



interim report

2010



The Charities Property Fund



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## Fund Summary

Since June 2010, the commercial property investment market has stabilised after seeing strong capital growth over the previous 12 months. The continued focus on income, concerns over inflation and the tax efficient nature of the Fund has resulted in continued demand for units in the Fund. On 30 June we accepted almost £14 million (net) of new applications and the same amount again on 30 September. By the end of December 2010 the net asset value of the Fund stood at £389 million.

The number of unit holders has risen to 1193 with 143 charities investing or adding to their holdings. Between June and December 2010, the unit offer price rose from 95.99 pence per unit to 97.09 pence per unit, an increase of 1.15%. The distribution for the second half of the year totalled 3.40 pence per unit giving a total return of 4.7% for this half year period. The total return for the year was 11.4%.<sup>1</sup>

## Portfolio Report

We undertook six purchases over the last six months in three transactions, totalling £21.4 million. The acquisitions had an average income yield to the Fund of 7.9%, compared to the Investment Property Databank (IPD) Monthly Index as at December of 6.4%, and consisted of three shops, one office and two industrial units. The combined vacancy rate on these assets was 0% (compared to IPD Monthly Index as at December of 9.8%) and income secured on low or negligible risk covenants, as measured by Experian, is 100% (compared to the IPD Rental Information Service (IRIS) at 70%). The average lease length was 9.3 years to the earliest break, compared to the IPD Index at 10 years.

We also completed two sales; an industrial unit in Peterborough and a shopping centre in Worthing. The sale consideration totalled £15.13 million, against a June 2010 valuation of £13.85 million, showing an increase of 9.5%.

Within the portfolio, we have extended the lease on our office building let to Barclays Bank in Sunderland from 2.5 years to 12.5 years and have extended the leases on two retail units from 1 year to 10 years. There are a number of ongoing active management initiatives and lease extensions in progress.

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<sup>1</sup> Source: IPD PPFI (December 2010), Basis: NAV to NAV with gross income reinvested

# Map of Properties

## Retail

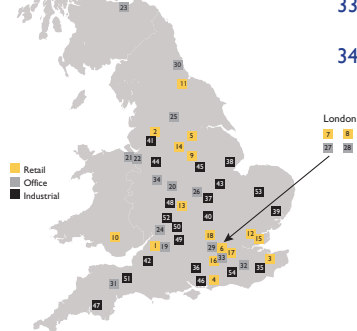
- 1 Bath  
4 Union Street
- 2 Bury  
Moorgate Retail Park
- 3 Canterbury  
Units 1 & 2 Wincheap
- 4 Chichester  
16/17 North Street
- 5 Doncaster  
Wickes Unit, Leger Way
- 6 Guildford  
Magnet Unit, Ladymead
- 7 London, SE15  
593-613 Old Kent Road
- 8 London, N1  
54/55 Chapel Market, Islington
- 9 Mansfield  
Tesco Extra Store
- 10 Methyr Tydl  
Pentrebach Retail Park
- 11 Middlesbrough  
Focus DIY, Parkway Centre,  
Coulby Newham
- 12 Rayleigh  
12-24 Eastwood Road
- 13 Redditch  
B&Q, Tunnel Drive
- 14 Sheffield  
Units 1-7, Cambridge  
St, Barkers Pool
- 15 Southend-on-Sea  
169/175 High Street
- 16 Staines  
73/75 High Street
- 17 Twickenham  
Apex Retail park, Hampton  
Road West, Hanworth
- 18 Windsor  
15/16 Peascod Street

## Office

- 19 Bath  
Westpoint, James Street
- 20 Birmingham  
The Pavillions, 3010/3020,  
The Crescent
- 21 Chester  
Chester Civil Justice  
Centre, Trident House
- 22 Chester  
Elder House, Sealand Road
- 23 Edinburgh  
The Tun, Holyrood
- 24 Gloucester  
Axsia House, Waterwells  
Business Park
- 25 Leeds  
Jubilee House, Mid  
Point Business Park
- 26 Leicester  
Unit2, Bede Island  
Business Park
- 27 London SW1  
10 Dean Farrar Street
- 28 London WC2  
Denning House,  
90 Chancery Lane
- 29 Staines  
Magna House,  
76-80 Church Street
- 30 Sunderland  
Barclays,  
Doxford International  
Business Park
- 31 Taunton  
Sedgemoor House,  
Deane Gate Office Park
- 32 Tunbridge Wells  
Brooke Hse & Seymour  
Hse, Mount Ephraim Road
- 33 Woking  
One Crown Square
- 34 Wolverhampton  
Pendeford House,  
Pendeford Business Park

