

Definition of terms

The following information has been provided by HSBC Specialist Fund Management Limited and is based on descriptions used in the HSBC Pooled Property Funds publication, which summarises key statistics of over sixty diversified and sector-specialist vehicles that invest in UK property.

Authorised Property Unit Trust

Authorised PUTs are regulated by the Financial Services Authority and, while available to all types of investor, are designed primarily for investment by the private investor. They pay corporation tax on their income but do not pay capital gains tax within the vehicle. Non-exempt investors are potentially liable to CGT on the disposal of their units. Transfers of units are subject to stamp duty at 0.5%. APUTs were originally restricted to holding a maximum of 80% of their assets in the form of direct property. However, this restriction does not apply to APUTs created under (or electing to be subject to) new FSA regulations published in March 2004. (Also see 'COLL')

Average unexpired term of leases

The average unexpired lease term is the average lease term remaining to expiry across the portfolio, weighted by rental income. Unless otherwise stated, it is calculated assuming that all break clauses are exercised at the earliest date.

AREF

The Association of Real Estate Funds. The Association's objective is to raise awareness of pooled property funds and demonstrate their advantages as effective property investment vehicles. Its members are bound by a voluntary code of practice, drawn up jointly with the National Association of Pension Funds. (AREF was previously known as APUT, The Association of Property Unit Trusts.)

Balanced PUT/Balanced Fund

Balanced PUTs and other balanced funds generally hold a wide mix of property assets, diversified both by type and location.

Bid price

Bid price (or redemption price) is the price at which units in a PUT or managed fund can be redeemed. It is based on NAV, less an adjustment for the costs of potentially disposing of the underlying property, and divided by the number of units in issue. The basis of calculation may differ in detail from fund to fund.

Bid/Offer spread

The difference between bid and offer price expressed as a percentage of the offer price.

CGT

Capital gains tax.

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Closed-ended Property Unit Trust

The number of units in a closed-ended PUT is fixed at launch. Such vehicles normally have a limited life (usually of between seven and 12 years). There is no obligation on the manager to redeem units as there is in the case of an open-ended PUT).

'COLL'

COLL is the short name for the New Collective Investment Scheme Sourcebook published by the FSA in March 2004. This created a new class of authorised funds, called 'non-UCITS funds' which include Authorised Property Unit Trusts (APUTs). These APUTs may be 100% invested in direct property compared with a maximum of 80% under the old regulations.

Collective Investment Scheme

An arrangement allowing a group of investors to benefit from the acquisition, holding or disposal of one or more properties.

Common Investment Fund

Common Investment Funds are similar to unit trusts but are designed specifically for charities and established under Section 24 of the Charities Act 1993. Common Investment Funds are themselves charities and are therefore subject to approval by the Charity Commission. As charities, they do not incur stamp duty when acquiring properties for investment, and are exempt from capital gains tax and income tax.

Distributing Fund/Distributor Status

A distributing fund is an offshore fund that distributes the whole, or substantially the whole, of its income. It also has to meet certain other conditions relating to its assets and investments. Capital gains arising from investment in those offshore funds that are certified as distributing funds are taxed as capital gains in the hands of UK taxpaying investors and, as a result, CGT reliefs (such as indexation, annual relief and taper relief) are available as normal. Under UK Offshore Funds Legislation, capital gains arising from investment in offshore funds that are not certified as 'distributing funds' are classified as offshore income gains and are taxed as income in the hands of UK taxpaying investors, with the result that normal CGT reliefs are not available. Distributing fund certification is received annually and is retrospective, with funds applying for certification not later than six months after their year-end.

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Equivalent yield

Equivalent yield is a weighted average of the initial yield and reversionary yield, and represents the yield a property will produce based upon the timing of the income received. Nominal equivalent yields assume that rents are received annually in arrears, while true equivalent yields are based on rents being received quarterly in advance. The latter are a more accurate reflection of the return that an investment will produce based on the timing of the income received.

Estimated rental value ('ERV')

Estimated rental value is the valuer's opinion as to the open market rent that, on the date of the valuation, could reasonably be expected to be achieved on a new letting or rent review of a property.

Exempt Funds

Investors such as UK pension schemes and registered charities that are not subject to CGT other than for reasons of non-residence.

Exempt unauthorised PUT

Exempt PUTs are available for investment only by exempt funds. They are not subject to CGT. Their income is taxable at the basic rate of income tax, but this is fully recoverable by investors. Transfers of units are subject to stamp duty at 0.5%.

Feeder fund

A fund which is 100% permanently invested in the units of another fund.

