

# Hermes Property Unit Trust Quarterly Update

## Q2 / 09

June 2009

## Overview

During the second quarter of 2009, the Trust recorded a negative total return to investors of -3.0%, this being the eighth quarter of negative returns since the peak of the UK property market in June 2007. Despite the trend being negative over the last three months the pace of month-on-month declines has slowed. Indeed the 0.7% decline in the Trust's unit price in June 2009 was the smallest monthly fall since August 2007.

In terms of overall quantum, the capital value (i.e. excluding income returns) of UK real estate has now fallen by an average of 45% in the two years to June 2009. However, conditions in real estate do seem to be stabilising from a total return perspective. Investor confidence has improved during Q2 09, in the underlying real estate market transactions are taking place and in some limited parts of the market capital values have even strengthened during May and June. UK real estate now appears attractively priced when comparing the yield on real estate versus that on swaps and bonds.

## Performance

During Q2 the Trust recorded a total return to unit holders of -3.0% which, although negative, was ahead of the benchmark which recorded a return of -3.9%. Performance attribution within the Trust's portfolio was similar to that experienced during Q1, meaning that the Trust's foodstores, high street shops and retail warehousing delivered relatively better returns, but the Trust's central London office investments in particular, held performance back.

On a longer term basis, the Trust is top quartile over 3 and 5 year time periods, but despite its strong relative performance in the 12 months to the end of June 2009, it was ranked in the second quartile of funds within its benchmark.

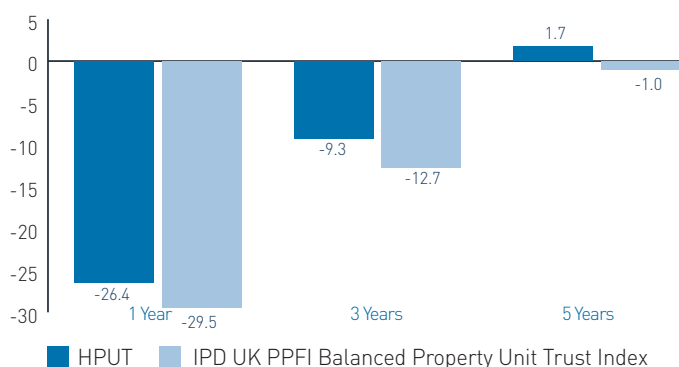
	Q2 2009 (%)	1 year (%)	3 years (%pa)**	5 years (%pa)**
HPUT	-3.0	-26.4	-9.3	1.7
Benchmark*	-3.9	-29.5	-12.7	-1.0
Relative	0.9	4.4	3.9	2.7
Quartile	1	2	1	1

\*IPD UK PPFI Balanced PUT Index (Weighted average). \*\*Years to end June 2009, annualised

## Unit Holder Performance

As at end June 2009

Unit Holder % Return p.a.



Source: Hermes Real Estate and IPD UK Pooled Property Fund Indices, end June 2009. Net of fees.

## Portfolio Activity

There were two transactions to note during the quarter. First was completion of the sale of 117 Jermyn Street in London's West End, which was noted as a contracted sale in last quarter's Factsheet, but the sale concluded in May. The second was the contracted sale of the Trust's office investment at 3/5 Morrison Street, Edinburgh for £23.9 million. The sale completed in mid-July and the rationale was to focus the portfolio towards stock with a better risk / return profile. As with the sale of 117 Jermyn Street, this sale was at a small premium to the independent valuation, supporting the level of the Trust's valuations against transaction prices in the underlying market.

Turning to asset management, the vacant 5,000 sq.ft unit at the Maybird Shopping Park, Stratford-upon-Avon has been let in a back-to-back deal with WH Smith and Pets-at-Home, meaning the Park is now fully let. Importantly the rents achieved in these lettings support the rental tones established for the Park in the 2008 lettings, confirming the quality of this asset and its income profile. The development of four 'pod' units at the entrance to the Park should finish during August and will improve amenities for visitors to the Park. For a number of the other voids in the portfolio there has also been positive progress during the quarter, and we will update investors in the next quarterly Factsheet.

