance. But the bottom line is that we would be able to capture it at higher yields. So I think that in even in a significantly deleterious environment, we would still be able to focus on achieving a dividend payout.

You've mentioned there are plenty of opportunities out there with the drop in the market. With the closed end funds, what kind of cash available do you have in order to take advantage of this?

Kevin Shacknofsky:

At various times we run at around 5% cash level and when we see opportunities we have used that. When we don't have that cash cushion and the market does drop, what we do is a sector rotation. So what we will do in periods of extreme volatility, is we will take out boring names who there's no profit taking and go into good names which are getting thrown out with irrational fear in the market and profit taking

What accounts for that dramatic fluctuations in the NAV of the funds?

Sam Lieber:

We've seen quite a bit of volatility in the marketplace. There are various risk measures out there -- there's one you can all look at called the MRI City or City MRI Index which is a measure of risks in the marketplace. You'll notice that that index peaked back on August 16th. It then came down by August 15th. There was much more good feeling of potential recovery in the marketplace, that much of the pre-announcements of problems in the banking sector had been absorbed, and so a lot of the concern was gone.

Obviously that reaccelerated in the last month as of course many individuals feel that perhaps we're not done with all of the potential problems from the sub prime fall out and the structured finance fall out and of course risk premiums have risen again. So basically that has been the backdrop that has impacted share prices globally and in particular has impacted the real estate stocks.

So we see this is as, again, a combination of tax loss selling, also creating opportunities and various funds being impacted candidly in the real estate sector from redemptions which we have not seen in our international fund nor obviously are we seeing in the closed end fund. So we think this puts us in a pretty attractive position to buy these stocks when others are forced to dump, or as Kevin said, people are throwing out the baby with the bath water.

Are you buying AWP on these dips? Is the company buying it?

Sam Lieber:

Yes. We are buying it on the dips and I am buying it personally, my father is buying it personally. We have clients who are buying it. We've had directors buying. So I think it's -- what can I tell you? If I can buy a stock, any stock in the market, at 15% discount and throwing off the 10% yield, and I think it's got growth potential, I'm an idiot not to do so. So I'm doing so.

Why is AWP down 25%? We averaged down when you did, when it was \$18 a share, we averaged down to \$16. I cannot ask people any further to take any more risk than they've already done. Unless we get some kind of result in terms of reversal of what's going on I have major problems with this type of an investment. Those are my questions.

Sam Lieber:

I appreciate your dilemma re vis-à-vis your clients. I think the assurances that you need unfortunately are in the data vis-à-vis other funds. I mentioned earlier that since we started back in April we've outperformed our competitors by about 400 basis points for the established funds back at the end of April. And that's in terms of NAV. Over the last month, we've had roughly 200 basis points of NAV outperformance on those funds.

What we're seeing may be partially reflecting shorts in the stock, I don't doubt it given the nature of different kinds of investment interests in the marketplace these days. But fundamentally what I think we're seeing are people giving up, people taking tax losses now. Maybe they'll get back into the fund a month from now, but I think that this decline in NAV from \$19.05 to \$16.80, add back the \$0.45 of dividend that's been paid out, suggests that \$1.80 decline has not been that dramatic given what's happened in the marketplace. And this is where we hope to see the opportunities. We are looking for

this fund to be positioned to make money over the next six months, the next nine months, the next 12 months. And I think that again, unless you see a global recession, then maybe this is a unique opportunity to buy real estate on the cheap. The kind of opportunity we haven't had since 2003, 2004.

And the point here is that we're buying stocks, particularly in Europe, that are down significantly. We still think there are good growth prospects in Latin America and in Asia and we're invested there as well. But I've got to tell you that this is not unusual to see a pullback of this magnitude on the order of 10, 12, 15% almost on an annual basis among these stocks over the past several years. Yes, there's been a broad rising trend, but there have been pullbacks every year, even in the REIT market in the U.S. So I would tell you that this has been amplified unfortunately by the 22% increase or rather 22% impact of significant discount growth in the portfolio from the original IPO price to what we've seen today. And to see a discount on these levels is extraordinarily high, even in the closed end fund universe from our perspective, and I think that your clients should at least try and sit through tax loss season and see where they are at year end before you make a decision.

