

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)	1612.6

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, %

		MSCI/AREF UK Quarterly Property Fund Index		
	Hermes Property Unit Trust	Other balanced funds	All balanced funds	All funds
3 months	0.8	0.64	0.59	0.36
Year-to-date	1.5	0.97	0.87	0.62
12 months	5.4	4.05	3.37	2.76
3 years+	8.2	6.62	6.31	5.59
5 years+	10.7	8.86	8.27	7.56
10 years+	11.0	9.06	8.70	9.06

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

Property investment restrictions

Maximum development exposure	10% of gross asset value
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 %

MSCI/AREF UK Quarterly Property Fund Index**

	Hermes Property Unit Trust	Other balanced funds	All balanced funds	All funds
Standard retail – South East	7.1	7.6	7.1	5.7
Standard retail – Rest of UK	0.4	3.3	3.3	3.6
Shopping centres	1.7	1.8	2.5	7.3
Retail warehouses	8.0	13.3	13.6	13.0
All UK retail	17.3	26.0	26.4	29.7
City offices	4.2	3.7	3.7	3.3
West End offices	8.7	7.6	7.7	7.0
Rest of South East offices	14.3	11.6	11.1	7.7
Rest of UK offices	7.0	5.8	5.8	4.9
All UK offices	34.2	28.7	28.4	22.9
South East industrial	25.0	19.3	19.5	15.6
Rest of UK industrial	3.8	10.1	10.0	8.0
All UK industrial	28.9	29.4	29.5	23.6
Other UK properties	10.1	11.0	10.0	19.4
Cash***	9.6	4.9	5.7	4.4
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	81	1,458.5	100.0
Joint and indirect holdings	0	0	0.0
Listed investments	0	0	0.0
Total	81	1,458.5	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	5.8
8/10,GREAT GEORGE STREET,LONDON,SW1P 3AE	LONDON	Office	55-65	4.4
POLAR PARK	WEST DRAYTON	Industrial	45-55	3.8
BROKEN WHARF HOUSE	LONDON	Other	45-55	3.6
HORNDON INDUSTRIAL ESTATE	BRENTWOOD	Industrial Other	45-55	3.4
SOHO SQUARE	LONDON	Office	45-55	3.2
SAINSBURYS	BEACONSFIELD	Retail Other	35-45	2.9
THE ROUND FOUNDARY & MARSHALL MILL	LEEDS	Office	35-45	2.8
CAMDEN WORKS	LONDON	Office	35-45	2.7
HYTHE HOUSE	LONDON	Office	35-45	2.5
10 largest investments as % of portfolio			0.0	35.1

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	2.5
2.5 - 5	7	24.4	1.7
5-10	10	77.1	5.3
10-25	22	400.9	27.5
25 - 50	20	662.2	45.4
50 - 100	4	257.2	17.6
100-150	0	0.0	0.0
Over 150	0	0.0	0.0
Total	81	1458.5	100.0
Average lot size		18.0	

Source: Hermes Real Estate Investment Management Ltd

Property Yield		Voids as % of ERV	
Net initial yield	3.98%	Investments	10.59%
Nominal equivalent yield	5.09%	Developments	0.00%

True equivalent yield	5.26%
Net reversionary yield	5.04%

Total	10.59%
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Source: Hermes Real Estate Investment Management Ltd

Rental income & ERV by type of property

	Rental income %	Estimated rental value %
Standard retail	7.2	6.6
Retail warehousing	12.7	10.3
Shopping centres	5.4	5.1
Central London offices	10.9	12.4
Other offices	26.8	27.3
Industrial	30.0	29.7
Other	7.1	8.7
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	86.5	8.2	0.0	1.4	-0.4	4.2	3.9	100.0
Retail warehousing	97.3	3.5	0.0	9.4	-13.9	3.7	-10.2	100.0
Shopping centres	82.7	2.1	0.0	18.2	-3.5	0.6	-3.0	100.0
Central London offices	68.8	7.0	0.0	19.7	-2.8	7.3	4.5	100.0
Other offices	76.7	2.2	0.0	13.6	-1.1	8.6	7.5	100.0
Industrial	79.0	5.7	0.0	7.0	-1.5	9.7	8.3	100.0
Other	63.7	39.1	0.0	0.0	-5.9	3.0	-2.9	100.0
Overall	78.3	7.6	0.0	10.2	-3.2	7.1	3.9	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
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	0.3
10 years or greater, but less than 15	5.2
5 years or greater, but less than 10	27.7
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
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Amount drawn (GBPm)	Average rate (%)	Average unexpired term (years)
0	0	0
0	0	0
0	0	0
0	0	0
0	0	0

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

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
Member of the Association of Real Estate Funds	Full Member

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	%
El Group PLC	4.1
Sainsbury's Supermarket Ltd	3.5
B & Q PLC	3.3
Old Mutual Wealth Business Services Ltd	2.2
LGC Bioresearch Ltd	2.2
Circle Express Ltd (under Rico Logistics)	2.2
Future Cities Catapult Ltd	2.1
Black Horse Ltd	1.9
Secretary of State for Communities and Local Govern	1.8
Premier Inn Hotels Limited	1.7
Three largest tenants' contribution to rental income	10.9
Five largest tenants' contribution to rental income	15.3
Ten largest tenants' contribution to rental income	25.0

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	1458.5	0.0	0.0	0.0	1458.5
Listed investments	0.0	0.0	0.0	0.0	0.0
Debt	0.0	0.0	0.0	0.0	0.0
Cash	154.2	0.0	0.0	0.0	154.2
Other net assets/liabilities	0.0	0.0	0.0	0.0	0.0
Total net assets	1612.6	0.0	0.0	0.0	1612.6
Gearing (%)					
Net debt (cash)/properties	-10.6	-	-	-	-10.6
Net debt (cash)/equity	-9.6	-	-	-	-9.6

Source: Hermes Real Estate Investment Management Ltd

Quarterly data per unit						
As at	30-Mar-18	30-Jun-18	30-Sep-18	31-Dec-18	31-Mar-19	30-Jun-19
Bid (GBP)	6.50	6.59	6.71	6.73	6.72	6.73
Offer (GBP)	6.97	7.08	7.22	7.23	7.20	7.19
Mid (GBP)	6.73	6.83	6.97	6.98	6.96	6.96
Bid/offer spread	6.84%	6.87%	6.97%	6.85%	6.66%	6.50%
Net asset value (GBP)	6.58	6.68	6.80	6.82	6.81	6.81
Quarterly distribution (GBP)	0.06	0.06	0.06	0.05	0.06	0.06
Yield	3.58%	3.61%	3.52%	3.42%	3.36%	3.30%

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.

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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	84	24.9
1% or greater but less than 2%	16	21.6
2% or greater but less than 4%	7	20.5
4% or greater but less than 8%	5	24.1
Greater than 8.0%	1	8.9
Total	113	100.0

Major investors

Largest holder	1	8.9
Three largest holders	3	20.0
Five largest holders	5	28.9
Ten largest holders	10	46.4
Internal/external investors		
Internal	1	0.9
External	112	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	556,779
Units redeemed during period	(36,663.00)	(5,000)	-	-	0	0
Units in issue at end of period	203,985,562	222,248,140	224,369,425	235,333,516	236,140,938	236,697,717
Unit transfers						
Matched bargains	3,499,303	2,999,550	38,228,416	9,693,738	10,278,563	3,311,907
Matched bargains %*	1.72%	1.35%	17.04%	4.12%	4.35%	1.40%

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

Source: Hermes Real Estate Investment Management Ltd