



Part of the M&G Group

Finding value in crowded markets

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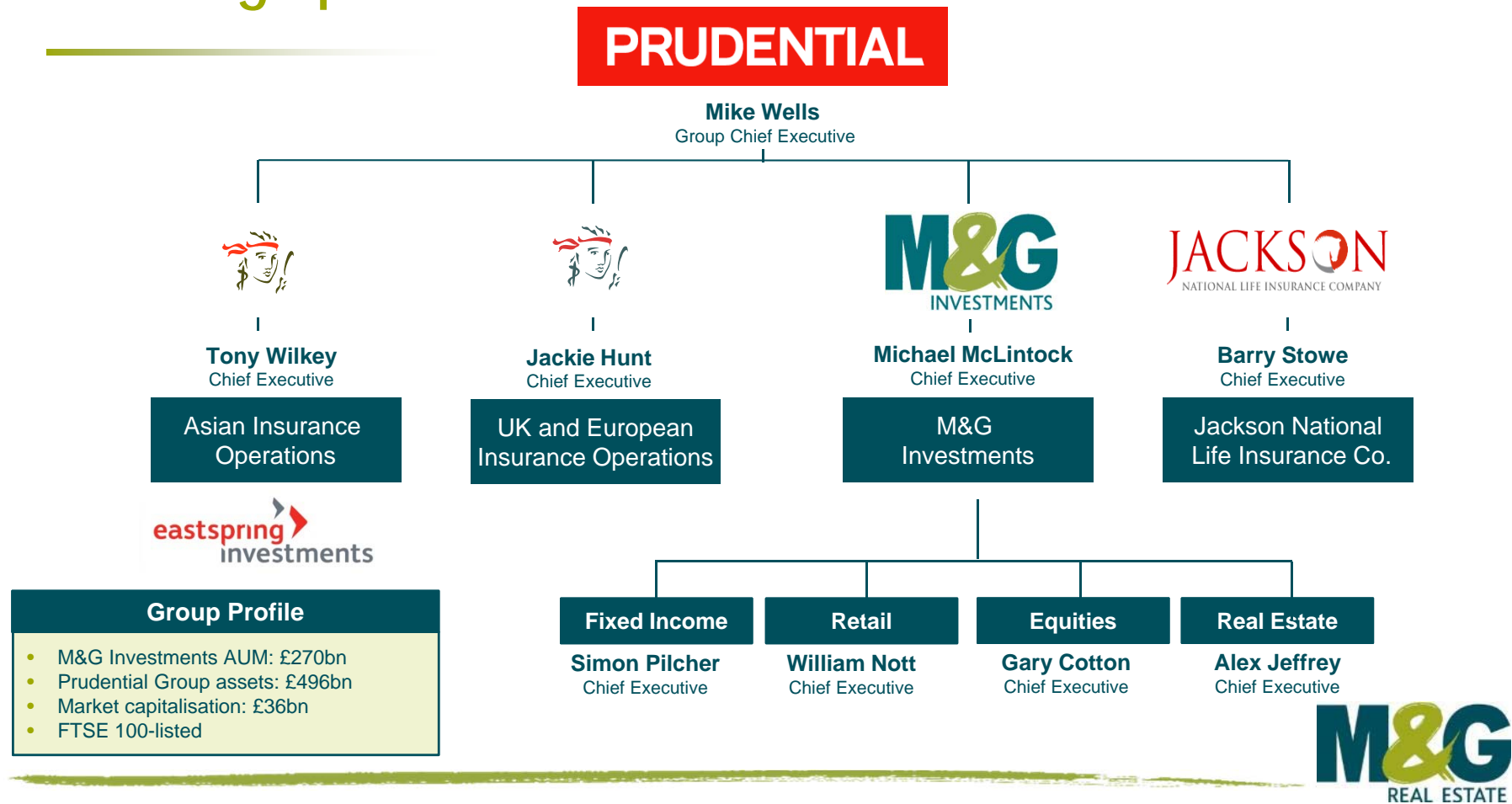


Agenda

1	Introduction to M&G Real Estate
2	Market outlook
3	Investment themes
4	The secrets of success
5	Q&A

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A strong sponsor



Introducing M&G Real Estate

- £22.1bn assets under management across 23 countries and three continents
- Global team of 235 operating from a network of offices in London, Luxembourg, Paris, Frankfurt, Singapore, Seoul and Tokyo
- Income focus to deliver long-term sustainable returns with a low risk profile – open ended funds and separate accounts
- Responsible for managing property investments for over 100 institutional investors; leading manager of investments for retail clients
- Extensive network for sourcing properties and effective execution through in-house transaction team: £4bn deals completed in 2014



