

JUNE 2009

MANAGED PROPERTY FUND

FUND CHARACTERISTICS

- Low-medium risk property fund
- Selective investment in indirects
- No gearing on direct assets

KEY FEATURES

Fund Manager: Charles Walker
Launch Date: June 1971

Gross Asset Value: £398.2m
Direct Property Assets: £266.1m
Indirect Property Assets: £19.2m
Cash: £108.1m

Void (%ERV) 6.5%
Income Yield 7.2%
Potential Income Yield* 8.5%
Number of direct properties 46
Number of indirect investments 3
Average unexpired lease term 9.9 years
Average lot size (direct props) £5.8m

Fund Management Fees** 0.45-0.55%
Current mid/offer spread 3.8%

* based on estimated rental value
** includes property management

INVESTMENT OBJECTIVE

To outperform the Russell/Mellon CAPS Pooled Pension Fund Survey median.

INVESTOR CONSTITUENCY

Defined benefit and defined contribution occupational pension schemes. This Fund is a section within the Legal & General Assurance (Pensions Management) Limited managed pooled fund policy, a unit linked life insurance policy. The policy is only available to pension schemes.

Investment criteria

The Fund invests in UK freehold and leasehold property in the UK recognising that superior stock selection is a key driver of outperformance. The Fund does not engage in higher risk activities such as development and does not permit gearing on directly held assets. The Fund may invest in indirect vehicles.

Property market review

The pace of capital value decline slowed in Q2 with average yields beginning to show signs of stabilising. Accordingly, the total capital decline from the peak of the market in June 2007, edged only slightly lower to -44.1%. The All Property total return improved on Q1 but remained negative at -2.7%.

Transactional activity remained somewhat muted in Q2, with completed deals by value down on the levels seen in Q1. However, a step change was noted late in the quarter, with increasing interest from a wider range of investors – improved sentiment reflected in more moderate yield adjustments over Q2. Favourable exchange rates provided added incentive for overseas investors who were the most active purchasers, while property companies and life companies were net disinvestors. In contrast to the early 1990's, significant volumes of forced sales have to date been avoided, as UK banks seek to avert the destabilising 'fire sales'.

At the sector level, the office market delivered the weakest total return of -3.2%, with falling rental values in the central London markets weighing heavily on the overall sector result. The retail sector was the next weakest performer, -2.9%, again led by significant capital value falls in the shopping centre sector. Industrial, which saw the smallest decline in rental values continued to provide a stronger total return relative to retail and office, at -1.7%.

Sentiment toward UK commercial property has improved on the back of favourable relative pricing versus other international markets and asset classes. However underlying occupier markets remain weak with further pressure on rents anticipated in the short term at least. Under these conditions we see defensive, income-orientated properties as being best positioned to benefit from a rerating of the asset class over the near term.

Fund activity

The Fund completed three acquisitions over the quarter covering variety of sectors. The Fund has secured a supermarket let to Tesco in Melton Mowbray, an office let to Orange in Bristol and a department store let to House of Fraser in Carlisle. In addition the Fund acquired further units in an existing indirect holding at an attractive discount.

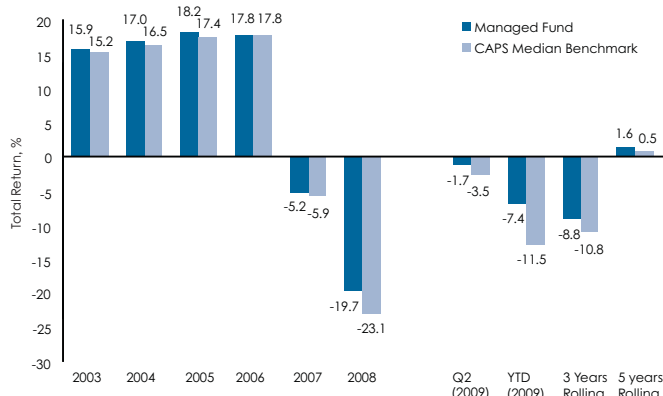
In line with strategy, the Fund sold an office in London (City) moving to underweight exposure in this sub-sector. In addition, the Fund has exchanged contracts to sell an office in the West End and, as part of the same transaction, it will purchase a retail unit in Norwich adjacent to an existing holding.