## Industrial

- 35 Ashford  
Units A-D, Phase IV,  
Ashford Business Park
- 36 Basingstoke  
Bayard (Unit B) Knights  
Park Houndsmills
- 37 Biggleswade  
Smiths Metal Centres,  
Stratton Business Park
- 38 Boston  
Havenside, Fishtoft Road
- 39 Ipswich  
Medite Unit,  
Orion Business Park
- 40 Kettering  
Bunzl Unit, Telford Way  
Industrial Estate
- 41 Manchester  
Units A & B, Wardley  
Cross Industrial Estate
- 42 Midsomer Norton  
Westfield Industrial Estate, Bath
- 43 Milton Keynes  
Dawson Road, Mount  
Farm Industrial Estate
- 44 Newcastle under Lyme  
Unit 1, Rosevale Business Park
- 45 Nottingham  
TST Unit, Sherwood Park
- 46 Portsmouth  
SMR Unit, Castle Trading Estate
- 47 Plymouth  
Unit 2, Westernwood Way,  
Langage Business Park
- 48 Redditch  
Alto House, Ravensbank
- 49 Swindon  
Jewson Unit,  
Kembrey Park
- 50 Swindon  
Edison House, Dorcan  
Industrial Estate
- 51 Taunton,  
Site N, Crown Industrial Estate
- 52 Tewkesbury  
Alexandra Way, Ashchurch  
Business Park
- 53 Thetford  
TNT Unit, Fison Way  
Industrial Estate, Thetford
- 54 Uckfield  
Units 1-20, Ridgewood  
Industrial Park



## List of Properties – Retail

Property	Principal Tenants	Annual Rent As at 31 December £	Expiry (Breaks)
Bath	Dune	146,000	2018
Bury	Carpetright, Halfords, Comet, KFC	563,066	2021
Canterbury	Dunelm, Carpetright	521,000	2026
Chichester	WH Smith	191,500	2012
Doncaster	Wickes	296,327	2018
Guildford	Magnet	600,000	2014
London, NI	First Sport, Superdrug	194,000	2020
London, SE15	Magnet	305,000	2011
Mansfield	Tesco	2,278,820	2030
Merthyr Tydfil	Halfords, B&Q, Comet, PC World	856,377	2015 to 2022
Middlesbrough	Focus DIY	239,180	2023
Rayleigh	Somerfield	417,500	2025 (2020)
Redditch	B&Q	1,294,020	2027
Sheffield	AF Blakemore, JD Wetherspoon, ASK	274,000	2014 to 2024
Southend-on-Sea	The Works, Early Learning	199,000	2011 to 2012
Staines	Lloyds	159,000	2025 (2022)
Twickenham	DSG Retail, Wickes	931,500	2019
Windsor	Body Shop	132,800	2015

## List of Properties – Office

Property	Principal Tenants	Annual Rent As at 31 December £	Expiry (Breaks)
Bath	Able & Imray, Bath News and Media, London and Country Mortgages, Coral Racing, Benson Beds, Co-op	582,207	2017 to 2024 (2012 - 2015)
Birmingham	Spring Group, Arval UK Group Ltd	714,000	2014 - 2019
Chester	The Secretary of State for Communities and Local Government	437,615	2026 (2016)
Chester	Crest Nicholson	108,000	2020
Edinburgh	BBC, Scottish Enterprise, Secretary of State, British Council, European Parliament, General Medical Council, Covefield, Bunnyfoot	796,156	2011 - 2026 (2011 - 2016)
Gloucester	Signet Armorlite Europe Ltd	283,500	2018
Leeds	Car Care Plan	251,100	2017 (2012)
Leicester	Ericsson	275,000	2023 (2013)
London SW1	Metropolitan Police Authority, Nigeria NLG, Sparks, Bircham Dyson Bell, Q Med UK	854,915	2011 to 2020 (2012 - 2015)
London WC2	BNP Paribas Real Estate	1,352,500	2013 (2011)
Staines	Givaudan UK	138,900	2013
Sunderland	Barclays Bank	702,000	2023
Taunton	TNT	242,000	2015
Tunbridge Wells	Cripps Harries Hall	340,000	2014 (2013)
Woking	RBS, Procter & Gamble, Odin, RJ Rowlands, Frontera, New Start, Barnes & Sherwood, PLP, Wadham & Isherwood, Courtney Westlake, JS2, Clarity Ltd, Lascom Communications, Fresch Coffee, UPCO, Managed Support Services, A Daya, Bank Training and Development	352,202	2011 - 2021 (2011 - 2014)
Wolverhampton	Carillion Capital Projects Limited	131,000	2015

## List of Properties – Industrial

Property	Principal Tenants	Annual Rent As at 31 December £	Expiry (Breaks)
Ashford	Sauflon Pharmaceuticals, Dentalsky, Hickson International	359,454	2014 - 2019
Basingstoke	Debenhams	317,000	2017
Biggleswade	Smiths Metal Centres	397,000	2018
Boston	Fogarty	350,000	2035
Ipswich	Mediterranean Shipping	409,000	2017 (2012)
Kettering	Bunzl	490,320	2014
Manchester	Royal Mail, Wilkinson Star	318,250	2017 - 2018
Midsomer Norton	Communis	475,730	2023 (2011)
Milton Keynes	TNT Logistics	435,085	2016
Newcastle- under-Lyme	John Menzies	502,500	2015
Nottingham	Turbine Surface Technologies	433,943	2026
Plymouth	Geocel	235,000	2017
Portsmouth	SMR Automotive Mirrors UK	665,000	2019
Redditch (Alto House)	Sapa Profiles UK	250,000	2020 (2013)
Swindon (Kembrey Park)	Jewson	146,500	2023
Swindon (Edison House)	Vacant	n/a	n/a
Taunton (Crown Industrial Estate)	Wickes	87,500	2016
Tewkesbury	Oberthur Card Systems	270,000	2020
Thetford	TNT	74,500	2020
Uckfield	Challenge Packaging, Alexir Contract Packaging, Absolute Self Storage, K2 Race Engineering, Paperfile, Naval & Military Press, Ixia, Moor Spa, Zebra Stock Solutions	426,358	2010 – 2017 (2010 – 2012)