Our UK investment expertise

787 assets

6m sqm
of real estate

£7.9bn
of retail assets

£6.1bn
of office assets

1,586
deals offered in 2014

65%
off-market transactions
in 2014

- One of the largest UK real estate investment managers with reputation for discretion and speed
- Responsible for 5% of UK investment volume in 2014
 - Acquired £3.3bn in 64 transactions
 - Disposed of £630m in 79 transactions



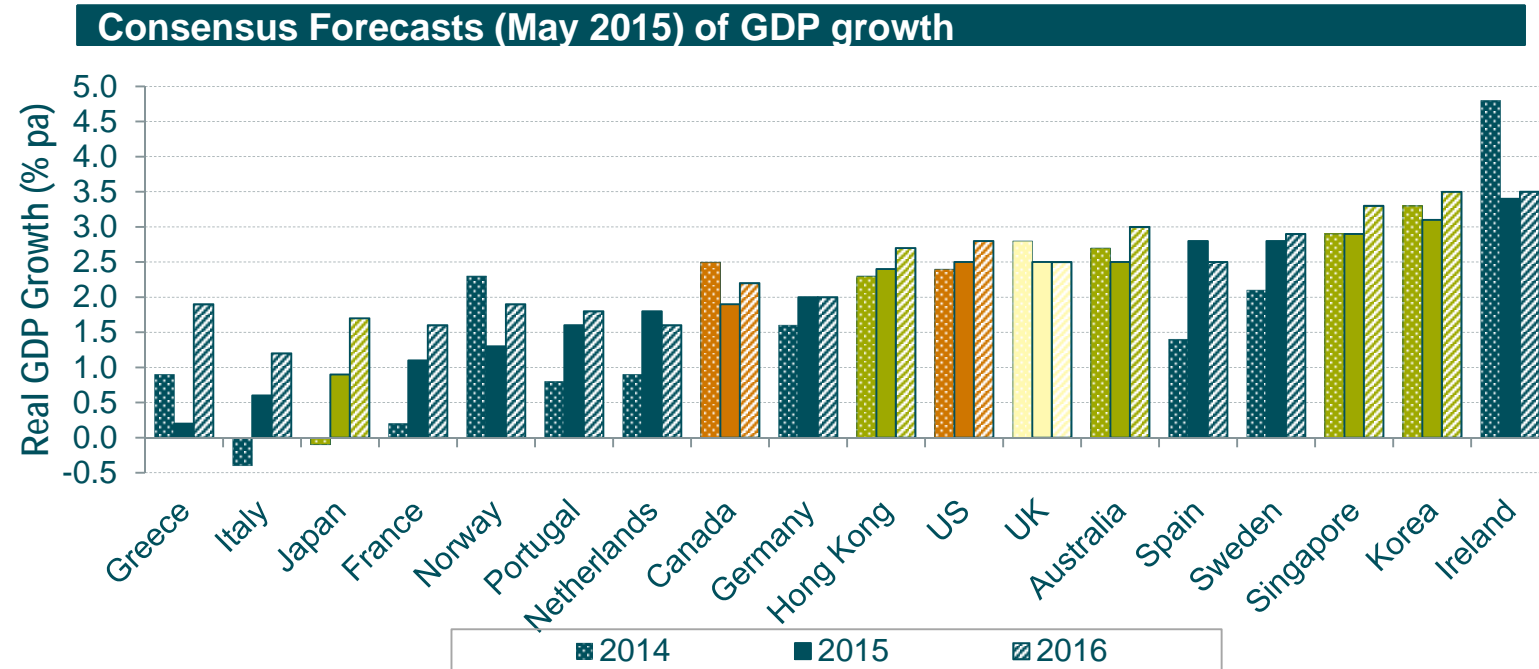
3 Hardman Square, Spinningfields, Manchester
c.£100m in Q3 2014



Bedfont Lakes, near London Heathrow Airport
c.£170m in Q2 2015

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4	Summary: strategy for success
5	Q&A

