

Annual Investment Report and
audited Financial Statements
November 2012

For the year ended 30 September 2012

M&G Property Portfolio



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^[a] Collectively, these comprise the Manager's Report.

Investment objective and policy of the M&G Property Portfolio

The Trust aims to maximise long term total return (the combination of income and growth of capital) through investment mainly in commercial property.

The Trust invests in a diversified portfolio of commercial property mainly in the UK, seeking to add value through strategic asset allocation, stock selection and asset management. The Trust may also invest in other property related assets, including collective investment schemes, securities, derivatives and debt instruments, as well as government debt, money market instruments and cash.

Unitholders' attention should be drawn to the notes to the accounts on page 36 regarding the proposal to convert the unit trust into a Property Authorised Investment Fund ('PAIF'). This proposal is subject to unitholder approval. An Extraordinary General Meeting has been arranged on 7 December 2012. Details of the conversion were mailed to individual unitholders on the week ending 9 November 2012.

As at 1 October 2012,
for the year ended 30 September 2012

Trust performance

Between 3 October 2011 (the start of the period under review) and 1 October 2012, the M&G Property Portfolio's Sterling Class 'A' (Income) units produced a total return (capital performance with net income reinvested) of 1.4%.

Market background

UK commercial property achieved a positive total return for investors during the 12-month review period, providing an element of stability for their portfolios over what was, at several times during the year, a very volatile period for other asset classes. Investors wrestled with uncertainty over the state of the global economy and government debt crises, particularly within the eurozone. Markets recovered in the latter part of the period as politicians pledged to take the action required to support the European monetary system and to stimulate economic activity. However, caution persisted, since the concerns surrounding Europe and growth around the world have not gone away.

In this environment, the two-tier market within commercial property continued, with a clear polarisation between better quality 'prime' and 'good secondary' properties on the one hand, and lower quality 'secondary' and 'tertiary' assets on the other. This largely reflected the relative risks associated with the rental income of each, with lower-quality assets more likely to suffer unexpected tenant defaults. Whilst investors continued to concentrate on prime assets, the Central London office market maintained its outperformance, with capital values rising, as against falls in office values across the UK as a whole. With the exception of London, the retail sector remained under pressure, as subdued occupier demand weighed on values. Property market activity has been generally subdued, with the transactions that have taken place largely focused on London and led by foreign investors seeking 'safe havens' as uncertain market conditions persist.

Portfolio structure

The portfolio is predominantly invested in what we believe to be either prime or good secondary property – the higher quality end of the spectrum. This should continue to be beneficial for the trust in what remains a challenging time for the economy. In terms of strategy, we are looking to pragmatically balance the elements of income and growth within the portfolio throughout the property cycle, while actively managing the assets within the trust to maintain, or enhance, value.

At the end of the review period, just over half of the assets within the portfolio were those that we consider to be the trust's bedrock; sound, income-generating properties, which should provide a steady return from rents in an environment of stable yields and low or no rental growth. A good example would be the trust's distribution centre in Thatcham, let to a Swiss freight transporter on a 12-year lease.

Around a quarter of the portfolio is invested in properties which have rental income that is either tied to the Retail Prices Index (RPI) or which has predefined, fixed levels of rental uplifts in the lease agreement. This means that they deliver secure income streams that rise over time, even in a low-growth environment, helping to protect the trust's income from the detrimental effects of inflation. The trust's Tesco stores, for example, are all on such leases.

'Asset management' and 'recovery' assets form the remainder of the portfolio. Asset management properties are sound and income-generating and also provide opportunities to further optimise returns through active asset management. For example, at one of the trust's top 10 holdings, a retail park in north London, we negotiated with the tenant a 15-year extension to the lease that was due to expire in 2013. Not only did this reduce the proportion of the trust's assets with leases expiring next year but it also increased the amount of rental income being received. It should also help the asset to maintain its value, while increasing the average unexpired lease term on the entire park. Further examples of asset management are highlighted below.

Recovery assets tend to have more extensive future asset management requirements, such as refurbishment work, and therefore come with a slightly higher level of risk. In the short term, these properties may detract from performance to a degree. However, we believe that the potential longer-term gains, mostly from capital appreciation, will significantly outweigh any short-term losses. One such property is the trust's Norfolk House office building in Manchester. The building's purchase price was favourable, as it took account of the need for refurbishment work, an existing high vacancy rate and leases due to expire in the near term. We believe that the potential for asset management on the property should enhance its value significantly.

Overall, the trust has a very defensive income profile, with a vacancy rate of 2.9%* at the end of September 2012, well below the 8.3%** average in the Investment Property Databank (IPD) Monthly Benchmark. Including ongoing development work, that rises to 3.2%. The average lease term is 13.1* years, which is considerably longer than the market at 8.7** years. Our cash position was 18.2% at the end of September 2012, above our preferred working level of between 7.5% and 12.5%.

Investment activity

We purchased a total of six properties during the review period, further enhancing the trust's current bias to the prime end of the market. The largest acquisition was of Alder Castle, a prime office building in the City of London, which was purchased for £61.5 million, giving an initial yield of just below 6.5% and enhancing the overall yield of the portfolio. Alder Castle represents a key asset management opportunity for the trust, as we will engage with the current tenants to re-gear with sub-tenants and undertake refurbishment at the expiry of the leases in 2016.

A prime, 'open A1' retail warehouse in South London was also bought. We felt that the property was attractive as it offered good medium term asset management opportunities, with the tenant, a large American electrical retailer, due to vacate shortly after the purchase was completed. The retailer, however, remains responsible for its 13-year lease.

Additionally, we bought a prime multi-let building in a good location close to Bristol Central railway station. Although presently fully let, these premises are expected to appeal to a wide range of occupiers in the future. Other additions to the portfolio included a distribution unit in Wellington, Somerset and a shop in Perth.

We believe that overseas buying has driven the values of certain properties in London to unsustainable levels and, to take advantage of this, we sold a shop in Oxford Street for £14.8 million, a yield of approximately 3.0%. We also disposed of an office building near Heathrow and an industrial warehouse in Birmingham, which we felt no longer fitted with the trust's bias towards prime premises.

Four of the trust's smaller Travelodges were sold, in line with the strategy of selectively disposing of some of the assets in the original portfolio of hotels. Following the conclusion of a financial restructuring at Travelodge, the trust's second largest tenant by rent payable, we have now collected the rent due on the remaining hotels for the coming quarter. None of the trust's assets were affected by rent reductions imposed in the restructuring.

Asset management

Optimisation of the trust's assets through active management is a key strategy in our management of commercial property. The aim is to maintain values and enhance the performance of the portfolio.

Retail

At The Brewery, the trust's large retail and leisure complex in Romford, the lease of a major clothing retailer was re-negotiated, resulting in a new 10-year lease on the unit. In addition, an increase in the trust's rental income has been secured through a commitment with Metro Bank to create a new bank pod on what was previously part of the car park.

Meanwhile, a lease renewal was completed with Jaeger in George Street, Winchester. The tenant agreed a 10-year lease, with a fixed uplift after five years and no breaks, a stronger agreement than is usual at the moment, demonstrating that there is still firm demand for retail space in good locations. Although the trust is underweight to the traditional High Street, given wider consumer concerns, the properties held within the portfolio are predominantly well situated.

Industrial

Refurbishment work was completed on the trust's 12-unit multi-let modern industrial estate at Junction Six of the M1 near Birmingham, which was purchased in 2010. We bought the property with a short-term lease expiry profile, with the intention of refurbishing the units as they became vacant. Terms have been agreed for one unit to be re-let and negotiations for the others are ongoing.

Office

The trust's building in Poland Street, London, is now fully let, following a major refurbishment programme, which included building an additional storey. Following strong interest in the property, the whole building was leased to a multinational media company for a 15-year term at one of the highest rents achieved in the current cycle for a building of its type in Soho.

Similarly, the completion of refurbishment at the Coleman Street building in the City of London resulted in tenants being quickly secured for the majority of the available space at improved rental levels.

Other

Following the exchange of contracts in July, planning consent for a bowling alley has been secured at the trust's Medway Valley leisure park in Rochester. Work has started on the site and the unit should be income-producing in the first half of 2013. The building was formerly a nightclub and, once completed, the use will be more in line with the family-oriented nature of the complex.

Outlook

With continuing uncertainty over the economy, the outlook for rental growth in prime property remains subdued. In this environment, the two-tier market for UK property is likely to persist, with weaker properties struggling to maintain valuations and income dominating returns even at the prime end of the market. We believe that portfolio managers will need to focus on actively managing their assets if they are to maintain that income and continue to deliver returns to their investors. In the medium term, the shortage of new properties, due to the limited availability of development finance, should be beneficial for rental values, helping to bolster growth.

We believe that the trust is defensively positioned for the challenging economic climate, with a focus on prime and good secondary assets, an exceptionally low vacancy rate, long leases and good quality tenants. Our strategic emphasis is balanced between securing rental income and positioning the trust for future growth, while looking at initiatives to maintain, and enhance, its income through active asset management. In our opinion, this should help the trust to provide a healthy return for investors over the long term.

