

## Hercules Unit Trust

### INVESTMENT POLICY AND OBJECTIVES

Hercules Unit Trust is a Jersey property unit trust investing in retail parks throughout the UK. As at 31st March 2018 the Trust had a property portfolio value of GBP 1,510.4m. It focuses on retail parks in excess of 9,500 sq m (100,000 sq ft) with predominantly open A1 planning consents. Hercules' objective is to provide an annual total return on its property portfolio in excess of one percentage point above the MSCI Quarterly UK Retail Warehouse Universe (excl HUT). The Trust aims to invest in retail parks that have a diversified occupier base and strong asset management opportunities. Each park will ideally have Open A1 planning consent, be the dominant park in its region and/or have strategic asset management opportunities. The main driver to performance will be through rental growth. This is achieved through close relationships with the retailers and creating units/parks that meet the changing needs of tenants.

### INVESTOR CONSTITUENCY

Pension funds, charities, insurance companies, other corporate and institutional investors

Fund details	
Type of fund	Unauthorised close ended property unit trust
Residence	Jersey
Launch date	September 2000
Open/closed-ended	Closed-ended
Earliest date of winding up	September 2020
Year-end	31 March
NAV (GBPm)	735.5

Source: British Land

## Management/professional advisors

Manager	Crestbridge Hercules Management IC
Property advisor	British Land Company PLC
Portfolio manager	Crestbridge Hercules Management IC
Trustee	BNP Paribas Depository Services (Jersey) Limited BNP Paribas Depository Services Limited
Auditors	PricewaterhouseCoopers LLP

Source: British Land

## Investment rates of return, %

	Hercules Unit Trust	MSCI/AREF UK Quarterly Property Fund Index		
		Other balanced funds	All balanced funds	All funds
3 months	-7.3	0.6	0.6	0.4
Year-to-date	-12.4	1.0	0.9	0.6
12 months	-15.0	4.1	3.4	2.8
3 years+	-4.7	6.6	6.3	5.6
5 years+	-0.3	8.9	8.3	7.6
10 years+	4.6	9.1	8.7	9.1

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

## Property investment restrictions

Maximum development exposure	See note 1
Maximum speculative development exposure	See note 1
Maximum lot-size holding as a standing investment	See note 2
Maximum lot-size holding permitted at purchase	See note 2
Maximum exposure to limited partnerships	No restriction
Maximum exposure to joint ventures	No restriction
Maximum exposure to closed and open-ended property unit trusts	No restriction

Source: British Land

### Portfolio distribution %

	Shopping centres	Total
Scotland	49.2	49.2
North West	32.0	32.0
Yorkshire & Humberside	0.0	0.0
West Midlands	6.8	6.8
South East	6.3	6.3
South West	0.0	0.0
Wales	3.1	3.1
North East	0.0	0.0
East Midlands	1.4	1.4
Eastern	0.0	0.0
Northern Ireland	0.0	0.0
Other	0.0	0.0
City	0.0	0.0
West End	0.0	0.0
Midtown	0.0	0.0
Rest of London*	0.0	0.0
Cash	0.0	1.3
<b>Overall</b>	<b>98.7</b>	<b>100.0</b>

Source: British Land

### Property ownership structure

	Number of assets	Valuation (GBPm)	% of total portfolio
Direct holdings	11	1,244.5	100.0
Joint and indirect holdings	0	0.0	0.0
Listed investments	0	0.0	0.0
<b>Total</b>	<b>11</b>	<b>1,244.5</b>	<b>100.0</b>

Source: British Land

### Largest direct investments by lot size & percentage of total portfolio

Property	Location	Sector	Valuation (GBPm)	% of total portfolio
GLASGOW FORT SHOPPING PARK	GLASGOW	Retail Park	350-400	*
NEW MERSEY PARK UNIT TRUST VALUATION	LIVERPOOL	Retail Park	200-250	*
KINNAIRD PARK	EDINBURGH	Retail Park	150-200	*
BROUGHTON PARK	CHESTER	Retail Park	150-200	*
PROSPECT PLACE RETAIL PARK	DARTFORD	Retail Park	50-100	*
INVERNESS RETAIL & LEISURE PARK	INVERNESS	Retail Park	50-100	*
QUEENS RETAIL PARK	STAFFORD	Retail Park	25-50	*
DEEPDALE RETAIL PARK	PRESTON	Retail Park	25-50	*
CROWN WHARF RETAIL PARK	WALSALL	Retail Park	25-50	*
MOSTYN CHAMPNEYS RETAIL PARK	LLANDUDNO	Retail Park	25-50	*
<b>10 largest investments as % of portfolio</b>				*

