Federated Hermes Property Unit Trust

Quarterly Update

Q1 22

March 2022

Market Context

During the period the economy faced strong inflationary pressures from supply/demand imbalances due to the gradual reopening from Covid restrictions and an increased geopolitical risk following the Russia invasion of Ukraine. Prior to the war, global GDP growth was slightly stronger than expected partly because Omicron weighed on activity less than predicted. The build up to and subsequent Russian invasion of Ukraine has pushed up commodity prices further, lifted the level of global consumer price inflation, and led to a deterioration in the near-term outlook for global growth. These factors have seen the introduction of a gradual increase in interest rates from the Bank of England together with a fiscal tightening. Consumption remained under the pressure due to persistently high cost-push inflation and this will continue to erode real incomes over the balance of the year. There are some mitigating factors that should prevent a sharper slowdown. Most notably, households have abundant excess savings from Covid lockdowns and corporates have generally healthy balance sheets, which should cushion the hit from high inflation.

In Q1 2022, the UK Commercial Real Estate market delivered positive growth across all sectors, with exceptional performance coming from the retail warehouse and industrial sectors. Both sectors continued to be driven by positive investor sentiment, strong rental growth, and a resilient occupier market. In the office sector, rental and capital values increased marginally showing some regional and quality divergence. Rental values in the retail sector declined in Q1 2022. The highest capital value growth recorded for the retail sector over the past quarter was driven by strong performance in retail warehousing. The drivers of this performance were positive investor sentiment, strong transactional activity, and sharpening yields.

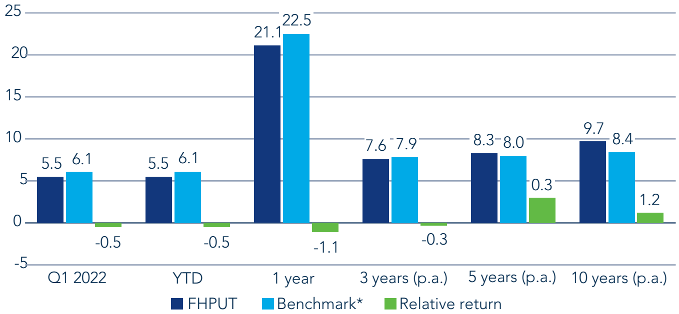
Portfolio Update

The Trust's underlying direct property portfolio was valued at £1,495.77 million. There were 72 direct properties in the portfolio and no indirect assets.

The Trust held £40.1 million of cash for investment which represented 2.6% of GAV compared to the benchmark weighted average of 4.3%. The Trust continued to hold a small debt amount following the drawdown of £48m (of £75.0 million available) to facilitate an investment transaction. The Manager is planning to pay back the drawdown repayment in 2022, following planned disposal transactional activity. As at end of March 2022 this drawdown balance accounted for 3.2% of NAV.

Performance as at end March 2022

Fund v benchmark (%)



*MSCI/AREF UK Other Balanced Property Fund Index (Weighted Average). Years to end March 2022, annualised in GBP. Returns rounded to 1 decimal place are net of fees. Source: MSCI/AREF UK Other Balanced Property Fund Index.
Past performance is not a reliable indicator of future results.

Performance

In Q1 2022 the Trust delivered a total return of 5.5% to unit holders compared to the MSCI/AREF Other Balanced benchmark weighted average return of 6.1%. The benchmark returns continued to show a high level of dispersion and volatility with some strong active management activity driving some of the peer funds' strong performance.

Over the 12-month period, the Trust delivered a 21.1% total return to unit holders, compared to the benchmark total return of 22.5%. In terms of total return breakdown, this reflected a strong income return for the year (3.6% compared to the benchmark of 3.3%) but lower capital growth for the fund at 16.9% over the year, compared to the benchmark at 18.7%. The Manager remains aware that there is strong latent potential for some major added value projects in the portfolio. Few of them delivered some good progress during the quarter and started to unlock good performance which will be crystalised in full over the short to medium term. The Manager continues to focus on delivering sustainable risk adjusted longer-term performance to its investors.