## Outlook

As noted in last quarter's Factsheet, we expect continued downward pressure on the value of UK real estate throughout the Summer and into the Autumn. However there are now pockets of stability in certain parts of the market and competitive bidding, particularly for good quality property let on long leases to good tenants. In some cases strong competition for assets has pushed capital values higher. Long term investors are particularly attracted to this strong income yield delivered by real estate and the income yield will help to stabilise total returns even with the continuing pressure on underlying capital values from further falls in rental levels.

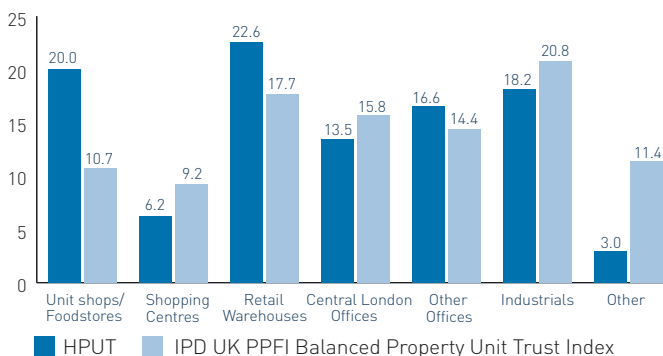
The direction of the wider economy will be a major influence on the performance of real estate. Many of the lead indicators (such as consumer confidence, business confidence and investment intentions) that have historically marked a turning point in the economic cycle, have become less negative, albeit from relatively low bases. This is an encouraging sign and we will monitor these metrics closely to judge the strength of the recovery in the sense of a more robust trend. Whilst capital values could continue to fall in 2010, we expect the rate of decline to slow and with the strength of income returns, that total returns will turn positive.

For the Trust itself, the portfolio is well positioned during this lower return environment, having generally greater income security than its benchmark. The Trust is also in a very strong position to take advantage of current market conditions, having a relatively low level of debt at just under 5% loan to value at the end of June 2009 and access to an undrawn £75m debt facility at a very cost effective rate. We will be looking to make selective investment over the coming months in assets that will complement the Trust's already strong investment portfolio.

## Portfolio Structure Comparison

As at end June 2009

Sector Weighting % Total Portfolio Value



Source: Hermes Real Estate and IPD UK Pooled Property Fund Indices, end June 2009  
Note: GAV basis, re-weighted to exclude cash

# Hermes Property Unit Trust

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### Key Statistics

As at end June 2009

Gross asset value*	£497.7m
Net asset value	£473.3m
Directly held assets	35
Indirect real estate vehicles	5
Offer Price	£3.922
Bid Price	£3.675
Net asset value per unit	£3.724
Number of Unit Holders	121
Distribution per unit (Quarter to March 2009)	6.25p
Distribution per unit (Year to March 2009)	22.41p
Yield on offer price	5.7%
12 Month return to Unit Holders	-8.8%
Quarterly return	-3.0%
Bid/offer spread	6.3%

\*This is based on net asset value, plus the Trust's share of debt held within indirect investments.  
Source: Hermes – end June 2009

### Top 10 Direct Holdings by Value Band (GAV)

As at end June 2009

Asset	Sector	Lot Size
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	£70m to £80m
Sainsbury's, Beaconsfield	Unit Shops	£25m to £35m
101 Barbirolli Square, Manchester	Rest of UK Offices	£25m to £35m
1 Morrison Street & 118 Lothian Road, Edinburgh	Rest of UK Offices	£15m to £25m
Sainsbury's, Cheltenham	Unit Shops	£15m to £25m
Church Street, Caversham	Unit Shops	£15m to £25m
Fife Leisure Park, Dunfermline	Leisure	£15m to £25m
15 - 29 The Broadway, Wimbledon	Unit Shops	£5m to £15m
Charlton Gate, London	Industrials	£5m to £15m
Arcadia, Southall	Industrials	£5m to £15m

\*Source: Hermes – end June 2009

## The Structure of the Hermes Property Unit Trust

### The Committee of Management

The Committee of Management is the legal operator of the Trust and has delegated the Real Estate and Trust Management to Hermes, from whom it is wholly independent. The Committee is authorised and regulated by the Financial Services Authority. The members of the Committee are as follows:

#### Chairman – David Gamble BCom

Formerly Chief Executive of British Airways Pensions Investment Management and a member of the Investment Committee of the NAPF and NAPF Property Committee. He holds various non-executive directorships and advisory roles including being a trustee of the IBM (UK) Pension Trust and an Investment Adviser to the BBC Pension Trust.