The Fund's largest added value deal in the quarter was completed at its holding in Bradford where the Fund increased the lease length from 12 to 25 years and improved the rent passing by 30%, resulting in a 20% increase in asset value.

The Fund's void rate was reduced from 7.95% to 6.45% mainly as a direct result of new lettings at 21 Great Winchester Street, London. As a result of the recent purchases, the Fund has started to reduce its cash holding from 33% to 27.6%, with a year end target of 15%.

Performance

The Fund returned -1.7% compared with the CAPS Pooled Median of -3.5%. A combination of purchasing, sales and active management helped to deliver outperformance of the median. The Fund continues to significantly outperform the IPD All Balanced Property Funds Index: by 8.7% in the past 12 months alone.

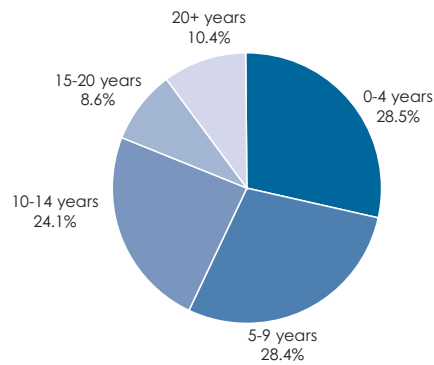


Source: Russell/ Mellon CAPS (returns are calculated on a NAV to NAV basis).

Past performance is not a guide to future performance. The value of property assets can go down as well as up.

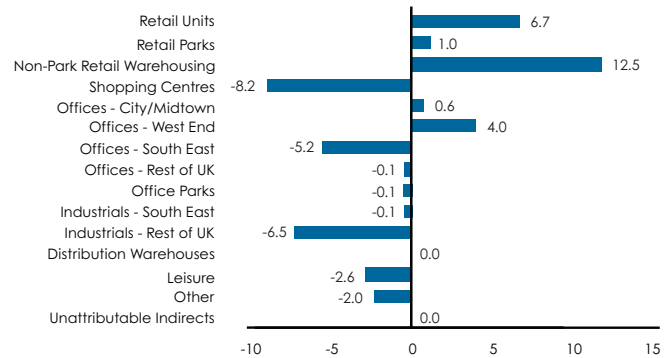
Fund Holdings Data

Income security



Rent by unexpired lease term (calculated to first break), directly held properties

Sector Breakdown relative to IPD Monthly Index, %



Top ten holdings

| Asset | Sector | £m |
|----------------------------------|------------------|-------|
| Blackpole Retail Park, Worcester | Retail Warehouse | 15-20 |
| Templepoint, Bristol | Office | 15-20 |
| Tesco, Melton Mowbray | Retail Warehouse | 10-15 |
| New Cavendish Street, W1 | Office | 10-15 |
| House of Fraser, Carlisle | Retail Warehouse | 10-15 |
| 21 Great Winchester Street, EC2 | Offices | 10-15 |
| Burwood House, SW1 | Offices | 10-15 |
| Edgware Road, Cricklewood | Retail Warehouse | 5-10 |
| Euroway South, Bradford | Industrial | 5-10 |
| Victoria Road, Farnborough | Industrial | 5-10 |

Top ten tenants

| Tenant | % total rent |
|---|--------------|
| Orange Personal Communications Services | 7.5 |
| Colt Telecommunications | 6.4 |
| Wickes Building Supplies Ltd | 5.8 |
| B&Q Plc | 5.3 |
| Tesco Stores Limited | 4.6 |
| House of Fraser Ltd | 4.4 |
| Jacuzzi UK Ltd | 4.2 |
| Virgin Holidays Ltd | 3.6 |
| Weston Aerospace Ltd | 3.5 |
| DSG Retail Ltd | 2.9 |

Directly held properties

Indirect holdings

| Asset | Sector | £m |
|--------------------------------------|------------------|-------|
| Hercules Unit Trust | Retail Warehouse | 0-5 |
| Arlington Business Parks Partnership | Office | 0-5 |
| Leisure Fund Limited Partnership | Leisure | 10-15 |

Investment strategy

The Fund strategy is to reduce its cash weighting over the course of 2009 as the market reaches a turning point in the cycle. Investment will be opportunity lead, targeting multilet industrial, supermarkets and town centre retail sectors, with focus on income security and potential to add value over the medium term. A focus on income enhancement and added value creation is key to the strategy.

For more information

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