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.)
Portfolio	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%
IPD All Pooled Property Fund Index	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%
Portfolio Relative Return	Relative Total Return	0.2%	-1.4%	0.1%	-1.0%	-2.1%	-0.5%	-2.0%

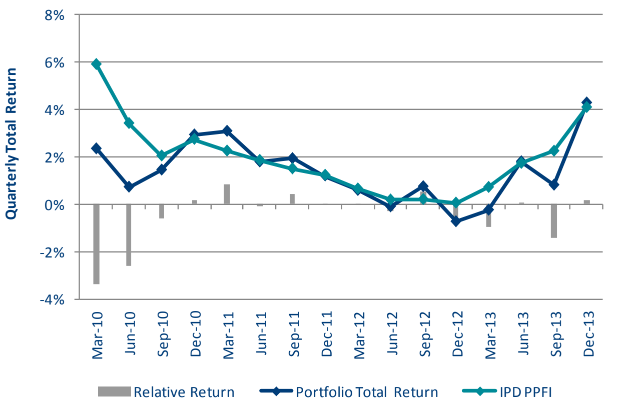
The advisory indirect portfolio (the Portfolio) delivered a total return of 4.3% during Q4 2013, outperforming the IPD All Pooled Property Fund Index (IPD PPFI) which returned 4.1% over the same period.

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.

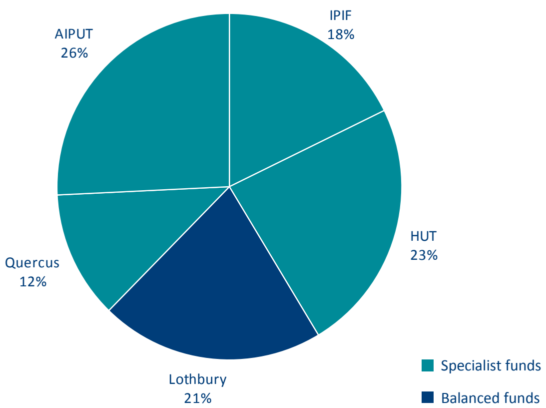
Quercus was again an underperformer during the quarter and although its NAV rose, this was the result of income retention rather than capital growth as income distributions were again withheld to provide funds if required to pay down debt should there be covenant pressures. We are actively lobbying Aviva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

Portfolio quarterly returns vs. IPD PPFI

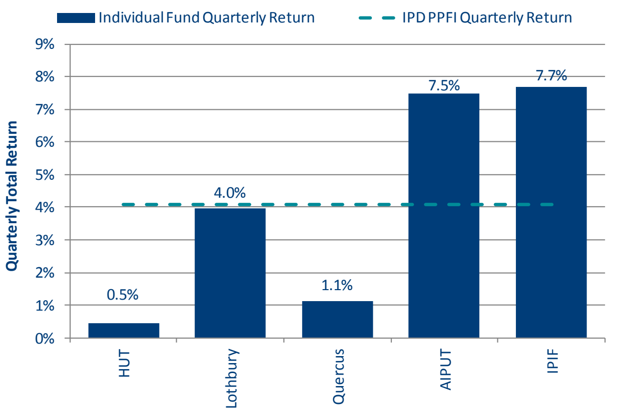


Source: DTZ IM/IPD
Please Note: Past performance is not a guide to the future

Breakdown by investment holdings



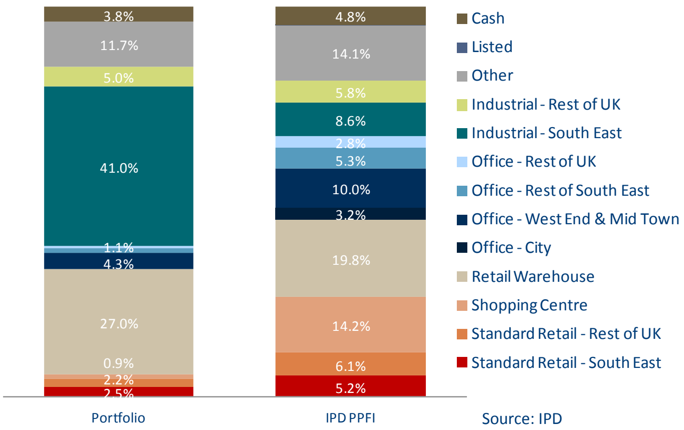
Portfolio quarterly returns vs. IPD PPFI



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



Source: IPD

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