KCCSF Advisory Indirect Mandate

DTZ Investors

Quarterly Update—Q4 2014

Please note that this portfolio does not provide a balanced exposure to the UK property market. The Portfolio was designed to supplement KCCSF's separate discretionary UK property mandate managed by DTZ Investors.

Portfolio performance

		Dec-14	Sep-14	Jun-14	Mar-14	12 months	3 year rolling (p.a.)	Since inception (p.a.)
Portfolio	NAV (£)	44,102,764	42,785,916	41,505,628	40,225,035	-	-	-
	Capital return	3.1%	3.1%	3.2%	1.7%	11.5%	3.0%	3.3%
	Income return	1.1%	1.1%	1.0%	1.2%	4.4%	4.6%	4.4%
	Total return	4.2%	4.2%	4.2%	2.9%	16.4%	7.7%	7.8%
IPD All Pooled Property Fund Index	Capital return	3.0%	3.1%	4.1%	2.1%	12.8%	5.2%	6.1%
	Income return	0.8%	0.8%	0.8%	0.8%	3.2%	3.3%	3.3%
	Total return	3.8%	3.9%	4.9%	2.9%	16.4%	8.7%	9.5%
Portfolio Relative Return	Relative Total Return	0.4%	0.3%	-0.6%	0.0%	0.0%	-0.9%	-1.6%

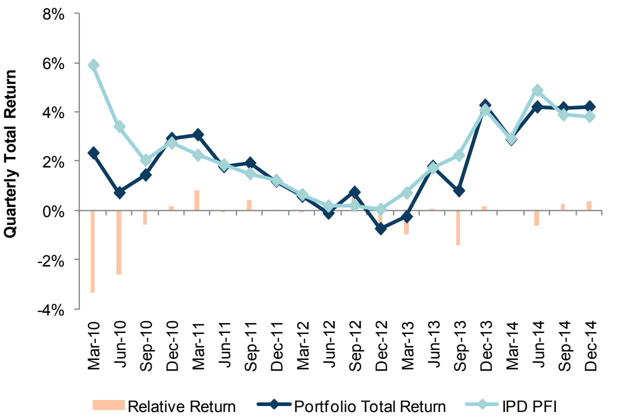
Please note that in November 2014, an income distribution statement was received from Quercus in relation to withheld income from Q1 2014. This has been included in the Q4 2014 figures above.

The advisory indirect portfolio (the Portfolio) delivered a total return of 4.2% during Q4 2014, outperforming the IPD All Property Fund Index (IPD PFI), which returned 3.8% over the same period. The strong performance in the second half of the year resulted in a total return of 16.4% in 2014, in line with the IPD PFI.

Three of the five holdings experienced strong returns in excess of the IPD PFI during the quarter. The smallest holding in the Portfolio, Quercus, significantly underperformed again in Q4. Despite continuing to actively lobby Aviva to ensure that KCCSF, as a redeeming investor, was redeemed from this investment by the end of 2014 in line with the fund documentation, this did not take place and the redemption remains outstanding as at February 2015.

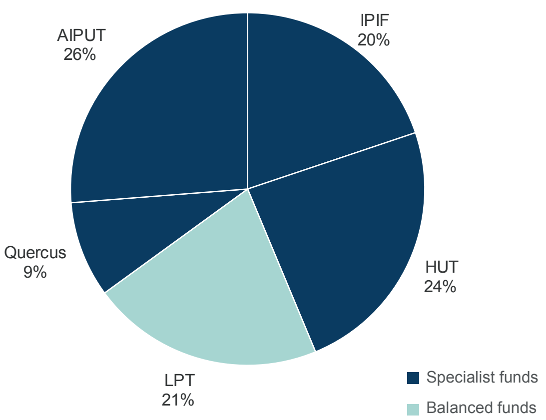
The £12m which was committed to the M&G UK Residential Property Fund in Q3 2014 remains undrawn. M&G has 12 months to draw capital following KCCSF's commitment and our latest expectation is that this will be drawn by the end of Q3 2015.

