

September 2020

## Overview

In Q3 2020 the Trust delivered a total return of -0.7% to unit holders compared to the MSCI/AREF Other Balanced benchmark weighted average return of 0.2%. During the quarter the NAV decreased by around 1.4%, with just under 0.9% of this relating to property valuation movements, including the impact of acquisition fees and costs during the period. The remainder relates to a reallocation of lease incentives from capital to income, which will be reflected in an increase in the next distribution due in mid-November 2020 (see the paragraph below for detailed commentary). Over the year the Trust delivered a total return of -2.6% to unit holders, outperforming the benchmark return of -2.8%.

During the quarter the Manager continued to progress on a combination of asset management initiatives and a continued focus on tenant engagement, which reflected in positive rent collection rates. In terms of transactions, the Manager completed the sale of a pub investment in London (£2.9m) and two acquisitions: a B&Q retail warehouse in York (£16.05m) and the forward funding of a prime industrial estate in Rochester (£23.9m). In October 2020, the Manager successfully completed the sale of the office investment in Cockfosters (£34.0m).

## Lease Incentive Adjustments

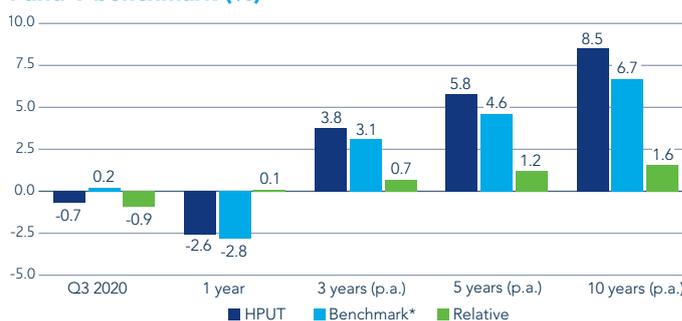
Under FRS 102, HPUT recognises rental income on a straight-line basis over the length of the lease. As part of an internal review exercise, the Operations team noted an error in the calculation of lease incentives such that for some of the lease's rents had not been correctly spread, so that income was understated and the capital price overstated. The error did not exceed the material threshold to trigger historical price restatements at any time. The Trust's auditors, PwC, have confirmed that they view the error as immaterial for the financial statements. The price was corrected as at 30 September 2020 (reflected in the Q3 returns) and the deducted amount from capital will be distributed to all investors in the next distribution due to be paid on or around 15 November 2020 (which will be reflected in the Q4 returns). Given this, the total return for the calendar year will not be impacted. The Trust Manager has performed analysis to ensure that no investors have been materially adversely impacted. Whilst the effect of the error is not material and neutral for overall performance, we take matters such as this extremely seriously. A review has been undertaken to examine how the issue arose and to amend procedures to ensure that it cannot recur. We sincerely apologise for any inconvenience caused.

## Valuation

In September 2020, the RICS Leadership Forum agreed that the Material Valuation Uncertainty Clauses (MVUC) were no longer recommended for inclusion within any valuation reports of UK properties, except for some leisure and hospitality assets that are valued based on trading potential. HPUT does not include any assets that are valued in this category. This means that as at 29th September 2020 none of the property valuations have been subject to the MVUC.

## Performance as at end September 2020

### Fund v benchmark (%)



\*MSCI/AREF UK Other Balanced Property Fund Index (Weighted Average). Years to end September 2020, annualised in GBP. Returns rounded to 1 decimal place. Relative returns are calculated on a geometric basis net of fees. **Past performance is not a reliable indicator of future results.**

## Performance

At sub-sector level, the Trust's Industrial sector delivered the highest contribution to portfolio return by increasing the overall return for Q3 by 0.6%. This was followed by the City and West End office sectors which increased the overall return by 0.1% in aggregate. The strong contribution from the Industrials reflects a particularly resilient occupier market and stable investor sentiment. During the same period the Retail Warehouses and Unit Shops sectors reduced the overall return by a combined 0.5%. This is reflecting the ongoing investor concern affecting the sectors.