Fund of Funds

A fund which invests all (or substantially all) of its assets in other funds.

Gearing

Gearing is defined within this note as net debt, on and off balance sheet, as a percentage of net asset value.

Gross yield

The gross yields (or Historic Distribution Yields) per unit shown within *Pooled Property Funds* are the gross distributions to unit holders over the preceding 12 months as a percentage of the net asset value per unit at the end of this period.

Hurdle rate

The hurdle rate is the percentage return which a fund must achieve before a fund manager will become entitled to a performance-related fee.

Initial yield

The initial yield shown by a property is the annualised net rent that it generates as a percentage of its valuation.

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ICVC

The initials 'ICVC' stand for an Investment Company with Variable Capital. An ICVC is an open-ended collective investment scheme structured as a corporation. (ICVCs are also known as open-ended companies or 'OEICs'.)

INREV

INREV is the European Association for Investors in Non-listed Real Estate Investment Vehicles. Its aims are to improve the accessibility of market information and the liquidity of the non-listed real estate investment vehicle market.

IPD

IPD (Investment Property Databank) is the market leader in the provision of performance measurement and benchmarking services to the property investment industry.

Limited Partnerships (LPs)

LPs were created under the Limited Partnerships Act 1907 and, while they vary in their structure, they have the common feature that at least one partner, the general partner, must have unlimited liability in respect of the partnership. The liability of the other partners is limited to the extent of their capital invested in the partnership. LPs are tax-transparent, allowing the likes of pension funds and insurance companies (which are either wholly or partly tax exempt) to invest jointly with tax paying entities such as property companies without losing their tax advantages. The limited partners may form an advisory committee, but to preserve their limited liability status, must not be seen to be making investment management decisions with respect to the partnership. LPs normally have a pre-determined life span (typically 7-12 years) although this can usually be extended subject to the agreement of, say, 75% of the partners.

Limited Liability Partnerships (LLPs)

LLPs were created under the Limited Liability Partnerships Act 2000 and are something of a hybrid between a limited partnership (LP) and limited companies. As with an LP, the liability of the limited partners is limited to their capital invested in the partnership, and the vehicle is, effectively, tax-transparent. However, like a company, an LLP is a 'body corporate': it has to be registered with the Registrar of Companies and (unlike an LP) must file audited accounts. Again in contrast to LPs, LLPs are permitted to have more than 20 partners, making them a more suitable structure for larger collective investment vehicles.

Managed Property Funds

Managed Property Funds are similar to Exempt PUTs in operating effectively free of tax, in being unitised and being open-ended. However, unlike PUTs, they do not distribute their income and are managed mainly by insurance companies as vehicles for investment by their occupational pension fund clients.

Management fee

Management fees are charged by fund managers for their services in managing a fund. The basis on which they are charged varies considerably and is usually defined in a Fund

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Management Agreement. The size of the fee is generally related to the (net or gross) asset value of the fund.

Mark to market

To mark an asset or liability to market is to increase or decrease its cost or book value to its estimated current market value.

Mid price

The average of bid (or redemption) price and offer price of PUT or managed fund units.

Middle price

Middle price (not to confused with mid price) is the term used by some managed fund managers for Net Asset Value (in the context of the setting of their bid and offer prices).

Net Asset Value (NAV)

NAV is the market value of the assets of a Pooled Property Vehicle, net of all liabilities. The basis of calculation may differ in detail from vehicle to vehicle.

Net rental income

Net rental income is the rental income receivable during a period, after the payment of ground rent and other property outgoings. (It includes income from back-dated rent reviews, and thus differs from annualised net rents/net rents passing, which exclude back-dated rent reviews and other non-recurring income/outgoings.)

Non-exempt onshore unauthorised PUT

Non-exempt unauthorised PUTs are available to both exempt and non-exempt investors. Their income and capital gains are subject to tax at the basic rate of income tax. Exempt investors are able to reclaim the tax suffered by the trust. Non-exempt investors are subject to tax on the gross amount of the distributions they receive from the trust. The tax paid by the trust is fully creditable pro-rata to their holdings to offset this liability. Non-exempt investors are also potentially liable to CGT on the disposal of their units. Transfers of units are subject to stamp duty at 0.5%.

OEIC

An 'OEIC' is an Open-Ended Investment Company. OEICs are also known as 'ICVCs' or Open Ended Companies with Variable Capital (q.v.).

Offer price

The price at which new units in a PUT or managed fund are issued. It is based on NAV, plus an adjustment for the costs of potentially acquiring of the underlying property, and divided by the number of units in issue. The method of calculation may differ in detail from fund to fund.