Source: British Land/MSCI estimates

Note:\* Fund cannot disclose this information due to commercial sensitivity

### Direct portfolio structure by lot-size bands

Value band (GBPm)	Number of assets	Valuation (GBPm)	% of total portfolio
0 -2.5	0	0.0	0.0
2.5 - 5	0	0.0	0.0
5-10	0	0.0	0.0
10-25	1	17.2	1.4
25 - 50	4	168.0	13.5
50 - 100	2	150.0	12.1
100-150	0	0.0	0.0
Over 150	4	909.3	73.1
<b>Total</b>	<b>11</b>	<b>1244.5</b>	<b>100.0</b>
Average lot size		113.1	

Source: British Land



## The unexpired term of leases

Years	% of rent passing
20 years or greater	2.9
15 years or greater, but less than 20	0.3
10 years or greater, but less than 15	12.5
5 years or greater, but less than 10	33.0
Less than 5 years	51.3

Source: British Land

## Joint and indirect property holdings

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

Source: British Land

## Debt analysis

Interest rate swaps			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)+
200	2.07%	1.23	350	1.40%	0
0	0	0	164.5*	1.50%	0
0	0	0	0	0	0
0	0	0	0	0	0
0	0	0	0	0	0

Source: British Land

Note:\* £164.5m variable debt includes £75m notional cap strike rate 2.00%

## Development exposure\*

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

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

Source: British Land

## Valuations/performance monitors/affiliations

Frequency of valuation	Quarterly, on the second last business day of each quarter
Valuers	JLL
Portfolio performance monitored by MSCI	Yes
Constituent of MSCI/AREF UK Quarterly Property Fund Index	Yes
Member of the Association of Real Estate Funds	Full member

Source: British Land

## Restrictions on holdings of cash/borrowings

Maximum total gearing permitted	60% of Aggregate Trust Value (ATV)
Cash holdings (maximum)	None
Cash holdings (minimum)	None

Source: British Land

## The contribution of major tenants to rental income

Tenant	%
Next plc	5.4
Alliance Boots	5.4
Marks & Spencer plc	4.6
Kingfisher Group plc (B&Q)	4.0
Asda Group	3.8
JD Sports	3.5
TK Maxx	3.4

New Look	3.1
Arcadia Group	3.0
J Sainsbury (Argos)	2.4
Three largest tenants' contribution to rental income	15.5
Five largest tenants' contribution to rental income	23.3
Ten largest tenants' contribution to rental income	38.7

Source: British Land

### Balance sheet/gearing

	Direct holdings	Joint holdings	Indirect investments	Listed investments	Total
Balance sheet (GBPm)					
Properties at valuation	1244.5	0.0	0.0	0.0	1244.5
Listed investments	0.0	0.0	0.0	0.0	0.0
Debt	-514.5	0.0	0.0	0.0	-514.5
Cash	15.9	0.0	0.0	0.0	15.9
Other net assets/liabilities	-10.4	0.0	0.0	0.0	-10.4
Total net assets	735.5	0.0	0.0	0.0	735.5
Gearing (%)					
Net debt (cash)/properties	40.1	-	-	-	40.1
Net debt (cash)/equity	67.8	-	-	-	67.8

Source: British Land

### Quarterly data per unit

As at	31-Mar-18	30-Jun-18	30-Sep-18	31-Dec-18	31-Mar-19	30-Jun-19
Net asset value (GBP)	684.5	642.7	627.7	605.6	562.6	512.8
Quarterly distribution (GBP)	11.0	9.1	9.1	9.1	9.4	8.8
Yield	6.2%	6.3%	6.2%	6.4%	6.8%	7.1%

Source: British Land

### Distributions

Distributions of income are made quarterly, 20 working days after the end of each quarter.



**Minimum investment/disinvestment**

Minimum initial investment: Units with an aggregate value of GBP100,000

Minimum additional investment: None

Minimum holding: Units with an aggregate value of GBP100,000

**Creation, transfer and realisation of units**

The next opportunity for investors to redeem their holding will be as 'dissenting unit holders' after an EGM has been passed to extend the life of the Trust past its termination date 22 September 2020. The first EGM is to be held between 1 July 2017 and 22 September 2017. If an extension to the life of the Trust is not passed during on this occasion, further opportunities will be provided to vote to extend the life of the Trust at each subsequent AGM's prior to the termination date.

