

# KCCSF Advisory Indirect Mandate



## Quarterly Update—Q4 2013

Please note that the Portfolio was not designed to provide KCCSF with balanced property exposure as KCCSF already had significant property exposure within a discretionary mandate managed by DTZ IM, when the Portfolio was created.

### Portfolio performance

		Dec-13	Sep-13	Jun-13	Mar-13	12 months	3 year rolling (p.a.)	Since inception (p.a.)
<b>Portfolio</b>	NAV	39,542,676	38,308,044	38,703,310	48,991,301	-	-	-
	Capital return	3.2%	-0.5%	0.9%	-1.4%	2.2%	0.5%	1.3%
	Income return	1.1%	1.3%	0.9%	1.1%	4.4%	4.5%	4.4%
	Total return	4.3%	0.8%	1.8%	-0.3%	6.7%	5.1%	5.7%
<b>IPD All Pooled Property Fund Index</b>	Capital return	3.3%	1.4%	0.9%	-0.1%	5.5%	2.3%	4.4%
	Income return	0.8%	0.8%	0.8%	0.8%	3.3%	3.3%	3.3%
	Total return	4.1%	2.2%	1.7%	0.7%	9.0%	5.6%	7.9%
<b>Portfolio Relative Return</b>	Relative Total Return	0.2%	-1.4%	0.1%	-1.0%	-2.1%	-0.5%	-2.0%

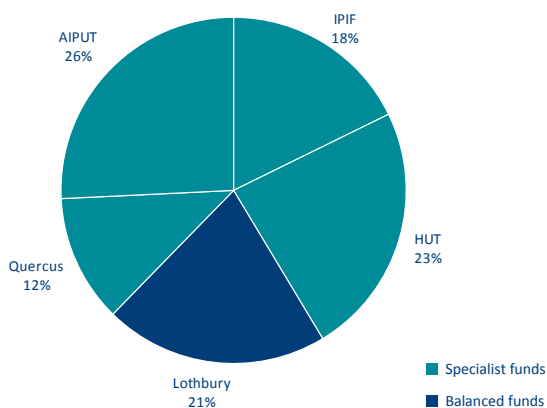
The advisory indirect portfolio (the Portfolio) delivered a total return of 4.3% during Q4 2013, outperforming the IPD All Pooled Property Fund Index (IPD PPF) which returned 4.1% over the same period.

Both industrial funds achieved strong returns during the quarter which were driven by positive market sentiment as well as the success of lettings and asset management initiatives.

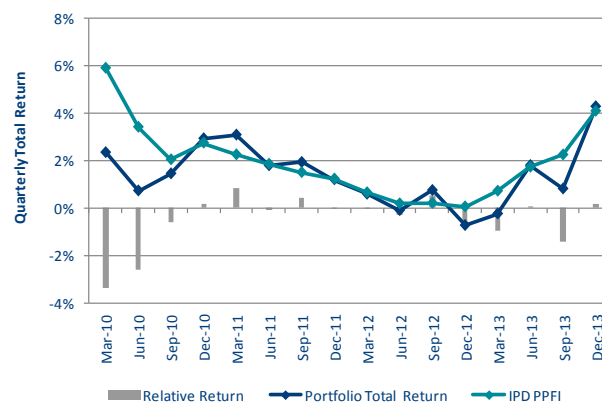
HUT was the main drag on performance during the quarter with ERVs being rebased on a number of the portfolio's larger assets which has had a negative impact on valuations. The rebasing of ERVs across the portfolio should help to build a base from which to generate future performance as the void rate (currently below 2%) continues to fall.

Quercus was again an underperformer during the quarter and although its NAV rose, this was the result of income retention rather than capital growth as income distributions were again withheld to provide funds if required to pay down debt should there be covenant pressures. We are actively lobbying Aviva to ensure that Retiring Partners, including KCC, are paid out by the end of 2014 in line with the fund documentation.

### Breakdown by investment holdings

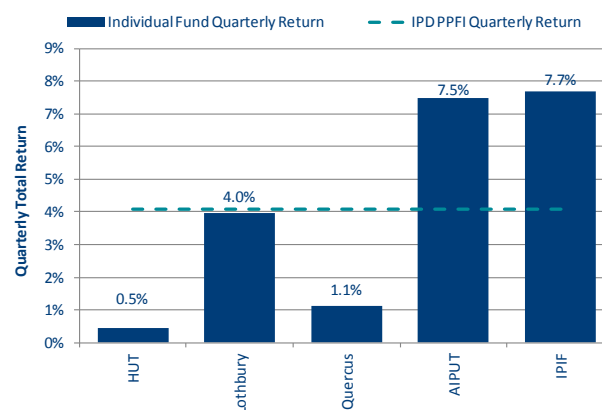


### Portfolio quarterly returns vs. IPD PPF



Source: DTZ IM/IPD  
Please Note: Past performance is not a guide to the future

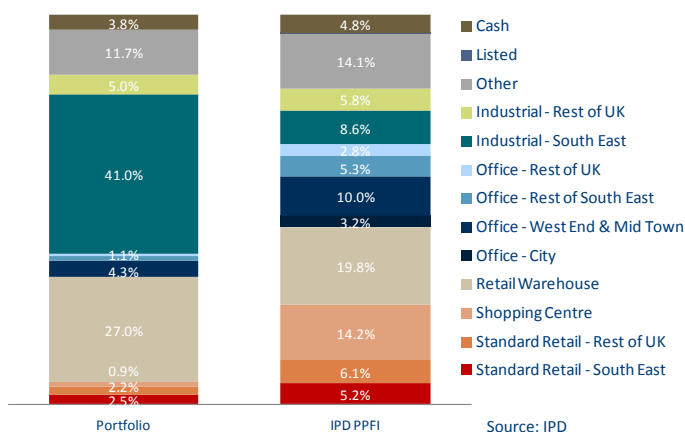
### Portfolio quarterly returns vs. IPD PPF