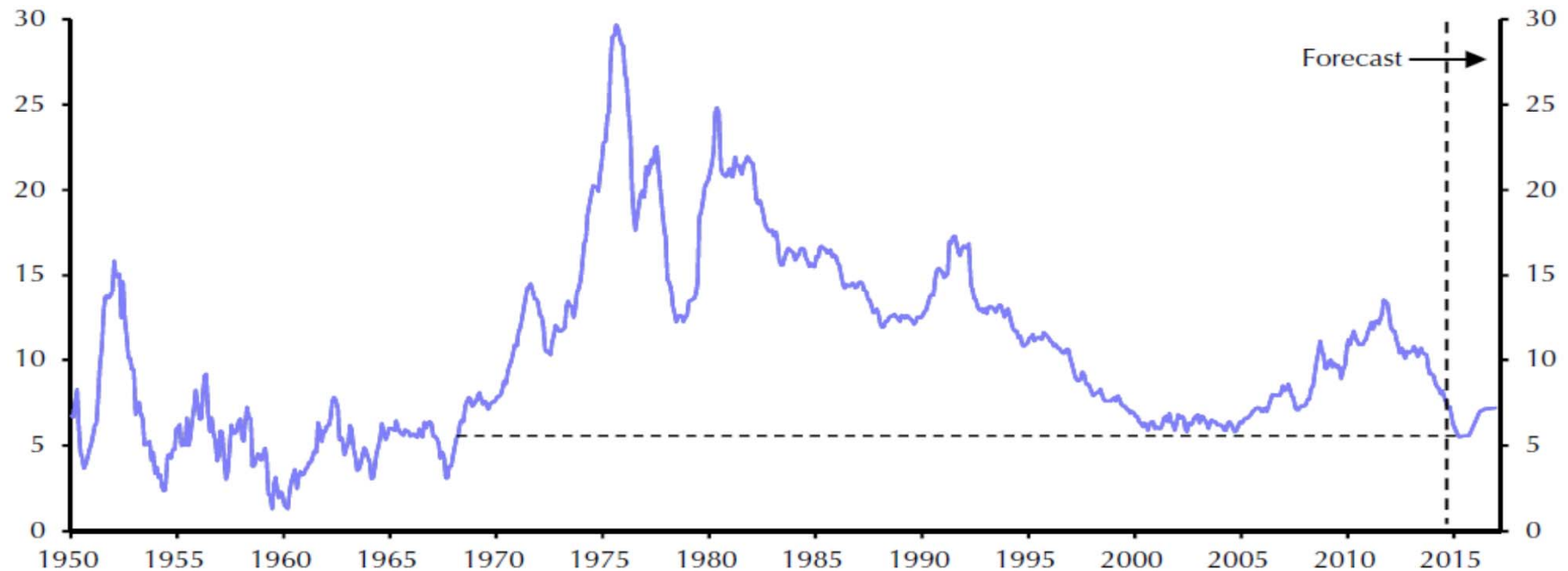
Economic growth improving across the advanced world



No longer is the economic outlook 'Asia good, Europe bad' – that is too simplistic, there is more variation



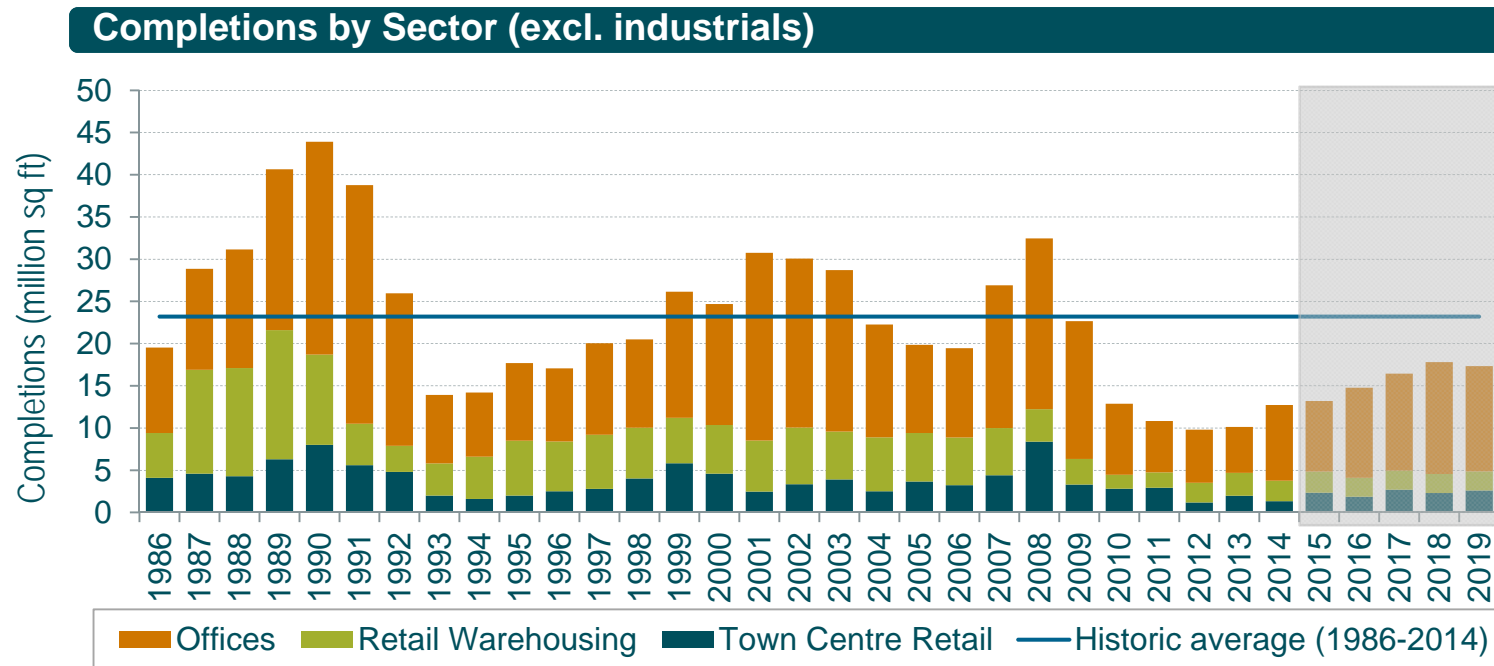
UK misery index (inflation + unemployment rate)