Fiona Rowley Fund manager

Fiona Rowley is an employee of M&G Limited, which is an associate of M&G Securities Limited.

* Source: Prudential Property Investment Managers Limited as at 30 September 2012 (the nearest measurable period).

** Source: IPD (Investment Property Databank) as at 30 September 2012 (the nearest measurable period).

Please note that the views expressed in this Report should not be taken as a recommendation or advice as to how the M&G Property Portfolio is likely to perform. If you wish to obtain financial advice as to whether an investment is suitable for your needs, you should consult a Financial Adviser.

Please note that as with other investments, the value of an investment in commercial property is not fixed and you may not get back the amount you originally invested. The level of income is not fixed and may vary. Property is valued by an independent valuer; however, valuations are subjective and may vary between valuers. Commercial property is a specialised sector, which by nature is less liquid and has different characteristics to investments in equities and bonds.

Sterling Class 'C' units are not generally available to all investors.

DISTRIBUTION DATES

Distribution type	xd	payment
First interim	02.01.13	28.02.13
Second interim	01.04.13	31.05.13
Third interim	01.07.13	31.08.13
Final	01.10.13	30.11.13

FINAL DISTRIBUTION

	Inc 30.11.12 ^[a]	Acc 01.10.12 ^[a]
Sterling	p	p
Class 'A'	0.5270	0.5830
Class 'C'	n/a	1.0860
Class 'P'	0.6010	0.5770
Class 'R'	0.5630	n/a
Class 'S'	0.6660	6.1550
Class 'X'	0.5550	n/a

^[a] The date on which the final distribution will be paid to Income unitholders and credited to Accumulation unitholders.

EXPENSE RATIOS ^[a]

as at 30 September 2012

	Sterling Class 'A'	Sterling Class 'C'	Sterling Class 'P'	Sterling Class 'R'	Sterling Class 'S'	Sterling Class 'X'
	%	%	%	%	%	%
Fund management fees	1.50	0.01	1.01	1.25	0.76	1.50
Fund operating expenses	0.16	0.16	0.16	0.16	0.16	0.16
Ongoing charges figure (OCF)	1.66	0.17	1.17	1.41	0.92	1.66
Property expense ratio (PER)	0.30	0.30	0.30	0.30	0.30	0.30
Real estate expense ratio (OCF + PER)	1.96	0.47	1.47	1.71	1.22	1.96
Transaction costs	0.30	0.30	0.31	0.28	0.31	0.29

EXPENSE RATIOS ^[a] (continued)

as at 30 September 2011

	Sterling Class 'A'	Sterling Class 'C'	Sterling Class 'P'	Sterling Class 'R'	Sterling Class 'S'	Sterling Class 'X'
	%	%	%	%	%	%
Fund management fees	1.51	0.01	1.03	1.26	0.76	1.51
Fund operating expenses	0.18	0.18	0.18	0.18	0.18	0.18
Ongoing charges figure (OCF)	1.69	0.19	1.21	1.44	0.94	1.69
Property expense ratio (PER)	0.16	0.16	0.15	0.16	0.16	0.16
Real estate expense ratio (OCF + PER)	1.85	0.35	1.36	1.60	1.10	1.85
Transaction costs	0.47	0.45	0.69	0.47	0.47	0.46

^[a] The Ongoing Charges Figure is the ratio of the relevant annualised total disclosable costs of each unit class from the most recent reporting period to the average net asset value for that unit class over the same period. The Fund Management Fees form part of the OCF and also include the annualised Investment Accounting Fee. The Property Expense Ratio (PER) shows the operating expenses that relate to the management of the property assets.

TRUST PERFORMANCE

Performance of unit classes

	Net asset value per unit as at 30.09.12		Net asset value per unit as at 30.09.11 ^[a]		Net asset value % change	
	Inc	Acc	Inc	Acc	Inc	Acc
Sterling Class 'A'	p	p	p	p	%	%
	68.90	76.68	69.74	75.46	-1.20	+1.62
Class 'C'	n/a	102.39	n/a	99.56	n/a	+2.84
Class 'P'	69.24	99.88	70.15	n/a	-1.30	n/a
Class 'R'	68.88	n/a	69.75	n/a	-1.25	n/a
Class 'S'	72.50	999.12	73.39	n/a	-1.21	n/a
Class 'X'	72.54	n/a	73.44	n/a	-1.23	n/a

^[a] Restated.

CAPITAL PERFORMANCE

	six months (02.04.12) %	one year (03.10.11) %	five years (01.10.07) % p.a. ^[a]	since launch (08.11.05) % p.a. ^[a]
M&G Property Portfolio Sterling Class 'A' units ^[b]	-1.1	-1.4	-7.3	-3.9

^[a] Shows the compound rate of return, per annum, over the period.

^[b] Bid to bid excluding reinvested income.

SINGLE YEAR PERFORMANCE (5 YEARS ENDING SEPTEMBER)

From	30.09.11	30.09.10	30.09.09	30.09.08	28.09.07
To	28.09.12	30.09.11	30.09.10	30.09.09	30.09.08
	%	%	%	%	%
M&G Property Portfolio Sterling Class 'A' units	+1.3	+3.3	+13.3	-12.9	-22.6

Source: Morningstar Inc., bid to bid with net income reinvested.

PRICES

Sterling (net)	Calendar year	Income units		Accumulation units	
		Highest offer	Lowest bid	Highest offer	Lowest bid
Class 'A'	2007	p 112.05	p 88.18	p n/a	p n/a
	2008	93.63	67.78	n/a	n/a
	2009	74.68	62.93	75.97 ^[a]	62.94 ^[a]
	2010	77.28	70.41	80.94	72.22
	2011	77.54	69.37	83.89	74.45
	2012 ^[b]	77.28	72.04	84.55	79.74
Class 'C'	2007	n/a	n/a	126.36	105.72
	2008	n/a	n/a	108.79	84.93
	2009	n/a	n/a	93.27	80.74
	2010	n/a	n/a	100.54	93.33
	2011	n/a	n/a	105.48	98.08
	2012 ^[b]	n/a	n/a	107.18	105.55
Class 'P'	2011 ^[c]	78.07	69.82	n/a	n/a
	2012 ^[b]	77.74	72.40	106.68 ^[d]	104.27 ^[d]
Class 'R'	2007	112.10	88.22	n/a	n/a
	2008	93.64	67.82	n/a	n/a
	2009	74.72	62.95	n/a	n/a
	2010	77.31	70.41	n/a	n/a
	2011	77.58	69.39	n/a	n/a
2012 ^[b]	77.29	72.02	n/a	n/a	
Class 'S'	2007	112.22	92.95	n/a	n/a
	2008	93.66	71.43	n/a	n/a
	2009	74.77	66.27	n/a	n/a
	2010	77.37	74.09	n/a	n/a
	2011	77.64	73.05	n/a	n/a
2012 ^[b]	78.14	75.80	1,067.21 ^[d]	1,043.00 ^[d]	
Class 'X'	2007	112.05	92.82	n/a	n/a
	2008	93.63	71.36	n/a	n/a
	2009	74.69	66.25	n/a	n/a
	2010	77.29	74.12	n/a	n/a
	2011	77.56	73.03	n/a	n/a
	2012 ^[b]	77.30	72.89	n/a	n/a

^[a] From 29 May 2009 (the launch date of the Accumulation units).

^[b] To 1 October 2012.

^[c] From 14 March 2011 (the launch date of the unit class).

^[d] From 3 August 2012 (the launch date of the Accumulation units).

Past performance is not a guide to future performance.

The price of units and the income from them may go down as well as up, and you may get back less than you invested.

INCOME

Sterling (net)	Calendar year	Dividend income per unit			Reinvested
		Interims	Distributed Final	Total	
Class 'A'	2007	p 1.9020	p 0.7130	p 2.6150	p n/a
	2008	2.0200	0.6600	2.6800	n/a
	2009	1.7630	0.5650	2.3280	1.0947
	2010	1.5830	0.5720	2.1550	2.2183
	2011	1.5750	0.5590	2.1340	2.2413
	2012 ^[a]	1.4530	0.5270	1.9800	2.1750
Class 'C'	2007	n/a	n/a	n/a	4.4170
	2008	n/a	n/a	n/a	4.5390
	2009	n/a	n/a	n/a	3.9960
	2010	n/a	n/a	n/a	3.9680
	2011	n/a	n/a	n/a	4.1560
	2012 ^[a]	n/a	n/a	n/a	4.0730
Class 'P'	2011	0.6780	0.6450	1.3230	n/a
	2012 ^[a]	1.7250	0.6010	2.3260	0.5770
Class 'R'	2007	2.0240	0.7620	2.7860	n/a
	2008	2.1520	0.6930	2.8450	n/a
	2009	1.8680	0.5970	2.4650	n/a
	2010	1.6850	0.6070	2.2920	n/a
	2011	1.6800	0.6500	2.3300	n/a
	2012 ^[a]	1.5800	0.5630	2.1430	n/a
Class 'S'	2007	2.4550	0.9130	3.3680	n/a
	2008	2.5520	0.8260	3.3780	n/a
	2009	2.1850	0.6940	2.8790	n/a
	2010	1.9860	0.7130	2.6990	n/a
	2011	1.9890	0.6960	2.6850	n/a
	2012 ^[a]	1.8610	0.6660	2.5270	6.1550
Class 'X'	2007	1.9860	0.7480	2.7340	n/a
	2008	2.1150	0.6940	2.8090	n/a
	2009	1.8560	0.5950	2.4510	n/a
	2010	1.6660	0.6020	2.2680	n/a
	2011	1.6580	0.5940	2.2520	n/a
	2012 ^[a]	1.5200	0.5550	2.0750	n/a

^[a] Up to final: ex-distribution date 1 October 2012; payment date 30 November 2012.

