BLACKROCK UK PROPERTY FUND (BUKPF)

SECTOR: Diversified	OUTLOOK ↑	BUY	DTZ IM RESERVE PRICE: NAV+1%
Market pricing……..BID: NAV-1%; OFFER: NAV+1%; Latest trade: NAV+0.5%			

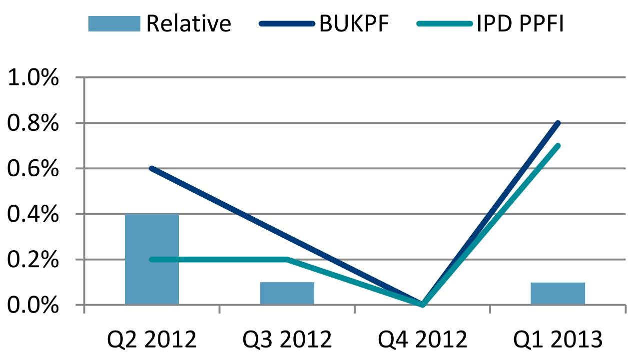
KEY STATS

	Q1 2013	Q4 2012	Q3 2012	Q2 2012
GAV	£2.4bn	£2.4bn	£2.1bn	£2.1bn
IY/EY	5.8%/6.7%	5.7%/6.5%	6.0%/6.5%	5.8%/6.3%
Void	6.0%	5.6%	2.0%	2.1%

YIELD COMMENTARY
According to the IPD Q1 Quarterly Index, the IY and EY for All Property was 6.1% and 7.1% respectively. Blackrock's yields still look attractive on therefore given the more prime nature of its portfolio compared to IPD.

PERFORMANCE*

Total Return	Q1 2013	Q4 2012	Q3 2012	Q2 2012
BUKPF	0.8%	0.0%	0.3%	0.6%
IPD PPFI	0.7%	0.0%	0.2%	0.2%
Relative	0.1%	0.0%	0.1%	0.4%



***Source: IPD**

GEARING

BUKPF has no gearing facility in place; however, it has 2.8% (GAV) of exposure which is held in the underlying indirect vehicles it has exposure to (Ashtenne Industrial Fund, Hercules Unit Trust, Henderson Retail Warehouse Fund, Industrial Property Investment Fund and Aberdeen Retail Parks Trust). These vehicles' cost of debt ranges from 2.1% - 8.9%.

SALES/ACQUISITIONS OVER THE QUARTER

Sales	• St James Medical Centre, Handsworth (sold slightly ahead of valuation) • Bilton Green Surgery, Bilton, Rugby (sold slightly ahead of valuation)
Acquisitions	• None

STRENGTHS / OPPORTUNITIES

Prime focus	• BUKPF has a more prime than average focus
Government income	• BUKPF has a high weighting to assets backed by government income - the Fund's largest asset is a holding in General Practice Group Limited (c. 150 doctors' surgeries)
Sector exposure	• Favourable overweight (Retail Warehouses, WE & MT offices, other – leisure and healthcare) and underweight (City, SE & RUK offices, SE & RUK retails) positions
Alternative exposure	• BUKPF has a high exposure to alternatives sectors: healthcare (doctors' surgeries) accounts for c. 13% of NAV and leisure (8 marinas on the south coast) accounts for c. 8% of NAV
Tenant diversification	• No single tenant accounts for more than 4% of income
Reversionary potential	• BUKPF's reversionary yield is 6.8%
Low vacancy	• The merger of the RREEF portfolio resulted in the void rate for BUKPF increasing marginally from c. 2% in Q3 to c. 6% in Q4 2012. The primary voids are two office buildings in Bracknell and open storage land in West Thurrock which accounted for 82% of the RREEF vacancy, although in aggregate these buildings comprise less than 2% of BUKPF's total portfolio
Low gearing	• BUKPF has no debt facility in place making its returns less volatile. However, it does have some indirect exposure to gearing but this is minimal

RREEF merger	• A merger between Blackrock and the RREEF UK Core, Industrial, Office and Retail Property Funds took place on 14th December with 27 investments totalling in excess of £335m transferring into Blackrock. This took place following unitholders in RREEF voting in favour of the transaction. Blackrock provided the following merger rationale:
	  • The RREEF portfolio fits within Blackrock's overall sector and regional strategy
	  • The merger offers opportunities for future outperformance
	  • The transactions benefits from no stamp duty being payable
	  • The merger further diversifies BUKPF's weighting to 'other' investments in healthcare and leisure

Investor diversification	• BUKPF has c. 470 unitholders, following the merger with RREEF, making it well diversified. The largest investor holds less than 3% of the Fund and the 10 largest investors hold just under 17% of the Fund. However, this does not account for holdings by collective investor group

WEAKNESSES / THREATS

Indirect exposure	• BUKPF has exposure to five indirect vehicles (HRWF, HUT, Aberdeen RPT, Ashtenne and IPIF) totalling c. 4% of fund NAV. We do not typically favour funds which invest in underlying indirect vehicles due to the additional management costs, lack of control and reduced level of liquidity. However, BUKPF's exposure to these holdings is small and we are aware that Blackrock are looking to reduce exposure to these where they are able to exit on the secondary market at fair value which we are supportive of. These holdings also result in indirect exposure to gearing for BUKPF, however, the exposure is minimum at 2.8% of GAV

Indirect Fund Review Q1 2013

DTZ IM VIEW

Blackrock is the largest UK balanced fund and now has over 100 holdings following the merger with RREEF. Blackrock is highly diversified and its size means that it also has a large number of investors (c. 470) making it highly liquid. BUKPF is subject to low asset specific risk and we expect returns to closely track IPD. However, BUKPF also has favourable overweight and underweight positions and in particular, high exposure to the healthcare and leisure sectors which should provide additional alpha returns to an otherwise market beta returning commercial portfolio.

We do not typically favour indirect funds which have exposure to underlying indirect vehicles as it results in additional fees and reduced control, however, BUKPF's exposure to these is low and we support Blackrock's plan to reduce the Fund's exposure. BUKPF's current strategy is to increase its exposure to London, improve the portfolio's security and to reduce the Fund's cash exposure which we also support. The assets which have transferred in from the RREEF portfolio are more secondary in nature and will require more work in order to drive returns, however the price at which they were transferred arguably accounted for all potential risks up front.

SUMMARY: BUY

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IMPORTANT INFORMATION

Indirect Fund Review Q1 2013

FURTHER INFORMATION

Fund manager	• Marcus Sperber, Justin Brown
Asset manager	• Blackrock
Valuer	• Colliers & Knight Frank
Fund termination	• Open-ended: redemptions can be made on a quarterly basis

ASSET DIRECTORY – TOP 10 ASSETS

1. General Practice Group Limited (GPG)

2. Premier Marinas Limited (PML)

3. 125 Shaftesbury Avenue, London

4. The Exchange, Putney

5. 10-12 Great Marlborough Street, London

6. Riverside Retail Park, Nottingham

7. 21-25 Bedford Street & 20-22 King Street, London

8. 5 The Strand, London

9. Oldbury Green Retail Park, Oldbury

10. Blackrock Workspace Property Trust