

# Quarterly Update

Q1 18



AREF/IPD Performance Award  
5-year, risk-adjusted, relative return

AEW UK Core Property Fund | Best risk-adjusted return over a 5-year period to Q2, 2017 relative to the AREF/IPD UK Quarterly Property Fund Index (UK PFI)

WINNER

## Fund Highlights

- Over one and five years the Fund was the top performing balanced fund with an annualised total return of 14.5% and 14.8% respectively, and was second over three years by 10 basis points<sup>1</sup>
- Average outperformance of 4.3% over 5 years against the MSCI benchmark<sup>1</sup>
- Annualised distribution yield of 5.0%<sup>1</sup>
- Reduced vacancy of 8.7% at end of Q1
- Investor interest in due diligence c£30–£80m

<sup>1</sup> Source: AREF/IPD All Balanced Property Fund Index – to 31 March 2018.

## Market Outlook

A quarter further on and the Brexit ‘can’ continues to be kicked down the road, with some signals that global investors concerns are moving elsewhere as perhaps they assume the “cliff edge” might be avoided. With this as a backdrop our tenants still seem to remain relatively positive outside the retail markets.

Issues for UK retailing are well documented, and as we suspected we have seen a rash of CVA’s in the sector. The fund has exposure to New Look, Bargain Booze and Carpetright in a total of 4 properties, with only the last of those probably resulting in a vacancy. We continue to move our retail exposure to properties with values supported by alternative use value, generally from residential and generally liquidating those positions where this isn’t the case.

Over the last 12 months we have sold/or selling ten properties in the retail and office sector for approximately £61m, which is relatively high as a percentage of the fund and reinvested most of the proceeds, the costs of which depress the funds’ performance. Perhaps of interest this compares with a 6 month earlier valuation (pre marketing) of approximately £51 m and a combined purchase price and capex of approximately £40m.

Going forward we continue to work on a number of asset management deals that are accretive to our performance and our distribution yield has nudged higher.

## Performance

Investment Performance %	3 mths	6 mths	9 mths	1 yr	3 yrs	5 yrs
AEW UK Core Property Fund	2.5	6.1	9.5	14.5	11.3	14.8
Weighted Average	1.9	5.1	7.6	10.0	8.1	10.5
Upper Quartile	2.5	6.0	8.6	11.5	9.5	11.5
Median	2.0	5.3	7.9	10.8	8.4	10.9
Lower Quartile	1.8	4.8	7.4	9.7	7.9	9.9
Funds in Index	26					

Source: All Balanced Property Fund Index – AREF/IPD UK Pooled Property Fund Index for the period ending 31 March 2018.

## Q1 Asset Management

### Wickes, Scunthorpe

We have completed a new 10 year lease to Wickes at ERV (£202,000 pa) expiring in 2027. Wicks’s previous lease expired in 2020, so a further 7 years income to a strong tenant has been secured.

### Westcott House, South Queensferry

We have let 6,730 sq ft of office space to Hunter Boots at a passing rent of £80,760 pa on a 10 year lease with a tenant 5 year break.

## Q1 Acquisitions

### Kayley Industrial Estate,

#### Ashton Under Lyne, Manchester

- Established multi-let industrial estate
- Currently let to 18 tenants with potential to generate further income through new lettings
- Low capital value per sq ft
- Highly reversionary



### Anglo Office Park, High Wycombe

- Leasehold Office Park 30 minutes from Central London and Heathrow Airport
- Attractive price psf



### Lincoln’s Inn Office Village, High Wycombe


- Freehold Office Park 30 minutes from Central London and Heathrow Airport
- Attractive price psf



### London East Leisure Park, Dagenham

- Freehold leisure scheme 11 miles east of Central London
- Approximately 12.5 years of unexpired income (5 years to break)
- Underpinned by long term redevelopment opportunities
- Attractive net initial yield of 8.8%



<b>Fund Facts</b>	
<b>Portfolio Manager</b> Richard Tanner	
<b>Fund objective</b> To provide investors with exposure to a diversified, multisector portfolio of commercial property assets throughout the UK. The Fund seeks to achieve superior investment returns through relatively high income returns, strong stock selection and active management of all assets.	
<b>Launch date:</b> Q1, 2012	
<b>Fund structure</b> An FCA regulated, open ended, core-style property fund. PAIF QIS	
<b>Benchmark</b> All Balanced Property Fund Index – AREF/IPD UK Quarterly Property Fund Index – weighted average	
<b>Fund size (Net Asset Value):</b> £273.2m	
<b>Triple net initial yield (% p.a.):</b> 6.83%	
<b>Reversionary Yield:</b> 8.04%	
<b>Reinvestment:</b> Yes, quarterly	
<b>Number of investors:</b> 49	
<b>Number of AEW employee investors:</b> 4	
<b>Number of properties acquired:</b> 73	
<b>Number of properties under offer:</b> 0	
<b>Gearing (% of NAV):</b> 2.9%	
<b>Total expense ratio:</b> 1.12%	
<b>Capital Cash holdings (% of NAV):</b> 1.38%	
<b>Single price</b> NAV price – £1.2861 Single price – £1.3736	
<b>Subscriptions and redemptions</b> Monthly – subject to ability to defer	
<b>Annual management charge:</b> 0.7% p.a.*	
<b>Distribution dates</b> Income is allocated to investors quarterly and paid within two months of the end of the quarter during which they were earned.	
<b>* Performance fee</b> The Authorised Corporate Director (ACD) is entitled to a performance fee of 0.25% of the Net Asset Value p.a., if the AEW UK Core Property Fund is ranked in the top ten funds of the All Balanced Property Funds Index – AREF/IPD UK Property Fund Index over a three year rolling period and if the return is positive.	