TRUST STATISTICS

NET ASSETS

	Year ended	Value per unit		Number of units	
		Inc	Acc	Inc	Acc
Sterling		p	p		
Class 'A'	Sep 2010	69.78	73.23	1,309,670,800	114,244,000
	Sep 2011 ^[a]	69.74	75.46	1,322,020,800	317,394,000
	Sep 2012	68.90	76.68	1,340,520,800	417,828,000
Class 'C'	Sep 2010	n/a	95.47	n/a	219,140,474
	Sep 2011 ^[a]	n/a	99.56	n/a	181,250,474
	Sep 2012	n/a	102.39	n/a	155,291,474
Class 'P'	Sep 2011 ^[a]	70.15	n/a	68,014,000	n/a
	Sep 2012	69.24	99.88	88,725,000	1,000
Class 'R'	Sep 2010	69.79	n/a	16,183,000	n/a
	Sep 2011 ^[a]	69.75	n/a	16,089,000	n/a
	Sep 2012	68.88	n/a	7,407,000	n/a
Class 'S'	Sep 2010	73.43	n/a	600,890,000	n/a
	Sep 2011 ^[a]	73.39	n/a	642,354,000	n/a
	Sep 2012	72.50	999.12	808,993,000	100
Class 'X'	Sep 2010	73.46	n/a	29,726,000	n/a
	Sep 2011 ^[a]	73.44	n/a	29,191,000	n/a
	Sep 2012	72.54	n/a	27,076,000	n/a

Total net asset value of trust

Year ended	£
Sep 2010	1,681,119,000
Sep 2011 ^[a]	1,893,796,000
Sep 2012	2,075,669,000

^[a] Restated.

PORTFOLIO

PORTFOLIO STATEMENT

as at 30 September 2012

Portfolio of investments	Location	30.09.12 %	30.09.11 ^[a] %
RETAIL		38.13	41.88
Properties with value over £60 million up to £80 million		3.61	4.06
Castle Vale Retail Park	Birmingham		
Properties with value over £40 million up to £60 million		9.93	10.79
Stanley Green Retail Park, Earl Road	Cheadle		
Tesco Extra, White Cliffs Park	Dover		
Ravenside Retail Park	London, N18		
Tesco Supermarket Kilverstone	Thetford		
Properties with value over £20 million up to £40 million		10.28	13.51
Tesco Supermarket, Stour Road	Blandford St Mary		
Orbital Retail Park, Voyager Drive	Cannock		
House of Fraser & 9-18 Mary Street & 9-18 Trinity Street	Cardiff		
Tesco Supermarket, London Road, Loudwater	High Wycombe		
B&Q West Five Centre, Western Avenue	London, W3		
1-20 Rams Walk & 11-13 The Square	Petersfield		
Brunswick Shopping Centre	Scarborough		
Properties with value over £10 million up to £20 million		7.68	6.16
House of Fraser & National Westminster Bank, Park Street/ Princess Way	Camberley		
Trafalgar Way Retail Park, Purley Way	Croydon		
46/48 Northumberland Street & 1/5 Saville Row	Newcastle		
15/17 Haymarket	Norwich		
Units 1, 2, 3, 4, 6 & 513, Reading Link Retail Park	Reading		
B&Q, Greenland Road, Darnall	Sheffield		
Debenhams, The Mall and Charter Square	Sheffield		
Debenhams, 3-4 Wood Street & 33-35 High Street	Stratford Upon Avon		
Debenhams, 19-26 North Street	Taunton		
Gallagher Retail Park, Marchfields Way	Weston Super Mare		
3/7 Coney Street	York		
Properties with value over £5 million up to £10 million		3.23	3.98
43 Eastgate Street	Chester		
97a/98 Princes Street & 3 Frederick Street	Edinburgh		
The Range, Pellon Lane	Halifax		
Debenhams, 275 Station Road	Harrow		
27-28 Commercial Street	Leeds		
Sainsbury's Local, 282 Magdalen Road	London, SW18		
5/6 Haymarket	Norwich		
111/119 High Street	Perth		
Barclays Bank, 1/3 Church Street	Peterborough		
Lockey House, St Peters Street	St Albans		

PORTFOLIO STATEMENT (continued)

as at 30 September 2012

Portfolio of investments	Location	30.09.12 %	30.09.11 ^[a] %
RETAIL (continued)			
Properties with value up to £5 million		3.40	3.38
Star Petrol Station/Somerfield Convenience Store - Galley Roundabout	Braintree		
Star Petrol Station/Somerfield Convenience Store - Falcondale Road	Bristol		
96 High Street	Bromley		
Star Petrol Station/Somerfield Convenience Store - Uxbridge Street	Cannock		
Star Petrol Station/Somerfield Convenience Store - Waterhouse Lane	Chelmsford		
HSBC Bank, 7/10 Prospect Crescent	Harrogate		
HSBC Bank, 35 High Town	Hereford		
Star Petrol Station/Somerfield Convenience Store - Uxbridge Road	Hillingdon		
210/212 High Street	Hounslow		
Wickes Unit, Manchester Road	Huddersfield		
HSBC Bank, 4 Dale Street	Liverpool		
Star Petrol Station/Somerfield Convenience Store - Bow Road	London, E3		
Star Petrol Station/Somerfield Convenience Store - Caledonian Road	London, N1		
29/39 Market Street	Newcastle		
75/77 Cornwall Street	Plymouth		
Star Petrol Station/Somerfield Convenience Store - Watling Street	Rochester		
Wickes Unit, Whitchurch Road	Shrewsbury		
52 Above Bar Street	Southampton		
Star Petrol Station/Somerfield Convenience Store - Millbrook Road	Southampton		
78 Ings Road	Wakefield		
71/73 St Georges Street & 126 High Street	Winchester		
HSBC Bank, 6/9 Broad Street	Worcester		
Star Petrol Station/Somerfield Convenience Store - Sherbourne Road	Yeovil		
OFFICE		20.04	18.00
Properties with value over £60 million up to £80 million		2.94	0.00
Alder Castle 10 Noble Street	London, EC2		
Properties with value over £20 million up to £40 million		12.41	12.27
Acergy UK Regional Campus, Westhill Business Park	Aberdeen		
120 Edmund Street	Birmingham		
3 Temple Quay	Bristol		
Ignis House, 50 Bothwell Street	Glasgow		
Buildings 1000 & 2000, G3, Cathedral Hill	Guildford		
4 Coleman Street	London, EC2		
1/5 Poland Street & 7A Livonia Street	London, W1		
Wavendon Business Park	Milton Keynes		

PORTFOLIO STATEMENT (continued)

as at 30 September 2012

Portfolio of investments	Location	30.09.12 %	30.09.11 ^[a] %
OFFICE (continued)			
Properties with value over £10 million up to £20 million		3.51	4.06
1 The Square, Temple Quay	Bristol		
Buildings 1&2, Link 414 Stoneycroft Rise, Chandler's Ford	Eastleigh		
Edinburgh House, 4 North St Andrew Street	Edinburgh		
225 Bath Street	Glasgow		
Mill Court, La Charotterie, St Peter Port	Guernsey		
Norfolk House, 7 Norfolk Street	Manchester		
Properties with value over £5 million up to £10 million		1.01	1.59
23 Cadogan Street	Glasgow		
Globe House, Clivemont Road	Maidenhead		
Plot 3400 Cheadle Royal Business Park	Manchester		
Properties with value up to £5 million		0.17	0.08
City View, Craigshaw Drive (formerly part of West Tullis Industrial Estate)	Aberdeen		
Olympus Plaza, Olympus Business Park, Quedgeley	Gloucester		
INDUSTRIAL		12.79	14.26
Properties with value over £20 million up to £40 million		7.10	8.06
Sites A1, A7-A10, A12, A15-A25 & A29, Altens Industrial Estate	Aberdeen		
Sites WT1, WT3-WT5 & WT8-WT18 & WT20, West Tullis Industrial Estate	Aberdeen		
Units 2-12, 14 & 15, Junction Six Industrial Estate, Electric Avenue	Birmingham		
Booker Unit, Foxhall Road	Didcot		
Tesco Distribution Unit, Main Site, Nursling Industrial Estate	Southampton		
Scottish & Newcastle Distribution Centre, Mill Park	Thatcham		
Properties with value over £10 million up to £20 million		1.77	1.99
Canon Unit, 22 Beveridge Lane, Bardon Hill	Coalville		
Wincanton Distribution Unit	Rainham		
TK Maxx Distribution Centre, Green Lane	Walsall		
Properties with value over £5 million up to £10 million		2.79	2.99
Sites ET2-ET8 & ET10, East Tullis Industrial Estate	Aberdeen		
Capitol Park, Thorne	Doncaster		
11 Barnes Wallis Road	Fareham		
154 Craighall Road	Glasgow		
Unit 100, Hartlebury Trading Estate	Hartlebury		
Unit 10, Blenheim Park	Nottingham		
1 Spire Road, Shirley Park	Rushden		
Norbert Dentreassangle Recycling Plant, Site 1b, Nursling Industrial Estate	Southampton		
Chelston Business Park	Wellington		

