

# Aviva Irl UK Property Fund

## Monthly report

30 June 2010



### Performance to 30 June 2010

	1 month %	YTD %	1 year %	3 years % p.a.	5 years % p.a.
Aviva Irl UK Property Fund (Pension)	2.3	10.1	22.4	-13.8	-4.3
Aviva Irl UK Property Fund (Gross)	2.2	10.0	22.2	-14.0	-4.5
Aviva Irl UK Property Fund (Geared)	3.4	15.9	39.0	-30.4	-13.6

Source: J P Morgan, bid to bid, net income reinvested. Past performance is not a guide to the future.

### Summary

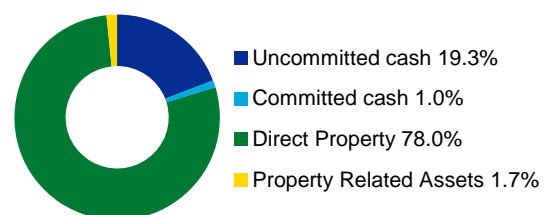
- There is little to update on the overall investment market position from last month. The supply of investment product still appears to be low, and that applies equally to “secondary” investments as well as those which would be considered “prime” or “institutional”. The recent bull run does not (yet) seem to have brought many sellers to the table, and this is presumably down to the alternative investment opportunities for those sale receipts. Whilst the equity market continues to show signs of heightened volatility, and gilt yields continue to defy the laws of gravity, it is difficult to see the supply (or demand) situation for UK commercial real estate changing a great deal. Therefore, prices continue to hold up (and in some cases move forward) as the delivery of any opportunities of an institutional investment grade get snapped-up quickly (and in competition). Whilst that competition is not quite as deep as it was three months ago, it is still sufficient to force prices (particularly in the core Central London Office markets, and in higher-quality retail warehousing) higher. Also, there are still few signs of significant bank sell-off, although NAMA (the Irish state-owned “toxic bank”) are starting to focus their business plan (announced recently) and there are risks that this will lead to an increase in the supply of UK investment stock.
- It seems to be widely anticipated that this summer will be a particularly quiet one in terms of stock turnover levels, as the monetary and fiscal outlook remains uncertain. There are risks, of course, that significant falls in equity prices would lead to a passive re-weighting of real estate by some institutions, but there is little evidence of that to-date as many institutions continue to see the relatively high distribution yields of equities attractive (and are therefore happy to hold or increase weightings there). A significant rise in inflation (not predicted by many) could cause a shock to gilt prices, which would (of course) have a knock-on effect on real estate yields. That seems like an unlikely scenario in the near term, although given the recent issues affecting some Euro-denominated sovereign debt, it cannot be excluded completely.
- Despite the recent announcement by the Government that VAT is to rise to 20% from next January, there are signs of life in some retail markets, with tenants starting to finally make those occupational decisions which they have been putting-off for two years. Of course, that doesn’t always lead to a positive outcome, but there are many regional centres where the shelving of a large new scheme (for the time being at least) is giving retailers greater confidence over the near term. We’re also starting to see some large financial occupiers making occupational decisions in the regional office market (in a similar fashion to that seen in the City of London between September and March).
- We have continued to actively asset manage the portfolio and during the last month we placed two retail warehouse units in Plymouth under offer to let and achieved 6% uplift on a retail warehouse rent review in Brighton. We completed a West End office suite letting with a further suite under offer and another lease to be renewed in solicitors’ hands. A West End retail unit is under offer to let and we completed on a long-term residential letting to a quality corporate tenant.
- Finally, we remain active on new acquisitions, having recently exchanged on a hotel development in a very strong regional centre (yielding 7.5%), and are under offer of two retail warehouse parks (totalling circa £70m). Our acquisition strategy remains focused on increasing fund performance or reducing risk.

### Fund profile

#### a) Overall profile

- The total cash weighting now stands at 20.3%, but 1.0% of this is committed to the purchase of a property. The direct property weighting is 78.0% and the indirect (property-related assets) weighting 1.7%.
- Cash means money available to meet fund cashflow requirements. It excludes cash or cash-equivalent instruments which could not be accessed within the settlement period required to meet unit redemptions.

### Fund position as at 30 June 2010



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### b) Direct property strategy

The profile of the direct property portfolio as at 30 June 2010 was as follows:

	Offices %	Shops %	Shopping Centre %	Retail Warehouse %	Industrial %	Other %	Total %
South East	5.5	1.3	0.0	4.2	5.3	0.7	17.0
Eastern & South West	2.0	1.7	3.7	0.7	2.0	0.0	10.1
Midlands & Wales	4.3	6.1	2.9	0.0	1.4	4.2	18.9
North & Scotland	6.3	4.3	8.0	4.7	2.5	5.7	31.5
London	7.8	3.0	0.0	11.2	0.5	0.0	22.5
<b>Total</b>	<b>25.9</b>	<b>16.4</b>	<b>14.6</b>	<b>20.8</b>	<b>11.7</b>	<b>10.6</b>	<b>100.0</b>

Source: Aviva Investors

### Fund performance

#### a) Direct property portfolio

- The fund holds 71 properties as at 30 June 2010 with a net initial yield of 6.1%. No properties were bought or sold in June.
- The direct property values during the month showed a rise of 0.9%. The best performance over the month came from the High Street Retail sector (+1.3%) and the worst came from the Shopping Centre sector (+0.4%).

### Cash performance

- Returns from the cash component of the fund to 30 June 2010 are shown on the table below:

	1 month %	3 months %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.
Cash return	0.05	0.16	0.60	1.63	2.91	3.62

Source: Aviva Investors. Past performance is not a guide to the future.

### Top ten holdings as at 30 June 2010 (listed by order of size of asset)

- Hayes - Lombardy Retail Park (retail warehouse)
- Preston - St Georges Shopping Centre (shopping centre)
- Edinburgh - Omni, Greenside Place (leisure)
- London SW1 - Princes House, Jermyn Street, Piccadilly (office)
- Birmingham - Colmore Gate, 2 Colmore Row (office)
- Kettering - Tesco (retail)
- Birmingham - Broadway Plaza (leisure)
- Exeter - Guildhall Shopping Centre (shopping centre)
- Glasgow - 123 St Vincent Street (office)
- London W1 - 20 Soho Square (office)

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### Aviva Irl UK Property Fund performance prospects

Aviva Investors forecasts the fund's property-related asset portfolio to produce returns at least in line with direct property over the next three years, but with more volatility.

- The principal upside risks are:
  - stronger economic recovery than forecast leading to higher income growth
  - yields decreasing more than forecast, increasing positive impact on capital returns
  - improvement in credit markets.
- The principal downside risks are:
  - significant weakening in occupier demand across all sectors
  - interest rate increases
  - worsening of credit markets.

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### Important Information

Except where stated as otherwise, the source of all information is Aviva Investors Global Services Limited (Aviva Investors) as at 30 June 2010. This fund is managed by Aviva Investors on behalf of Aviva Life & Pensions Ireland Limited.

Unless stated otherwise any opinions expressed are those of Aviva Investors, the investment adviser of the fund. They should not be viewed as indicating any guarantee of return from an investment managed by Aviva Investors nor as advice of any nature.

Past performance is not a guide to the future. The value of an investment in the Fund and any income from it may go down as well as up, and the investor may not get back the original amount invested. The fund may be affected by changes in currency exchange rates.

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 saleable. If this is the case we may defer or suspend investors' requests to switch or cash in their shares. Investors should also bear in mind that the valuation of property is generally a matter of valuers' opinion rather than fact.

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