STANDARD LIFE INVESTMENTS

# Standard Life Investments Property Income Trust
# 31 December 2008

**This communication is intended for investment professionals only and should not be relied upon by anyone else.**

## Investment Objective

To provide an attractive level of income along with the prospect of income and capital growth from investing in a diversified UK commercial property portfolio. The Company invests in the three principal commercial property sectors: office, retail (including leisure) and industrial but may also invest up to 10 per cent in other commercial property and undertake property development (including speculative property development) up to 10 per cent of gross assets.

The Company can invest up to 10 per cent in indirect property vehicles or funds but will not invest in other listed investment companies or investment trusts.

## Company Description

Standard Life Investments Property Income Trust Limited is a closed-ended, Guernsey registered investment company managed by Standard Life Investments with an independent Board of Directors.

## Fund Manager — Jason Baggaley

Jason is a qualified chartered surveyor with 17 years Real Estate fund management experience. Jason has been with Standard Life Investments for 11 years, and for the last 5 years has been the fund manager of 2 segregated pension funds.

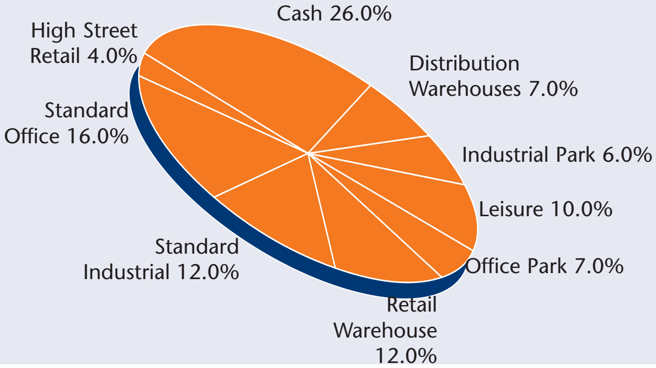
| | |
|---|---|
| **Fund Manager** | Standard Life Investments |
| **Launch Date** | 19 December 2003 |
| **Portfolio Market Value** | £167.50m (at 31/12/2008) |
| **Market Capitalisation** | £51.74m (at 31/12/2008) |
| **Management Fee** | 0.75% of gross assets per annum |
| | 0.20% on cash above 10% of assets |
| **Dividend*** | Annual gross dividends |
| | 4.00 pence per share |
| **Ordinary Share Price** | 49.75 pence (as at 31/12/2008) |
| **NAV per Ordinary Share** | 61.70 pence (as at 31/12/2008) |
| **Current Gearing**** | 38.9% |
| **Loan to Value***** | 32.4% |

*Dividend payable quarterly in May, Aug, Nov, Feb

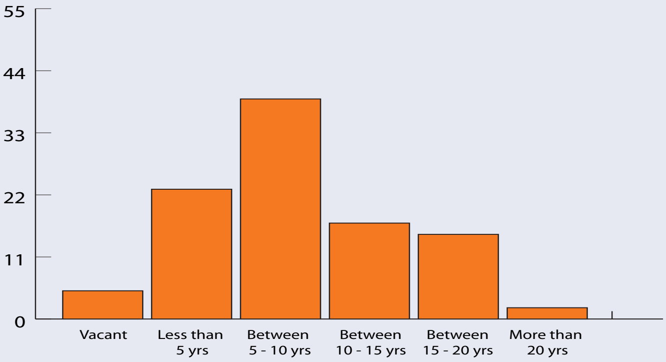
**Total debt (including preference shares), less cash on deposit as a percentage of gross assets

***Debt less cash on deposit as a percentage of the market value of the properties

## UK Sub-Sector Weighting

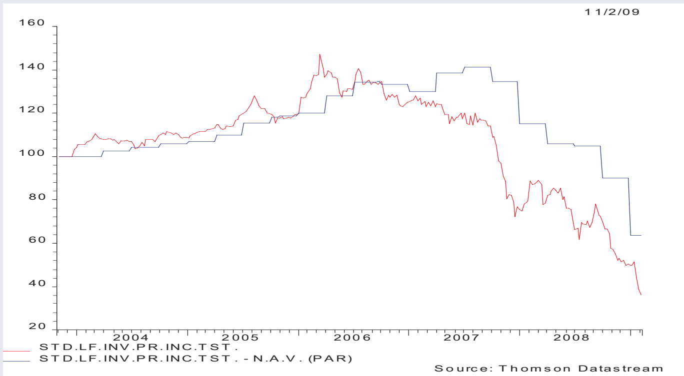



## Lease Expiry/Break Profile




**Average Unexpired Lease Term:** 8.5 Years

## Property Income Trust Ordinary Share Price vs NAV




Please note all figures as at 31/12/2008 unless otherwise indicated

Note: Past performance is not a guide to future performance and the value of shares can go down as well as up.