A crude measure, but one which shows UK households benefiting from the lowest combination of inflation and unemployment for many years



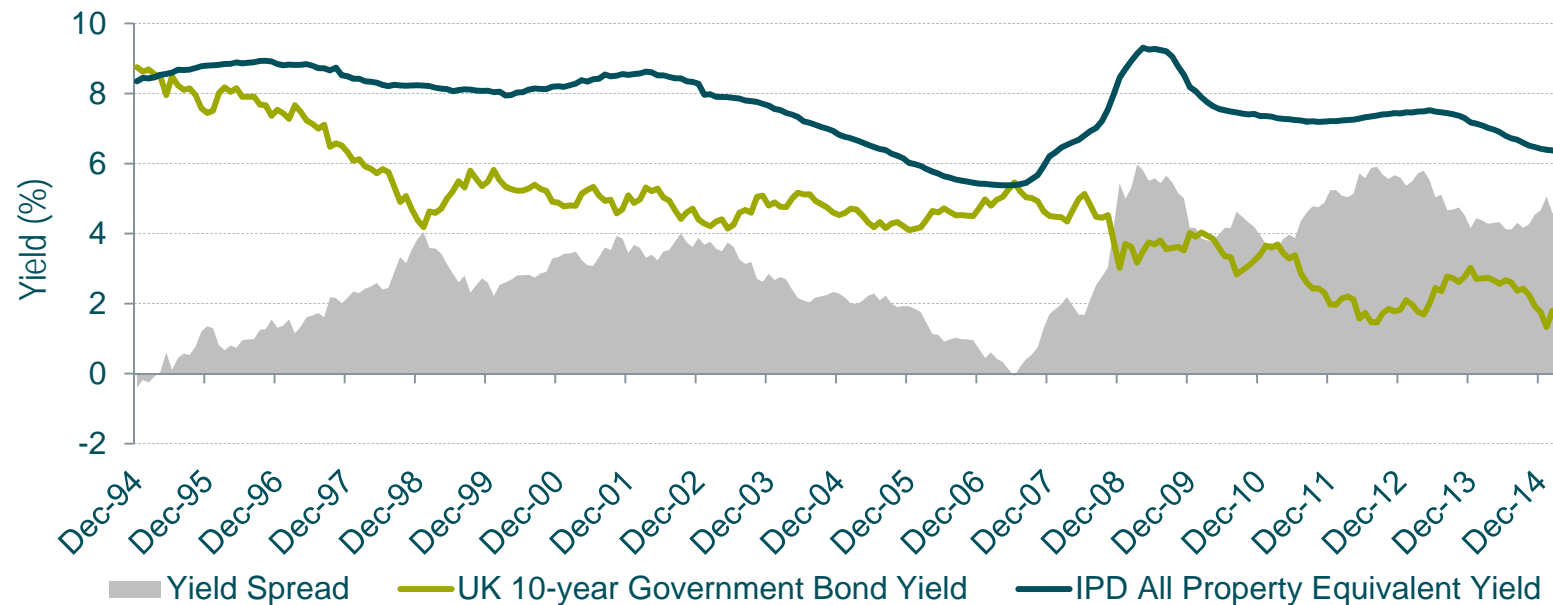
Construction activity starting to pick up... ... but is still limited compared to historic standards