PORTFOLIO STATEMENT (continued)

as at 30 September 2012

Portfolio of investments	Location	30.09.12 %	30.09.11 ^[a] %
INDUSTRIAL (continued)			
Properties with value up to £5 million		1.13	1.22
Portfolio of 6 Ground Leases, Murcar Industrial Estate	Aberdeen		
Souterhead Industrial Estate	Aberdeen		
Expressway, 56 Deeside Industrial Estate, Welsh Road	Chester		
Unit 1000, Normanton Industrial Estate	Normanton		
The Booker Unit, Ravens Way	Northampton		
Calver Nine, Winwick Quay	Warrington		
LEISURE		8.29	8.41
Properties with value over £20 million up to £40 million		3.96	2.96
Peel Retail & Leisure Centre, Lower Audley Street	Blackburn		
Medway Valley Leisure Park	Rochester		
Premier Inn Hotel Thremhall Avenue	Stansted		
Properties with value over £10 million up to £20 million		0.54	0.59
Travelodge, 1 Mickelgate	York		
Properties with value over £5 million up to £10 million		0.00	0.49
Properties with value up to £5 million		3.79	4.37
Travelodge - Fontwell Avenue	Arundel		
Travelodge - 2225 Coventry Road	Birmingham		
Travelodge - Chester Road, Castle Bromwich	Birmingham		
Travelodge - Studio Way	Borehamwood		
Travelodge - Cooper Dean Roundabout, Castle Lane East	Bournemouth		
Travelodge - 21 Tyn-y-Parc Road	Cardiff		
Travelodge - Warrington Road, Mickle Trafford	Chester		
Travelodge - Brinklow Road, Binley	Coventry		
Travelodge - Nottingham Road, Chaddesdon	Derby		
Travelodge - Highfield Park, Willingdon Drove	Eastbourne		
Travelodge - Cove Road	Fleet		
Travelodge - Portsmouth Road	Frimley		
Travelodge - Auchenkilns Roundabout	Glasgow		
Travelodge - Bruntcliffe Road, Morley	Leeds		
Travelodge - Hinckley Road	Leicester		
Travelodge - 502 Queens Drive, Stoneycroft	Liverpool		
Travelodge - 531 Aigburth Road	Liverpool		
Travelodge - 73 Hollybush Hill, Snaresbrook	London, E11		
Travelodge - The Green, Southgate	London, N14		
Travelodge - Burchard Crescent	Milton Keynes		
Travelodge - Rotary Way, North Brunton	Newcastle		
Travelodge - London Road	Northampton		
Travelodge - Mandeville Road	Northolt		
Travelodge - Derby Road, Wollaton Vale	Nottingham		

PORTFOLIO STATEMENT (continued)

as at 30 September 2012

Portfolio of investments	Location	30.09.12 %	30.09.11 ^[a] %
LEISURE (continued)			
Properties with value up to £5 million (continued)			
Travelodge - 18 Dundee Road	Perth		
Travelodge - Crieff Road	Perth		
Travelodge - 399 Tavistock Road	Plymouth		
Travelodge - Plymbridge Lane	Plymouth		
Travelodge - 1 Whichers Gate Road, Rowland's Castle	Portsmouth		
Travelodge - 2 Redstone Hill	Redhill		
Travelodge - 399 London Road, Langley	Slough		
Travelodge - 206 Longton Road	Stoke-on-Trent		
Travelodge - Chester Road, Streetly	Sutton Coldfield		
Travelodge - Ashley Park Road	Waltham on Thames		
Travelodge - Newton Road	Warrington		
Cannons Health Club, Pyrford Road	West Byfleet		
Travelodge - Runwell Road	Wickford		
Travelodge - 735 Chigwell Road	Woodford Green		
Travelodge - Hull Road	York		
OTHER INVESTMENTS		4.40	4.67
Indirect holdings		3.94	4.13
MedicX Healthfund I LP			
The Fort Retail Park, Birmingham (12.5% of Trust for Land)			
The Brewery, Romford (25% of Trust for Land)			
Holding	Value (£'000)	30.09.12 %	30.09.11 ^[a] %
OTHER INVESTMENTS (continued)			
Collective investment schemes		0.46	0.54
100,000 inProp UK Commercial Property Fund Class 'B'	9,526	0.46	0.54
Total portfolio valuation (note 1b)		83.65	87.22
Net other assets		16.35	12.78
Net assets attributable to unitholders		100.00	100.00

[a] Restated.

PORTFOLIO TRANSACTIONS

for the year ended 30 September 2012

Property acquisitions ^[a]	Location	£'000
Alder Castle 10 Noble Street	London, EC2	64,427
Trafalgar Way Retail Park, Purley Way	Croydon	19,491
1 The Square Temple Quay	Bristol	13,214
Chelston Business Park	Wellington	8,879
111/119 High Street	Perth	7,446
Premier Inn Hotel, Thremhall Avenue	Stansted	3,865
Transaction costs for prior period acquisitions		338
Transaction costs: prior period adjustments		7
Total acquisitions for the year		117,667
Other purchases ^[a]		£'000
MedicX Healthfund I LP		3,878
Total purchases for the year		121,545

Property disposals ^[a]	Location	£'000
391/393 Oxford Street	London, W1	14,632
York & Wellington House, Dukes Green	Heathrow	6,466
Unit E, Redfern Road, Tysely	Birmingham	4,515
Travelodge - Aylesbury End	Beaconsfield	1,391
Travelodge - 403 Goldington Road	Bedford	1,266
Travelodge - Burnley Lane, Chadderton	Oldham	777
Travelodge - Port Road, Rhoose	Barry	629
Ground Lease, Murcar Industrial Estate	Aberdeen	344
Transaction costs for prior period disposals		(120)
Transaction costs: prior period adjustments		40
Total disposals for the year		29,940

^[a] These transactions include the related costs (see note 12).

For the year ended 30 September 2012.

STATEMENT OF TOTAL RETURN

	Note	2012		2011 ^[a]	
		£'000	£'000	£'000	£'000
Income					
Net capital losses	3		(33,353)		(9,207)
Revenue	4	110,040		101,532	
Expenses	5	(32,790)		(26,809)	
Finance costs:					
Interest and non-utilisation fees	14	(3)		(8)	
Net revenue before taxation		77,247		74,715	
Taxation	6	(13,973)		(13,658)	
Net revenue after taxation			63,274		61,057
Total return before distributions			29,921		51,850
Finance costs: Distributions	14		(62,250)		(59,740)

Change in net assets attributable to unitholders from investment activities		2012	2011 ^[a]
		£'000	£'000
		(32,329)	(7,890)

STATEMENT OF CHANGE IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

	2012		2011 ^[a]	
	£'000	£'000	£'000	£'000
Opening net assets attributable to unitholders		1,893,796		1,681,119
Amounts received on issue of units	298,810		410,633	
Amounts paid on cancellation of units	(97,655)		(201,458)	
		201,155		209,175
Stamp Duty Reserve Tax (SDRT)		(1,879)		(2,256)
Change in net assets attributable to unitholders from investment activities (see above)		(32,329)		(7,890)
Retained distributions on Accumulation units		14,926		13,648
Closing net assets attributable to unitholders		2,075,669		1,893,796

^[a] Restated.