# UK - Investment Trust

# Investment Review & Outlook

## Market Commentary

Q4 set another record for the wrong reasons, with a capital decline of -15% being the largest ever quarterly decline in the history of the IPD Monthly index. Capital values have fallen -35% over the last 18 months, which compares to a -27% fall over 42 months in the recession of the early '90s, and property initial yields now have a substantial spread of circa 300bps over gilts. The poor prospects for the occupational market and rental growth, combined with the continued deleveraging of the banks, means that the correction is not yet over, and capital values will continue to fall in 2009.

The listed Reit and offshore property markets appear to be discounting a large part of the economic downturn and the sector remains on a significant discount to current NAV of approximately -30% to -35% for REITS, and higher in the offshore vehicles. The listed REIT sector recorded a decline of -35% over the quarter and volatility remains heightened resulting from the on-going concerns over valuations and further loan to value breaches. The Offshore property sector also recorded significant declines of -38% on average over the quarter.

Unlike previous cycles, supply in this downturn is relatively restrained and with development projects struggling to get off the ground due to the lack of financing. When markets do

## Market Commentary (continued)

eventually recover, the restrained future supply will be a further boost for potential returns. Currently however, as would be expected because of property demand being a function of the underlying economic fundamentals, vacancy rates are increasing as take-up falls and more supply becomes available across the market. In this environment, covenant strength is likely to be key along with a focus on income security related to tenant's financial viability.

## Investment Outlook

We anticipate another challenging year for property investors. The fundamentals supporting the market are likely to recover towards the latter part of the year as the significant global fiscal stimuli coupled with the unprecedented monetary easing and anticipated gradual thawing of credit markets once again restore confidence and liquidity to financial markets and help reduce the caution prevailing across asset classes. Although financial markets are improving, uncertainty remains elevated and the de-leveraging process currently underway looks likely to play out further.

In the context of the ongoing credit market problems, the occupier market has weakened further and vacancy rates continue their

## Investment Outlook (continued)

upward trend. The volatile Central London markets were at the forefront of the slowdown in demand and the effects of the downturn are now spreading out across the country and rents are weakening across all sectors. In the current challenging environment we continue to expect single digit returns over the next few years, mainly resulting from properties stable income return and economic recovery in 2010. We maintain our view that in the current environment, asset management initiatives and locational choices will be key to preserving income as rents generally contract. Defensive assets, i.e. prime quality buildings in the best locations, let to financially secure occupiers, are likely to be most resilient in the uncertain and challenging economic environment we anticipate across 2009.

## Fund Manager Commentary

Returns in quarter 4 were again negative, with the IPD monthly index (the Benchmark used for the fund) showing a total return of -13.5%, and a capital fall of 15%. The Company's property assets performed better than the benchmark, with a total return of -11.7%, however the greater benefit came from the high cash holding (26% of fund value), giving an investment return on investment assets of -8.8%.

During Q4 we undertook further modelling of anticipated cash flows, which lead to the Board's decision to reduce the dividend to 4p per annum. We are committed to maximising the revenue account through controlling costs (including a reduction in the management fee) and actively managing the property assets. We

## Fund Manager Commentary (continued)

have agreed terms to extend the leases on three assets although the legal documentation is not yet completed, and have put in place short term lettings on two units to reduce our exposure to vacant rates. Following the administration of Innovate Logistics we completed the sale of the property to an owner occupier so that the capital can be reinvested, and the Company does not have ongoing void costs. During the quarter voids increased slightly to 5.1%, which is still significantly below the industry standard, following the failure of MFI (one unit). We have also shown the Yates unit as void in our calculation as we are receiving no income, but it is still let to the administrator so we do not have a liability for void costs such as rates.

## Fund Manager Commentary (continued)

There are a total of 6 lease expiries or breaks due in 2009. We are in advanced discussions with five of the tenants, with only one tenant we know will vacate, with an ERV of £50,000pa.

## Ten Largest Properties (by capital value 31 December 2008)

| Name | Location | Capital Value (£) (OMV) | Type |
|---|---|---|---|
| Hollywood Green | London | £10-15m | Leisure |
| Clough Rd | Hull | £10-15m | Retail Warehouse |
| Ocean Trade Centre | Aberdeen | £5-10m | Industrial Park |
| Drakes Way | Swindon | £5-10m | Standard Industrial |
| Bucknall Street | London | £5-10m | Standard Office |
| White Bear Yard | London | £5-10m | Standard Office |
| Century Plaza | London | £5-10m | High St Retail |
| Chancellors Place | Chelmsford | £5-10m | Standard Office |
| 1/1a Marsh Way | Rainham | £5- 10m | Standard Industrial |
| Bathgate Retail Park | Bathgate | £5-10m | Retail Warehousing |

## Investment Market Line

**If you would like more details on our current market views please call:**

**0845 60 60 062**

Note: Past performance is not a guide to future performance and the value of shares can go down as well as up.



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