At sub-sector level, the industrial sector delivered the highest contribution to portfolio performance, increasing the overall return during the quarter by 1.8%. The sector continued to deliver strong performance driven by yield compression and positive rental growth. More specifically during the quarter the sector performance was driven by good outcomes from one of the assets marketed for disposal. The principal detractor was the regional offices sector (South East and Rest of UK) which reduced the overall return by 0.7% given weaker investor sentiment due to the ongoing uncertainty regarding structural changes on work flexibility and ESG requirements.

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At property level, in Q1 2022 the investments that delivered the strongest contribution to portfolio return were the industrial estate in West Horndon and the recently completed logistic development in Rochester. Both experienced very good results from active management and specifically to the former, due to very strong investor interest from the disposal marketing process which resulted to offers materially ahead to the pre-sale valuation. The greatest reductions to the Trust's Q1 2022 portfolio return were the serviced apartment in the City of London (Broken Wharf House) and the West End office in Soho Square. The former, although affected by the recent Covid restrictions, last year achieved good results on arrears repayments and reinstated quarterly rental payments. The latter due to ongoing refurbishment on 3 floors of the building, following the ESG guidelines, to part fitted specifications.

Investment Management

As mentioned, good traction was achieved during the period on some of the major added value projects in the portfolio, together with good progress obtained in the disposal pipeline.

In the property portfolio, the letting activity continued to be driven by the industrial sector with rental tones continuing to show good improvements. The Manager also carried out sustainable refurbishments to provide alternative energy sources, with the most notable detailed below in the report (Manchester).

Church Street, Caversham: during the period the Manager completed the lease renewal with Waitrose occupying a 40,000 sq. ft. unit in the centre. The new lease is for a 10-year term at an annual rent of £500,000. The lease includes a fixed rent review uplift at year 5 to £565,704 which will be set until the end of the lease (equivalent to 2.5% p. a. compounded).

Croydon North End: Tesco took a vacant 5,425 sq. ft. unit in the retail parade. The lease is based on a 15-year term with a break at the 10th anniversary at an annual rent of £120,000 after incentives (CPI rent reviews at 1% collar and 4% cap). The letting will secure an improvement to the WAULT of the assets and maximize its rental income. During the period the Manager also completed the lease renewal with another major occupier in the retail parade (Pandora). The lease completed for a 5-year term with break at year 3 and delivering an average annual rent of £66,000.

Reading Metropolitan: achieved an initial confirmation from Reading Borough Council with a minded to grant outline planning consent for circa 620 residential units together with ancillary space and some commercial uses on this site. The decision is conditioned by the agreement of a comprehensive S106 and detailed design principles which will be worked up in the coming months.

Hythe House, Hammersmith: The office building carries some vacant refurbished units which are currently being marketed. Following the recent letting activity, during the quarter the Manager completed a new letting on the vacant 4th floor unit to ADM Promotions UK Ltd for a 10-year lease term at £206,280 per annum after incentives. The rent reflects £45 per sq. ft and the lease includes a break option on year 3 and 5.

Erdington Industrial Estate, Birmingham: as part of the ongoing business plan to maximize the asset's potential, during the period the Manager submitted a planning application for a new 100,000 sq. ft of logistics space on the former car park. The site is currently being temporary let to Stagecoach Services Ltd as main service space for the Commonwealth games in Birmingham (ERV £480,000 pa based on the latest March 2022 valuation).

1/15 Thomas Road, Limehouse, London, E14: Over the last several months the estate experienced strong demand from grocery/supermarket delivery occupiers thanks to the strategic location of the estate. During the quarter the Manager completed a new letting with Fancy Delivery UK Ltd (4,522 sq. ft. unit) for a 5-year lease at a rental income of £89,235 p. a. (£22.50 per sq. ft.) after incentives. Recently the last two vacant units in the estate went under offer to similar operators for a 5-year terms at rent of £21 per sq. ft and £25 per sq. ft respectively (total combined rental income of 233,885 per annum).

Guinness Road, Manchester: letting to University of Manchester for a term of 10 years for £82,280 pa / £8.25 psf. The unit was comprehensively refurbished with new LED lighting, electric panel heaters and solar roof mounted array and achieved an EPC of 'A'. The tenant agreed to enter into a power purchase agreement with the Manager and it is anticipated that the system will produce 23,625 kWh of electricity and removing 11,104 kg of carbon emissions per annum.