FINANCIAL STATEMENTS

BALANCE SHEET

	as at		as at	
	30 September 2012	£'000	30 September 2011	£'000
Assets				
Portfolio of investments	1,736,298		1,651,807	
Debtors				
Amounts receivable on issues	3,461		1,530	
Deposit interest receivable	9		0	
Tenant debtors	19,132		10,335	
VAT recoverable	0		2,682	
		22,602		14,547
Cash held as bank balances	9,619		20,654	
Cash on deposit	357,230		257,417	
		366,849		278,071
Total other assets		389,451		292,618
Total assets		2,125,749		1,944,425
Liabilities				
Creditors				
Amounts payable on cancellations	(634)		(1,366)	
Annual charge payable	(975)		(755)	
Audit fee payable	(37)		(36)	
Corporation tax payable	(6,370)		(6,893)	
Independent valuer's fees payable	(97)		(92)	
Investment accounting fees payable	(38)		(75)	
Net distributions payable on income units	(13,178)		(12,578)	
Property expenses payable	(2,247)		(2,471)	
Property income billed in advance	(22,117)		(19,552)	
Purchases awaiting settlement	0		(6,134)	
SDRT payable	(109)		(72)	
Transaction charges payable	(162)		(605)	
VAT payable	(4,116)		0	
Total liabilities		(50,080)		(50,629)
Net assets attributable to unitholders		2,075,669		1,893,796

CASH FLOW STATEMENT

	Note	2012		2011	
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	9a		75,478		75,203
Servicing of finance					
Distributions paid		(47,428)		(46,213)	
Bank interest paid		(3)		(8)	
			(47,431)		(46,221)
Taxation			(14,496)		(11,941)
Capital expenditure and financial investment					
Acquisition of investments		(127,679)		(288,378)	
Capital expenditure		(26,230)		(4,943)	
Disposal of investments		29,940		52,075	
			(123,969)		(241,246)
Financing					
Amounts received on issue of units		297,921		415,754	
Amounts paid on cancellation of units		(98,724)		(200,794)	
			199,196		214,960
Net increase / (decrease) in cash			88,778		(9,245)

NOTES TO THE FINANCIAL STATEMENTS

1 Accounting policies

a) **Basis of accounting:** The financial statements have been prepared in accordance with the historical cost convention, as modified by the revaluation of investments, and the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010.

b) **Basis of valuation of investments:** Immovable property investments are valued on an open market basis in compliance with the Valuation Standards 2008 prepared by the Royal Institution of Chartered Surveyors, and in accordance with the Trust Deed. Sites in the course of development are independently valued with regard to the stage reached in the construction and taking into account the percentage of any agreed letting and the percentage of any contractual liabilities to advance further monies. In accordance with SSAP 19 'Accounting for Direct Investment Properties' no provision for depreciation or amortisation has been made in respect of freehold property investments or leasehold property investments which have unexpired lease terms in excess of 20 years. Property purchases and sales are recognised on exchange of contracts or thereafter when all conditions have been met. Property investments were independently valued by Knight Frank LLP as at 30 September 2012.

Collective Investment Schemes are valued at their fair value as at 12 noon on 30 September 2012, being the last business day of the financial year. The fair value of investments which are managed by other management groups is their single price.

c) **Recognition of income:** Bank interest, deposit interest, interest on index certificates and rental revenue are recognised on an accruals basis. Benefits to lessees in the form of rent-free periods are treated as a reduction in the overall return on the leases and, in accordance with UITF 28 'Operating Lease Incentives', are recognised on a straight line basis over the shorter of the lease term or the period up to the initial review date. Capital contributions granted to tenants are shown as a debtor and amortised over the shorter of either the period of the lease or the period to when the rent is adjusted to the prevailing market rate, usually the first rent review.

The valuation of the property investments is reduced by the total of the unamortised capital contributions and any lease incentives in place at the time. Any remaining debtor incentive balances in respect of properties disposed of are included in the calculation of the profit or loss arising on disposal.

As at the balance sheet date the valuation of immovable properties undertaken by Knight Frank LLP was

£1,720,680,000 (30.09.11: £1,639,030,000). The valuation of immovable properties contained within the balance sheet differs from this figure by the value of the lease incentive debtor disclosed in note 3.

Contingent rents, being those that are not fixed at the inception of the lease, e.g. increases to rent reviews, are recorded as revenue in the periods in which they are earned. Rent reviews are recorded as revenue, based on estimates, when it is reasonable to assume they will be received.

d) **Expenses:** For accounting purposes, all expenses (other than those relating to the purchase and sale of property investments and Stamp Duty Reserve Tax) are charged against revenue for the year on an accruals basis. Costs associated with failed property transactions are charged against revenue for property purchases and against capital for property sales when it becomes clear the transaction has failed.

e) **Apportionment of income and expenses to multiple unit classes:** With the exception of the Manager's periodic charge, which is directly attributable to individual unit classes, all income and expenses are apportioned to the trust's unit classes pro-rata to the value of the net assets of the relevant unit class on the day that the income or expenses are recognised.

f) **Taxation:** The rate of corporation tax for the trust is 20%. The tax accounting treatment follows the principal amounts involved.

g) **Deferred taxation:** Deferred tax is provided for in respect of timing differences that have originated but not reversed by the balance sheet date, with the exception of those regarded as permanent differences. Any liability to deferred tax is provided at the average rate of tax expected to apply. A deferred tax asset is recognised to the extent that it is expected to be utilised, based on the likelihood of taxable profits arising in the next twelve month period from which the future reversal of timing differences can be deducted. Deferred tax assets and liabilities are not discounted to reflect the time value of money.

h) **Distribution policy:** The policy of the trust is to distribute all available income, after deduction of expenses properly chargeable against revenue. Income attributable to Accumulation unitholders is retained at the end of each distribution period and represents a reinvestment of income. All remaining income is distributed in accordance with the Collective Investment Schemes sourcebook.

Distributions which have remained unclaimed by unitholders for more than six years are credited to the capital property of the trust.

i) **Provision of bad debts:** The potential non-recovery of tenant debts is provided for by way of a bad debts provision. An assessment of the recoverability of any outstanding debts is performed on a case-by-case basis by the Property Manager.

NOTES TO THE FINANCIAL STATEMENTS

2 Risk management policies

In pursuing the trust's investment objective, as set out in the Manager's Report, the Manager accepts liquidity risk, market price risk, credit risk and interest rate risk. The Manager and the Investment Manager monitor and seek to manage these risks by using appropriate reporting mechanisms which identify risk activities and allow the trust to control or avoid risks identified.

- a) **Liquidity risk:** The trust will encounter liquidity risk when attempting to realise assets or otherwise raise funds to meet financial commitments.

The trust's liquidity can be affected by unexpected or high levels of unit redemptions. In order to mitigate this risk, the Manager may borrow for the account of the trust but only for the purpose of meeting redemption requests and to meet timing differences in connection with the purchase and sale of property investments. Cash is not generally held to address liquidity risk because the spread of unitholders and the deferred redemption provision mitigate this risk. However, under certain market conditions where liquidity risk may be deemed to be elevated, the level of cash held by the trust may be higher.

The Manager may, at its absolute discretion, defer redemptions of Sterling Class 'R' units and Sterling Class 'S' units at a particular valuation point, to a valuation point within the next 90 days where the requested net redemptions exceed 1% of the trust's value.

- b) **Market price risk:** The trust's exposure to market price risk is comprised mainly of movements in the value of the trust's investments in properties. Property investments are inherently difficult to value and difficult to transform into cash due to the individual nature of each property. As a result, valuations are subject to uncertainty. There is no assurance that the actual sale price will reflect the estimates resulting from the valuation process even where such sales occur shortly after the valuation date. Where it is necessary for the trust to sell properties in order to meet redemptions, the amount realised from the sales may be materially less than the current valuation.

During the year under review, the trust has not hedged against movements in the value of its investments. However, the Prospectus permits the trust to use derivative instruments for hedging such risks and the Manager may from time to time employ such instruments.

- c) **Credit risk:** In the event of default by an occupational tenant, the trust will suffer a rental shortfall and incur additional cost, including legal expenses, in maintaining, insuring and re-letting the property. This risk is minimised by investing in a diversified portfolio of properties. Additionally, the revenue from any one tenant or tenants within the same group must not exceed 25% of the aggregate revenue in relation to the property investments in any accounting period unless the tenant is the UK Government or guaranteed by the UK Government. Rent is collected from tenants in advance, usually quarterly. Cash is placed on deposit with reputable financial institutions and is subject to limits as disclosed in the Prospectus.
- d) **Interest rate risk:** The trust is subject to interest rate risk in respect of cash deposits and overdrafts held.

Since the objective of the trust is to deliver returns over the long term, transactions with the sole objective of realising short-term returns are generally not undertaken.

These policies have been consistently applied since the beginning of the financial year (30.09.11: same).

3 Net losses on investments

	2012 £'000	2011 [a] £'000
Immovable properties	(28,798)	(5,739)
Lease incentive debtor	(3,628)	(3,530)
Non-derivative securities	(918)	70
Transaction charges	(9)	(8)
Net losses on investments	(33,353)	(9,207)

[a] Restated.