Worst case scenario, how low do you think this thing can go? I mean, I'm not asking you to look into a crystal ball, but last time we had the call you were pounding the table that you were buying the stock for yourself at \$18.00

Sam Lieber:

The SEC would hang me from the highest yardarm if I gave guidance as to where we're going to go, not that I even know. But to be candid, if we see a global recession, there's risk of some more NAV decline. We would -- if we think that there's going to be a global recession and it becomes more apparent, we will pull in our horns even more. We will be very, very conservative, but candidly, I don't see that. I see perhaps, perhaps a recession in the U.S. next year but quite possibly not, more likely not.

And so that said, that means that there should be GDP growth, there should be income growth, there should be demand for real estate continue to grow in a number of markets around the world. And if we're just at a mid cycle pullback similar to what we saw in '96 and '97 period, there was good upside after that. And I would suggest that you unfortunately are in the unenviable position of telling your clients to sit tight for another month or two, sit out, see what happens. Because I think the dust is going to clear come the beginning of the first quarter next year when all the bad news of different banks or financial institutions who have been impacted by this situation, will have to come clean in the U.S.

But I think we're starting to see a spread in terms of growth prospects and in terms of market performance away from the U.S. And once the Europeans have comfort that the Swiss banks, the German banks, the Dutch banks, and the Belgium banks, as well as the Italian banks, don't have that much exposure to sub prime, then I think Europe will start to pick up as well.

You mentioned that you don't have any direct exposure to sub prime issues. What kind of indirect exposure that might affect the price of the fund?

Sam Lieber:

We don't have direct exposure, in that we don't own companies that are issuing or creating or own sub prime. We're not exposed to that side of the business. The indirect exposure is that any company that uses capital markets for finances is being impacted by this.

Since the fund is in U.S. dollars, isn't there a weakness right off the bat with the weak dollar?

Sam Lieber:

Basically -- we have made money in some currencies. Now that said, there was a dollar rally during the summer which did erase some of the early gains in foreign currency. That has reversed again and the dollar has weakened as we've seen with the pound at 2.10 and the Brazilian reais got to 1.75, we're pulling back a little bit. But basically, look, the scenario here is that we've actually made a little bit of money on currency. Not as much because a lot of it was done earlier in the year.

Steve Lieber:

Our managers have been very skilled at selecting investments in currencies which have been rising relative to the dollar, So we have been making money in a number of countries. It has been I think one of the most effectively employed resources of our investment skills has been the selection of the right currencies. And that's where we have in effect been protecting money, not risking it.

If you were cautious on real estate at the beginning of the year, why did you bring this out at that time period when you were cautious on the real estate sector?

Sam Lieber:

Yeah, we became cautious on the currencies. We think that when we're trying to come to the market, we're looking for growth potential in the real estate and we're looking at it obviously not just on a three month view or a six month view. And we can't time the market that way. But what happened was, candidly, we saw some front running of our funds in the beginning of May right when we came out. And certain stocks that were in our international portfolio started running up dramatically right in the beginning of May after we received our money.

So we became cautious that maybe there were some games being played out there. We also were cautious on Europe and our focus had been more on Asia. So we invested more in Asia and we stayed in the what we thought were the premier companies there. Basically, where we were absolutely correct on Europe and we've been buying Europe, again, partly getting our hands bloody buying some of those daggers, taking incremental positions now over the last couple of months. But I'll tell you that we were cautious on Europe, we were bullish on Asia. And now we're still positive on Asia, albeit the valuations are not quite as cheap. But we're quite bullish on the valuations in Europe. So it's a little more complex than just that previous statement. I hope that clarifies it.

