

December 2023

Market Overview

The UK economy was stagnant throughout 2023 and entered a small technical recession towards the end of the year. The macroeconomic outlook for 2024 has improved as the prospects of inflation dropping below the Bank of England's target could boost growth and trigger interest rate cuts. However, financial markets may remain volatile due to wider geopolitical tensions and the ongoing Red Sea Crisis. There was a promising start to January 2024 as UK economic activity rose at its fastest pace for seven months according to the S&P PMI Services Survey. Whilst Bank of England rate cuts may lead to further gradual mortgage rate reductions, the tight monetary conditions will continue to be felt in the wider real economy with lower purchasing power reducing consumer spending. The benefits of a loosening of monetary policy may not be seen until 2025.

The UK Commercial Real Estate investment market was negatively impacted during 2023; with yields rising and investor sentiment weak. Expectations are that property yields may start to lower over the latter part of the year. The UK's overall commercial investment market remains risk-averse with volumes down 32% year-on-year in the UK (source CBRE). Investment volumes in Q4 2023 showed some improvement with buyers targeting motivated vendors. The MSCI "All-Property" total return recorded a decline of -0.1% for the calendar year 2023 according to the MSCI Monthly Index. Rental growth of +3.9% through the year was eroded by continued negative investor sentiment as capital return stood at -5.6%. The overall trends masked a divergence in performance at a subsector level. The office sector faced structural challenges due to the shift to remote work, increased capital costs for ESG requirements and a shift towards prime stock. The industrial sector held the best rental growth over the period and the outlook remains fairly positive following the material repricing back in 2022. While office rents lagged, industrial rents held up surprisingly well in the weak economic environment.

In the retail sector, there has been limited change in performance over the period, mainly due to rebased rents and yields. The hospitality/leisure sector has also experienced weaker performance due to the deteriorating economic outlook and the cost-of-living squeeze. Leisure rents are still underperforming as customers have cut back on discretionary spending. The hotel sector recorded positive occupational market performance, but the investment market has been impacted negatively, reflecting in particular the cost and lack of debt finance.

Portfolio Update

As of the end of Q4 2023, the Trust's NAV was £929.8m, representing a -2.7% decrease from the previous quarter. The direct property portfolio had a value of £826.3 million, comprising sixty-one properties after disposal activity in the period. There were no indirect assets held in the portfolio.

During the quarter, the Trust sold two properties for a total of £111m as part of the planned disposal programme. In October, the Manager completed the sale of the industrial estate in Heathrow (Polar Park) for £54m and in November the vacant office building with hotel consent in Westminster (8-10 Great George Street) for £57m.

In 2023, the Trust completed a total of £290m of asset sales in an incredibly challenging environment and the sale proceeds were used to pay back redemptions of £230m. As at end of December 2023, the sale of Great George Street significantly improved the distribution yield which is now at 4.3% in contrast to the benchmark of 4.1%. Moreover, it helped to reduce the vacancy rate of the Trust to 9.6% compared to the benchmark of 11.8% (MSCI AREF Other Balanced PFI). The portfolio NOI yield was 6.2% (benchmark 5.0%) and the reversionary yield was 7.1% (benchmark 6.5%).

Performance

During Q4 2023, the Trust's total return to unit holders was -1.5% which is exactly in line with the MSCI/AREF Other Balanced benchmark. Valuation write-downs on the disposals of Great George Street and Polar Park had the most significant impact, reflecting in a capital value growth of -2.7% compared to the benchmark of -2.6%. The Manager remains focused on income as the primary long-term driver of total returns and the Trust's income return remained slightly ahead of the benchmark over the quarter (1.2% compared to 1.1%). Over the 12-month period to the end of December 2023, the Trust delivered a total return of -2.4% which was behind the benchmark of -2.0%. In terms of annual performance breakdown, income continued to outperform the benchmark, while the capital element was slightly behind. The Manager's focus remains on delivering sustainable long-term performance to the Trust's investors and it has achieved upper quartile outperformance over the 10-year period.

The industrial sector was the main contributor to the portfolio's positive performance. This was due to a stabilisation of yields following a correction in the previous year, as well as a resilient occupational market that continued to drive rental growth. The City of London office sector had a positive contribution on the portfolio driven by active management activity and the strength of the underlying assets in Farringdon and Clerkenwell. However, the main detractors to portfolio performance were the West End in London due to the sale of Great George Street in Westminster which reflected a 12% discount to end of October valuation. The Rest of UK office sector was another main detractor as weaker investor sentiment, outward yield movement and increased capital requirements continued to impact negatively on values.

In terms of positive property level contributors, the multi let industrial estates in London (Thomas Road in Limehouse) and Manchester (Guinness Road) were the main drivers. Both

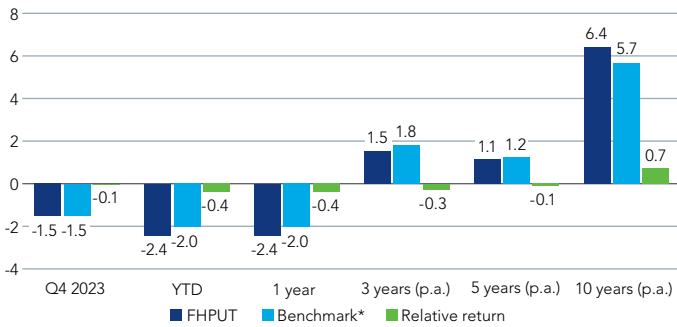
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properties benefited from improved investor sentiment and positive active management activity. The two Q4 2023 disposals of Great George Street and Polar Park were the main detractors to property portfolio performance with sale price discounts of 12% and 5% respectively versus valuation. All previous transactions during the year were either in line or ahead of the pre-sale valuation.