4 Income

	2012 £'000	2011 £'000
Bank interest	57	42
Deposit interest	1,781	1,583
Overseas dividends	736	508
Rental income	107,466	99,399
Total revenue	110,040	101,532

NOTES TO THE FINANCIAL STATEMENTS

5 Expenses

	2012 £'000	2011 £'000
Payable to the Manager or associate		
Manager's periodic charge	23,180	20,544
Administration fee	3,006	2,694
Investment accounting fee	150	150
	26,336	23,388
Payable to the Trustee or associate		
Trustee's fee ^[a]	138	127
Other expenses		
Audit fee ^[a]	39	37
Costs incurred from aborted acquisitions ^[a] ^[b]	14	42
FSA fee	20	5
Independent valuer's fees ^[a]	382	338
Irrecoverable service charges, insurance and rates ^[c]	5,787	2,814
Tax consultancy fees ^[a]	74	58
	6,316	3,294
Total expenses	32,790	26,809

^[a] Includes the portion of VAT which is non-recoverable.

^[b] Costs incurred from aborted acquisitions:

Legal fees	2	9
Survey fees	12	9
Valuation fees	0	24
Costs incurred from aborted acquisitions	14	42

^[c] Service charges are common costs which are paid to service providers by the trust and recovered from tenants. In some circumstances these service charges cannot be recovered, for example, vacant units and shared areas, resulting in an irrecoverable amount as set out below.

Service charges incurred	13,339	9,200
Service charges recoverable	(7,552)	(6,386)
Irrecoverable service charges	5,787	2,814

6 Taxation

	2012 £'000	2011 £'000
a) Analysis of charge in the year		
Corporation tax	14,467	13,992
Overseas tax	252	244
Double taxation relief	(252)	(244)
Prior period adjustment	(494)	(334)
Current tax charge (note 6b)	13,973	13,658
Deferred tax (note 6c)	0	0
	13,973	13,658

b) Factors affecting taxation charge for the year

Net revenue before taxation	77,247	74,715
Corporation tax at 20%	15,450	14,943
Effects of:		
Capital allowances (plant & machinery)	(986)	(939)
Capital allowances (IBAs)	0	(20)
Expenses not deductible for tax purposes	3	8
Overseas tax	252	244
Double taxation relief	(252)	(244)
Prior period adjustment	(494)	(334)
Current tax charge (note 6a)	13,973	13,658

c) Provision for deferred taxation

Provision at the start of the year	0	0
Deferred tax in profit and loss account (note 6a)	0	0
Provision at the end of the year	0	0

The trust does not have an unrecognised deferred tax asset at the year end (30.09.11: same).

Whilst properties in which the trust invests may have capital allowances attributable to them, these allowances are dependent on the relevant properties being held at the trust's year end. Since the properties are principally held for investment purposes, there is no certainty that they will be held at the year end and as such, the trust only recognises these allowances as they crystallise and therefore no deferred tax asset and corresponding charge is provided for. As at 30.09.11 the relief potentially available for the period to 30.09.12 would equate to approximately £712,000 (30.09.11: £744,000). If held until fully utilised this would equate to £7,112,000 (30.09.11: £6,566,000) over the life of the trust.

NOTES TO THE FINANCIAL STATEMENTS

7 Contingent liabilities and outstanding commitments

At the balance sheet date the trust had entered into an agreement to develop one of the sites at West Tullos, Aberdeen (Craigshaw Drive). Development commitments are dependent on a number of outcomes and independent valuations, and thus not separately identified in the accounts. However, it is estimated that approximately an additional £9.5m will be spent on the development. (30.09.11: the trust was developing a hotel near Stansted Airport with approximately £17m still to be spent).

At the balance sheet date, there was a contract for Southwater Square, Telford which had been conditionally exchanged for £3.7m (30.09.11: there were no conditional exchanges).

8 Events occurring after the balance sheet date

There were disposals totalling £42,500,000 (30.09.11: £nil) and no acquisitions after the balance sheet date (30.09.11: £7,340,000).

9 Cash flow

	2012 £'000	2011 £'000
a) Reconciliation of change in net revenue before taxation to net cash flow from operating activities		
Net income before taxation	77,247	74,715
Transaction charges	(9)	(8)
Finance costs: Interest	3	8
Increase in debtors	(6,124)	(594)
Increase in creditors	6,203	3,343
Stamp Duty Reserve Tax	(1,842)	(2,261)
Net cash inflow from operating activities	75,478	75,203
b) Reconciliation of net cash inflow to movements in net funds		
Net cash inflow / (outflow)	88,778	(9,245)
Cash and bank balances at the start of the year	278,071	287,316
Cash and bank balances at the end of the year	366,849	278,071

10 Related parties

M&G Securities Limited, as Manager, is a related party and acts as principal on all the transactions of units in the trust, except with in-specie transactions where M&G Securities Limited acts as agent. The aggregate monies received through issues, and paid on cancellations, are disclosed in the statement of change in net assets attributable to unitholders and note 14. Amounts due to / from M&G Securities Limited in respect of unit transactions at the year end are disclosed in the balance sheet where applicable.

Amounts paid to M&G Securities Limited in respect of the Manager's periodic charge and administration fee are disclosed in note 5. Amounts due at the year end are disclosed in the balance sheet where applicable.

Material shareholders from within Prudential plc, of which M&G Securities Limited is a wholly owned subsidiary, have holdings totalling 20.29% (30.09.11: 20.16%) of the trust's units.

11 Financial instruments

The policies applied in the management of financial instruments are set out in note 2.

Short-term debtors and creditors have only been included in respect of the currency exposure when this is applicable (30.09.11: same).

Currency exposure

There was no significant currency exposure within the trust at the balance sheet date (30.09.11: same).

Interest rate profile

The only significant interest-bearing financial asset of the trust is cash, on which interest is calculated at a variable rate by reference to sterling bank deposit rates. The majority of the Trust's assets comprise properties which neither pay interest nor have a maturity date (30.09.11: same).

Fair values

There is no material difference between the carrying values and fair values of the financial instruments disclosed in the balance sheet (30.09.11: same).

NOTES TO THE FINANCIAL STATEMENTS

12 Portfolio transaction costs

	2012 £'000	2011 £'000
a) Acquisitions		
Acquisitions excluding transaction costs	115,753	277,802
Agent's fees	820	2,335
Agent's fees: prior year adjustment	0	(91)
Land registry fees	12	30
Legal fees	241	705
Legal fees: prior year adjustment	(7)	(108)
Stamp Duty Land Tax	4,395	11,317
Survey fees	195	259
Survey fees: prior year adjustment	0	(183)
Valuation fees	136	61
Valuation fees: prior year adjustment	0	(8)
Total transaction costs	5,792	14,317
Total acquisitions including transaction costs	121,545	292,119
b) Disposals		
Disposals excluding transaction costs	30,263	52,642
Agent's fees	(309)	(477)
EPC fees: prior year adjustment	0	22
Insurance	0	(5)
Legal fees	(57)	(97)
Legal fees: prior year adjustment	0	31
Marketing fees	0	(1)
Retained sum	0	(40)
Retained sum: prior year adjustment	40	0
Overage	3	0
Total transaction costs	(323)	(567)
Total disposals net of transaction costs	29,940	52,075

13 Unitholder funds

This trust contains Sterling Class 'A' (Income and Accumulation) units, Sterling Class 'C' (Accumulation) units, Sterling Class 'P' (Income and Accumulation) units, Sterling Class 'R' (Income) units, Sterling Class 'S' (Income and Accumulation) units and Sterling Class 'X' (Income) units.

The charging structure for each unit class, as at 30 September 2012, is set out in the following table (30.09.11: same):

CHARGES AND EXPENSES

	Initial charge %	Withdrawal fee %	Manager's annual remuneration %
Sterling			
Class 'A'	5.00	nil	1.50
Class 'C'	nil	nil	nil
Class 'P'	2.00	nil	1.00
Class 'R'	5.00	nil	1.25
Class 'S'	2.00	nil	0.75
Class 'X'	nil	4.50 [a]	1.50

[a] The withdrawal fee diminishes over a period of five years. Please refer to the Key Investor Information Document (KIID) in conjunction with the Important Information for Investors document.

With the exception of the Manager's periodic charge, which is directly attributable to individual unit classes, all income and expenses are apportioned to the trust's unit classes pro-rata to the value of the net assets of the relevant unit class on the day that the income or expenses are recognised.

The net asset values for each unit class are set out in the following table:

NET ASSET VALUES

	30.09.12		30.09.11 [a]	
	Inc £'000	Acc £'000	Inc £'000	Acc £'000
Sterling				
Class 'A'	923,585	320,392	922,028	239,491
Class 'C'	n/a	158,999	n/a	180,454
Class 'R'	5,102	n/a	11,221	n/a
Class 'P'	61,435	1	47,711	n/a
Class 'S'	586,512	1	471,455	n/a
Class 'X'	19,642	n/a	21,436	n/a

[a] Restated.

The net asset value per unit and the number of units are given in the comparative table on page 12. The distribution per unit is given in the distribution tables shown on pages 33 to 35. Each unit class has the same rights on winding-up.

