

Hermes Property Unit Trust

INVESTMENT POLICY AND OBJECTIVES

To invest in a diversified portfolio of UK commercial properties, including, where appropriate, investments in indirect vehicles and joint ownership structures that offer access to attractive asset portfolios and specialist management teams.

The Trust's objective is to outperform Other Balanced Property Funds component of The MSCI/AREF UK Quarterly Property Fund Index in the medium to long term through a combination of income and capital appreciation.

INVESTOR CONSTITUENCY

The Trust is open to investment by exempt funds (UK pension funds, charities and investment trusts).

Fund details

Type of fund	Unauthorised exempt unit trust
Residence	United Kingdom
Launch date	1967.00
Open/closed-ended	Open-ended
Earliest date of winding up	Not applicable
Year-end	25th March
NAV (GBPm)	1510.6

Source: Hermes Real Estate Investment Management Ltd

Management/professional advisors

Manager	Hermes Alternative Investment Management Limited
Property Investment Manager	Hermes Real Estate Investment Management Limited
Investment Advisor	
Portfolio Manager	Chris Mathew
Corporate trustee	National Westminster Bank Plc
Auditors	PricewaterhouseCoopers LLP

Source: Hermes Real Estate Investment Management Ltd

Investment rates of return, %

	Hermes Property Unit Trust	MSCI/AREF UK Quarterly Property Fund Index		
		Other balanced funds	All balanced funds	All funds
3 months	0.6	0.48	0.41	0.14
Year-to-date	2.1	1.46	1.28	0.76
12 months	3.1	2.82	2.19	1.48
3 years+	8.3	7.20	6.70	5.93
5 years+	9.7	8.09	7.51	6.78
10 years+	10.7	8.92	8.53	8.81

Source: MSCI/AREF UK Quarterly Property Fund Index (Sponsored by PropertyMatch)

Property investment restrictions

Maximum development exposure	10% of gross asset value
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Maximum speculative development exposure	
Maximum lot-size holding as a standing investment	10% of gross asset value
Maximum lot-size holding permitted at purchase	10% of gross asset value
Maximum exposure to limited partnerships	10% of gross asset value
Maximum exposure to joint ventures	10% of gross asset value
Maximum exposure to closed and open-ended property unit trusts	10% of gross asset value

Source: Hermes Real Estate Investment Management Ltd

Portfolio distribution %

	Hermes Property Unit Trust	MSCI/AREF UK Quarterly Property Fund Index**		
		Other balanced funds	All balanced funds	All funds
Standard retail – South East	7.5	7.6	7.0	5.7
Standard retail – Rest of UK	0.4	3.1	3.2	3.6
Shopping centres	1.8	1.8	2.4	7.1
Retail warehouses	8.4	13.0	13.1	12.6
All UK retail	18.1	25.6	25.8	29.1
City offices	4.5	3.5	3.6	3.3
West End offices	9.4	7.8	8.2	7.0
Rest of South East offices	15.2	11.4	10.7	7.4
Rest of UK offices	6.8	5.9	5.7	4.9
All UK offices	36.0	28.6	28.2	22.6
South East industrial	24.8	19.4	19.7	15.8
Rest of UK industrial	4.1	10.4	10.2	8.2
All UK industrial	29.0	29.8	29.9	23.9
Other UK properties	11.0	11.3	10.2	19.9
Cash***	6.0	4.7	6.0	4.5
Overall	100.0	100.0	100.0	100.0

Sources: * Hermes Real Estate Investment Management Ltd

**MSCI/AREF UK Quarterly Property Fund Index (Sponsored by PropertyMatch)

Property ownership structure

	Number of assets	Valuation (GBPm)	% of total portfolio
Direct holdings	79	1,419.4	100.0
Joint and indirect holdings	0	0	0.0
Listed investments	0	0	0.0
Total	79	1,419.4	100.0