Portfolio quarterly returns vs. IPD PFI

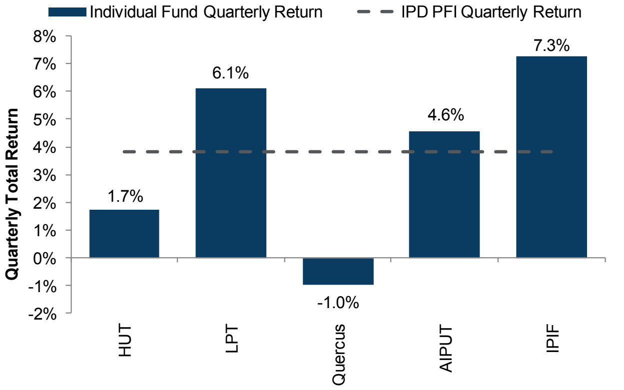


Source: DTZ Investors/IPD
Please Note: Past performance is not a guide to the future

Breakdown by investment holdings



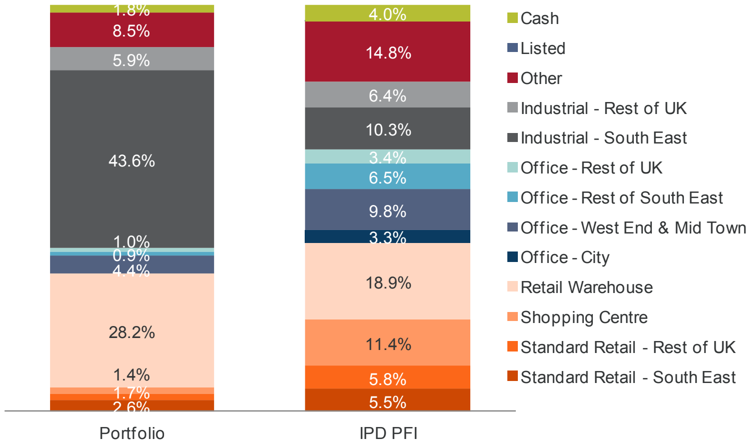
Portfolio quarterly returns vs. IPD PFI



Source: DTZ Investors/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, LPT provides the minor exposure to the remaining sectors.

Investment Update

Industrial Property Investment Fund (IPIF)—IPIF completed over £70m of purchases during Q4 with over £170m in total for 2014, representing the most active year in IPIF's history. Over Q4, as a result of added value initiatives, IPIF's valuation increased by over c. £5m. IPIF's void rate fell to 9.5% over the quarter with IPIF completing over £1.6m of transactions and c £6.7m over the course of the year, 6.8% above ERV. In Q4, IPIF's assets recorded capital growth of c. 5.0% resulting in a strong total return of 7.3%. During 2014, IPIF has seen a total return of over 29%, which is the highest annual return in IPIF's history.

Hercules Unit Trust (HUT)—HUT's performance picked up in 2014 following weaker performance in 2013. However, performance during the final quarter of the year has been slightly more muted as yields have stabilised. The leisure extensions at Fort Kinnaird, Edinburgh were completed during the fourth quarter of 2014 and Phase III extensions at Chester and Glasgow are due to complete during the first half of 2015. Having seen the developments in progress at Edinburgh and Glasgow during the year, we believe that the introduction of leisure will significantly enhance the offering at these locations helping to drive footfall, dwell time and total spend.

Lothbury Property Unit Trust (LPT)—LPT delivered a strong total return of 6.1% in Q4 2014. The performance was predominantly driven by capital value gains across the portfolio, most notably in the Central London Office and Retail sectors with the development project at 55, St James's Street, London SW1 performing particularly strongly. The project is due to complete in April 2015 and as such, the appraisal assumptions have been reviewed to reflect current market conditions. LPT's flagship retail holding at James Street in Covent Garden continued to deliver strong performance as a result of excellent rental growth. Capital value increases were also recorded at the Clarendon Shopping Centre, where an additional third ownership of the asset was acquired by LPT in December 2014. LPT now owns two thirds of the asset, having held an interest in the scheme since LPT's inception.

