

DECEMBER 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: £633.9m
Direct Property Assets: £499.5m
Indirect Property Assets: £31.8m
Cash: £102.6m

Void (%ERV) 1.8%
Income Yield 6.4%
Potential Income Yield* 6.8%
Number of direct properties 53
Number of indirect investments 4
Average unexpired lease term 10 years
Average lot size (direct props) £9.4m

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 commercial property sector experienced a surge in momentum in Q4, delivering record high quarter-on-quarter capital value growth of 7.4% according to IPD. From the low point in capital values in July 2009, All Property values have recovered by 8.8%. A key driver has been the growing imbalance in demand for the asset class and volume of stock in the market since September 2009.

At the sector level, retail property again delivered the strongest total return of 11.3%, with yields shifting inwards 95 basis points. The sector's performance was driven largely by the retail warehouse market where yields contracted sharply under the weight of investor demand. Industrial was the next best performing sector at 8.0% with investors again looking favourably on the fundamentals of the London market in particular. Offices provided the weakest return of 7.7% with weaker adjustments in pricing levels seemingly reflecting investor concerns regarding rental pressures in this market.

Conditions in the occupier markets are likely to remain subdued while demand recovers and levels of excess space remain above-trend. Rents should remain under some pressure in the near term although incentive levels are likely to have peaked. On a positive note, with development activity at record lows, the market balance should begin to correct, ultimately giving rise to shortage of new supply in the medium term and leaving prime assets comparatively well positioned.

The sustainability of the recovery in property asset prices in 2010 will be allied to the strength of the recovery in the broader economy, which at this stage is expected to be modest. Against this outlook we envisage a divergence in performance between high quality assets with secure tenants in place and those with very short leases or voids which are more exposed to the weak occupier markets.

Fund activity

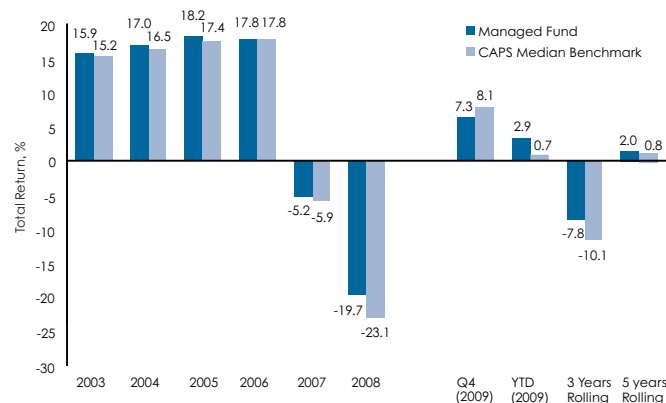
The Fund returned 7.3% in the final quarter of 2009, compared with the CAPS Pooled Property median of 8.1%. As detailed in the chart below, total returns over the calendar year and 3 and 5 years were within the top quartile of fund return. The Fund return lagged the Index median return in the final quarter as a result from the number of new purchases completed in the final two months of the year.

The Fund attracted significant new investment during the quarter and continued its acquisition programme, acquiring £189m of property investments during the 3 months to end of December 2009. Eight properties were acquired covering office, retail and industrial sectors. In addition, the Fund completed the sale of an office in the West End of London, that was not expected to meet the future performance requirements of the Fund.

The Fund completed a number of lettings within the final quarter of the year reducing the vacancy level to 1.8% compared with the benchmark of circa 10%. Active management of assets delivered further added value to the Fund across various transactions including lease regears within two West End office investments and one retail warehouse.

Performance

The Fund has delivered top quartile returns over rolling 1, 3 and 5 year periods against the benchmark.

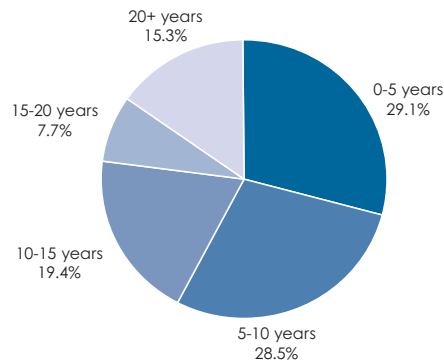


Source: Russell/ Mellon CAPS (returns are calculated on a NAV to NAV basis).

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

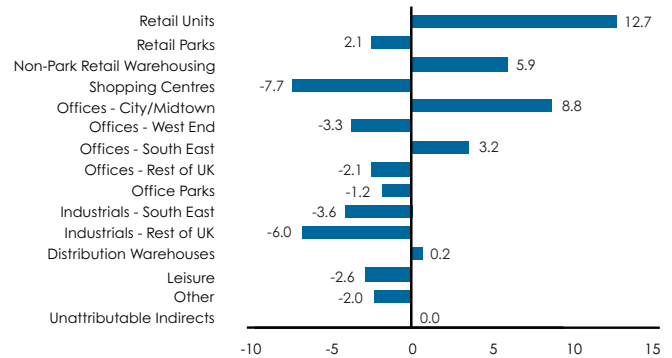
Fund Holdings Data

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
Strand Island Site, London W2	Offices	55-60
Sainsbury's S'market, Cheltenham	Retail Warehouse	50-55
Plaza House, London NW1	Retail	25-30
Blackpole Retail Park, Worcester	Retail Warehouse	25-30
Lotus Park, Staines	Offices	25-30
Skandia House, Southampton	Offices	20-25
Templepoint, Bristol	Offices	15-20
Wilmslow Park, Manchester	Retail	15-20
Tesco S'market, Melton Mowbray	Retail Warehouse	15-20
House of Fraser, Carlisle	Retail	10-15

Top ten tenants

Tenant	% total rent
GE Capital Europe Ltd	7.0
Sainsbury's Supermarkets Ltd	6.6
Skandia Life Business Services Ltd	6.2
Orange Personal Communications Services	4.6
Wickes Building Supplies Ltd	3.6
IBM United Kingdom Ltd	3.5
B&Q Plc	3.3
DSG Retail Ltd	3.2
Tesco Stores Limited	3.1
House of Fraser Ltd	2.7

Directly held properties

Indirect holdings

Asset	Sector	£m
Hercules Unit Trust	Retail Warehouse	0-5
Arlington Business Parks Partnership	Offices	5-10
Standard Life Investments UK	Retail Warehouse	5-10
Leisure Fund Limited Partnership	Leisure	10-15

Investment strategy

The Fund strategy reflects anticipated cooling in the investor market in the second half of 2010. Cash will target high quality assets in the first half of the year, continuing its opportunity led approach to securing value. The Fund will target Central London, Multilet Industrials and Shopping Centre markets where a combination of higher yields and, for Central London, rental growth will drive total returns.

For more information

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