***Subdued construction has supported prime rents – and
constrained new supply likely to continue going forwards***

Attractive property risk premium

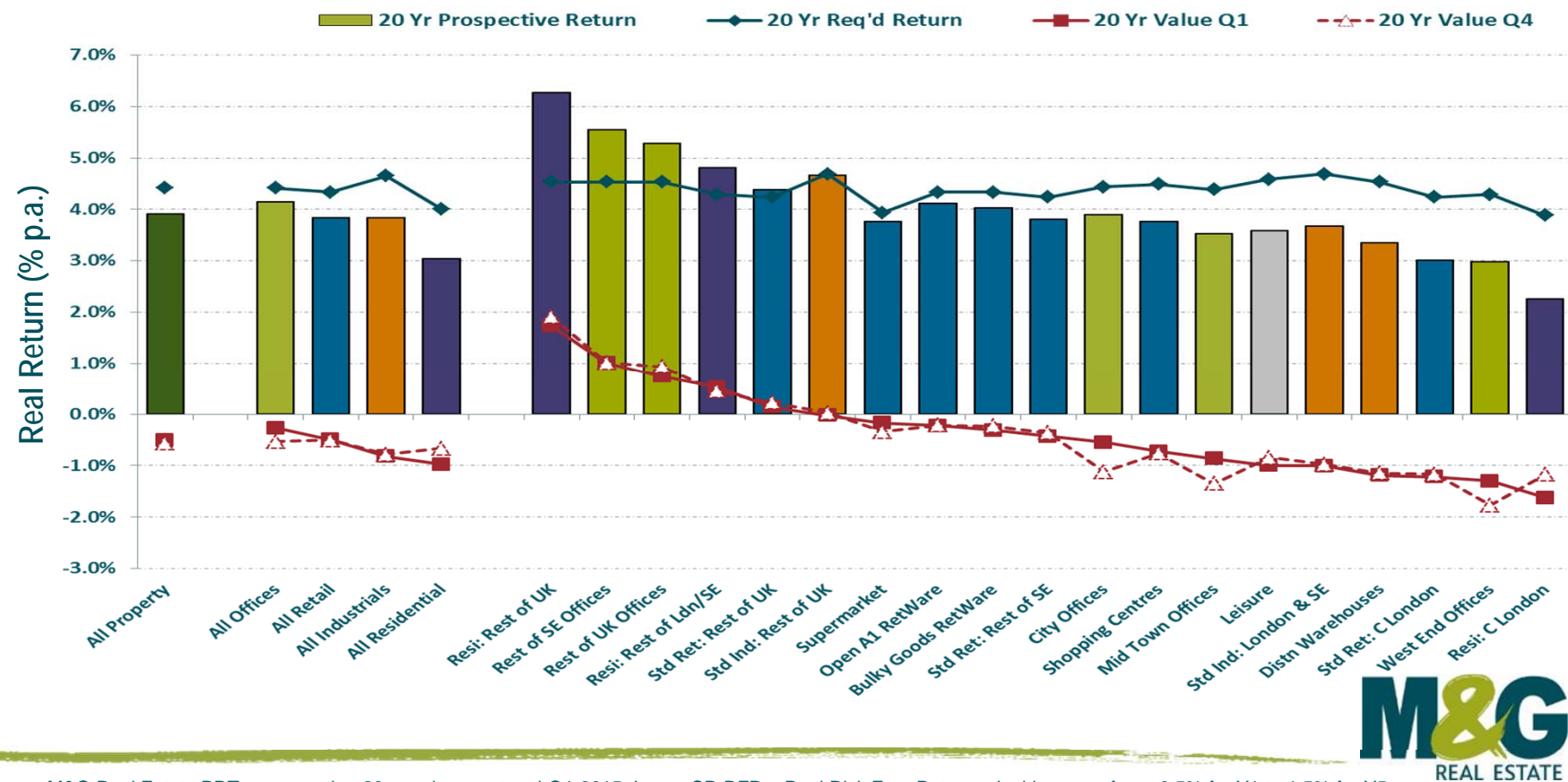
IPD UK Equivalent Yields vs. 10-year Government Bond Yield