# Portfolio Statement

Period Ended 31 December 2010

Portfolio of Investment	Bid valuation £000	Percentage of total net assets
<b>Properties valued at greater than £15.1m</b>		
Tesco, Chesterfield South Road, Mansfield		
B&Q Unit, Tunnel Drive, Redditch		
Denning House, 90 Chancery Lane, London		
10 Dean Farrar Street, London		
Apex Retail Park, Hampton Road West, Twickenham		
<b>Total</b>	<b>114,090</b>	<b>29.30%</b>
<b>Properties valued from £10.1m to £15m</b>		
Pentrebach Retail Park, Merthyr Tydfil		
The Tun, Holyrood, Edinburgh		
<b>Total</b>	<b>21,700</b>	<b>5.57%</b>
<b>Properties valued from £5.1m to £10m</b>		
Building A, Phase IV, Doxford International Business Park, Sunderland		
Magnet Unit, Ladymead, Guildford		
Moorgate Retail Park, Bury		
Units 1 & 2, Wincheap, Canterbury		
One Crown Square, Woking		
Castle Trading Estate, Porchester, Portsmouth		
The Pavilions, The Crescent, Birmingham		
Westpoint, James Street West, Bath		
12-24 Eastwood Road, Rayleigh		
Chester Civil Justice Centre, Trident House, Little St John Street, Chester		
Sherwood Park, Nottingham		
Unit 1, Rosevale Business Park, Newcastle-Under-Lyme		
Units 1, 4 & 5, Westfield Trading Estate, Midsomer Norton		
<b>Total</b>	<b>91,730</b>	<b>23.54%</b>

# Portfolio Statement

## Properties valued from £2.6m to £5m

Fogarty Ltd, Havenside, Fishtoft Road, Boston		
Ridgewood Industrial Park, Uckfield		
Dawson Road, Mount Farm Industrial Estate, Milton Keynes		
Bunzl Unit, Telford Point, Telford Way Industrial Estate, Kettering		
Smiths Metal Centres, Stratton Business Park, Biggleswade		
Wickes Unit, Leger Way, Doncaster		
Units 1-7 Cambridge Street, Barkers Pool, Sheffield		
Unit B, Bayard, Knight's Park, Houndmills, Basingstoke		
Units A, B, C & D, Phase IV, Ashford Business Park, Ashford		
593-613 Old Kent Road, London		
Brooke House & Seymour House, 3/13 Mount Ephraim Road, Tunbridge Wells		
Units A & B, Wardley Cross Industrial Estate, Manchester		
54/55 Chapel Market, Islington, London		
North Street, Chichester		
Medite Unit, Orion Business Park, Ipswich		
Alexandra Way, Ashchurch Business Centre, Tewkesbury		
SA Europe House, Waterwells Business Park, Gloucester		
Focus DIY Unit, Parkway Centre, Coulby Newham, Middlesbrough		
73-75 High Street, Staines		
Total	71,305	18.31%

## Properties valued from £0m to £2.5m

Unit 2, Western Wood Way, Langage Business Park, Plymouth		
Alto House, Ravensbank Drive, Redditch		
Union Street, Bath		

# Portfolio Statement

	Bid valuation £000	Percentage of total net assets
Unit 2, Bede Island North, Western Boulevard, Leicester		
Sedgemoor House, Deane Gate Office Park, Taunton		
169-175 High Street, Southend on Sea		
Peascod Street, Windsor		
Jewson Unit, Kembrey Street, Kembrey Park, Swindon		
Jubilee House, Mid Point Business Park, Leeds		
Church Street, Staines		
Edison House, Dorcan Industrial Estate, Swindon		
Elder House, Sealand Road, Chester		
Pendeford House, Pendeford Business Park, Wolverhampton		
Site N, Crown Industrial Estate, Taunton		
TNT Unit, Fisons Way Industrial Estate, Thetford		
Total	27,296	7.02%
<b>Total value of property holdings</b>	<b>326,121</b>	<b>83.74%</b>
<b>Indirect holdings</b>		
Invista Property Portfolio Fund*	1,321	0.34%
<b>Total value of indirect holdings</b>	<b>1,321</b>	<b>0.34%</b>
<b>Portfolio of investments</b>	<b>327,442</b>	<b>84.08%</b>
<b>Net other assets</b>	<b>62,021</b>	<b>15.92%</b>
<b>Net assets</b>	<b>389,463</b>	<b>100.00%</b>

\* The Invista Property Portfolio Fund resumed dealing in November 2010.