#### Phillip Nelson

Phillip is a Director of Trehaven Group and its associated companies. Prior to joining Trehaven, Phillip was Chairman of Nelson Bakewell, Property Consultants, the company of which he was also a founding member in 1982. He is also a Trustee of the Investment Property Forum Educational Trust.

#### Phillip Rose MA (Law)

Chief Executive Officer of Alpha Real Capital and Non-Executive Director of Great Portland Estates plc. Phillip was previously Head of Real Estate at ABN Amro. His investment career includes Morgan Grenfell, Ord Minnett Securities, TrizecHahn Europe and Lend Lease Global Investments Ltd.

#### Caroline Burton MA

Formerly Executive Director of Investments, Guardian Royal Exchange PLC and member of HM Treasury Productivity Improvement Panel. Caroline is currently an investment advisor to a number of local authority pension funds and holds non-executive positions at TR Property Investment Trust and Teesland Advantage Property Income Trust.

#### Simon Melliss BA FCA

Group Finance Director of Hammerson plc since 1995 having joined in 1991 as Group Financial Controller. He is a Non-Executive Director of Whitbread plc.

### About Hermes

Hermes Real Estate Investment Management is one of the largest real estate managers in the UK and is the dedicated real estate subsidiary of Hermes Fund Managers Limited (HFML). HFML is wholly owned by the BT Pension Scheme. Its position as one of the UK's largest corporate pension schemes affords Hermes Real Estate a privileged insight into the issues faced by pension schemes today and facilitates a unique alignment with other long-term investors.

### Important Notes for Investors

The Hermes Property Unit Trust is categorised as an unregulated collective investment scheme. The Trust is not authorised, or otherwise approved by the Financial Services Authority (the "FSA") and, as an unregulated scheme, cannot be marketed to the general public in the UK. For the avoidance of doubt, any offer or promotion of units in the Trust is not directed at private customers. Pursuant to the Financial Services and Markets Act 2000 (the "Act"), the only categories of persons in the UK to whom this document may be distributed are those set out in the Financial Services and Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemptions) Order 2001 and the FSA Handbook. The transmission of this document to any other person in the UK is unauthorised and may contravene the Act. Additionally units in the Trust may only be held by funds which are exempted from capital gains tax.

Hermes Fund Managers Limited is the parent company of a number of companies falling within the Hermes Group, including Hermes Investment Management Limited ("HIML") and Hermes Real Estate Investment Management Limited ("HREIML"). HIML is separately authorised and regulated by the Financial Services Authority.

This communication is issued and approved only (for the purposes Markets Act 2000) by Hermes Investment Management Limited ("HIML"). HIML has its registered office at Lloyds Chambers, 1 Portsoken Street, London E1 8HZ.

The Hermes Property Unit Trust ("HPUT") is constituted by an amended and restated trust deed between the Committee of Management and the Trustee both of which are authorised and regulated by the Financial Services Authority. The Committee of Management appoints the trust manager (HIML) and the property investment managers (HREIML) and has overall responsibility for the trust.

The main aim of the Trust is to generate, for its unit holders, a combination of capital appreciation and income from real estate assets. Units in the Trust are not within the wider or narrower range of investments under the Trustee Act 2000.

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The opportunities described in this document have unique risks that may make them unsuitable for certain investors. This communication indicates where figures used refer to past or simulated past performance. Past performance is not a reliable indicator of future results. Also, certain returns shown in this document are compared against returns for the relevant benchmark index during similar periods. It is important to note that the underlying volatility and risk of the funds' portfolios and that of their benchmark indices vary materially.

Property is an illiquid investment and may result in deferral of redemption of units. The value of the property is a matter of a valuer's opinion rather than fact.

Figures, unless otherwise indicated, are sourced from Hermes.

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Details regarding the purchase, redemption and transfer of units can be found on our website: [www.hput.co.uk](http://www.hput.co.uk)