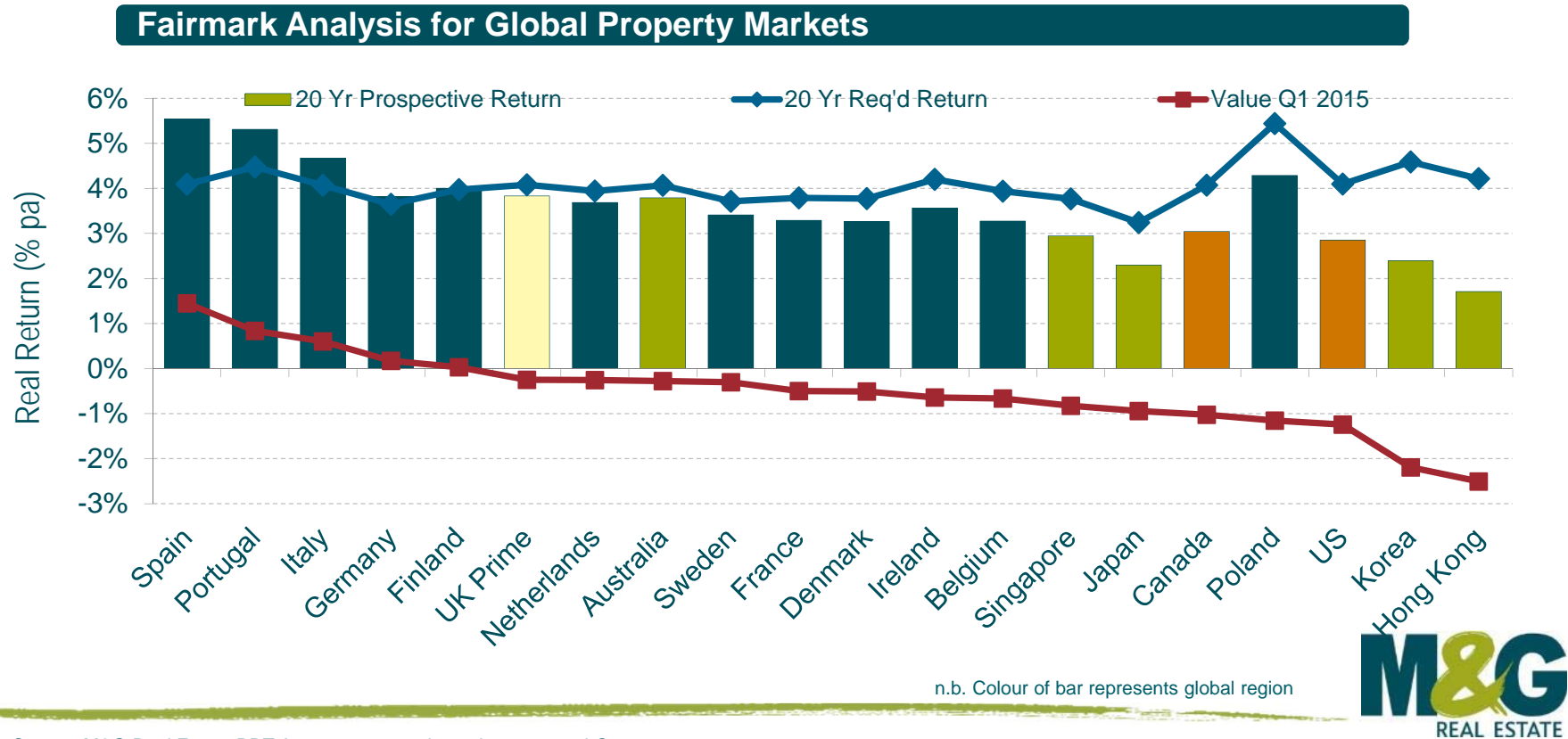
Despite property yields moving lower, they still offer a healthy spread above bonds