We were sold on this as this being a clone to your open end EGLRX. Was that a correct -- was the guy that sold us that, was he correct or do you think, Sam these are similar funds? Are they supposed to work about the same?

Sam Lieber:

several differences. One, this is global, the other one is purely international. So we do have an overlay in the U.S. Two, we have to have a portion of the portfolio, a significant portion, where we are putting the dividend capture engine in there. So we're plugging in dividend capture and on top of that taking the global real estate portfolio. Third, we're focused on what we believe are premier properties and companies so it has a slightly different bent, but you will find at the end of the day that our top holdings have considerable alignment between the different portfolios.

Outside of just value and these year end issues with the closed end in particular, are there any potential catalysts that you could see out in the next six to 12 months that would serve to provide some excitement for global real estate?

Sam Lieber:

Okay. Quickly, look, the story of the catalyst is going to be M&A. The catalyst is also going to be rate cuts. The Bank of England tipped their hand today a little bit and we think the fed will continue in this direction, so there will be more liquidity. Over time, once the market has higher confidence in what is AAA -- remember, the problem has not been in the junk debt so much. It's been in the AAA. We've had a lock up in the short term markets, not so much for others of the capital markets.

You've got tax loss selling now. We think that's going to lift. Secondly, we're going to see markets focus, people focusing more on next year over the next few months. We think -- as they look at what the supply and demand situation is on the ground in different markets, there's going to be a much better understanding of what the potential is and then we're going to look for where we see rental growth.

Thirdly, I think there's going to be M&A activities I eluded to. We've seen rumors of that already. One stock that we own just today, over the last two days is up 15% based on speculation that there might be a deal announced. Now I think it's purely speculation, but nonetheless, that will be a factor in the market when M&A starts to come back more importantly.

So I actually think there are a lot of positive factors that will come through over the next six months and I think we're just -- just as we talked to you at the bottom of the market back in August, we're talking to you at the bottom of the market effectively now, I believe. And that's I think takes a little bit of guts, but it's frankly it's the way to treat investors.

For Jill and Kevin, you mentioned that you were cutting exposure to the financials and the energy stocks. Has anything changed from the summer when you were doing that, i.e., were you interested in the values perhaps that had been created in Countrywide, India Mac, any of that stuff? Thanks.

Jill Evans:

On our sector rotations, we did lighten up on the financials over the summer and interestingly, a major event was the third quarter reporting season where you really saw the men separated from the boys. And our take on the financials is that we are really looking at an add in to the higher quality financials that really got thrown out here. So the way that we're approaching the financials is that we are looking to pick up some of these higher quality names that have been beaten up and we think in the end they're going to do well. And it had, some of them had a great rebound yesterday. The question specifically India Mac, Countrywide -- no, not at this point. We don't feel like there's enough clarity there yet to step in. We're seeing more clarity in these other financials, so no, we don't feel it's the time to step in right now on those names for our portfolio.

And on oil, it's interesting -- Kevin and I are constantly rebalancing each of our sectors versus high beta or low beta opportunities. So oil right now, interestingly, as oil has approached \$100 a barrel, the integrators have actually not participated and as expected, you would expect that as oil prices rise, demand would be impacted. And then the IEA came out yesterday and cut their oil demand outlook. So

we have been rebalancing our energy portfolio away from integrateds which we think are going to be hurt by these higher oil prices. And we think oil is going to come down and we've been rotating into services that will benefit because regardless really of the price of oil, they're going to be servicing the rigs and all the oil infrastructure out there. So this is something that we do on a daily basis. You see by our pie chart we still have financials, we still have energy, but Kevin and I are repositioning where we see the opportunities are really on a daily basis.

Marc Rappaport:

And I just want to emphasize that again, we take a longer term view. We're not going to shift an entire portfolio overnight, but we'll take a balanced view in terms of how we reorient the portfolio. We will retain opportunity -- look for opportunities in different sectors where we see them. So again, you won't necessarily see us move out of financials 100% as Jill suggested. We'll take a little more gradual approach.

