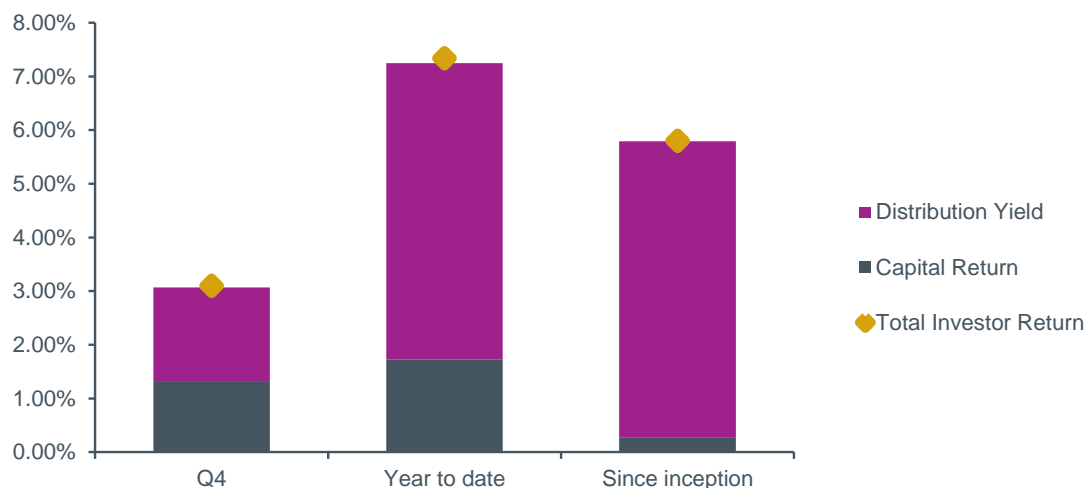


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Kames UK Active Value Unit Trust Quarterly Investor Report – Q4 2014

Performance



| | Current Quarter | Previous Quarter | Change |
|-------------------|-----------------|------------------|--------|
| NAV (£m) | 161.01 | 153.21 | 7.80 |
| Unit Price | 1.003 | 0.990 | 0.013 |

Source: Kames Capital as at 31 December 2014

Performance Analysis

The Fund's independent valuer, Knight Frank, has increased the like for like (excluding purchases) value of its property assets by 2.0% over the quarter, with the December valuation showing a blended initial yield of 7.75%. During the quarter we purchased assets with a combined value of £19,290,000, with the associated costs inevitably having a negative impact on performance.

The continued improvement in secondary property values attracted more vendors to the market over the autumn months, resulting in improved levels of stock. Notwithstanding this, the appetite of investors was equally strong, which brought a healthy equilibrium to the market. Property values continued a steady increase over the quarter, which has fed through positively to the Portfolio's valuations.

UK property market commentary

The IPD monthly benchmark showed a +4.3% total return over the quarter ending 31st December. This was largely driven by the capital return as the market continues to drive property pricing upwards with strong investment demand for UK commercial property resulting in falling yields.

2014 has been an excellent year for property with the IPD Monthly Benchmark returning 18.6%. Increases in value have occurred in most property types and areas in the UK, rather than just prime locations and properties, and in particular secondary property has seen considerable inward yield shifts.

Investor confidence has been strong during the quarter, resulting in new or increased allocations from UK institutional investors as well as retail clients seeking to invest into the asset class. There is also a weight of overseas money seeking to invest outside of London into the Regions. This increasing confidence and demand has led to a greater appetite for risk, as investors have sought higher returns and begun to switch from the perceived lowest risk assets to those with some risk in terms of lease length, location or tenant credit quality.

Bank lending has improved and is expected to become more widely available, enabling the entry to the market of more debt backed purchasers.

The occupational market recovery is now underway and in particular M25 office supply is tightening. Enquiries are up in most sectors, although the retail sector has continued to be the most challenging due to the structural changes taking place within the industry.

Market Outlook

Despite recent strong growth we are still positive about the immediate outlook for property in the UK.

Secondary pricing has moved quickly, however we still believe there is an opportunity and expect returns to be attractive from current valuation levels as investors seek higher yields.