NOTES TO THE FINANCIAL STATEMENTS

14 Finance costs

	2012 £'000	2011 £'000
Income units (sterling)		
Class 'A': First interim	7,295	7,418
Second interim	5,930	6,854
Third Interim	6,203	6,991
Final	7,065	7,390
Class 'P': First interim	497	n/a
Second interim ^[a]	403	0
Third Interim	445	386
Final	533	439
Class 'R': First interim	58	85
Second interim	46	76
Third Interim	36	90
Final	42	105
Class 'S': First interim	4,716	3,880
Second interim	4,238	3,720
Third Interim	4,547	4,158
Final	5,388	4,471
Class 'X': First interim	167	177
Second interim	136	160
Third Interim	133	167
Final	150	173
Accumulation units (sterling)		
Class 'A': First interim	2,108	956
Second interim	1,739	1,190
Third interim	1,959	1,607
Final	2,436	1,828
Class 'C': First interim	1,854	2,174
Second interim	1,572	1,932
Third Interim	1,572	1,960
Final	1,686	2,001
Class 'P': First interim	n/a	n/a
Second interim	n/a	n/a
Third Interim	n/a	n/a
Final ^[b]	0	n/a
Class 'S': First interim	n/a	n/a
Second interim	n/a	n/a
Third Interim	n/a	n/a
Final ^[c]	0	n/a
Finance costs: Dividend distributions	62,954	60,388
Income deducted on cancellation of units	338	573
Income received on issue of units	(1,042)	(1,221)
Finance costs: Distributions	62,250	59,740
Bank overdraft interest paid	3	8
Total finance costs	62,253	59,748

14 Finance costs (continued)

	2012 £'000	2011 £'000
Net income per statement of total return	63,274	61,057
Tax relief to capital	(1,012)	(1,291)
Undistributed income brought forward	133	107
Undistributed income carried forward	(145)	(133)
Finance costs: Distributions	62,250	59,740

^[a] The comparative second interim distribution for Sterling Class 'P' (Income) units was £224.

^[b] The final distribution for Sterling Class 'P' (Accumulation) units were £6.

^[c] The final distribution for Sterling Class 'S' (Accumulation) units were £6.

DISTRIBUTION TABLE

Dividend distributions on Income units	Tax credit	Net income	Equalisation	Distribution paid/payable	
				2012	2011
Sterling	p	p	p	p	p
Class 'A' - First interim					
Group 1:	0.0609	0.5480	-	0.5480	0.5460
Group 2:	0.0281	0.2527	0.2953	0.5480	0.5460
- Second interim					
Group 1:	0.0493	0.4440	-	0.4440	0.4980
Group 2:	0.0203	0.1823	0.2617	0.4440	0.4980
- Third interim					
Group 1:	0.0512	0.4610	-	0.4610	0.5310
Group 2:	0.0258	0.2318	0.2292	0.4610	0.5310
- Final					
Group 1:	0.0586	0.5270	-	0.5270	0.5590
Group 2:	0.0301	0.2711	0.2559	0.5270	0.5590
Class 'P' - First interim					
Group 1:	0.0750	0.6750	-	0.6750	n/a
Group 2:	0.0375	0.3379	0.3371	0.6750	n/a
- Second interim					
Group 1:	0.0574	0.5170	-	0.5170	0.0880
Group 2:	0.0284	0.2558	0.2612	0.5170	0.0880
- Third interim					
Group 1:	0.0592	0.5330	-	0.5330	0.5900
Group 2:	0.0278	0.2499	0.2831	0.5330	0.5900
- Final					
Group 1:	0.0668	0.6010	-	0.6010	0.6450
Group 2:	0.0345	0.3102	0.2908	0.6010	0.6450
Class 'R' - First interim					
Group 1:	0.0673	0.6060	-	0.6060	0.5820
Group 2:	0.0394	0.3545	0.2515	0.6060	0.5820
- Second interim					
Group 1:	0.0532	0.4790	-	0.4790	0.5330
Group 2:	0.0214	0.1923	0.2867	0.4790	0.5330

DISTRIBUTION TABLE (continued)					
Dividend distributions on Income units	Tax credit	Net income	Equalisation	Distribution paid/payable 2012 2011	
Sterling	p	p	p	p	p
Class 'R' - Third interim					
Group 1:	0.0550	0.4950	-	0.4950	0.5650
Group 2:	0.0381	0.3430	0.1520	0.4950	0.5650
- Final					
Group 1:	0.0626	0.5630	-	0.5630	0.6500
Group 2:	0.0298	0.2686	0.2944	0.5630	0.6500
Class 'S' - First interim					
Group 1:	0.0764	0.6880	-	0.6880	0.6860
Group 2:	0.0524	0.4713	0.2167	0.6880	0.6860
- Second interim					
Group 1:	0.0642	0.5780	-	0.5780	0.6350
Group 2:	0.0236	0.2121	0.3659	0.5780	0.6350
- Third interim					
Group 1:	0.0661	0.5950	-	0.5950	0.6680
Group 2:	0.0321	0.2892	0.3058	0.5950	0.6680
- Final					
Group 1:	0.0740	0.6660	-	0.6660	0.6960
Group 2:	0.0395	0.3559	0.3101	0.6660	0.6960
Class 'X' - First interim					
Group 1:	0.0631	0.5680	-	0.5680	0.5750
Group 2:	0.0282	0.2534	0.3146	0.5680	0.5750
- Second interim					
Group 1:	0.0519	0.4670	-	0.4670	0.5250
Group 2:	0.0232	0.2088	0.2582	0.4670	0.5250
- Third interim					
Group 1:	0.0539	0.4850	-	0.4850	0.5580
Group 2:	0.0272	0.2448	0.2402	0.4850	0.5580
- Final					
Group 1:	0.0617	0.5550	-	0.5550	0.5940
Group 2:	0.0317	0.2852	0.2698	0.5550	0.5940
Dividend distributions on Accumulation units	Tax credit	Net income	Equalisation	Amount reinvested 2012 2011	
Sterling	p	p	p	p	p
Class 'A' - First interim					
Group 1:	0.0671	0.6040	-	0.6040	0.5730
Group 2:	0.0315	0.2831	0.3209	0.6040	0.5730
- Second interim					
Group 1:	0.0538	0.4840	-	0.4840	0.5267
Group 2:	0.0234	0.2107	0.2733	0.4840	0.5267
- Third interim					
Group 1:	0.0560	0.5040	-	0.5040	0.5656
Group 2:	0.0283	0.2543	0.2497	0.5040	0.5656

DISTRIBUTION TABLE (continued)					
Dividend distributions on Accumulation units	Tax credit	Net income	Equalisation	Amount reinvested 2012 2011	
Sterling	p	p	p	p	p
Class 'A' - Final					
Group 1:	0.0648	0.5830	-	0.5830	0.5760
Group 2:	0.0347	0.3122	0.2708	0.5830	0.5760
Class 'C' - First interim					
Group 1:	0.1184	1.0660	-	1.0660	1.0390
Group 2:	0.1184	1.0660	-	1.0660	1.0390
- Second interim					
Group 1:	0.1049	0.9440	-	0.9440	0.9770
Group 2:	0.1049	0.9440	-	0.9440	0.9770
- Third interim					
Group 1:	0.1086	0.9770	-	0.9770	1.0360
Group 2:	0.1086	0.9770	-	0.9770	1.0360
- Final					
Group 1:	0.1207	1.0860	-	1.0860	1.1040
Group 2:	0.1207	1.0860	-	1.0860	1.1040
Class 'P' - First interim					
Group 1:	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a
- Second interim					
Group 1:	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a
- Third interim					
Group 1:	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a
- Final					
Group 1:	0.0641	0.5770	-	0.5770	n/a
Group 2:	0.0641	0.5770	-	0.5770	n/a
Class 'S' - First interim					
Group 1:	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a
- Second interim					
Group 1:	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a
- Third interim					
Group 1:	n/a	n/a	-	n/a	n/a
Group 2:	n/a	n/a	n/a	n/a	n/a
- Final					
Group 1:	0.6839	6.1550	-	6.1550	n/a
Group 2:	0.6839	6.1550	-	6.1550	n/a
First interim period	01.10.11 - 31.12.11				
Second interim period	01.01.12 - 31.03.12				
Third interim period	01.04.12 - 30.06.12				
Final period	01.07.12 - 30.09.12				

Group 1: Units purchased prior to a distribution period.

Group 2: Units purchased during a distribution period.

NOTES TO THE ACCOUNTS

On 7 December 2012 unitholders in the trust will vote on a proposal to transfer the assets and liabilities of the unit trust into a Property Authorised Investment Fund ('PAIF'). If unitholders approve the proposals, the assets and liabilities will be transferred shortly afterwards.

The trust's financial statements have been prepared on a going concern basis. Attention is drawn to the statement made on page 1 about the proposal to convert the trust into a PAIF in January 2013. The Authorised Corporate Director believes that it is appropriate to prepare the trust's financial statements on a going concern basis since the proposals are subject to unitholder approval. If the trust's financial statements were prepared on a basis to reflect the conversion plans there would be no difference to the financial figures as presented on a going concern basis.