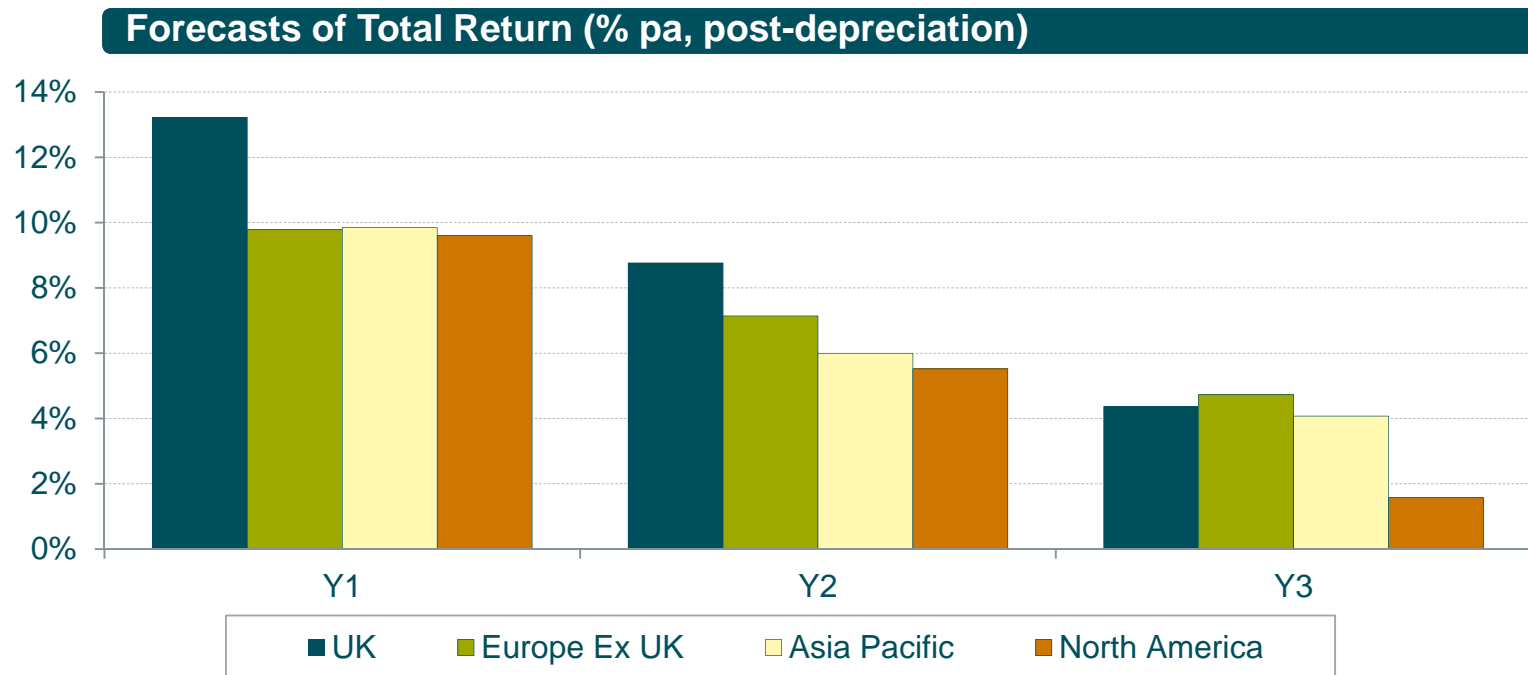
Long run value off current pricing – UK sectors



Global long run value by country



Regional total return prospects



***UK returns expected to be strongest, at least in the short term.
US may have harsher correction when yields eventually rise.***



Summary

- Economic health building
- Rental fundamentals for real estate improving
- Interest rates and bond yields extremely low
 - Supporting real estate fundamentals
 - Supporting real estate pricing
- Attractive value/returns increasingly difficult to find in other asset classes – property looks relatively cheap
- Capital targeting real estate globally (and increasingly in Europe)
- Performance prospects for global real estate looking good

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Investment themes

- Development
- Technology
- Regionalisation
- Urbanisation
- Structural changes to locations
- Residential and other new sectors

Development : Forbury Place, Reading



- New 370,000 sq ft town centre office development
- Phase 1 (185,000 sq ft) u/c - due to complete in July 2015
- Large floor plates (c. 26,000 sq ft) and very good parking
- A 'business park type' building in an in-town location
- Strong local demand for premium office space

Technology: Screwfix, Stoke-on-Trent



- Development for leading omnichannel supplier
- Project to double the size of Trentham Lakes distribution facility to 630,000 sq ft fulfilment centre
- Popular logistics location with strong transport links
- Enlarged building let to Screwfix on a new 25 year lease with five yearly inflation-linked rent reviews

Regionalisation: 3 Hardman Square, Manchester



- 100% Prime Core Asset developed in 2006 to provide 178,508 sq ft of grade A offices located in Manchester City Centre
- Multi-let office, arranged over 8 floors with a vacancy rate of 25%
- Purchase Price of £92m (5.8% NIY)
- Scope for proactive asset management initiatives
- Manchester is a focal point for economic growth within the Big Six regional cities

Regionalisation: 2 Snowhill, Birmingham



- Recently constructed multi-let office investment extending to 301,867 sq ft of efficient floor space
- £146m (6.25% NIY) off-market purchase
- 14 storey state-of-the-art building in the heart of Birmingham
- Has already delivered significant capital value growth
- We expect Birmingham, along with Manchester, to show stronger rental growth than City of London over the medium term