Performance as at end December 2023

Fund v benchmark (%)



*MSCI/AREF UK Other Balanced Property Fund Index (Weighted Average). Years to end December 2023, 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.

Investment Management & ESG

Despite the challenging market conditions, the Manager continued to make progress with its investment management activities. A number of lettings, rent reviews and lease renewals produced satisfactory results to support the portfolio income return. A major focus for the Manager in Q4 2023 was undertaking a portfolio wide review to establish the full costs of achieving carbon net zero across the portfolio and to create a net zero roadmap at asset level. The Manager has been working alongside a sustainability specialist, Decarbonomics, to support this. The Manager has also been reviewing the annual asset plan and forecast modelling process.

8-10 Great George Street, Westminster (Disposal):

in November 2023, the Manager completed the sale of the freehold interest of 8-10 Great George Street, Westminster for £57m (£1,046 per sq. ft. capital value). The property is in



Westminster, with views over the Houses of Parliament. The business plan on this office asset was completed having secured two valuable planning consents for change of use to a hotel and residential.



Polar Park, Heathrow

(Disposal): In October, the Manager completed the sale of the long leasehold interest for a sum of £54m (5.19% NIY / £249 per sq. ft. capital value). The property is a multi-let industrial

estate located near Heathrow airport. The business plan was to drive the rental tone across the estate and actively manage it. Half of this asset comprises secondary industrial which was built in the 1970's and the Manager was cognisant of the increasing environmental and obsolescence risk in maintaining an asset of this age.



Maybird Shopping Park, Stratford upon Avon:

new lettings were completed to Mountain Warehouse, Shoe Zone, and Burger King (agreement for lease). Combined, these new lettings total £437,326

per annum with terms agreed on a further unit. In addition, the Manager has agreed the roll out of solar panels on the roofs with a number of tenants.

15-29 The Broadway, Wimbledon:

The Manager agreed a new agreement for lease for 7,000 sq. ft. to Oseyo on a 5-year term. Oseyo is the largest Asian retailer in the UK and provides Korean and Asian food, toys, hardware, and electronics.



Thomas Road, Poplar:

the Manager has proactively taken back a unit with a view to undertaking a best-in-class refurbishment and achieving a rent of £30 per sq. ft. plus. The average passing rent across the

estate is £19.50 per sq. ft. and is therefore highly reversionary. A letting will create the rental evidence to help drive rental growth across the estate.

Christopher Place, St Albans:

a new 10-year lease has been agreed on a 5,664 sq. ft. unit at Christopher Place at a rent of £60,000 per annum. The letting is to Hatch which is an award-winning café and diner.

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“Decarbonomics” Platform

Over the past nine months, the Trust Manager has worked to integrate an innovative new tool to support the development of credible net-zero transition plans at the asset level.

Decarbonomics is an online platform that provides specific action plans and costings to meet net-zero targets. Following a successful pilot study, all assets within the real estate portfolio have undergone a net zero carbon audit. The initial results were received in January 2024 which includes estimates of planned capital expenditure in 2024 and the Manager has been working closely with Decarbonomics to analyse and evaluate these costs. The next phase of the exercise is incorporating these into our annual asset plans and modelling forecasts to determine the best route for implementation of the recommendations.

Outlook

The UK macroeconomic outlook is showing signs of improvement with falling inflation and stable economic activity. This suggests that there may be a loosening of monetary policy in the second half of 2024. In the UK commercial property market, an expected decrease in UK gilt rates is likely to reduce the upward pressure on property yields in the second half of 2024 and may lead to some yield compression. However, income is expected to be the primary driver of positive total returns this year. The occupational market is likely to experience a slowdown in rental growth across all property types, with the varying effect from economic and structural factors on different sectors increasingly reflecting asset quality and, specifically, the risks (and opportunities) from occupiers’ and regulators’ ‘green’ requirements.

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Key Statistics

As at end December 2023

Gross asset value	£929.8m
Net asset value	£929.8m
Directly held assets	61
Indirect real estate vehicles	0
Offer Price	£6.373
Bid Price	£5.966
Net Asset Value per unit	£6.036
Number of unit holders	82
Distribution per unit - paid (Quarter to December 2023)	6.971p
Distribution per unit - paid (Year to December 2023)	24.64p
NAV Yield	4.3%
12 month return to unit holders	-2.4%
Quartely return	-1.5%

Past performance is not a reliable indicator of future performance.

Source: Federated Hermes Real Estate, end December 2023. Returns shown are in GBP, net of fees.

Top 10 Direct Holdings by Value Band (GAV)

As at end December 2023

Asset	Sector	Lot Size (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	60-80
Broken Wharf House, High Timber Street, London EC4	Leisure/Other	40-60
1/15 Thomas Road, Limehouse, London, E14 7BN	Industrials	20-40
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	20-40
LGC Complex, Newmarket Road, Fordham, CB7 5WW	Industrials	20-40
Round Foundry & Marshalls Mill, Water Lane, Holbeck Urban Village, Leeds, LS11	Standard Offices RUK	20-40
Reading Metropolitan, 80 Caversham Road, Reading	Industrials	20-40
Guinness Road Trading Estate, Manchester	Industrials	20-40
Boundary House, 91/93 Charterhouse St, London EC1	City Offices	20-40
Coln Industrial Estate, Old Bath Road, Colnbrook, Slough	Industrials	20-40

Source: Knight Frank Valuations and Federated Hermes Real Estate, end December 2023.

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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