Offshore Property Unit Trust

Offshore PUTs are resident outside the UK, most commonly in Jersey, Guernsey and Eire. They usually have a local manager or operator, regulated in the local jurisdiction, and/or the

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vehicle will be set up in accordance with local regulations. They do not meet the requirements of either the EU's Undertaking for Collective Investment in Transferable Securities directive or the FSA's regulations with regard to collective investment schemes. Like onshore unauthorised PUTs, offshore PUTs are thus not available for marketing to the general public in the UK, although they are usually available to financially sophisticated, high net worth individuals. By reason of their non-residence, Offshore PUTs are not liable to CGT in the UK, and are normally structured insofar as revenue taxes are concerned to be tax transparent. Non-exempt investors are potentially liable to CGT on the disposal of their units. The transfer of units in offshore PUTs does not attract stamp duty.

Onshore unauthorised PUT

In contrast to Authorised PUTs, onshore unauthorised property unit trusts are not subject to the FSA regulations relating to collective investment schemes (although the operator/manager must be authorised by the FSA). They can thus be constituted to meet investment requirements rather more sophisticated than those of retail investors. Onshore unauthorised PUTs can be either Exempt or Non-exempt.

Open-ended Property Unit Trust

There is no fixed number of units in issue in an open-ended property unit trust. Units can be created and redeemed, depending on changes in investor demand and in line with the procedures set out in the trust deed.

Over-rented

A property is over-rented if the annualised rental income that it generates exceeds its estimated rental value.

Performance Fee

A performance fee is an additional management fee, the size of which depends on the percentage outperformance of one or more predetermined benchmarks.

Pooled Property Fund Indices

PPFI is a quarterly publication, providing statistical information on the performance of, and property assets held by, Pooled Property Vehicles. It is published jointly by HSBC and AREF, and compiled and calculated by IPD.

Pooled Property Fund

An arrangement for the purpose of allowing two or more investors to benefit from the acquisition, holding or disposal of one or more properties.

Portfolio distributions

The portfolio distributions (%) shown in this note are based on each fund's direct and indirect property exposure.

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Property Unit Trust (PUT)

A PUT is collective investment scheme where the underlying properties are held on trust for the participants. While the underlying assets of a PUT are mainly direct property investments, some PUTs also invest in other indirect property vehicles.

Private Property Vehicles

Non-listed property vehicles, including Limited Partnerships, authorised and unauthorised property unit trusts, managed funds and private property companies.

Redemption price

This is the price at which units in an open-ended PUT or in a managed fund can be redeemed. It is based on NAV, less an adjustment for the costs of potentially disposing of the underlying property, and divided by the number of units in issue. The basis of calculation may differ in detail from fund to fund.

Reversionary potential

Net reversionary potential is defined within *Pooled Property Funds* as the change in the rental income that would occur were the rents in respect of the income producing properties in a portfolio to be reviewed to their current estimated rental values (ERVs) Gross reversionary potential of a portfolio is the sum of the reversionary potential of only those properties in the portfolio whose ERV exceeds their current rental income.

Its being 'reversionary', or 'having reversionary income potential', is one of several reasons why a portfolio might currently generate a lower rental income than its ERV. This also arises when properties have been let subject to unexpired rent-free periods, and/or when it includes investment or development voids.

Net reversionary potential is calculated within *Pooled Property Funds* as the difference between rents passing and ERV, less the rental income deferred by rent-free periods and the rental value of investment and development voids. Gross reversionary potential is the same figure plus the amount by which any properties within the portfolio are over-rented.

Reversionary yield

The reversionary yield is the initial yield that a property (or portfolio) would show were it let at its estimated rental value.

Sharpe Ratio

This is one of the best-known methods of calculating risk-adjusted returns, and was devised by Professor William Sharpe in 1966. It is derived by calculating the returns on an investment in excess of the risk-free rate of return (usually the yield on 90-day Treasury Bills) and dividing the average of these risk-adjusted returns over a period by the standard deviation of these returns over the same period.

Specialist PUT/Specialist Fund

Specialist PUTs/Funds focus upon specific types of property or on properties within particular geographic regions.

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Transfer in Specie

A mechanism facilitating the allocation of units or a partnership interest to an investor for property rather than cash.

Vehicle style

Vehicle style is the term used to categorise investment vehicles (under headings such as 'Core', 'Value added' and 'Opportunistic') according to the investment risks attributable to the levels of their gearing and target returns.

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