**Taxation****Capital Gains Tax**

The Trust is not subject to capital gains tax. Those investors who are subject to tax may be liable to capital gains tax on the redemption or disposal of their units in the trust. (Hercules Unit Trust is expected to maintain Distributor status).

**Income Tax**

Distributions of income are made gross on a quarterly basis to all holders who are UK residents or those who hold non-resident Landlord clearance. 20% Jersey tax is withheld from distributions payable to Jersey residents. Income (less expenses properly incurred) arising directly from the properties whether it is distributed or not, will be liable under Schedule A to UK income or corporation tax in the hands of unitholders, regardless of where they are resident.

**Stamp duty reserve tax**

Transfers of units are not subject to SDRT

**Charges****Annual fees:**

The Manager's fee is a maximum of £350,000 per annum (subject to annual increases in line with UK CPI from 1 January 2019, capped at 4%) plus third party costs, disbursements and expenses incurred in maintaining professional indemnity insurance

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The property advisor is entitled to a base fee equivalent to 0.38% pa of the Aggregate Trust Value (payable quarterly in arrears), plus a performance fee. See prospectus for full details.

50% of base management fees are charged to capital.

Investment management fees relate solely to property adviser's and manager's fee. Costs and expenses are charged to the trust fund, including: the cost of borrowings, convening meetings of the holders, stamp duty and any other taxes or duty payable out of the trust fund or by the trustees in respect of any assets of the trust; the fees and expenses of the trustees, the manager, the property adviser and the valuers; incidental costs of any sub-division, consolidation, issue or listing of units; all costs of termination of the trust; and certain statutory, legal and professional fees and out of pocket expenses and other miscellaneous expenses as set out in the trust instrument.

**Performance fees:**

The Property Adviser is also entitled to a Performance Fee. The Manager calculates the Performance Fee payable or the Performance Fee shortfall for each relevant calculation period in accordance with clause 24 of the Trust Instrument as follows:

The fee is calculated in relation to the level of outperformance of the Target Return at both property and Trust level.

If the property return is equal to or greater than the UK Retail Warehouse Segment of the Investment Property Databank Annual All Fund Universe ("the MSCI benchmark") plus 1% the Performance Fee is calculated at 20% of the Trust outperformance above the MSCI Benchmark plus 1%.

If the property return is between the MSCI Benchmark and the MSCI Benchmark plus 1%, the Performance Fee is to be 10% plus the percentage of the property return over the MSCI Benchmark, multiplied by the Trust Return outperformance above the MSCI Benchmark plus 1%

In the event that the property return is less than the MSCI Benchmark and the Trust Return is greater than or equal to the MSCI Benchmark plus 25% and a minimum return of 12%, the Performance Fee is calculated at 5% of the Trust outperformance above the MSCI Benchmark plus 1%.

The Performance Fee is capped at 2.5% of Net Asset Value at the end of the Calculation Period. See prospectus for full details.

The performance fee is accrued and is therefore taken into account in the quarterly re-calculation of the Trust's Net Asset Value.

	Number of unitholders	Total % held
Less than 1% of units in issue	34	12.4
1% or greater but less than 2%	4	4.7
2% or greater but less than 4%	2	4.8
4% or greater but less than 8%	0	0.0
Greater than 8.0%	1	78.1
<b>Total</b>	<b>41</b>	<b>100.0</b>
Major investors		
Largest holder	1	78.1
Three largest holders	3	82.9
Five largest holders	5	85.4
Ten largest holders	10	90.3
Internal/external investors		
Internal	1	78.1
External	40	21.9

Source : Hercules Unit Trust

<b>Liquidity</b>						
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
<b>Issues and redemptions</b>						
Units in issue as at start of period	1,360,813	1,360,813	1,360,813	1,360,813	1,360,813	1,433,913
Units issued during period	-	-	-	-	73,100	-
Units redeemed during period	-	-	-	-	-	-
Units in issue at end of period	1,360,813	1,360,813	1,360,813	1,360,813	1,433,913	1,433,913
<b>Unit transfers</b>						
Matched bargains	236,902	161,526	16,710	-	-	-
Matched bargains %*	17.4%	11.9%	1.2%	0.0%	0.0%	0.0%

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

Source: British Land

## Notes

- 1) Projected development costs must not exceed 20% of NAV and each development must be more than 50% pre-let, otherwise unitholder approval is required for the purchase
  - 2) Unitholder approval is not required for investment transactions, except where there is a conflict of interest in relation to a Trustee, the Manager, the Property Adviser or a unitholder.
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