## Expense Ratios

	<b>Total Expense Ratio</b>	<b>Property Expense Ratio</b>	<b>Transaction Cost Ratio</b>
31 December 2009	0.62%	0.24%	0.27%
31 December 2010	0.63%	0.39%	0.35%

The total expense ratio (TER) of the Fund is the ratio of the Fund's total operating costs to its average net assets for 12 months. Operating costs are specifically those costs associated with operating the Fund itself and do not include additional costs associated with the day to day maintenance of the assets. The property expense ratio (PER) includes those costs associated with the assets which are not recoverable from tenants. The transaction cost ratio of the Fund is the ratio of the sum of all professional fees and other costs associated with the purchase and sale of property to the Fund's average net assets for 12 months.

## Portfolio Turnover Rate

	<b>Portfolio Turnover Rate</b>
31 December 2009	-26.68%
31 December 2010	-9.92%

The portfolio turnover rate gives an indication of how frequently assets are purchased and sold by the Fund relative to investors purchasing and selling units in the Fund.

## Distribution Yield

	<b>Distribution Yield</b>
31 December 2009	8.6%
31 December 2010	6.7%

The distribution yield represents the total distribution per unit over the previous 12 months as a percentage of the net asset value per unit as at the end of the period.

## Annualised Performance

	1 Year	3 Years	5 Years
31 December 2009	2.1%	-7.6%	1.4%
31 December 2010	11.4%	-1.9%	0.8%

Source: IPD PPFI (December 2010), Basis: NAV to NAV with gross income reinvested

## Investor Analysis

Holding	Number of Beneficial Owners	Total Percentage Holding
Less than 0.01%	407	2.05%
0.01% but less than 0.05%	486	10.59%
0.05% but less than 0.10%	125	8.66%
0.10% but less than 0.50%	135	27.02%
0.50% but less than 1.00%	25	16.92%
1.00% but less than 2.00%	10	13.45%
2.00% but less than 4.00%	3	8.10%
4.00% and greater	2	13.22%
<b>Total number of units in issue at the end of the period</b>		<b>406,947,643</b>
<b>Percentage held by the largest investor</b>		<b>6.98%</b>

## Fund History

<b>Net Asset Value/ Fund Size</b>	<b>Date</b>	<b>Net Asset Value (£)</b>	<b>Units in Issue</b>	<b>Net Asset Value Per Unit (p)</b>
	31 December 2005	309,098,605	240,971,650	128.27
	31 December 2006	376,392,705	262,457,584	143.39
	31 December 2007	313,506,132	247,728,066	126.53
	31 December 2008	221,433,046	227,584,448	97.96
	31 December 2009	299,665,337	326,100,029	91.61
	31 December 2010	389,326,810	406,947,643	95.55

<b>Price and Income History</b>	<b>Year Ended</b>	<b>Highest Buying Price (p)</b>	<b>Lowest Selling Price (p)</b>	<b>Net Income Per Unit (p)</b>
	31 December 2005	130.43	119.35	7.27
	31 December 2006	145.82	129.92	7.55
	31 December 2007	149.15	124.69	7.48
	31 December 2008	125.87	96.53	7.77
	31 December 2009	109.34	83.75	7.86
	31 December 2010	97.09	92.87	6.37

## Income Distribution

		2010		2009	
Distribution Number	Distribution Period	Distribution Per Unit (p)	Date Paid	Distribution Per Unit (p)	Date Paid
1	01 January to 31 March	1.41	14/05/10	2.05	15/05/09
2	01 April to 30 June	1.46	13/08/10	1.86	14/08/09
3	01 July to 30 September	1.94	15/11/10	1.65	15/11/09
4	01 October to 31 December	1.79	15/02/11	1.56	15/02/10
Total		<u>6.60</u>		<u>7.12</u>	

# Statements of Total Return and Change in Net Assets Attributable to Unitholders

		6 months to 31 December 2010	6 months to 31 December 2009
	Note	£	£
Net capital gains	3	4,089,259	16,869,099
Gross income	4	15,605,805	9,230,404
Expenses	5	(1,791,642)	(1,021,190)
Net revenue before finance costs		13,814,163	8,209,214
Finance costs – borrowings and interest	6	(87,740)	(48)
Net revenue		13,726,423	8,209,166
<b>Total return before distributions</b>		17,815,682	25,078,265
Finance costs – distributions	7	(13,784,027)	(8,196,185)
<b>Change in net assets attributable to unitholders' from investment activities</b>		4,031,655	16,882,080
<b>Statement of change in net assets attributable to unitholders</b>			
Opening net assets attributable to unitholders as at 1 July		342,812,795	208,048,945
Amounts receivable on creation of units		42,618,480	74,637,512
Amounts payable on cancellation of units		-	-
Change in net assets attributable to unitholders from investing activities investment activities		4,031,655	16,882,080
<b>Closing net assets attributable to unitholders as at 31 December</b>		389,462,930	299,568,537



# Balance Sheet

		31 December 2010	30 June 2010
	Note	£	£
Investment assets		327,442,044	315,039,527
<b>Net current assets</b>			
Debtors	8	31,663,071	22,097,887
Cash and Bank balances		38,863,945	11,780,500
		<u>70,527,016</u>	<u>33,878,387</u>
<b>Less: current liabilities</b>			
Creditors	9	1,760,664	1,014,855
Distribution payable		6,745,466	5,090,264
		<u>8,506,130</u>	<u>6,105,119</u>
<b>Net current assets</b>		<u>62,020,886</u>	<u>22,773,268</u>
<b>Net assets attributable to unitholders</b>		<u>389,462,930</u>	<u>342,812,795</u>