Statement of the Manager's responsibilities in respect of the annual investment report and financial statements of the Scheme

The Collective Investment Schemes sourcebook, as issued (and amended) by the Financial Services Authority (FSA), requires the Manager to prepare the investment report and financial statements for each financial year which give a true and fair view of the financial position of the Scheme as at the end of the financial year, and the net revenue and the net gains for the year. In preparing the financial statements, the Manager is required to:

- comply with the Statement of Recommended Practice for Authorised Funds issued by the Investment Management Association in October 2010, the Trust Deed, generally accepted accounting principles and applicable accounting standards subject to any material departures which are required to be disclosed and explained in the financial statements;
- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Scheme will continue in operation.

The Manager is required to keep proper accounting records, to manage the Scheme in accordance with the Collective Investment Schemes sourcebook, as issued (and amended) by the FSA, the Trust Deed and the Prospectus, and to take reasonable steps for the prevention and detection of fraud or other irregularities.

TRUSTEE'S RESPONSIBILITIES AND REPORT

The Trustee is responsible for the safekeeping of all the property of the Scheme (other than tangible moveable property) which is entrusted to it and for the collection of income that arises from that property.

It is the duty of the Trustee to take reasonable care to ensure that the Scheme is managed in accordance with the Financial Services Authority's Collective Investment Schemes sourcebook (COLL), as amended, the Scheme's Trust Deed and Prospectus, in relation to the pricing of, and dealings in, units in the Scheme; the application of income of the Scheme; and the investment and borrowing powers of the Scheme.

Having carried out such procedures as we considered necessary to discharge our responsibilities as Trustee of the Scheme, it is our opinion, based on the information available to us and the explanations provided, that, in all material respects, the Manager:

- has carried out the issue, sale, redemption and cancellation, and calculation of the price of the Scheme's units and the application of the Scheme's income in accordance with COLL, the Trust Deed and Prospectus, and
- has observed the investment and borrowing powers and restrictions applicable to the Scheme.

Edinburgh
14 November 2012

National Westminster Bank Plc
Trustee and Depositary Services

INDEPENDENT AUDITORS' REPORT

Independent auditors' report to the unitholders of the M&G Property Portfolio (the 'trust')

We have audited the financial statements of the M&G Property Portfolio (the 'Trust') for the year ended 30 September 2012 which comprise the statement of total return, the statement of change in net assets attributable to unitholders, the balance sheet, the cash flow statement, the related notes and the distribution table. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice 'Financial Statements of Authorised Funds' issued by the Investment Management Association (the 'Statement of Recommended Practice for Authorised Funds').

Respective responsibilities of the Manager and Auditors

As explained more fully in the Authorised Fund Manager's Responsibilities Statement the Authorised Fund Manager is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Trust's unitholders as a body in accordance with paragraph 4.5.12 of the Collective Investment Schemes sourcebook and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Trust's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authorised Fund Manager; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the M&G Property Portfolio annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the financial position of the Trust at 30 September 2012 and of the net revenue and the net capital gains of the scheme property of the Trust for the year then ended; and
- have been properly prepared in accordance with the Statement of Recommended Practice for Authorised Funds, the Collective Investment Schemes sourcebook and the Trust Deed.

Opinion on other matters prescribed by the Collective Investment Schemes sourcebook

In our opinion:

- we have obtained all the information and explanations we consider necessary for the purposes of the audit; and
- the information given in the Authorised Fund Manager's Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Collective Investment Schemes sourcebook requires us to report to you if, in our opinion:

- proper accounting records for the trust have not been kept; or
- the financial statements are not in agreement with the accounting records and returns.

London
14 November 2012

PricewaterhouseCoopers LLP
Chartered Accountants and
Statutory Auditors

The financial statements are published at www.mandg.co.uk/reports, which is a website maintained by M&G Securities Limited and M&G Financial Services Limited (M&G). The maintenance and integrity of the website maintained by M&G, so far as it relates to the M&G Property Portfolio, is the responsibility of M&G. The work carried out by the auditors does not involve consideration of the maintenance and integrity of this website and accordingly, the auditors accept no responsibility for any changes that have occurred to the financial statements since they were initially presented on the website. Visitors to the website need to be aware that legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in their jurisdiction.

DIRECTORS' STATEMENT

This report has been prepared in accordance with the requirements of the Collective Investment Schemes sourcebook, as issued and amended by the Financial Services Authority.

J R TALBOT

G W MACDOWALL

} Directors

14 November 2012

OTHER INFORMATION

Details of the latest estimated yields and latest prices for Sterling Class 'A' units, Sterling Class 'R' units, Sterling Class 'S' units and Sterling Class 'X' units are published daily in the Financial Times or can be obtained by ringing M&G Customer Relations on 0800 390 390. Alternatively, these prices are available on our website at www.mandg.co.uk where you can also register for 'My Account' and have access to the latest valuation of your holding 24 hours a day, seven days a week. The most recent prices of the Sterling Class 'P' units will be published on M&G's Institutional website, www.mandgfunds.co.uk. The most recent prices of the Sterling Class 'C' units will be published on M&G's Intranet site.

Units may be sold at any time by giving your instructions to us either in writing or by calling our Dealing Line on 0800 328 3196. We are open for dealing each business day between 8.00am and 6.00pm Monday to Friday (except Christmas Eve and New Year's Eve when we close early).

Copies of the Key Investor Information Document and Prospectus are available free of charge on request from M&G Customer Relations.

If you wish to complain about any aspect of the service you have received or to request a copy of M&G's Complaints Handling Procedures, please contact M&G Customer Relations, PO Box 9039, Chelmsford CM99 2XG. If your complaint is not dealt with to your satisfaction, you can then complain to: The Financial Ombudsman Service (FOS), South Quay Plaza, 183 Marsh Wall, London E14 9SR.

The EU Savings Directive

The percentage of the M&G Property Portfolio held in interest-bearing assets (as defined by the UK rules for the EU Savings Directive 2003/48/EC) is 18.23%.

Authorised status

The trust is an authorised unit trust, being a non-UCITS retail scheme as defined in FSA rules.

Manager

M&G Securities Limited
Laurence Pountney Hill, London EC4R 0HH
Telephone: 0800 390 390

(Authorised and regulated by the Financial Services Authority)

Investment manager

M&G Investment Management Limited
Laurence Pountney Hill, London EC4R 0HH
Telephone: 020 7626 4588

(Authorised and regulated by the Financial Services Authority)

Administration office

M&G Securities Limited
PO Box 9039, Chelmsford CM99 2XG
Telephone: 0800 390 390

(For your security and to improve the quality of our service, we may record and randomly monitor telephone calls)

Trustee

The Royal Bank of Scotland Plc, Trustee & Depositary Services,
The Broadstone, 50 South Gyle Crescent, Edinburgh EH12 9UZ
(Authorised and regulated by the Financial Services Authority)
with effect from 28 October 2011:

National Westminster Bank Plc, Trustee & Depositary Services,
The Broadstone, 50 South Gyle Crescent, Edinburgh EH12 9LD
(Authorised and regulated by the Financial Services Authority)

Registrar

International Financial Data Services (UK) Limited
IFDS House, St. Nicholas Lane, Basildon, Essex SS15 5FS
(Authorised and regulated by the Financial Services Authority)

Property manager

Prudential Property Investment Managers Limited
Princeton House, 271 - 273 High Holborn, London WR1V 7NE

Standing independent valuer

Knight Frank LLP, 55 Baker Street, London W1U 8AN

Investment accounting services

State Street Global Services,
20 Churchill Place, London E14 5HJ
(Authorised and regulated by the Financial Services Authority)

Directors of the Manager

W J Nott (Chief Executive),
J R Talbot (Director and Secretary),
G N Cotton, C I Jackson, M Lewis,
G W MacDowall, L J Mumford

Fund manager

Fiona Rowley
(Fiona Rowley is an employee of M&G Limited, which is an associate of M&G Securities Limited.)

Independent auditors

PricewaterhouseCoopers LLP,
7 More London Riverside, London SE1 2RT

Important information

Holders of Sterling Class 'R' units and Sterling Class 'S' units should note that with effect from 17 August 2012, these unit classes are no longer subject to a 90-day Deferred Redemption period.

The Royal Bank of Scotland Plc (RBS), the Trustee of the trust has transferred its Trustee and Depositary Services business to National Westminster Bank Plc, which took effect on 28 October 2011.

As Trustee, the National Westminster Bank Plc has the same duties and responsibilities as RBS and this change of Trustee will have no impact on the way the trust is operated.

Please note that, effective from 3 October 2011, State Street Bank and Trust Company has been assisting the Trustee in the performance of its function as Custodian of the Scheme Property.

M&G is a member of the Investment Management Association and of the Tax Incentivised Savings Association.

The Trust Deed can be inspected at our offices or at the office of the Trustee.

M&G Securities Limited is authorised and regulated by the Financial Services Authority and provides investment products. The company's registered office is Laurence Pountney Hill, London EC4R 0HH. Registered in England number 90776.