At property level, the investments that delivered the strongest contribution to portfolio return were the office investment in Cockfosters (Black Horse Tower) and the industrial estate in Croydon (Mitcham Road). The assets that delivered the greatest reduction on the Trust's portfolio return during Q3 were the retail warehouse investment in Stratford upon Avon (Maybird), and the shopping centre in St Albans (Christopher Place), reflecting poor investor sentiment within the property market for retail assets.

September 2020

## Transactions

**Public house portfolio:** in August 2020, one pub investment located in London (Portobello House, Ladbroke Grove) was sold for £2.9m reflecting a net initial yield of 2.55%.

**B&Q, St Lawrence Retail Park, Hull Road, York:** as reported in the Q2 2020 factsheet, in July 2020, the Manager completed the purchase of a retail warehouse investment for £16.05m (8.66% NIY).

**M2 City Link, Anthony's Way, Rochester:** In September 2020, the Manager completed an acquisition to forward fund a prime South East industrial estate within the Medway City Estate in Rochester for £23.9m, reflecting a blended funding yield of 5.55%. Upon acquisition of the freehold interest of the site for £6.5m, the Manager simultaneously entered into a Development Funding Agreement (DFA) with the developer who will procure and manage the development process on behalf of the Trust. The M2 City Link is situated in a highly prominent location in Medway City Estate, an established commercial centre in north Kent which forms the eastern end of the Thames Gateway, a strategic Government Priority Regeneration Area. The proposed development site totals 7.5 acres and will provide 8 units of industrial, logistics and trade counter use.

**Black Horse Tower, Cockfosters:** following the unconditional exchange of contracts in Q1 2020 for the disposal of the asset for £34m, in Q3 2020 the Manager negotiated a surrender premium from Lloyds Bank of £2.175m and served notice on the purchaser to complete on 2nd October 2020.

## Asset Management

**Maybird Shopping Park, Stratford-Upon-Avon:** during the quarter the Manager completed a new letting with Superdrug, an Agreement for Lease with Poundland and a turnover reversionary lease renewal with Sports Direct. The activity will provide new evidence and will reduce the estate's vacancy rate.

Furthermore, the Manager completed various lettings in the industrial estates in West Horndon and Inverkeithing, together with a reversionary 10-year lease renewal with the existing tenant in the West End office investment in Soho Square.

## Rent Collection

**Q3 Collections:** as at mid October 2020, the Manager collected 80% of the total rent demanded. Relative to the initial expectations, the trends showed positive outcomes thanks to the continuous engagement and support to tenants. The sector analysis is recording similar trends seen in the previous quarter: retail and leisure sectors continue to be challenged but in this case the weight in the fund is limited. Office and Industrial sectors remain relatively resilient.

**Q4 Collections:** the initial trends of collections for the last quarter of the year showed that the Manager collected 62% of rent and 67% of service charge, which were slightly ahead the previous quarter trends. The Manager continues to remain in

close contact with the tenants to establish potential solutions in distress situations. A supportive approach continues to be adopted, which has also been reflected in the latest collection figures.

## Organisational Update

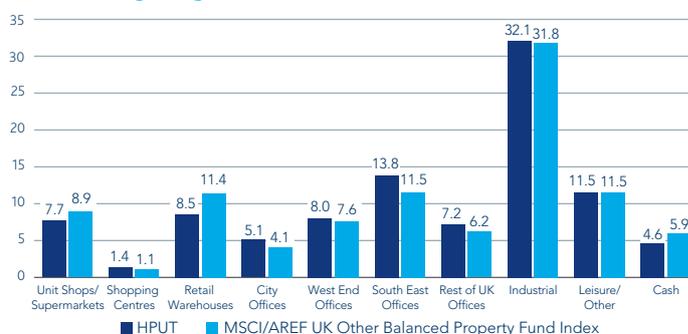
In October 2020, Dermot Kiernan joined Federated Hermes as Fund Director for HPUT from M&G Real Estate, where he had been since 2007. Over that time, he had responsibility for three UK focused funds, most recently as the Fund Manager of the M&G UK Property Fund. Prior to this, Dermot worked for LaSalle Investment Management, a listed property company and in the public sector. Dermot brings an investment philosophy which fully complements Federated Hermes responsible approach to investing, which has helped the Manager deliver outstanding returns over the past decade both in terms of financial outcomes as well as positive environmental and societal results.

