

### Fund Highlights

- Entered the PPFI in Q2 as the top performing balanced fund for 3 months ending June 2012
- In Q3, top performing balanced fund for 6 months ending September 2012
- Prospective annualised distribution yield of 9.5%–10.0%\*
- Weighted average unexpired lease term to expiry 10.83 years\*
- Zero leverage

\*Estimate figures as at 31/10/12 based on all properties currently under offer completing

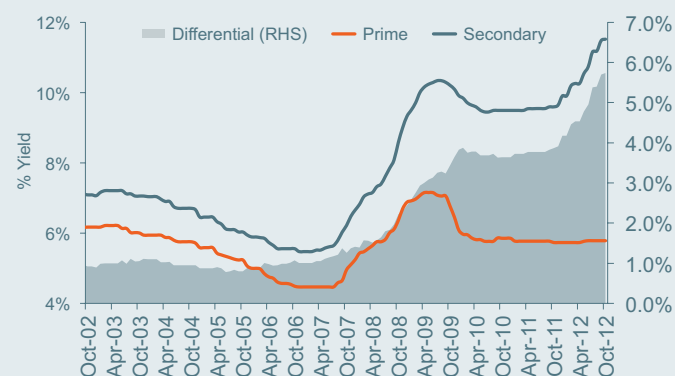


### Investment Strategy

Our approach is to capitalise on the current market dynamics which are providing an excellent environment in which to create a new fund which exploits the current distress experienced by a number of vendors.

As a value investor we are buying good quality real estate at the margins of prime locations aiming to generate high prospective returns over the next 3–5 years. We believe returns can be achieved by identifying the better assets between prime and secondary which have strong tenant demand. Many of these assets are attractively priced from distressed vendors offering higher initial and reversionary yields. As we have seen in previous cycles when the economy improves these assets will outperform. The chart below shows the current yield gap between secondary and primary yields which is providing this compelling investment opportunity.

Prime versus secondary all property yields



Source: CBRE

In aggregate, we are seeing enough deals at particularly attractive pricing to enable us to build a diversified portfolio with a similar risk profile to our benchmark of existing core funds. (The Lease Profile chart overleaf compares the Fund to the peer group.)

Investment	Last 3 months		Last 6 months	
	Performance %	Rank	Performance %	Rank
AEW UK Core Fund	2.4%	2	5.7%	1
Upper Quartile	0.8%		1.9%	
Median	0.4%		1.1%	
Lower Quartile	0.2%		0.0%	
Funds in Universe	31		31	

Source: All Balanced Property Funds Index IPD UK Pooled Property Funds Index for the period ending 30 September 2012

### Investment Activity

With a clear strategy driving stock selection we have reviewed 1,990 introductions valued at £22.5bn in 13 months. We have now completed on six properties, exchanged on one and have four more under offer. Over the summer we have seen significant repricing in many sectors as more bank led disposals come to market.

### Asset Management Activity

Having purchased the first assets for the Fund we have activated a programme to generate income on each property. At the heart of our asset management approach is a partnership with all of our tenants. We talk to every tenant before we buy a property, and once we own the asset, we go out of our way to work with them. We respond to tenant requests quickly and make decisions swiftly. Here are three examples:

**Salter Row, Pontefract:** Terms have been agreed with fashion retailer 'Designer Room' to take Unit 9. The transaction at £46 psf Zone A increases the investment's net income. We have also opened discussions with Wilkinson's for an extension of their store.



**Tangent House, Reading:** Following Costa's expression of interest in opening a ground floor cafe in this well located office building opposite Reading station, designs are being drawn up and planning permission applied for. Negotiations are also underway to buy the adjacent Pub.



**18/20 St Mary's Square, Swansea:** New Look have just completed a major refit of their store, giving the interior and exterior a smart, welcoming appearance for customers. Next door, HMV have reported to us that Swansea is the 16th best performing out of 242 stores all over the UK.



## Fund Facts



Portfolio Manager  
Richard Tanner

### Fund aim

To provide investors with exposure to a diversified, multisector portfolio of commercial property assets throughout the UK. The Fund seeks to achieve superior investment returns through relatively high income returns, strong stock selection and active management of all assets.

Launch date: Q1, 2012

### Benchmark

All Balanced Property Funds Index – IPD UK Pooled Property Fund Index – weighted average

Fund size (Net Asset Value): £24.45m

Net initial yield (% p.a.): 10.50%\*

Number of investors: 1 cornerstone for £50m

Investors in due diligence: c£100m

Number of AEW employee investors: 3 in queue

Number of properties completed: 6

Number of properties under offer: 4

Gearing (% of NAV): 0.00%

Capital Cash holdings (% of NAV): 0.70%

Bid/Offer Spread: 7.00%

Annual management charge: 0.70% per annum

### Distribution dates

Income is allocated to investors quarterly and paid within three months of the end of the quarter during which they were earned.

\*Estimate figures based on all properties under offer completing.

Six largest assets	Location	Sector	Value (GBPm)	% of Fund Value
Oceana	London	Other	7.30	29%
1–6 Salter Row & 17–21 Woolmarket	Pontefract	Standard Retail	7.00	28%
18/20 St. Mary's Square	Swansea	Standard Retail	6.00	24%
Ambi Rad	Brierley Hill	Industrial	2.35	10%
Tangent House	Reading	Office	0.95	4%
Dakota House	Colnbrook	Office	0.85	4%



Sector weightings	Fund	Relative weightings	
		Index	Position
Shops	52.8%	17.0%	+35.8%
Shopping Centres	0.0%	6.1%	-6.1%
Offices	7.3%	25.8%	-18.5%
Industrials	9.5%	15.1%	-5.6%
Retail Warehouses	0.0%	18.8%	-18.8%
Other	29.6%	10.3%	+19.3%
Cash	0.7%	6.9%	-6.2%



Geographical weightings	Fund
Rest of London	29.9%
South East	7.4%
West Midlands	9.6%
Yorkshire and Humberside	28.6%
Wales	24.5%

Lease Profile – AEW UK Core Property Fund against the Pooled Property Fund Index (PPFI)	PPFI <sup>1</sup>	AEW UK Core Property Fund <sup>2</sup>
Average weighted unexpired lease term to break	8.33 years	7.85 years
Average weighted unexpired lease term to expiry	9.48 years	10.83 years

1. IPD as at 30 June 2012. This data has been calculated excluding the long lease funds from the PPFI
2. Estimate figures as at 31/10/12 based on all properties currently under offer completing

Risk and volatility statistics %	3 months	6 months
Absolute volatility	Not available	Not available
Tracking error	Not available	Not available
Information ratio	Not available	Not available
Beta	Not available	Not available

Source: Data will be based on monthly observations. Benchmark will be the IPD Monthly Index

## Key contact

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