Total returns are likely to continue to incorporate a positive capital return as well as the income return for 2015.

Sovereign Wealth Funds, Asia Pacific, Germany, US, Middle East also UK private/"opportunity" fund/investors property companies and UK institutions are all in the market, and continued competition for assets is expected to continue to drive pricing, although there is a perception that prime is peaking.

Careful stock selection will remain a priority for both investors and tenants. However, we expect there to be a greater focus on investments with higher income returns and asset management opportunities as investors seek to get value.

There has been evidence of UK funds buying larger lot sizes again and driving pricing, but we would exercise some caution regarding this as they become illiquid in more difficult markets.

While we expect strong rental growth in central London, pricing is expensive, with West End office yields at record lows and vulnerable to rising bond yields.

The availability of debt for commercial property is expected to continue to improve and is likely to bring more competition into the market.

Retailers continue to adapt to structural changes linked to internet shopping, which continues to impact the demand for physical retail space, and we expect the supermarket sector to have a more difficult year and there may be valuation falls in this area.

There is some uncertainty in the market due to the General Election. However, the current view is that this will not impact negatively on overall property pricing and whilst there may be less activity in the first half of the year, it is expected that the second half of the year will be active and 2015 will be another positive year for property.

Property Activity

Acquisitions

The Fund completed 3 property acquisitions during the quarter.

Leighton Buzzard, Grovebury Road – purchased for £3.16m in October 2014. The property is a terrace of light industrial units, let to a charity store distributing clothing and food aid. The property benefits from a 9 year unexpired term with an attractive Net Initial Yield of 10%. Benefiting from a large 8 acre site, the property offers the potential for redevelopment in the medium term.

Chelmsford, Fenton House – this refurbished multi let office building was purchased for £6.3m in November 2014. The property is located in a prime office location and benefits from a strong tenant line up including HSBC and Amlin Corporate Services. The lack of good quality office accommodation in Chelmsford offers the opportunity to increase rental levels in the building, by re-letting Amlin's space in December 2015 when they have a break option and are expected to vacate. In the meantime the property offers an attractive Net Initial Yield of approaching 8.0%.

Basildon, Town Square – purchased in August 2014 for £9.83m representing a very attractive Net Initial Yield of 9.0%. The property is mixed use with a prime retail parade at ground floor (tenants include EE, H Samuel, Nationwide and Vision Express) representing approximately 80% of the income and substantially refurbished office accommodation on three upper floors. The building offers many asset management opportunities with several retail unit regears to be undertaken and vacant office space to be let.

Active Management

Luton, Wigmore Place - the Manager is seeking to conclude discussions with both TUI and O&M Property Management to regear their occupational leases. A number of options have been provided to the tenants, which provide for longer lease terms, letting the remaining vacant space and enhancing rental levels. Whilst negotiations were somewhat delayed prior to Christmas, owing to a significant restructuring of TUI's business, we are confident of agreeing terms and instructing solicitors early in Q1 2015.

Stockport, Orion Business Park – marketing of the part vacant Unit 1 has been ongoing during Q4 2014. The lack of available industrial stock in the Greater Manchester area has resulted in good levels of interest and proposals have been received from an owner occupier and two prospective occupational tenants. Indications show that letting this vacant space and removing Bosch's (the tenant of the remainder of Unit 1) break option in 2017, rather than selling the unit to an owner occupier, should produce the largest upside for the Fund and is likely to represent the preferred option.

Carmarthen, Ffordd Cambrian Way – two short term lettings in the scheme have now been completed and marketing of one vacant unit continues.

Edinburgh, Bilston Glen Industrial Estate – two tenant lease renewals have been completed, improving the Estate's security of income. A feasibility study has commenced looking to develop additional units on a previously undeveloped part of the Estate, with an existing tenant already having expressed interest in taking a pre-let.

Disposals

The Fund has not disposed of any property assets during the quarter.