# Cashflow Statement

	6 months to 31 December 2010 £	6 months to 31 December 2009 £
<b>Cash flow from operating activities</b>		
Reconciliation from net operating income to net cash flows from operating activities		
Net operating income	13,726,423	8,209,214
Bank interest received	(70,926)	(59,045)
(Increase) in trade and other receivables	6,027,200	(983,925)
Increase/(Decrease) in trade and other payables	745,809	(2,405,356)
Net cash flow from operating activities	20,428,506	4,760,888
<b>Cash flows from investment activities</b>		
Purchase of properties	(12,522,017)	(42,772,412)
Sale of properties	13,278,760	400,000
Bank interest received	70,926	59,045
Bank interest paid	-	(48)
Net cash flow from investment activities	827,669	(42,313,415)
<b>Cash flows from financing activities</b>		
Net amounts paid on cancellation	-	48,744,322
Net amounts paid on creation	17,956,096	-
Income distributions paid	(12,128,826)	(8,232,215)
Net cash outflow from financing activities	5,827,270	40,512,107
Net (decrease) in cash and cash equivalents	27,083,445	2,959,580
Cash and cash equivalents at the start of the period	11,780,500	10,297,073
Cash and cash equivalents at the end of the period	38,863,945	13,256,653

## I Accounting policies

- a) Basis of accounting: The financial statements have been prepared under the historical cost basis, as modified by the revaluation of investments, and in accordance with the requirements of the Charities Act 1993, Charities (Accounts and Reports) Regulations 2008 and the Statement of Recommended Practice for Financial Statements of Authorised Funds issued by the IMA in November 2008 (the "SORP"). The Fund is exempt from complying with the Charities Statement of Recommended Practice under paragraph 449 of that document.

The prior year financial statements were prepared in accordance with the SORP issued by the IMA in December 2005. The adoption of the 2008 SORP did not change either the total return or net assets attributable to unitholders in either the current or prior year. However it resulted in certain changes to presentation which include:

- Returns from capital property are now disclosed as net capital gains/(losses)
  - Income from property and other sources is now disclosed as revenue
- b) Basis of valuation of investments: The direct property investments of the Fund are valued quarterly on an open market basis, as defined in the Appraisal and Valuation Manual prepared by the Royal Institution of Chartered Surveyors, and in accordance with the Scheme. The interests in property were last valued by Cushman & Wakefield on 30 December 2010. In accordance with SSAP 19: Accounting for Investment Properties, no depreciation has been provided for on the property assets. Holdings in indirect property including collective investment schemes are valued at quoted bid prices for dual priced funds and quoted prices for single priced funds, on the last business day of the accounting period. Investments for which quoted market prices are not available are included at the Manager's valuation.
- c) Recognition of income and expenses: Rental income, interest deposits and expenses are accounted for on an accruals basis. The periodic charge of the Manager is deducted from income. Distributions from collective investment schemes are recognised when the schemes are quoted ex-distribution.
- d) All expenses, other than transaction charges relating to the purchase and sale of investments and certain borrowing costs (see below), are included in 'Expenses' in the Statement of Total Return. Transaction charges are charged against capital.
- e) Accounting policy for lease incentives: Lease incentives are spread on a straight line basis from the lease start date until the date on which a prevailing market rate becomes payable, in accordance with Urgent Issues Task Force 28 'Operating Lease Incentives' (UITF 28).
- f) Borrowing costs: Costs and interest associated with the bridging loan established during the year are allocated against the distributable income of the Fund or to capital in accordance with the SORP. Further details of the allocation of these costs is included in note 6.
- g) Distribution policy: Income arising from the Fund's investments accumulates during each accounting period. Surplus income is allocated to unitholders of the Fund in accordance with the regulations after adjusting for any items of a capital nature. It is the policy of the Fund to distribute all income gross of income tax on a quarterly basis.

- h) Taxation: As a charity, the Fund is not currently liable to UK tax on gains arising on disposals of investments, nor on income from investments, and is not liable to pay stamp duty land tax on purchases of property.

## 2 Financial instruments

In pursuing its investment objective, the Fund holds a number of properties and financial instruments. These comprise:

- Direct property holdings; and
- Units in collective investment schemes.

The following are held in accordance with the Fund's investment policy:

- Cash, liquid resources and short-term debtors and creditors that arise directly from its operations;
- Short-term borrowings used to finance investment activity; and
- Operating leases on freehold and leasehold properties.

The Manager has responsibility for monitoring the portfolio in accordance with the investment objective and seeks to ensure that investments in direct properties and individual securities also meet a risk reward profile that is acceptable.

The typical risks applicable to the Fund are market risks, liquidity risk and credit risk.

### Market Risks

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Fund's market risks arise from (a) interest rate movements and (b) market price movements.

#### a) Interest rate risk

The Fund's exposure to interest rate risk mainly arises from any variation in interest income earned on bank balances and interest payable on credit facilities due to volatility in interest rates. The Manager does not consider interest income earned on bank balances to be significant risk to the Fund as it is not the intention of the Fund to maintain cash balances for the purpose of generating income, but to invest in investment properties when suitable investments become available.

