

Merrill Lynch UK Property Fund of Funds

As at 7 April 2006

Overview and Investment Advisor's Report

Market Overview

The UK commercial property market has continued to produce strong returns into 2006 with a total return of 4.5% for Q1 as measured by the IPD Monthly Index. On a 12 month basis the total return is 20.9%, ahead of the 19.1% annual return for 2005, and the highest twelve-month return since October 1994. The average initial yield for all property has fallen to 5.00% from 5.16% at the end of 2005, its lowest level on record. This together with modest rental value growth has boosted capital values.

At sector level, offices are leading the way with a quarterly total return of 5.5%, over 100 basis points ahead of retail and industrials. The Central London office market is now the best performing segment of the UK market, ahead of retail warehousing which has been ranked top for a number of years. Employment growth in financial and business services in London together with limited supply has initiated some modest rental value growth while investor demand appears to be as strong as ever, which has continued to push yields down.

MLIM is expecting returns to be just over 15% for 2006 and single digit thereafter as yield compression eases significantly across all sectors and the financial arbitrage to swap rates narrows. Offices should be the strongest sector over the next five years, while retail and industrial are anticipated to lag the market, as retailers suffer from price deflation and weak consumer spending and industrials suffer from current high availability and fairly weak demand. In its favour, the industrial sector does still offer the highest yield across the sectors providing a solid defensive income return.

Performance and Fund Structure

MLUKPFoF achieved a total return of 4.5% for the first quarter of 2006 against the benchmark return of 4.7%. Over the 12 month period to March 2006 the Fund has returned 19.3% against the benchmark return of 21.0%, while since inception (18 August 2004) the Fund's total return now stands at 29.2% (source: MLIM Internal).

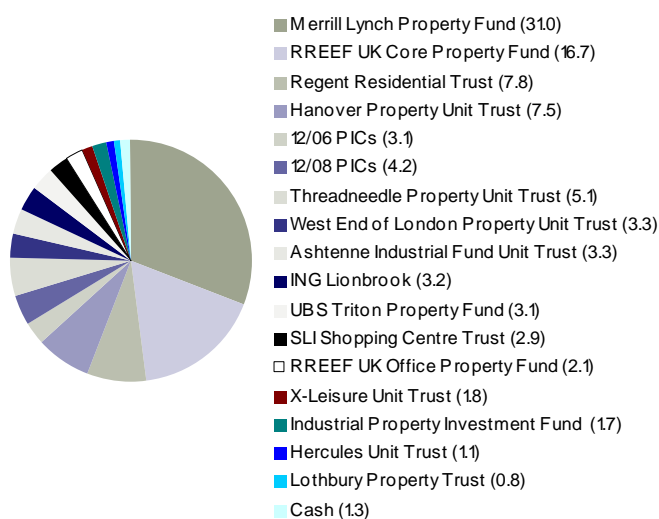
A number of the Fund's holdings have performed particularly well during the quarter. Of particular note are the two office funds, WELPUT and the RREEF Office Property Fund, and the two specialist industrial funds, the Ashtenne Industrial Fund and the Industrial Property Investment Fund. These four funds together account for 10.4% of the net asset value of the Fund at the end of Q1 2006, and each delivered quarterly total returns in excess of 6.5%.

The Fund is well diversified and currently comprises 15 individual fund holdings of which seven are designated as core funds accounting for 67.3% by value and eight are specialist funds accounting for 24.1% of net asset value. The Fund also holds two Property Index Certificates representing 8.7% of net asset value. At the end of Q1 2006 the Fund's core-satellite weightings were 75% and 25% respectively. The direct cash balance at the end of the quarter was £1.8 million, equivalent to just 1.3% of net asset value.

Fund Structure

	Fund NAV (£m)	Value of Holding (£m)	Est. Historic Net Yield (%)
Merrill Lynch Property Fund	1,881.3	43.2	3.4
RREEF UK Core Property Fund	1,098.2	23.3	3.7
Regent Residential Trust	92.2	10.8	3.2
Hanover Property Unit Trust	480.3	10.5	4.7
PICs (12/06 & 12/08)		10.3	5.5*
Threadneedle Property Unit Trust	322.6	7.0	5.3
WELPUT	382.9	4.7	2.1
Ashtenne Industrial Fund Unit Trust	545.9	4.6	6.9
ING Lionbrook Property Fund	678.0	4.4	3.6
UBS Triton Property Fund	2,125.4	4.2	4.1
SLI Shopping Centre Trust	1,725.7	4.1	3.5
RREEF UK Office Property Fund	337.8	3.0	4.5
X-Leisure Unit Trust	319.3	2.5	4.8
IPIF	737.4	2.4	5.4
Hercules Unit Trust	1,839.0	1.6	1.7
Lothbury Property Trust	480.5	1.1	3.1
Cash		1.8	4.5
Total	13,046.5	139.5	4.0