Source: Hermes Real Estate Investment Management Ltd

Largest direct investments by lot size & percentage of total portfolio

Property	Location	Sector	Valuation (GBPm)	% of total portfolio
MAYBIRD SHOPPING PARK	STRATFORD-UPON-AVON	Retail Park	75-85	5.7
8/10,GREAT GEORGE STREET,LONDON,SW1P 3AE	LONDON	Office	55-65	4.6
BROKEN WHARF HOUSE	LONDON	Other	55-65	4.0
POLAR PARK	WEST DRAYTON	Industrial	45-55	3.9
HORNDON INDUSTRIAL ESTATE	BRENTWOOD	Industrial Other	45-55	3.6
SOHO SQUARE	LONDON	Office	45-55	3.4
SAINSBURYS	BEACONSFIELD	Retail Other	35-45	3.0
THE ROUND FOUNDARY & MARSHALL MILL	LEEDS	Office	35-45	2.9
CAMDEN WORKS	LONDON	Office	35-45	2.7
HYTHE HOUSE	LONDON	Office	35-45	2.6
10 largest investments as % of portfolio			0.0	36.3

Source: Hermes Real Estate Investment Management Ltd

Direct portfolio structure by lot-size bands

Value band (GBPm)	Number of assets	Valuation (GBPm)	% of total portfolio
0 -2.5	18	36.7	2.6
2.5 - 5	7	24.4	1.7
5-10	8	58.7	4.1
10-25	23	408.4	28.8
25 - 50	18	583.1	41.1
50 - 100	5	308.2	21.7
100-150	0	0.0	0.0
Over 150	0	0.0	0.0
Total	79	1419.4	100.0
Average lot size		18.0	

Source: Hermes Real Estate Investment Management Ltd

Property Yield	
Net initial yield	3.95%
Nominal equivalent yield	5.15%
True equivalent yield	5.32%
Net reversionary yield	5.06%

Voids as % of ERV	
Investments	9.15%
Developments	0.00%
Total	9.15%

Source: Hermes Real Estate Investment Management Ltd

Rental income & ERV by type of property

	Rental income %	Estimated rental value %
Standard retail	7.9	6.6
Retail warehousing	12.0	10.4
Shopping centres	5.6	5.1
Central London offices	11.9	12.9
Other offices	25.9	27.2
Industrial	29.2	28.8
Other	7.4	8.8
Overall	100.0	100.0

Source: Hermes Real Estate Investment Management Ltd

Comparison of rents passing and ERV by type of property*

Sector	Rent passing %	Pre-lets & rent-free periods %	Development voids %	Other voids %	Over rented %	Reversionary potential %	Net reversionary potential %	ERV %
Standard retail	91.6	3.5	0.0	1.4	-0.8	4.3	3.5	100.0
Retail warehousing	88.8	5.2	0.0	9.3	-11.9	8.6	-3.3	100.0
Shopping centres	84.2	4.3	0.0	13.9	-4.3	1.9	-2.4	100.0
Central London offices	71.0	9.7	0.0	9.7	-2.7	12.4	9.7	100.0
Other offices	73.3	7.2	0.0	12.6	-1.3	8.1	6.8	100.0
Industrial	78.1	6.3	0.0	8.0	-1.5	9.0	7.5	100.0
Other	64.4	39.1	0.0	0.0	-6.6	3.0	-3.6	100.0
Overall	77.0	9.5	0.0	8.8	-3.2	7.9	4.7	100.0

*Comprising the ERV of developments in progress or contracted which have not been pre-let

Source: Hermes Real Estate Investment Management Ltd

Listed Investments

	% of Issue held	Valuation (GBPm)	Est. % of total portfolio
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0	0.0	0.0	0.0
0	0.0	0.0	0.0
0	0.0	0.0	0.0
0	0.0	0.0	0.0
0	0.0	0.0	0.0
0	0.0	0.0	0.0