In respect of interest payable on credit facilities, if a credit facility is utilised, the Manager will consider the life of the borrowing and will take appropriate action on a case by case basis.

#### b) Market price movements

Direct property is independently valued on a quarterly basis. However such valuations are a matter of the valuer's professional judgement and opinion. Such values may or may not be achieved on a sale of a property.

When proposing and considering a disposal, the Property Adviser and Manager will assess each property and consider factors such as current and estimated future prices, Fund liquidity,

# Notes to the Financial Statements continued

upcoming redemptions, cash held by the Fund and the portfolio profile before concluding on whether a property should be disposed of and when.

## Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as and when they fall due. The main liquidity risk of the Fund is the ability to dispose of direct property assets in order to fulfil financial obligations. Direct properties are illiquid and these investments are not readily realisable. Sales may take a number of months depending on the nature and location of the asset. The primary obligation of the Fund is the ability to service redemptions.

The Manager monitors the level of redemptions, and other cash flows, on a regular basis to ensure sufficient funding is available. If there is insufficient cash available to fund redemptions through cash balances held by the Fund or the disposal of direct or indirect holdings, it can utilise short term credit facilities or defer redemptions.

## Credit Risk

Credit risk is the risk that one party to a financial arrangement will cause a financial loss for the other party by failing to discharge an obligation. The main credit risk of the Fund is that tenants default on lease commitments.

## Sector exposure risk

The Fund's assets are invested in direct properties and property collective investment schemes. As such the Fund is exposed to sector specific risk as a result of its concentration in this market sector. The underlying risk is the ability to obtain tenants for these properties and tenants being able to fulfil lease commitments.

The Manager mitigates both credit and sector exposure risks by investing in a diversified portfolio of direct properties in different geographical areas and sectors. In addition, before purchasing a direct property or entering into a new lease, the Manager will examine the covenant strength offered and will aim to let only to tenants with good credit ratings.

## 3 Net capital gains

The net gains on investments during the period comprise:

	31 December 2010	31 December 2009
	£	£
Investment Assets	4,089,259	16,869,099
Net gains on investments	4,089,259	16,869,099

# Notes to the Financial Statements continued

## 4 Revenue

	31 December 2010	31 December 2009
	£	£
Distribution from collective investment schemes	34,102	39,882
Rental Income	11,549,356	9,131,477
Bank interest	70,926	59,045
Sundry Income	3,951,421	-
<b>Revenue</b>	<b>15,605,805</b>	<b>9,230,404</b>

The sundry income for the period represents the premiums received on the surrender and option to surrender on Orton Southgate, Peterborough and 90 Chancery Lane, London respectively.

## 5 Expenses

	31 December 2010	31 December 2009
	£	£
Manager and Property Manager Fees	978,240	567,164
Corporate Trustee's fees	76,896	42,878
Other expenses:		
Registration fees	6,699	5,391
Insurance	29,371	(7,606)
Audit fee	8,665	3,529
Valuation fee	28,430	19,791
Legal and professional fees	401,013	176,732
Marketing and communication costs	21,252	4,484
Vacant property costs	192,738	104,845
Rent review fees	2,731	45,208
Lease incentives	34,075	-
Sundry expenses	11,532	58,774
<b>Total other expenses</b>	<b>736,506</b>	<b>411,148</b>
<b>Expenses</b>	<b>1,791,642</b>	<b>1,021,190</b>

The Manager and Property Manager Fees are calculated in accordance with the rates as defined in the Scheme Particulars and explained in the General Information on page 25. The fee payable is based on the net asset value of the Fund which has grown from £342.8 million at the beginning of the period to £389.4 million at 31 December 2010.

# Notes to the Financial Statements continued

## 6 Finance costs: Borrowing and Interest

Finance costs during the period (excluding distributions) comprise:

	31 December 2010	31 December 2009
	£	£
Non-Utilisation fee	87,740	-
Interest	-	48
<b>Finance costs: Borrowings and Interest</b>	<b>87,740</b>	<b>48</b>

On 24 February 2010, the Fund entered into a 364 day revolving credit facility (the “Facility”) with the Royal Bank of Scotland International (“RBSI”). The Facility can be utilised as follows:

- a maximum drawdown of £20,000,000 to finance purchase of investment properties
- a maximum drawdown of £10,000,000 to finance redemptions and distributions

On 31 March 2010, £10,100,000 was drawn down to part finance the acquisition of an investment property. This capital was repaid in full on 30 April 2010, using subscription monies received during April 2010. At the year end, the Facility was unutilised and the Fund has not entered into any derivative contracts in respect of interest rates.

On 11 March 2011, the Facility was extended for an additional year, with no changes to the previous terms. The Fund has the option to extend the Facility for a further year after this period expires.

Loan arrangement fees payable to RBSI and legal costs associated with the establishment of the facility are deemed to be capital in nature and excluded from distribution calculations.