Source: DTZ IM/IPD  
Please note that this chart is for illustrative purposes only and past performance is not a guide to the future

## Breakdown by property sector

### Portfolio weighting



**Please note that the Portfolio was not designed to provide a stand alone and diversified property exposure.**

The Portfolio has a higher weighting to the retail warehouse and industrial sectors. This reflects the specialist investments made into IPIF, AIPUT and HUT. Quercus, a healthcare fund, provides the majority of exposure to the Other sector. Following the disposal of WELPUT in Q2 2013, the Portfolio is underweight to London Offices.

As a diversified fund Lothbury provides the minor exposure to the remaining sectors.

## Investment Updates

**Industrial Property Investment Fund (IPIF)**—Occupational activity continued to increase with IPIF recording £1.3m of lettings taking the total to £7.8m, the highest annual total in its history. This helped to reduce IPIF’s void rate to 10.7%. Added value activity also saw a positive increase with £8.0m of transactions being recorded over the quarter, the most significant of these saw IPIF secure an outline planning application for 311 residential units at Walthamstow. Transactional activity saw IPIF market a portfolio of 17 small estates, while it completed the purchase of an estate in Heston for 7.5% and placed another regional estate under offer.

**Hercules Unit Trust (HUT)**—HUT has seen no retailer administrations since March 2013, however, improving the tenant mix has taken time and in some instances has resulted in falling ERVs. On some of the larger parks, the ERVs have therefore been rebased which has had a negative impact on valuations. Although sentiment is improving, the valuation yield for the portfolio has remained stable during Q4. However, a number of the smaller assets saw valuation increases based on recent market evidence and this partially offset the negative effect of the rebasing of ERVs.

**Lothbury Property Unit Trust**—Lothbury negotiated two lease re-gears during the quarter, providing an overall property value uplift of £1.6m. In the active portfolio, the Lothbury team completed the Clarendon Shopping Centre development in Oxford and H&M have now taken possession of the store and have begun the shop fit out with the target of opening for trade in March 2014. This store has resulted in a strong line up of desirable high street fashion stores adjacent to one another in the shopping centre, including Gap and Zara.

**The Quercus Healthcare Property Partnership**—The withheld Q1 and Q2 distributions were paid in Q4 as a result of progress made on sales over the latter part of 2013. However, Aviva has deemed it prudent to continue to hold two quarters dividends until further progress is made on sales and debt reduction. We expect valuations to continue to trend downwards in 2014 due to the largely secondary nature of the portfolio and the NAV will also continue to fall as assets are disposed of below valuation.

**Airport Industrial Property Unit Trust (AIPUT)**—AIPUT has again benefited from the positive impact of active management across the portfolio and the improving market conditions during the quarter. The most significant event was achieving practical completion at the Blackburn & Court Farm Estate (Heathrow) development in November, which was shortly followed by the completion of three leases with Dnata. The asset has seen considerable capital uplift over the life of the project, and the property is now the second largest asset in the portfolio by value. Further performance is expected once the rent free incentive periods within the portfolio reduce and in the event pricing for prime and ‘bond style’ industrial assets strengthen.

## Disclaimer

In preparing this Report, DTZ Investment Management (“DTZIM”) has relied upon material; supplied by the Fund Managers of the respective underlying investments within the portfolio; or that is available in the public domain. Attention is drawn to the fact that any such information has not been verified by DTZIM and DTZIM gives no warranty and makes no representation as to the accuracy and completeness of the contents of this Report.

This report is issued by DTZIM for the information of the recipient only. The document and its contents are confidential and may not be provided or otherwise communicated to anyone other than to those it is addressed.

The communication of this document in the United Kingdom (if an authorised person) may only be made to persons who are defined as professional clients or eligible counterparties under the unregulated collective exemption scheme exemptions rules made by the FSA (COBS 4.12) or (i) may only be made to persons who fall within the category of “Investment Professionals” as defined in Article 14 (5) of the Financial Services & Markets Act 2000 (Promotion of Collective Investment Schemes) (Exemption) Order 2001 and (ii) persons falling within any of the categories of person described in Article 22 of the CIS Order and in both cases (i) and (ii) to any other person to whom it may lawfully be made. Transmission of this document to any other person in the United Kingdom is unauthorised and may contravene FSMA.

Where funds are invested in property, investors may not be able to realize their investment when they want. Whilst property valuation is conducted by an independent expert, any such opinion is a matter of the valuer’s opinion. Property is a specialist sector which may be less liquid and produce more volatile performance than an investment in broader investment sectors.

We would also draw your attention to the following important issues:

- Past performance is not a guide to the future;
- The value of investments can go down as well as up;
- Investments in small and emerging markets can be more volatile than other overseas markets; and
- For funds that invest in overseas markets, the return may increase or decrease as a result of currency fluctuations.

This report is issued by DTZ Investment Management Limited, authorised and regulated by the Financial Conduct Authority in the UK.