The Quercus Healthcare Property Partnership (Quercus)—Awaiting fund manager report. Please note that there has been no income distribution in relation to Q4 2014. However, in November 2014, an income distribution was received from Quercus in relation to withheld income from Q1 2014.

Airport Industrial Property Unit Trust (AIPUT)—The final quarter of 2014 was eventful with numerous activities reaching a conclusion. The most significant event was the successful completion of AIPUT's extension and modernisation which completed in December 2014. This concludes the extension of AIPUT's life from December 2015 to 2036, and includes a number of modernisations to the structure and operation of the fund. Further capital growth occurred across the wider industrial sector over the fourth quarter following a surge of investment activity as investors sought to deploy capital before the year end. An acceleration of pricing for the prime industrial sector in particular has been reflected in the improved portfolio valuation of AIPUT.

Portfolio Management

***Quercus*—**Fund Manager Aviva was under a best endeavours obligation to pay out redeeming investors, including KCCSF, by 31st December 2014. In December, Aviva informed us that payouts would not be made by the end of the year (despite reassurances up until this point that the best endeavours obligation to do so would be met) and that payment would now be made by the end of January. Since then, we have received no update from Aviva and no payment has been made to date as at February 2015. We have continued to reserve KCCSF's rights regarding any breaches of the fund arrangements.

A number of options have been available to Aviva to raise the money required to pay out the relatively small size of redemption notices (c. £11.0m based on Q3 2014 NAV) which we do not believe have been pursued throughout the period since July 2013 when a retirement notice was submitted by KCCSF. Furthermore, we believe that a number of these options are still available including the disposal of individual assets from the hold portfolio, using income to pay down debt and through re-negotiations with the bank.

Following advice from our legal advisors, Dentons, we continue to exert further pressure through correspondence with the fund Trustee. We have stressed that whilst the December 2014 deadline has now passed, we believe that the breach of the obligations to use best endeavours to pay out redeeming investors remains in place and that there is an ongoing duty to mitigate this breach and to keep us fully informed in this regard.

***AIPUT*—**During the quarter, a vote was submitted in favour of the fund modernisation and extension to December 2036. AIPUT received no redemption requests from investors and the fund modernisation and extension was completed successfully.

Post quarter end, we negotiated KCCSF's disposal of its holding in AIPUT at a 3% premium to the December 2014 estimated NAV. The rationale to dispose of the holding included strong investor demand and a lack of quality stock in the direct market; attractive pricing on the secondary market; the significant yield compression which has taken place in the fund; and concerns over the future of Heathrow airport if it does not win the rights to a new runway. Finally, AIPUT has seen very strong performance with outperformance over the IPD PFI over each of the last 1, 3 and 5 year periods so the disposal crystallised the strong capital growth experienced over this time. KCCSF's holding in AIPUT was acquired in June and August 2010 and has seen a total return of c. 65% since inception, equivalent to a total return of over 13% p.a. during this period.

***IPIF*—**During the quarter, KCCSF voted to remove State Street (Jersey) Limited and appoint Coleman Street Manager Limited as Manager; to remove Pavilion Trustees Limited and to appoint IPIF Trustee Limited as Trustee; and to authorise the Trustee to vote in favour of a Partial GP Transfer in line with our recommendation. We have since received confirmation that all these resolutions were passed by over 90% of the unitholders. Final consent has also been received from the Jersey Financial Services Commission and as result, JTC (Jersey) Limited are now formally appointed as IPIF's administrator.

In December, KCCSF decided not to take up the allocated pro rata share of units in IPIF or any further units as part of the ongoing £67m capital raise being undertaken by L&G. While we recommended a further upweight into this investment, KCCSF decided not to make further allocations to the Portfolio at this time.

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