Could you just give a quick overview on the difference between your two funds, the Total Dynamic Dividend and the Global Dynamic Dividend? And if you could just comment quickly on kind of what seems to be a crowded dividend capture space as well, with everybody kind of talking the talk.

Jill Evans:

On the AGD versus AOD, AGD was brought out to be a qualified dividend fund. So we haven't gotten the final numbers but we're estimating over 80% of the dividend for AGD will be qualified for the reduced dividend tax rate. And our goal was to go global and that's what we did in the AGD. And then when we were marketing AGD, a lot of investors said to us, this is great, but you know what? We have your funds in tax free accounts where we're not tax sensitive, what kind of dividend could you give us if you haven't, aren't handcuffed by the qualification rules? And that's what AOD was about. We came with AOD telling the market in the prospectus we'd be about 30 to 50% in qualified dividend. So that really freed Kevin and I up to go into different countries and different securities that don't qualify for the qualified dividend yield.

Kevin Shacknoffsky:

This is Kevin. If you want to know the direct overlap between AGD and AOD, it's around 40%. So there is an overlap, but the main difference between the two funds, obviously one is a \$5 million fund, one's a \$4 billion fund and we're very concerned with liquidity when we do our investing. We don't like to -- we would preferably like to get our stock within one of two days if we take a position to mitigate risk. And therefore, AGD has a slightly different universe that it can invest in versus AOD. And in terms -- so that's the main real difference in terms of the investment universe.

You think that's the reason why the price to NAV has stabilized versus the discount in the other one?

Sam Lieber:

No, actually -- I think what's interesting is that if you look at funds that came out this year, '07, versus funds that were kind of aged -- better yet, if your fund came out and the NAV is higher than the IPO price, your shareholders are not at a loss. At the market price actually, if it's higher than IPO price like AGD, shareholders don't have any loss, they don't have any tax loss selling. And conversely, if you

came out this year at 20 like AOD did, and the price is a little below that, you do have an opportunity to book a loss. And so selling pressure that would apply to a fund like AOD would not apply to AGD.

Sam Lieber:

And even though and by the way just to amplify, even though the dividends may make up for the price differential between the IPO price and where it is now, i.e., the total return may still be solid and positive, the investors see a slight decline and that's it. But fundamentally we're in a market now where there's a lot of tax loss selling affecting the closed end fund universe. And as Marc suggested, the funds that were sold this year as opposed to last year have not necessarily found a stable shareholder base. One would like to think that all the shareholder people who buy in are happy to stick around, but a lot take those losses now and harvest them and look elsewhere for their investments. So we think that it's a period of stabilization that we're unfortunately going through now, too.

Kevin Shacknoffsky:

You also mentioned how, what's the competition out there for dividends with all these other dividend plans that were raised this year. I've been actually tracking them on a daily basis and remember that these funds had a slightly, or actually a dramatically different strategy to us. They used leverage and most importantly, they used covered calls. And I've actually tracked correlation on a daily basis to the performance of these funds and we actually have a very, very low correlation to these funds and that tells me that we're not directly in the same universe and they're investing less in the universe that we're investing in. And in terms of our trading, we haven't really seen it yet in our trading. So look, at the end of the day, the dividend capture universe on multi cap companies which trade billions of dollars a day and it would take a really large universe of dividend capture funds to affect that they way they trade.

What is the prospect of converting the AWP to an open end fund to pick up the pop on the discount?

Sam Lieber:

There is no prospect that I foresee. I think the board is aware of various things that we can do to help support the NAV, but -- rather the discount becomes extreme, and certainly we're mindful of those opportunities, those situations. But as long as the board is comfortable with how the fund is performing on a fundamental view, they're not going to be impacted by short term dislocations in the market which is exactly where we are now. So this is meant to be, to benefit from the closed end fund structure which enables a more efficient dividend capture process as opposed to having an open end structure where you've got flows coming in and diluting income already earned or money being pulled out and forcing shifts in the portfolio that might impact the optimization of the dividend capture strategy.