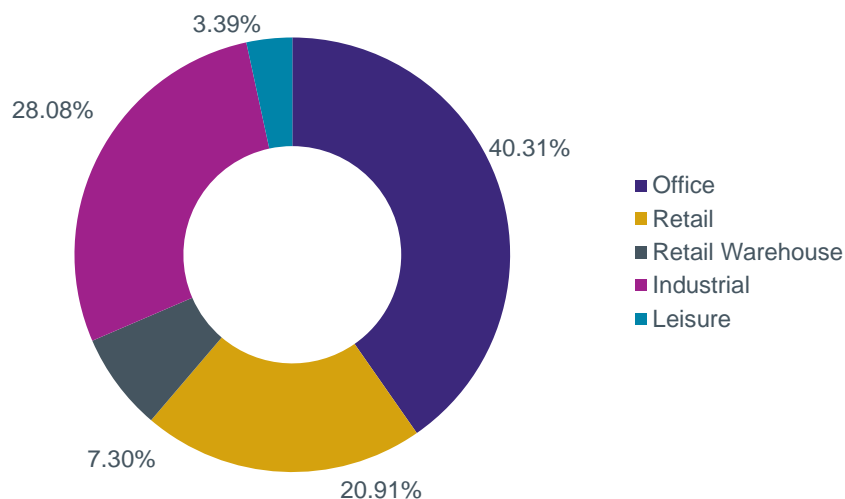
Geographical split



Includes properties under offer

- 📍 Office (14)
- 📍 Retail (12)
- 📍 Industrial (11)
- 📍 Retail Warehouse (5)
- 📍 Leisure (2)

Sector weights*



Source: Kames Capital as at end December 2014. *Based on properties purchased and total current pipeline.

Top 10 tenants by percentage of income

| Sector | Tenant | Covenant |
|------------------|---|----------|
| Industrial | CC Automotive Limited | 5A1 |
| Office | TUI | 5A1 |
| Office | RBS | 5A1 |
| Office | Millwood Brown | 4A1 |
| Retail Warehouse | Wickes Building Supplies Limited | 5A1 |
| Industrial | Swiss Post Solutions Ltd | N/A* |
| Office | Boeing UK Training and Flight Services UK Ltd | 5A1 |
| Retail | SportsDirect Retail Ltd | 5A1 |
| Industrial | Into The Light Ministries | H 2 |
| Leisure | Mecca Bingo Limited | 5A1 |

Source: Kames Capital as at end December 2014. * 3 year rental deposit

Pipeline

At the end of the quarter, 10 properties with a combined value of approximately £53.15m were under offer. It is anticipated that these purchases will be completed during Q1 2015, following which a total of approximately £214m will have been invested. Improved secondary market pricing in Q3/4 resulted in more stock coming to the market which has extended the opportunity for the Fund to buy attractively priced assets. Whilst the Manager has been focused on converting a substantial existing pipeline, several investment opportunities are also being considered.

Rent reviews

No rent reviews were settled during the quarter.

Trust Activity

Marketing activity

As we approached the end of 2014, marketing activity for the Kames Capital UK Active Value Property Unit Trust continued although this was concentrated on follow up meetings with potential investors who had previously expressed interest.

The Fund Manager and Directors of the Managing Trustee considered the equity raised to date, current market conditions, the portfolio of properties already secured and availability of appropriate stock. As a result, although we continued to promote Kames' real estate capabilities and the Active Value Fund, it was agreed that, to protect returns for existing investors, we would announce the final close of the Fund at the end of 2014. As a result of this likely final close, two existing investors committed a total of £40m to the Fund and a new investor committed £30m. They were attracted to the higher returning strategy of the Fund and felt that it was an excellent complement to their existing separate property mandate as the Fund was targeting higher return type properties.

As a result of the £70m raised in the final quarter, the Fund completed its final close with a total equity raised of £275m, which exceeded the target of £250m originally set for the Fund.

Primary units

No new units were issued during the quarter.

Cashflow

At the end of Q4 2014 there was £5.2m of investable cash held within the Fund.

Important Information

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Where funds are invested in property, investors may not be able to switch or cash in their investment when they want because property in the fund may not always be readily realisable. Redemptions or liquidations may therefore be deferred. Whilst property valuation is conducted by an independent expert, any such valuation is a matter of the valuer's opinion. Property funds invest in a specialist sector, which may be less liquid and produce more volatile performance than an investment in broader investment sectors.

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