The unexpired term of leases

Years	% of rent passing
20 years or greater	5.5
15 years or greater, but less than 20	0.1
10 years or greater, but less than 15	5.0
5 years or greater, but less than 10	28.2
Less than 5 years	61.2

Source: Hermes Real Estate Investment Management Ltd

Joint and indirect property holdings

Holdings	Sector	Joint/Indirect	Vehicle Type	Ownership %	Valuation	Est. % of total portfolio
0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0
0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Hermes Real Estate Investment Management Ltd

Debt analysis

Fixed rate borrowings			Variable rate borrowings		
Amount drawn (GBPm)	Average rate (%)	Average unexpired term (years)	Amount drawn (GBPm)	Rate above LIBOR (incl expenses) (%)	Off balance sheet debt (GBPm)+
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0

Source: Hermes Real Estate Investment Management Ltd

Development exposure*

	Capital value of developments			Cost to complete schemes in progress+
	Not yet started	In progress+	All developments	
GBPm	0	0	0	0
% of all directly held properties*	0.00%	0.00%	0.00%	0.00%

* Includes joint ventures in which the Fund has an interest of 50% or more

Source: Hermes Real Estate Investment Management Ltd

Valuations/performance monitors/affiliations

Frequency of valuation	Monthly, on 25th of each month except for 24th June and 29th September
Valuers	Knight Frank
Portfolio performance monitored by MSCI	Yes
Constituent of MSCI/AREF UK Quarterly Property Fund Index	Yes

Source: Hermes Real Estate Investment Management Ltd

Restrictions on holdings of cash/borrowings

Maximum total gearing permitted	30% of GAV
Cash holdings (maximum)	10% of GAV*
Cash holdings (minimum)	No restriction

Source: Hermes Real Estate Investment Management Ltd

The contribution of major tenants to rental income

Tenant	%
EI Group PLC	4.2
Sainsbury's Supermarket Ltd	3.7
B & Q PLC	2.6
Old Mutual Wealth Business Services Ltd	2.3
LGC Bioresearch Ltd	2.3
Circle Express Ltd (under Rico Logistics)	2.3
Future Cities Catapult Ltd	2.2
Black Horse Ltd	2.0
Secretary of State for Communities and Local Govern	1.8
Premier Inn Hotels Limited	1.7
Three largest tenants' contribution to rental income	10.5
Five largest tenants' contribution to rental income	15.1
Ten largest tenants' contribution to rental income	25.1

Source: Hermes Real Estate Investment Management Ltd

Balance sheet/gearing

	Direct holdings	Joint holdings	Indirect investments	Listed investments	Total
Balance sheet (GBPm)					
Properties at valuation	1419.4	0.0	0.0	0.0	1419.4
Listed investments	0.0	0.0	0.0	0.0	0.0
Debt	0.0	0.0	0.0	0.0	0.0
Cash	91.2	0.0	0.0	0.0	91.2
Other net assets/liabilities	0.0	0.0	0.0	0.0	0.0
Total net assets	1510.6	0.0	0.0	0.0	1510.6
Gearing (%)					
Net debt (cash)/properties	-6.4	-	-	-	-6.4
Net debt (cash)/equity	-6.0	-	-	-	-6.0

Source: Hermes Real Estate Investment Management Ltd

Quarterly data per unit

As at	30-Jun-18	30-Sep-18	31-Dec-18	31-Mar-19	30-Jun-19	30-Sep-19
Bid (GBP)	6.59	6.71	6.73	6.72	6.73	6.71
Offer (GBP)	7.08	7.22	7.23	7.20	7.19	7.19
Mid (GBP)	6.83	6.97	6.98	6.96	6.96	6.95
Bid/offer spread	6.87%	6.97%	6.85%	6.66%	6.50%	6.74%
Net asset value (GBP)	6.68	6.80	6.82	6.81	6.81	6.79
Quarterly distribution (GBP)	0.06	0.06	0.05	0.06	0.06	0.05
Yield	3.61%	3.52%	3.42%	3.36%	3.30%	3.22%

Source: Hermes Real Estate Investment Management Ltd

Unit pricing

The bid and offer price of the units are calculated on the date of the monthly valuation (i.e. on 25th of each month, except for 24th June and 29th September). The Trust has no direct fixed-rate borrowings. Performance fees, which are paid annually from income, are estimated and accrued on a quarterly basis.