## 7 Finance Costs: Distributions

Included in the income available for distribution is the income received on the creation of units and deducted on cancellation of units, and comprise:

	31 December 2010	31 December 2009
	£	£
1st Interim distribution	7,038,561	4,031,827
2nd Interim distribution	6,745,466	4,164,358
<b>Finance costs: Distributions</b>	<b>13,784,027</b>	<b>8,196,185</b>

# Notes to the Financial Statements continued

Details of the distribution per unit are set out in the distribution table on page 13

Represented by:

Net income	13,726,423	8,209,166
Abortive Capital Costs	97,011	-
Capital Income	(19,318)	-
Balance of income brought forward	2,812	-
Balance of income carried forward	(22,901)	(12,933)

Net distribution for the year	13,784,027	8,196,233
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## 8 Debtors

	31 December 2010	30 June 2010
	£	£
Amounts receivable for creation of units	29,154,602	13,562,218
Rent receivable	-	1,143,701
Accrued income	-	379,056
Prepayments	2,276,491	-
Insurance prepayment	203,811	77,954
Sundry debtors	28,167	28,167
VAT Recoverable	-	6,906,791
Debtors	31,663,071	22,097,887



## 9 Creditors

	31 December 2010	30 June 2010
	£	£
Purchases awaiting settlement	166,120	260,160
Prepaid rent	25,411	-
Prepaid insurance	387,959	-
Managers and Property Manager fees	498,607	445,357
Marketing and communication costs	13,654	39,118
Corporate Trustee fees	41,995	38,157
Audit fees	4,915	6,000
Registration fees	8,970	5,405
Valuation fees	15,171	14,207
Legal and professional fees	12,960	30,759
Rent review fees	54,263	78,460
Vacant property costs	66,803	43,389
Credit facility non utilisation fee	44,109	36,609
VAT payable	419,727	-
Other	-	17,234
Creditors	<b>1,760,664</b>	<b>1,014,855</b>

## 10 Related Party Transactions

Amounts payable to the Manager, Property Manager or associates of both are shown in note 5. Amounts due are shown in note 9.

Amounts payable to the Corporate Trustee or associates of the Corporate Trustee are shown in note 5. Amounts due are shown in note 9.

Details of the Manager and Corporate Trustee can be found on page 27.

## 11 Post Balance Sheet Events

Since the year end, the Fund has purchased an industrial trade park in Epsom for £8.93 million, a leisure club in Thundersley for £6.27 million and a single let distribution warehouse in Burton upon Trent for £9.55 million.

On 11 March 2011, a 364 revolving credit facility granted by The Royal Bank of Scotland International to the Fund on 24 February 2010 was extended for a further year.

## 12 Contingent Liabilities

There were no contingent liabilities at the period end (31 December 2010 £nil).

# General Information

## Fund Structure

The Charities Property Fund is a Common Investment Fund which is an open ended investment vehicle, similar to a unit trust, but designed specifically for charities and established under Section 24 of the Charities Act 1993. Common Investment Funds are themselves charities with schemes approved and regulated by the Charity Commission. As a charity, the Fund is currently exempt not only from stamp duty land tax (currently 4% on all property transactions over £500,000) but also capital gains tax and income tax.

## Investment Objectives

The Fund aims to provide a high and secure level of income with the prospect of growth in income and to maintain the capital value of assets held in the Fund, through investing in a diversified UK commercial property portfolio. The Fund invests in the three principal commercial property sectors: office, retail and industrial. It does not invest in speculative developments.

The Manager does not intend to hold no more than 10% in value of the property of the Fund in cash or Near Cash (as defined in FSA Handbook of Rules and Guidance).

## Unit Dealing

As the Fund is valued quarterly, units can be purchased at the end of March, June, September and December. Normally units will be redeemed with effect from a quarter day though this is subject to cash being available for redemptions. In addition, where there are both subscriptions and redemptions at a quarter day, the Manager may apply a matching process. Further details of the process for buying and selling units is set out in the Scheme Particulars which are available on request. To protect the overall position of Unit Holders, there are clearly defined restrictions on the right to redeem as are set out in the Scheme Particulars.

## Minimum Investment

The minimum investment in the Fund is £25,000 although smaller amounts may be accepted at the Manager's discretion. There is no minimum investment for existing unitholders.

## Distribution

The income is paid gross on a quarterly basis, six weeks after each valuation point (on or before 15 February, 15 May, 15 August and 15 November).

## Corporate Trustee

The Corporate Trustee will be entitled to receive fees (payable quarterly in arrears) based on the Net Asset Value at the start of the accrual period, on each Valuation Date. The fees (excluding value added tax) will be based on the following annual rates:

- £0 to £200 million – 0.05%;
- above £200 million – 0.0375%.

The Corporate Trustee may increase the current rates of fees if:

- (i) the Corporate Trustee has given notice in writing to the Manager and to the Unit Holders of its intention to increase these rates of fees;

## General Information continued

- (ii) the Scheme Particulars have been revised (subject to the prior written approval of the Commission) to reflect the proposed increase in the rates; and
- (iii) 90 days have elapsed since the revised Scheme Particulars became available.

### The Manager and Property Manager

The Manager's fees and the Property Manager's fees are combined into one management charge. This periodic management charge shall accrue on a quarterly basis and will be determined by the Net Asset Value of the Fund at the start of the accrual period. It will be deducted and paid at the end of each quarter out of the Fund's assets. The fees (excluding value added tax) will be based on the following annual rates:

- £0 to £100 million – 0.70%;
- £100 to £500 million – 0.525%;
- above £500 million – 0.45%.