Organizational Update

Katerina Papavasileiou joined the Federated Hermes Real Estate and Responsibility Team. Katerina is an experienced ESG specialist and is working directly with the investment team in providing expertise and guidance on the dynamic implementation of the overall ESG framework and, specifically, the pathway to Net Zero.

Outlook

Early in the year the UK economy recovered its Covid-related losses, just when a new shock from the Russian invasion of Ukraine hit. The war has had a significant negative impact on the outlook, acting as a potential stag-flationary shock to the economy. The further increase in commodity prices due to the conflict came on top of an ongoing inflationary wave that has largely reflected pandemic-related supply-demand imbalances, global supply constraints and surging energy prices. Given this, the drag on domestic demand from high inflation and fiscal tightening will intensify further in the second quarter of 2022 and UK GDP growth is likely to slow down over the course of the year. Longer-term, the UK economy faces some prominent challenges. Efforts to rewire the economy for a post-Brexit and net-zero world will define the next decade, but this environment will also offer investors plenty of opportunities.

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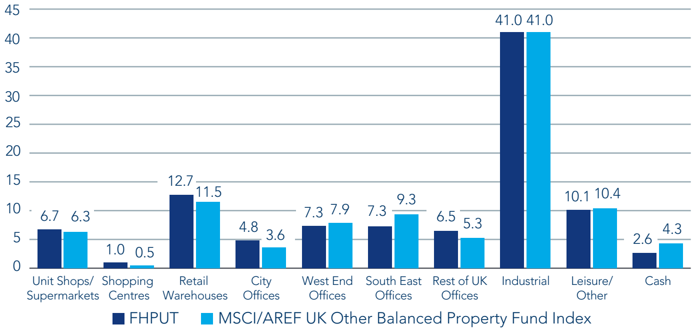
The UK real estate commercial market delivered one of the highest performance results seen in decades, however, the sub-sector trends remained polarized.

The main themes for the UK commercial property market influencing future trends are currently based on a combination of long-term structural changes (ESG and work flexibility) and short-term cyclical trends (economy slowdown, rise of inflation and interest rates). The Manager continues to focus on delivering its planned strategy to provide long term sustainable returns to its investors, underpinned by a healthy income distribution. The ESG framework and Net Zero pathway remains on the top of the Manager's agenda. The Manager remains aware of the ongoing challenges and opportunities presented by the market. The strategy will be to actively manage the portfolio to optimize the sustainable allocation and intensively drive performance at the asset level to maximize the income and capital growth.

Portfolio Structure Comparison

Sector Weighting % Total Portfolio Value



Source: Federated Hermes Real Estate and MSCI/AREF UK Property Fund Index, end March 2022. GAV basis.

Key Statistics

As at end March 2022

Gross asset value	£1,535.9m
Net asset value	£1,487.9m
Directly held assets	72
Indirect real estate vehicles	0
Offer Price	£8.113
Bid Price	£7.530
Net Asset Value per unit	£7.630
Number of unit holders	91
Distribution per unit - paid (Quarter to March 2022)	5.61p
Distribution per unit - paid (Year to March 2022)	24.62p
Yield on NAV	3.2%
12 month return to unit holders	21.1%
Quartely return	5.5%
Bid / Offer spread	7.2%

Past performance is not a reliable indicator of future performance.
Source: Federated Hermes Real Estate, end March 2022

Top 10 Direct Holdings by Value Band (GAV)

As at end March 2022

Asset	Sector	Lot Size (£m)
Horndon Industrial Park, West Horndon	Industrials	80-100
Polar Park, Bath Road, Heathrow	Industrials	60-80
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	60-80
8/10 Great George Street, London, SW1P	West End Offices	60-80
Broken Wharf House, London EC4	Leisure/Other	40-60
Templars Shopping Park, Oxford	Retail Warehouses	40-60
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	40-60
27 Soho Square, London, W1D 3QR	West End Offices	40-60
1/15 Thomas Road, Limehouse, London	Industrials	40-60
Round Foundry & Marshalls Mill, Leeds	Standard Offices RUK	40-60

Source: Knight Frank Valuations and Federated Hermes Real Estate, end March 2022

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Federated Hermes
Limited