Distributions

Distributions are made quarterly on 15 February, 15 May, 15 August and 15 November for the periods to 25 March, 24 June, 29 September and 25 December, respectively. Income accrues monthly to each registration day (the 26th of each month, except 25 June and 30 September).

Minimum investment/disinvestment

The minimum investment is 10,000 units and applications must be in multiples of 1,000 units.

Creation, transfer and realisation of units

Units may be purchased on 12 subscription days annually. These are on the 26th of each month (apart from 25th June and 30 September) or the following business day. Redemptions must be notified in writing to take effect on the next following notice day. These are 26 March, 25 June, 30 September and 26 December. Under normal circumstances, the proceeds will be paid three months later, i.e. on the next following notice day. In exceptional circumstances, the Trust Manager may defer the redemption of some or all of the units for up to nine months. In extreme circumstances, as a last resort, which would arise only if a major proportion of unitholders wished to withdraw, the trust would be terminated and the net proceeds distributed to unitholders. The manager will attempt, where possible, the matching of buying and selling orders, with any resulting transfer being effective on the next registration day.

Taxation

Capital Gains Tax

The trust is exempt from capital gains tax

Income Tax

Distributions are paid without withholding income tax.

Stamp duty reserve tax

Transfers of units are not subject to SDRT.

Charges

Annual fees

The Trust Manager is entitled to receive a fee of 0.40% per annum of the net asset value of the Trust, subject to a minimum fee of £1,300,000 per annum.

Performance fees

In addition, the Trust Manager may receive performance related fees if the performance of the Trust exceeds the average weighted total return on the agreed benchmark, being the average return on the MSCI UK Other Balanced Funds Index Weighted Average Returns, on a three year annualised rolling average basis. The amount of the fee is calculated as 17.5% of the outperformance amount generated.

The total fees payable to the Trust Manager are capped at 0.8% of the net asset value of the Trust.

Unit holder analysis

	Number of unitholders	Total % held
Less than 1% of units in issue	82	26.5
1% or greater but less than 2%	17	23.0
2% or greater but less than 4%	4	11.1
4% or greater but less than 8%	6	29.8
Greater than 8.0%	1	9.5
Total	110	100.0
Major investors		
Largest holder	1	9.5
Three largest holders	3	21.4

Five largest holders	5	30.9
Ten largest holders	10	48.1
Internal/external investors		
Internal	1	1.0
External	109	99.1

Source: Hermes Real Estate Investment Management Ltd

Liquidity						
Period	Year to Dec 2014	Year to Dec 2015	Year to Dec 2016	Year to Dec 2017	Year to Dec 2018	Year to Dec 2019
Issues and redemptions						
Units in issue as at start of period	188,073,142	203,985,562	222,248,140	224,369,425	235,333,516	236,140,938
Units issued during period	15,949,083	18,267,578	2,121,285	10,964,091	807,422	812,032
Units redeemed during period	(36,663.00)	(5,000)	-	-	0	-14,724,303
Units in issue at end of period	203,985,562	222,248,140	224,369,425	235,333,516	236,140,938	222,228,667
Unit transfers						
Matched bargains	3,499,303	2,999,550	38,228,416	9,693,738	10,278,563	5,823,414
Matched bargains %*	1.72%	1.35%	17.04%	4.12%	4.35%	2.62%

* as % of units in issue at the end of the period

Source: Hermes Real Estate Investment Management Ltd