Regarding AWP, I remember we would be rotating on different cycle points off the real estate market and I understand that's different around the world. I just wanted to see how Sam is positioning the fund now in the U.S. given that it's about 30%. And I was actually surprised to see the increase on the fund in the U.S. to about 30% versus around 21, 22% in the earlier filing. And I was happy to see the increase in Brazil from 2.5 to 4.4 on the other hand. And also, the development in the real estate and REIT markets internationally, that was a big selling point of the fund, the development in other countries. I want to know how that's going, if there has been any updates or if we've been able to capitalize on that already.

Sam Lieber:

You know the issues that you highlight, for example the development of the REIT markets internationally, which by the way is progressing. We've got, we've seen a couple of other countries announce that they're looking at REIT status. That and the cycle itself and the evolution of the cycle is not going to shift dramatically over six months. And real estate is a long term business. These are changes that take place over time. So I would say that I could probably give you better guidance and feel on this another six months or so from now.

I will tell you that we've seen very interestingly in the U.K. a number of projects that were in the development stage, again, addressing the issue of the cycle and which kind of business models to address during the course of the cycle. A number of developments that were planned have been mothballed. So we see that in part because of rising materials costs, up over 12% year to date, and in fact potentially, not necessarily definite, but potentially a softer rental demand market next year.

So I think that that actually is a positive factor. It means the cycle gets extended because the supply maybe isn't going to come on, new supplies are going to come 2010 to 2012. It will be diminished when it does come on, maybe some of these projects will be mothballed until 2015 or so. So I think that's one little bit of information that we can glean and there are other markets where this has happened. Obviously we're still seeing a rapid growth of development activity in China, rapid building in India. We think there are a couple spots where frankly there's going to be a little bit of over development. And we will, as we see that and we see it more clearly, we think we'll be shifting our emphasis by property type. Because it's not necessarily an individual city or market that's impacted. It may just be one property type in a given market. So we're mindful of it on that kind of granular level.

I will tell you that again REITS are coming through, we see opportunities there, and we think that the real impact on the share price has very little to do with real estate in a specific performance sense. It has much more to do with market perceptions. And where we were in the spring was a very buoyant period and a lot of growth was being priced into REITs in the U.S. Rental market in the U.S. at the high end was looking for \$150 to possibly even some building were offering up to \$200 a foot. But basically \$150 foot market people were looking for. Now I think, now that we've seen a number of deals in the \$130s, I think landlords are happy to put a deal in place that's got \$110 or \$115 in rent.

So there's been an adjustment in the psychology but it's also been a psychology in the equity marketplace and that's what we've seen the biggest impact of course. And so the markets have gone from an optimistic perspective on the next six to 12 months to a pessimistic perspective. So you can say that having moved from a glass half full to a glass half empty approach has perhaps led to one of those classic situations where there are valuation disparities and opportunities created. And that's where we think we are. I hope that broadly answers your questions.

I remember last fall we had a significant cash position. How is that looking now?

Sam Lieber:

Well we're more or less fully invested, keeping typically under 5% in cash at any point in time. We don't see -- we think the market has again discounted a lot of the concerns in the prices. So we have some cash available and obviously we can liquefy ourselves in different positions if we wish, but fundamentally -- let's put it this way -- we were, we had very high cash positions at the time of the last call. We have much

less now. That perhaps suggests that we're a little more optimistic about current levels relative to where we're going.

I would like to revisit the year end distribution on AOD please. I read the distribution to shareholder section of the semi annual report indicating that all investment income will be paid out. And I look at what was paid out in the semi annual report and it was only about 40% of what had been earned. It appears that if we project this out to the end of the year, and it looks like the special year end dividend should be in the \$1.50 a share range. Am I anywhere near?

