
The manager of the New Star Property Unit Trust is Roger Dossett. Roger, how would you describe this fund, its aims and its objectives?

Well, the New Star Property Unit Trust, its real aim is to provide secure sustainable income, underpinned by tangible assets that provide both income growth and capital appreciation.

How would you differentiate it from all the other property funds that are out there?

I think it probably reflects a little bit about New Star in a way. We are an asset management business, I don't sit in isolation, or I just deal with property but not in isolation in a property environment. I actually sit amongst other managers who deal with bonds, who deal with equities; I have quite a range of opinions put through. I have a strategy committee, which has on it not only property people but people from those other disciplines.

So I think that's one area that differentiates us. The other is the speed that we can react. And that is so important. I run the fund, I have a strategy committee and I have to do due diligence, but I run the fund, I make the decisions as to what is bought and what is sold, and it's that agility that the fund gives me, that gives me the edge in the marketplace.

Just define for us for a moment what you believe is commercial property in general?

Commercial property in general, well it's a mixture of offices, retail and industrial. By industrial, I'm probably talking more about warehousing and logistics as you don't make an awful lot in this country anymore. So it's those three main categories of property.

And how are they sorted in your portfolio as it were, so the current portfolio construction?

The mix is weighted towards offices, and I'm quite keen on it, I started last year to move the weighting. Offices took a little bit of a knock in 2000, 2001 after the dotcom bubble, we're beginning to see really strong take up, particularly in Central London and the City, and that's an area I'm quite keen on. So the weighting towards offices is now about 50% of the direct element of the fund.

Retail is 32%, predominantly retail warehousing. I am apprehensive about retail rents. We've seen good growth now over a number of years. I think with concerns about consumer expenditure and competition in the high street, I think the individual retail shops I am concerned about ongoing rental growth. Different for retail warehousing, we still have a scarcity of sheds in this country and a demand from retailers, so I think that's quite a strong sector.

And then I've got 18% in industrial.

Of course we're talking about the direct property portion of the portfolio. Do you have an aim of a percentage in the equity part, the other part of the portfolio?

That's right. The other part is really there for liquidity. Having said that, the equity element's done very well over the last year, 18 months, but it is basically there for liquidity. We're looking to promote ourselves very much as a direct property fund. And the proportion that I'm aiming for, probably in the region of 75-85% over the fund, certainly we've stated that we will not go more than 90% in direct property to maintain that liquidity element which is so important.

Indeed, that gives you your ability to be agile and flexible?

It gives ability to be agile and flexible. It also means that, as an open ended fund, it's very good when money's coming in, we've always got to be alert to the fact that people will want to withdraw at times as well.

Now is it just you that looks after the direct property element? Are there other members of the team on that side?

No, I do have some assistance as you might imagine, the fund is now getting up over £900 million so it is becoming a very large fund. A lot of the day to day running of the fund is outsourced; rent collection, service charge, that sort of thing; that's not an asset management function. What I try and concentrate on is the strategy, the buying, the selling and to a degree asset management because property comes without management attached, so it is important to try and enhance value where you can.

So, in terms of the team, I have Ken Malone, who really does look at that asset management sector, I have Marcus Langlands-Pearce, who assists me in the acquisitions and sales, although there have not been too many of those recently, and we have just had join the team Andrew Whiteley, whose job is to do some analysis research work and also to report details of the fund to our investors.

And on the equity portion of the portfolio, how are things organised there?

That's managed by Stephen Whittaker, who runs the UK Growth Fund at New Star as well, he deals with that. And it has been very successful of late, we've seen good growth in UK equity, but basically it's there for the liquidity aspects that it gives to the fund.

Okay, let's go back to the direct property investment. How do you find properties to invest in?

I think the main thing is to have a reputation in the marketplace to be spending money but also to be there acting with integrity and speed. I'm very keen that if we say we're going to buy something, we will deliver subject to due diligence and all these other aspects, because I'm buying from other fund managers or major property companies through probably the major West End agencies, where there are good brokerage commissions to be earned, therefore certainty of a transaction and speed of

a transaction is so important. And I think it's building up that reputation that gets the opportunities for New Star. Our average time that we can deliver between agreeing a deal and completion of that deal is between ten and fifteen working days, and very few funds in the market can compete with us on that timescale.

What sort of lot sizes are we talking about here?

I've increased the lot sizes recently as the fund has grown, and that I think larger lot sizes tend to be better quality property anyway and better quality tenants. The properties, I bought 18 properties over the last 18 months and the average size is about £23 million.

So we're talking about substantial properties?

Oh substantial properties, yes.

Indeed. So how do you deal with large inflows? The fund is up to £900 million now, so there's quite a lot of money coming in?

The simple answer is I spend it. And we have been spending it, we've kept the proportion of the direct portfolio well in pace with the money that's been coming in to the fund, and I think we've done so by finding and sourcing some very good quality properties. The average lot size has increased over this period from £8 million to about £14 million, that's over all the portfolio. The average lease duration has extended from eight years to fourteen years, so a good quality of income and a long unexpired lease duration, which is the backbone of the fund.

And quality of tenants?

Excellent, I mean 95% are what I put in the medium to very low risk category. We have very few voids in the fund.

What about geographical spreads? The last time we spoke, there was a feeling that you were somewhat biased towards the South East for good and valuable reasons, is that still so with this fund?

That is still so. The South East is one of the most prosperous areas of Europe, and it's overcrowded, and that overcrowding has brought with it increased planning constraints, particularly over the last five to ten years, which means we're seeing a scarcity. In my experience, the time to be cautious about commercial property is when you see the tower cranes go up, which usually coincides with a downturn in the economy. Now I'm not expecting a downturn in the economy and we're certainly not seeing the tower cranes go up in the South East, that for me is good news; the scarcity for an investor is good news.

Okay, why should somebody consider commercial property as an investment?

Commercial property is underpinned by income to start with, So it provides a good solid income stream, with of course a capital kicker. It has a lack of correlation with

the other two main asset classes; it tends to have low volatility and high return. That to me makes it an excellent diversifier in a well balanced portfolio.

And finally, Roger, what do you believe are the qualities that you bring to the management of this unit trust?

Well, I certainly bring the experience and enthusiasm, and I'll be judged by my performance.

Roger Dossett, thank you very much.

Important Information

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The New Star Property Unit Trust invests in a specialist sector, which may be less liquid and produce a more volatile performance than an investment in broader sectors. Whilst property valuation is conducted by an independent expert, any such valuation is a matter of the valuer's opinion. The value of capital and income will fluctuate as property values and rental income rise and fall. High income funds carry an increased risk of capital erosion and higher volatility due to the impact of interest rate levels.

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