The Manager may increase the current annual management fees and the current preliminary charge (or introduce a redemption charge) if:

- (i) the Manager has given notice in writing to the Corporate Trustee and to the Unit Holders of its intention to increase the rates of annual management fees, or to increase the preliminary charge, or to introduce a redemption charge (as the case may be);
- (ii) the Scheme Particulars have been revised subject to the prior written approval of the Commission to reflect the proposed increase in these rates of annual management fees, or to increase the current preliminary charge, or to introduce a redemption charge; and
- (iii) 90 days have elapsed since the revised Scheme Particulars became available.

### Preliminary Charge

The Manager also applies a preliminary charge of 0.25% of the initial price of the Units and this is included in the price at which Units may be purchased.

This charge may be reduced at the Manager's sole discretion.

### Borrowing Powers

Under the Scheme, the Manager is allowed to borrow money for the use of the Fund in certain circumstances. The Manager intends to use this power when it considers this to be in the best interests of the Unit Holders, principally either to obtain bridging finance to purchase real property for the Fund in advance of the receipt of committed subscriptions from existing or new Unit Holders or to finance the redemption of Units pending the receipt of sales proceeds. Borrowing will not exceed 10% of the net value of the assets of the Fund on any Business Day.

# Trustee, Manager and Advisers

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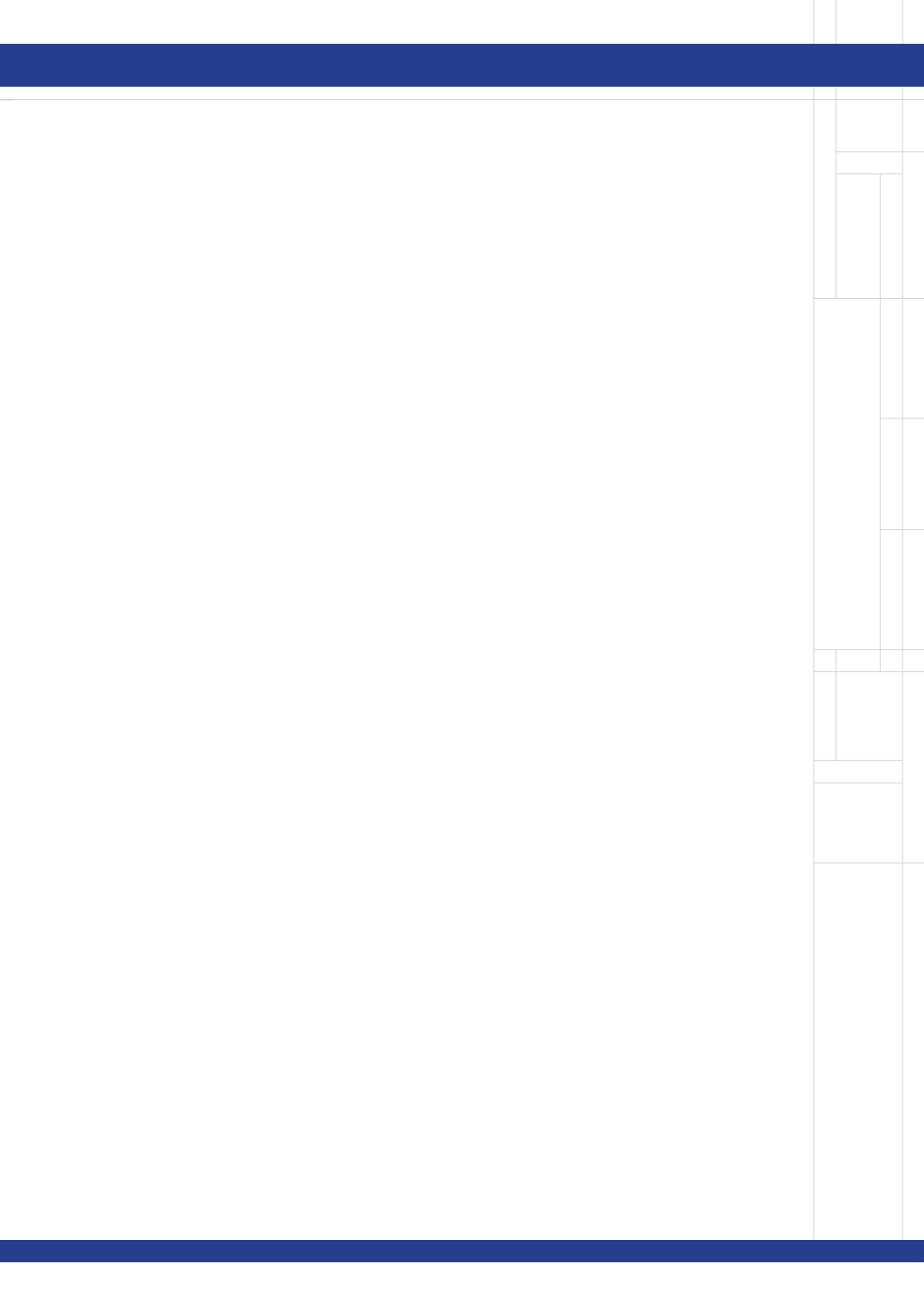
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