Kevin Shacknofsky:

Yeah, that's a very, very good question. It's good to see someone doing detailed financial analysis of our financial statement. As you know, as you're heard throughout this call, we are very, very focused on generating our dividends. And therefore, during the year if we see opportunities, we will accumulate excess dividends that we need year to date. And you can see that from the financial statement that in October we had generated more dividend income than we had paid out. Now we were actually just creating -- we were just creating like a cushion in case there was any reduction in dividend opportunities. And it was just mitigating our risk. And as you probably noticed from the call, we are a very conservative shop.

And another point to note is that dividend generation is a seasonal business where the seasonality is probably tiered to the first half of the year. I wouldn't project the cumulative amount that you have noted for the rest of the year. We manage our dividend, we manufacture it, and we manufacture to a target. There are moving parts in dividend generation and but we are targeting a certain amount of dividend income that we want to generate. We do not want to generate excess special dividends. It's something that we want to mitigate over the long term. But due to some timing issues, it's sometimes not completely possible. We want to -- all I can say is our current dividend rate is something that we want to sustain and we want to mitigate special dividends.

Sam Lieber:

And if I can amplify Kevin's comments, that we are trying to create a total return story here. So we are looking for growth and we're looking for income. The income is our priority and once we've got that in place, we look for opportunities for additional growth and income. But we do not want to pay out specials that tend to be variable over the course of the year, from one year to another rather, nor will the share price or any NAV be credited for that. So we want to maintain a stable approach, a predictable approach for investors and to try and deliver on that basis.

One other quick question on AOD again. I noticed that in the period of August 13th to August 16th, the fund dropped over 5% in NAV and I wonder if there was any special reason for that quick drop in those three or four days.

Kevin Shacknofsky:

Over that time period I think what was very unique was that there was a fund to fund delevering. This is when these large, highly leveraged hedge funds were de-risking because the risk index had gotten to exceptional levels. And so essentially what happened with these companies is they covered their shorts and they took profits in their longs. Now that hurt us because we were underweight what they were shorting because obviously they were unattractive companies, and we were overweight where they were long because obviously they're attractive companies.

So this was very short term volatility which after a week or two reversed and you saw the NAV grow again. And during this period we were also able, as I mentioned before, to make some very attractive investments in babies that were thrown out with the bath water and we were able to grow the NAV on that as well. Another thing which exacerbated the NAV movement in that period was volatility in currencies. When the comp funds were delivering, the carry trade was getting unwound, and some currencies were -- had short term very large moves. I think in that period the Australian dollar had a 5% move in two days which subsequently reversed the next week. So when strong dislocations happen in the market, there can be volatility in the NAV and unfortunately that has been the case during this year. But we do hope to see the market stabilize and hope to see less volatility in the future.

Basically with regard to the decrease in the net asset value of AWP, How much of that is a paper loss and how much of it is a realized loss?

Sam Lieber:

The main loser unfortunately with the real estate sector where it's trading now. Most of those -- some of those losses have been realized, some have been, are paper. So the majority are paper. And again, as we look at the portfolio from a tax perspective, we want to be able to utilize the longer term losses if there are any. Obviously we don't -- we'd rather have all gains all the time. But that's not the reality right now. So --

Well I remember with Sam's visit to our office, he was very succinct and very explicit about if something doesn't work, we're not going to sit around and wait for it. And I just, I presume and hope that if you guys see an opportunity out there that can be turned by a far better rate of return in your view than sitting and waiting for something to come back after paying the dividend, you would do so.

Kevin Shacknofsky:

From our perspective I can definitely assure you that if something is not working and we don't see any prospects for it, we're actually very happy to harvest the loss because we like accumulated losses that can help us offset any gains, so as we've noted before we're very adverse about paying short term or long term capital gains out to investors. So we see accumulated short term losses as an asset to the fund and we don't mind taking them.