Structural changes to locations: Fruit & Wool, London



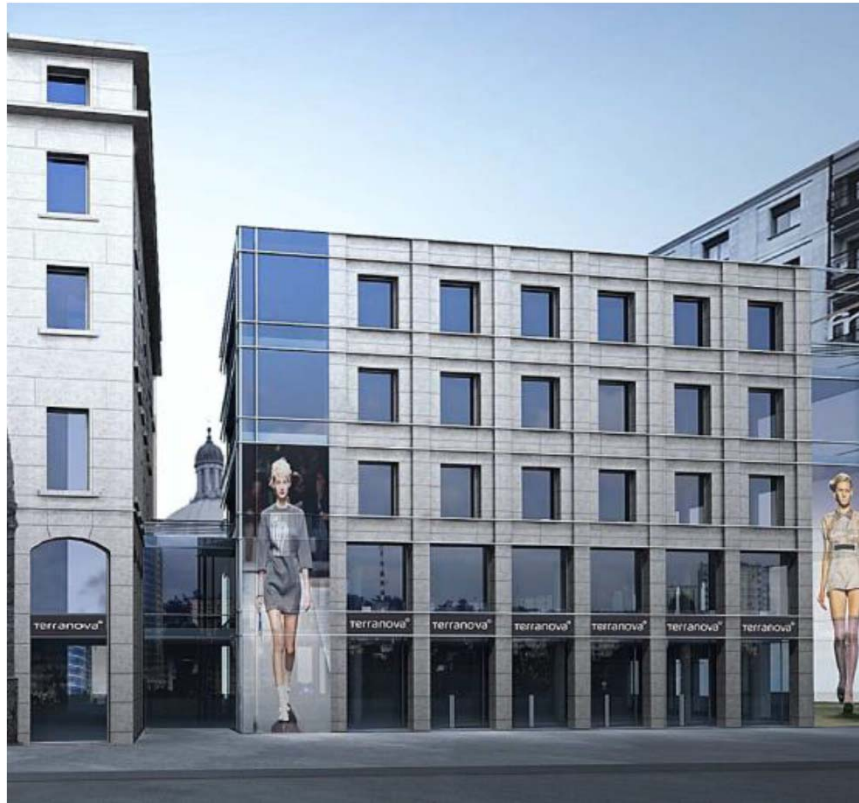
- Culturally sensitive redevelopment of historic building
- To deliver 320,000 sq ft of prime space
- Leasehold geared @ 5%
- Site price £55m; development costs £160m
- Area enjoying strong growth and increasing interest from office and retail occupiers

Structural changes to locations: Bankside, London



- Purchase price £315m (5.2% NIY)
- 450,000 sqft office and retail space across three buildings
- Predominantly let to RBS for 14 years off £42 psf overall
- Well-placed to benefit from on-going regeneration and repositioning of London's Southbank area

Urbanisation: Via Torino, Milan, Italy



- €75m prime high street retail investment in central Milan
- Rare and highly sought after sized unit (3,745 sqm)
- Newly developed with full warranty package
- Excellent covenant
- Set to open for business later this year and become one of the most prominent retail units in the city

Urbanisation: F Parc Tenjin, Fukuoka, Japan



- Purchase price ¥3.4bn
- An 18 storey, 174 unit multifamily residential building located close to transport links
- 92.4% occupancy
- A stable income stream in regional Japan
- Benefits from positive regional economy - Fukuoka, unlike most cities in Japan, enjoys positive demographics (+8.1% in the last 14 years) due to consolidation of Kyushu economy in the city and status as a strategic hub for west Japan with strong presence of manufacturing and high-tech service industries

Residential: Frederick House, Bath Riverside, Somerset



- Purchase price: £25m
- Located adjacent to the River Avon and within walking distance to Bath city centre and train station
- 97 private rented residential flats
- Partnership with developer Crest Nicholson with scope for further opportunities across the UK
- Bath benefits from strong, professional employment market, while supply is limited by world heritage status

Alternatives: The Priory portfolio, UK:



- £223m sale-and-leaseback deal
- Portfolio of six Priory hospitals
- Leased back to The Priory Group for 30 years on a full repairing and insuring basis, with annual inflation-linked reviews
- Deal structure based on property experience of M&G Real Estate and credit analysis experience of M&G Investments



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The secrets of success (in our view!)

- The power of income
- Judicious use of leverage
- Careful portfolio construction
- Being aware of the cycle



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