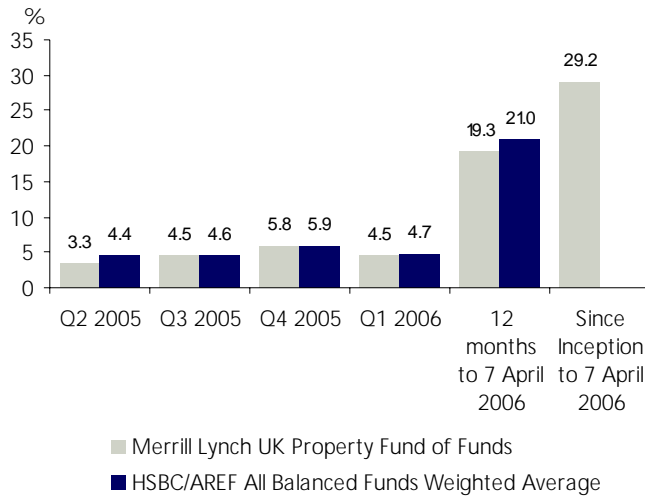
Percentage of Total Fund Value (%)



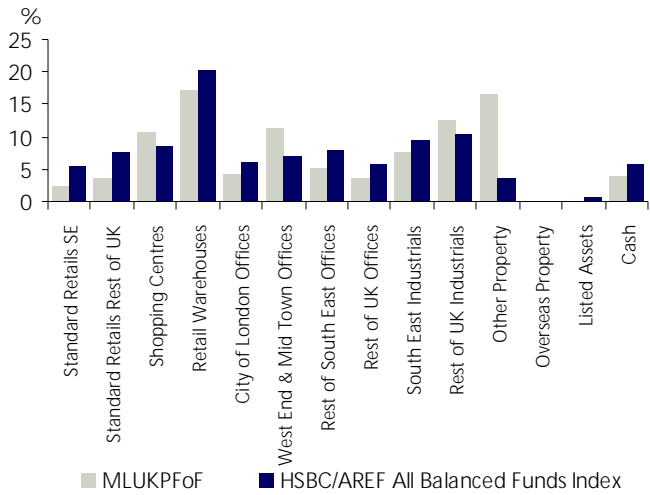
Source: HSBC/ AREF Pooled Property Fund Indices Q1 2006/ IPD/MLIM Internal
 * IPD Annual Index income return for 2005 less 0.15% management fee.

Performance and Fund Characteristics

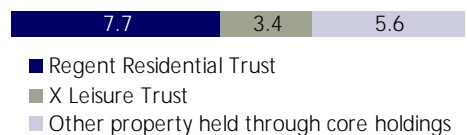
Merrill Lynch UK Property Fund of Funds Performance to 7 April 2006



Merrill Lynch UK Property Fund of Funds Sector Spread as at 7 April 2006 (Gross Asset Value)



Breakdown of Other Property (%)



Source: HSBC/AREF Pooled Property Fund Indices, MLIM Internal.
 (MLUKPFoF performance is net of all fees and charges, gross paid income reinvested.
 HSBC/AREF Pooled Property Fund Indices Benchmark performance is net of all fees and charges, gross declared income reinvested).
 Inception date 18 August 2004. Past performance is not a guide to future performance.

Source: HSBC/AREF Pooled Property Fund Indices, MLIM Internal

Activity

During the first quarter, the Fund made a net investment of £11.6 million into five funds: the Standard Life Shopping Centre Trust, the RREEF UK Office Property Fund, the Hercules Unit Trust, the Lothbury Property Trust and the ING Lionbrook Property Fund. These investments were in line with the investment advisor's strategy of accessing prime shopping centres, increasing allocations to London offices and retail warehouses and increasing the number of core funds. The Fund now has secure positions in a range of core funds which ultimately increases the Fund's ability to be successful in subscribing to new units when these vehicles open to investment.

Overall MLUKPFoF has a below-average retail exposure with investments concentrated in retail warehouses and shopping centres. At sector level, office weighting is slightly below average, with a favourable bias towards the Central London office market where weighting is above that of the benchmark. The Fund's industrial allocation remains in line with the benchmark. The other property segment comprises the Regent Residential Fund and leisure assets held in the X-Leisure Unit Trust and through our collection of balanced core funds. While elements of the retail sector are suffering, consumers are still spending on leisure activities and the investment advisor is comfortable with the current overweight position to the leisure sector.

Q1 Transactions

Date	Fund	£m	Rationale
Jan-06	Standard Life Shopping Centre Trust	4.0	Sector allocation requirement
	RREEF UK Office Property Fund	3.0	Sector allocation requirement
Feb-06	Lothbury Property Trust	1.0	Swap for MLPF Units – maintaining core exposure
	The Hercules Unit Trust	1.6	and fulfilling sector allocation requirement
Mar-06	ING Lionbrook Property Fund	4.6	Building diversified core holdings

Contact Us

Web: www.mlim.co.uk

Tel: +44 (0)20 7743 5486

email: james_mellors@ml.com

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