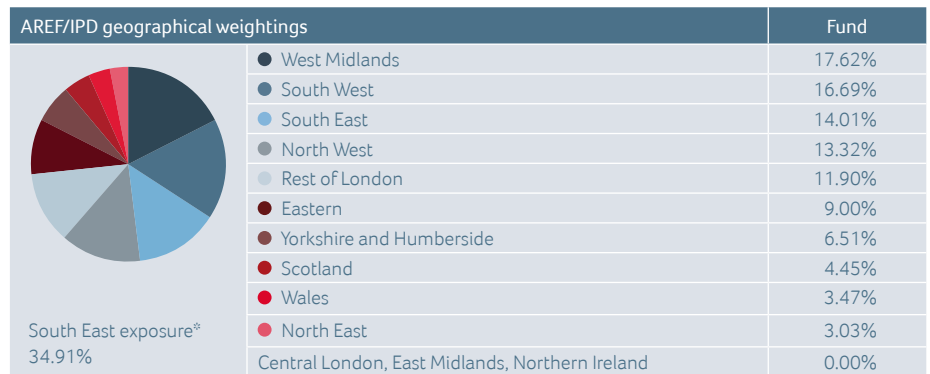
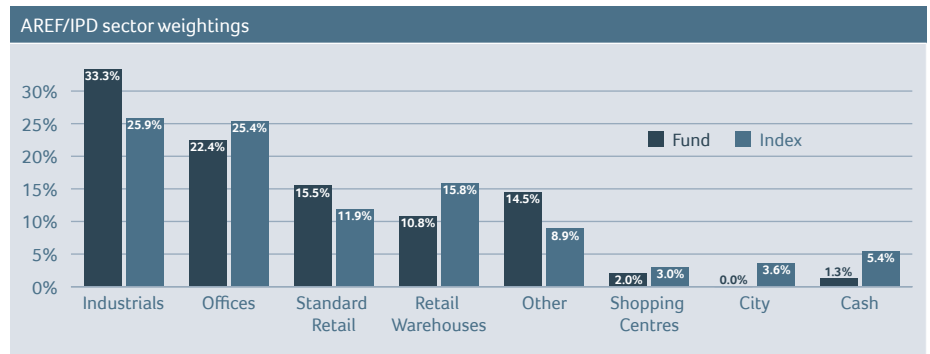
## Q1 Disposals

### River Court, Uxbridge

We have sold the property for £7.05m to Big Yellow having acquired the property in June 2014 for £5.31m. Permitted development rights for conversion to residential had been secured, so a decision to was made to sell the property, capitalising on the market's buoyant appetite from alternative use buyers.

### Cresta House, Luton

Having secured PDR consent to convert 25,000 sq ft of offices to residential, we decided to market the property for sale. We have exchanged on the sale to a residential developer, completing in June, at a price of £6.4m (£105 psf), having acquired the property for £3.85m (£63 psf) back in March 2015.



\* Geographical restriction: not less than 25% exposure to the South East of the UK as defined by AEW UK (South East, Eastern and Rest of London).

Lease Profile – AEW UK Core Property Fund against the All Balanced Property Fund Index – IPD UK PFFI	AEW UK Core Property Fund	PPFI
Average weighted unexpired lease term to break	4.6 years	7.4 years
Average weighted unexpired lease term to expiry	5.9 years	8.6 years

Source: Figures calculated by IPD for AEW; IPD benchmark figures include funds within the All Balanced Property Fund Index. IPD ©2015 All rights reserved. AEW UK Core Property Fund data (properties exchanged and completed) and IPD data as at 31 March 2018.

Risk and volatility statistics	Annualised quarterly data	
	Q1, 2018	Q4, 2017
Absolute standard deviation	3.41%	3.46%
Tracking error	1.86%	1.88%
Information ratio	2.59	2.61
Beta	0.93	0.93

Source: Based on annualised data since inception and calculated by the AEW Capital Management Research Team. Benchmark is the All Balanced Property Funds Index – AREF/IPD UK Property Fund Index. These statistics are provided for information purposes only and cannot be relied upon in relation to any decision. All data provided should be considered in the light of the age and size of the Fund. The above statistics are based on annualised quarterly data since the Fund's inception. It can be considered a small sample and as a result the statistics may not be meaningful.

## Key contact



### New investors

Dana Eisner

dana.eisner@eu.aew.com

T: 020 7016 4883



### Existing investors

Kari Clarke

kari.clarke@eu.aew.com

T: 020 7016 4804

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