## Outlook

Covid-19 and the government's policy response have caused an unprecedented shock to the economy and the commercial real estate market. The overall long-term consequences remain unclear albeit some of the macro trends apparent before the onset of the pandemic, such as e-tailing and greater homeworking, have accelerated further. Economic activity picked up during the Summer as lockdown measures were eased, although the UK commercial property market remained subdued with reduced levels of investment and occupier activity. The latter half of the third Quarter witnessed increased investment activity, resulting in the phased removal of the material uncertainty provisions from property valuations. The Manager believes there are some interesting opportunities in the current market, in both the growth and value asset categories. However, maintaining a disciplined approach to stock selection and well-timed disinvestment, together with a critical focus on asset management and sustainability, continues to remain the principal element of a strategy to deliver long term positive relative returns to the Trust's investors.

## Portfolio Structure Comparison

### Sector Weighting % Total Portfolio Value



Source: Hermes Real Estate and MSCI/AREF UK Property Fund Index, end September 2020. GAV basis.

September 2020

## Key Statistics

## As at end September 2020

Gross asset value	£1,362.7m
Net asset value	£1,362.7m
Directly held assets	76
Indirect real estate vehicles	0
Offer Price	£6.796
Bid Price	£6.331
Net Asset Value per unit	£6.410
Number of unit holders	103
Distribution per unit – paid (Quarter to September 2020)	4.24p
Distribution per unit – paid (Year to September 2020)	20.30p
Yield on offer price	2.99%
12 month return to unit holders	-2.6%
Quarterly return	-0.7%
Bid / Offer spread	6.8%

Source: Hermes Real Estate, end September 2020

## Top 10 Direct Holdings by Value Band (GAV)

## As at end September 2020

Asset	Sector	Lot Size (£m)
8/10 Great George Street, London	West End Offices	60-65
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	60-65
Broken Wharf House, High Timber Street, London	Leisure/Other	55-60
Polar Park, Bath Road, Heathrow	Industrials	50-55
Horndon Industrial Park, West Horndon	Industrials	45-50
27 Soho Square, London	West End Offices	45-50
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	40-45
Round Foundry & Marshalls Mill, Holbeck Urban Village, Leeds	Standard Offices RUK	35-40
The Summit Centre, Bath Road, Heathrow	Industrials	35-40
Boundary House, 91/93 Charterhouse St, London	City Offices	30-35

Source: Knight Frank Valuations and Hermes Real Estate, end September 2020

## Important Notes for Investors

**The value of investments and income from them may go down as well as up, and you may not get back the original amount invested. Any investments overseas may be affected by currency exchange rates. Past performance is not a reliable indicator of future results and targets are not guaranteed. Property is an illiquid asset. Ability to redeem from a property investment is limited and may be significantly deferred in adverse market conditions.**

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The Hermes Property Unit Trust ("HPUT") is constituted by an amended and restated trust deed between the Appointments Committee, the Trust Manager and the Trustee. The Trust Manager, Hermes Alternative Investment Management Limited ("HAIML"), is the legal operator of HPUT. It is authorised and regulated by the Financial Conduct Authority and has been appointed by the Appointments Committee to undertake all portfolio and risk management activities. The Trust Manager has formed a special committee, known as the HPUT Committee, through which it considers certain matters on behalf of Unit Holders. Each of the members of the HPUT Committee is a member of the Appointments Committee. Each person is Financial Conduct Authority approved in respect of the activities they perform through the HPUT Committee. The Trust Manager delegates certain of its property portfolio activities to Hermes Real Estate Investment Management Limited. For more information please contact Hermes Investment Management Limited.

Issued and approved by Hermes Investment Management Limited ("HIML") which is authorised and regulated by the Financial Conduct Authority. Registered address: Sixth Floor, 150 Cheapside, London EC2V 6ET. HIML and HAIML currently carry out regulated activities associated with Hermes Real Estate Investment Management Limited ("HREIML"). Telephone calls will be recorded for training and monitoring purposes. Potential investors in the United Kingdom are advised that compensation may not be available under the United Kingdom Financial Services Compensation Scheme. BD006600 0009763 10/20



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